World Inflation, the Developing Countries, and "An Integrated Programme for Commodities"

I. The Concept of World Inflation

It has been known for hundreds of years that inflation is inevitably associated with excessive expansion of the money supply — inflation is always and everywhere a monetary phenomenon. Unfortunately for the public understanding of the subject, for at least as many centuries (over two thousand years) as we have had experience of inflation, there have been those in authority who have believed that in their particular case the laws of economics have been repealed, or at least suspended in their favour. And there have always been those among the educated public who trust mistakenly to their own common sense of the world around them, and see the explanation of inflation in the fact that someone somewhere is anti-socially raising prices or wages, and the solution to inflation in the fallacious belief that if only that someone were stopped from selfishly and greedily raising prices or wages, the inflation would go away. Thus understanding of the recent and current world inflation has been clouded and confused by the assertion that inflation is due to the irresponsibility of trade unions, or the profit-seeking greed of monopolists, or to the rising prices of food demanded by selfish farmers, or to the monopolistic raising of the price of oil by the O.P.E.C. countries. None of these arguments is correct, because they all refer to changes on *relative* prices — the price of one good in terms of others, a problem of " real " or " barter " economics — whereas inflation is a matter of the prices of *all* goods rising in terms of *money* — a problem of monetary economics. But they all have great psychological attraction — to the politicians and their officials, because they give these people an excuse for collecting their pay-cheques without doing the job they are being

paid to do; and to the man in the street, who is conditioned to the loyal belief that his government knows best what is good for him, and that if something goes wrong it is the fault of some other civilian who is not doing his loyal social duty.

Inflation is then a matter of excessive creation of money. How then can there be such a thing as a world inflation, when different countries each have their own money, and its supply is controlled by an independent national central bank? This question too is a source of basic misunderstanding. Just because a country is a country, and its central bank claims to be independent, does not mean that it really is independent, and that it has control over its own rate of inflation, or that its inflation can be explained by domestic developments special to that country and not shared with other countries. On the contrary, if, as was the case up until 1973, countries maintain fixed rates of exchange between their currency and other countries' currencies, the result is exactly the same as if there were one world currency: there is one world inflation, attributable ultimately to too fast a rate of growth of the world money supply as a whole, and each member country in the world monetary system has to have roughly the world rate of inflation, whatever it misleads itself into thinking it can achieve by its own policy independently of the other countries in the system.

Up to February 1973, with a brief few months of "dirty floating" of exchange rates in the latter half of 1971, the countries of the world maintained a fixed exchange rate system, and in consequence enjoyed (which is not the right word) a world inflation. The proximate cause of the world inflation was excessive monetary expansion in the United States — highly contagious due to the central position of the United States in the world economy — associated initially with the failure to finance its escalation of the war in Viet Nam by the requisite increase in taxation of the American public, and subsequent failures of U.S. monetary policy. The consequence was not only inflation in the U.S. and the world economy, but inflationary financing of the war partly at the expense of the citizens of other countries who often did not — and even their governments did not — publicly approve of the war itself. But the financing of the war in Viet Nam was not by any means the whole story. There is abundant evidence that other advanced countries — partly perhaps because money was plentiful in the world economy and consequently balance-of-payments deficits less of a serious risk — also became on the average more

Table I

THE WORLD INFLATION

Annual Rates of Change

Year	World Money Stock	World Nominal Income	World Price Level
1950	0.1	4.0	−1.2
1951	6.6	14.3	7.6
1952	6.3	7.4	3.2
1953	4.4	5.8	0.7
1954	3.7	2.5	1.0
1955	4.1	8.7	0.4
1956	3.2	6.9	2.1
1957	1.1	6.0	2.8
1958	2.0	2.2	4.0
1959	3.9	6.6	−0.8
1960	3.0	6.8	3.1
1961	4.0	6.0	1.7
1962	6.1	7.8	2.3
1963	7.0	7.0	2.4
1964	6.8	8.4	2.2
1965	6.4	8.2	2.7
1966	5.7	7.9	3.3
1967	6.5	6.4	2.8
1968	8.3	8.2	3.8
1969	6.7	9.1	4.8
1970	7.6	8.5	5.4
1971	13.6	10.2	4.9
1972	15.3	14.1	4.3
1973	13.4	18.4	7.1
1974	10.4	9.0	11.8

Source: Hans Genberg and Alexander K. Swoboda, "Causes and Origins of the Current Worldwide Inflation," *mimeo*, Graduate Institute of International Studies, Geneva, November 1975.

willing to resort to inflationary monetary policies. One important reason for this was the increased emphasis on equity on the distribution of income, and the rapidly mounting concern about "the environment", that were in a fundamental sense the eventual legacy to the contemporary world of the resistance of American youth to being drafted into the American army and deprived temporarily or permanently of their share in the American "Affluent Society".

Be that as it may (the world economy in the late 1960s embarked

TABLE II

AVERAGE ANNUAL RATES OF INFLATION, 1955-70 AND 1970-75

A. *Selected Industrial Countries*

1955-1970		1970-1975	
Germany	(2.4)	Germany	(6.2)
Canada	(2.5)	United States	(6.8)
United States	(2.5)	Canada	(7.3)
Belgium	(2.6)	Switzerland	(7.7)
Switzerland	(2.6)	Sweden	(7.9)
Australia	(2.7)	Norway	(8.4)
Italy	(3.2)	Belgium	(8.4)
United Kingdom	(3.6)	Netherlands	(8.6)
Netherlands	(3.7)	France	(8.8)
Norway	(3.9)	Australia	(10.3)
Sweden	(3.9)	Italy	(11.3)
Japan	(4.5)	Japan	(11.3)
France	(4.6)	United Kingdom	(13.0)
Average	(3.3)	Average	(8.9)
Range	(2.2)	Range	(6.8)

B. *Selected Less-Developed Countries*

1955-1970		1970-1975	
Guatemala	(0.5)	Tunisia	(5.2)
El Salvador	(0.6)	Egypt	(5.9)
Panama	(0.8)	Iraq	(6.3)
Malaysia	(0.9)	Panama	(7.2)
Singapore	(0.9)	Malaysia	(7.3)
Iraq	(1.9)	Sri Lanka	(7.4)
Greece	(2.0)	El Salvador	(7.8)
Thailand	(2.1)	Morocco	(8.3)
Sri Lanka	(2.1)	Guatemala	(8.4)
Tunisia	(2.7)	Thailand	(8.8)
Morocco	(2.7)	Iran	(9.5)
Syria	(2.7)	Singapore	(10.5)
Ecuador	(2.8)	Syria	(11.2)
Egypt	(2.9)	Paraguay	(11.6)
Mexico	(3.0)	India	(11.7)
Pakistan	(3.0)	Mexico	(12.1)
Iran	(3.4)	Spain	(12.1)
Nigeria	(4.1)	Taiwan	(12.2)
Philippines	(4.7)	Greece	(12.3)
Ghana	(5.4)	Peru	(12.8)
India	(5.8)	Ecuador	(13.5)
Taiwan	(5.8)	Nigeria	(14.2)
Spain	(6.8)	Philippines	(15.1)
		Pakistan	(16.8)
Average	(2.9)	Average	(10.3)
Range	(6.3)	Range	(11.6)

SOURCE: International Monetary Fund, *International Financial Statistics*, 1972 Supplement, and April 1976.

on a phase of world inflation. (See Tables I and II.) But the result of the international monetary strains generated by world inflation was the collapse of the international monetary system itself, the so-called "Bretton Woods" system of fixed exchange rates, alterable in cases of "fundamental disequilibrium", set up after the second world war in order to prevent the re-emergence of the 1930s problem of world deflation. Can one still talk of a "world inflation" when there is no longer a world monetary system and a world money?

Strictly speaking, and in logic, one cannot; in a world of floating exchange rates, countries regain their national monetary independence, and any inflation they have is entirely their own doing and their own choice. The reason is that they again have control over the supply of their national money, and are free to pursue any inflationary or deflationary policy they choose to follow — inflationary and deflationary policy being defined by comparison with the average of the other countries, or those countries with which they do most of their international business. (One should be careful to note, however, that countries like Mexico, which till recently maintained a fixed rate on the U.S. dollar, and other countries that maintain a fixed rate on the dollar or a major European currency, have chosen to have whatever inflation obtains in the country to whose currency they have pegged their own.)

In strict logic, then, the concept of world inflation lost its meaning with the collapse of the international monetary system in February-March 1973. But strict logic is not always the best way of understanding economic phenomena: one has to bear in mind also the time-dimension of adjustment to changing economic circumstances; the strength and persistence of traditional habits of thought, especially among those old enough to occupy positions of power; and the political convenience of myths about the nature of the world, and especially about the sources of uncomfortable problems for politicians and policy-makers.

To be specific, the world inflation was well under way before the collapse of the international monetary system in early 1973; and inflation (and for that matter serious depression) once well under way is both difficult and time-consuming to stop. It is, in fact, only within the last year or two that sharp differences have begun to emerge, in the statistics, between those countries that have been seriously determined to stop inflation and those that have not — or have become so only very recently. (See Table III.) Earlier, it made some sense to

TABLE III

VARIATIONS IN NATIONAL INFLATION RATES
(Sum of Absolute Deviations from World Rate of Inflation)

Year	Percentage Points
1960	9.2
1961	9.0
1962	17.7
1963	19.4
1964	14.2
1965	12.1
1966	10.5
1967	6.4
1968	11.2
1969	14.5
1970	13.8
1971	14.1
1972	14.5
1973	12.4
1974	37.0
1975	34.1 (preliminary estimate)

SOURCES: Federal Reserve Bank of St. Louis, *Rates of Change in Economic Data for Ten Industrial Countries* (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Switzerland, United Kingdom, United States). DAVID I. FAND, "World Reserves and World Inflation," in this *Review*, December 1975, pp. 347-69.

continue to refer to world inflation — in the precise sense that all countries were faced with a common problem of coping with the domestic impact of an inflationary process that had originated as a world-wide and previosuly unavoidable phenomenon.

Apart from that fairly logical distinction between a common cause and a common set of consequences, the collapse of the international monetary system into a floating rate system was quickly followed by two events which need not have had, but which governments generally allowed to have, inflationary consequences. One was the "oil crisis" and the four-fold increase in the price of oil that resulted. The other was the sharp upward surge of the prices of foodstuffs — a reaction to a "real" shortage associated with the fact that the upward phases of the business cycle in the major countries were unusually and exceptionally closely synchronized, in contrast to the more usual experience of some countries being in the downswing, bottom, or early upswing phases of their business cycles while others are at the crests

of their booms, while world output of foodstuffs was abnormally low. As mentioned, both of these developments involved changes in *relative* prices, and need not necessarily have been allowed to give an upward boost to all money prices in general, let alone a continuing inflationary impetus. But allowing them to add to the inflationary impetus was the easiest way out for the policy-makers, especially in view of the political sensitivity of their constituents to rises in the price of food on the one hand, and the price of energy for heating and transport on the other.

In these circumstances, it was obviously politically very convenient for the policy-makers to endorse the view that inflation was a world problem which they were powerless to control; to take credit for doing their best in the face of insuperable difficulties; and to confine their actions mostly to gestures, and to denunciations of unpopular groups who could be accused of taking unfair advantage in protecting themselves against the common inflationary misfortune. In this connection, it was particularly useful that the oil crisis could be blamed (not really accurately) on the Arab countries, which had not been included in most peoples' thinking as full members of the "Third World", and which for various reasons of history and religion tended to be regarded with contempt and dislike mixed with uneasiness and distrust in the western world. It was also politically useful that for most countries, and even in the United States with regard to some important commodities, foodstuff prices tended to be governed by or identified with import prices, so that domestic inflation could be easily identified with rising prices of imported food and hence with a "world inflation" caused by forces outside control by a country's own policy. This identification is, of course, fallacious, because it neglects the role of the country's foreign exchange rate in fixing the domestic money equivalent of the foreign prices of imported goods — rising foreign prices can be quite consistent with falling domestic prices if the exchange rate is appreciating sufficiently rapidly — but as mentioned it was easier to blame "world inflation" than to call attention to the domestic monetary and other policies that ensured a base-rate of domestic inflation and allowed rising import prices to aggravate that base-rate.

These remarks illustrate the third point mentioned earlier, concerning the political convenience of the myth of world inflation as a means of excusing policy-makers from taking the unpopular anti-inflationary measures that the freedom of exchange rates to float

allowed to them after February 1973. But greater weight should, in my view, be given to the second factor mentioned, the strength of customary modes of thought among those senior enough to occupy positions of power in the making of economic policy. Though the international monetary system of fixed exchange rates collapsed into a floating rate regime in February-March 1973, those in charge of policy-making in the new system — both at the national government level and at the level of the International Monetary Fund — seem to have had, and to continue to have, virtually insuperable difficulty both in freeing their minds from the idea that the floating rate system is only a temporary arrangement pending a return to a fixed rate system, and — what is worse — in freeing their minds from the idea that the system the world now has is still a fixed rate system, and works in the same way as the fixed rate system does. Thus, for example, if a country's policy-makers think in fixed rate terms, expect rising external prices to cause internal inflation, and conduct their domestic monetary policy so as to accommodate the domestic inflation they expect, for fear of causing domestic unemployment if they try to stop the domestic impact of world inflation by domestic deflationary policy, the result will be that the country will have domestic inflation, and its exchange rate will remain fairly stable. In other words, the results will be more or less the same *as if* the country had a fixed exchange rate and had to conform to the world inflation. And it will therefore appear, quite wrongly, that a floating rate system works just like a fixed rate system, and is governed by the same logic. It is worth noting, too, that the same semblance of identity between a fixed and a floating rate system can be achieved by several other types of failure of the policy-makers to understand and take advantage of the freedom for discretionary domestic monetary and anti-inflationary policy offered by the system of floating exchange rates. For example, exporting and import-competing industries, whose leaders quite understandably think in partial-economic equilibrium terms, naturally tend to regard any appreciation of the currency as imposing a competitive international disadvantage on them; and they will press the government, probably successfully, for policies of holding down the exchange rate that will automatically require the support of an expansionary (and inflationary) monetary policy. As another example, if the monetary authority regards a certain differential between domestic and world interest rates as normal and desirable, to be maintained by monetary policy, the

country will have to follow a monetary policy producing roughly the same rate of inflation as the rest of the world, to prevent the normal "real" relation between national interest rates from being disrupted by differing expected inflation rates and associated expectations of future exchange rate changes.[1] As a final and still more obvious example, if the policy-makers simply believe that there is some "correct" or "natural" (or some other value-loaded or chauvinistic adjective) value for their currency in terms of the U.S. dollar or some other major currency, and express this belief in their general policy-making, they will for practical purposes have committed themselves to a fixed rate system even though their exchange rate is nominally free to float. And so long as policy-makers think and act in this way, as they have to a large extent been doing, it will remain legitimate to use the concept of a world inflation — even though the economist who does so thereby both helps to perpetuate a myth and fortifies the intellectual ossification that is in any case the incurable occupational disease of the economic policy-maker.

II. World Inflation and the Developing Countries

I turn now to the problems posed by the world inflation for the developing countries. To begin with, though, it is as well to clear out of the way certain problems that are frequently identified with and regarded as being caused by the world inflation, but should not be so identified.

In the first place, the rise in oil prices has necessarily had a serious effect on the real incomes of the non-oil-producing developing countries — which is almost all of them outside the Middle East. But the monopolistic increase in oil prices had very little to do with the world inflation. One cannot say that it had nothing to do with the world inflation, because well before the increase was introduced the O.P.E.C. countries had become increasingly restive about the fact that oil prices were fixed in terms of U.S. dollars — albeit with an

1 Technically, we can write

$$i_d = r_d + \pi_d; \quad i_u = r_u + \pi_u; \quad e_d = \pi_d - \pi_u$$

where i is the money rate of interest, r the real rate, π the expected rate of inflation, and e the rate of change of the exchange rate defined as the price of U.S. dollars in terms of domestic money, and the subscripts d and u refer to domestic and United States variables; then $i_d - i_u = r_d - r_u$ requires $\pi_d = \pi_u$, which implies managing monetary policy so that $\pi_d = \pi_u$ and $e_d = 0$, i.e., stability of the exchange rate on the U.S. dollar.

"inflation factor" consisting of an agreed annual price increase designed to compensate for American inflation. (Incidentally, the inflation factor was fixed at 8 per cent per annum, which at first seemed far too high but for three years or so up until recently turned out to be somewhat below the actual.) But continuing inflation in the major countries after 1973 in fact served to reduce the real burden of the oil price increase, because the purchasing power of the dollar price was fairly sharply eroded. And, in fact, oil prices in money terms have started to come down, as various observers in 1973-74 predicted they would ultimately have to in real terms. The main reason for this prediction was that the need for revenue would eventually break co-operation among the members of O.P.E.C. and lead to covert or overt price-cutting. This elementary economic logic, amply verified by past experience of price-raising cartels, was not generally accepted at the time, though both continuing inflation and the general recession involved in the process of trying to stop it have in fact sharpened the results of the logical reasoning: O.P.E.C. country needs for revenue have expanded more rapidly than many commentators thought possible, partly as a result of the wastes involved in crash spending programs and partly as a result of the effect of continuing inflation on the money costs of real programmes, while depression has cut the demand for oil in spite of the mistaken efforts of democratic governments to keep domestic energy prices down while appealing to the public to be economical in their use of energy. In the longer run, oil prices are likely to wind up significantly higher than they were during what may be called the coal-into-oil revolution of the 1950s and 1960s, but substantially lower in real terms than they have been in the past two and a half years. In any case, however, the real economic problems associated with oil pricing have to be distinguished from the monetary problems of world inflation.

Secondly, in the same sort of sense the problem of world inflation for the developing countries has to be clearly separated from the rapid fall in relative prices of foodstuffs and raw materials since the peak reached a couple of years back. The recent fall of relative prices of primary products has been exceptionally rapid and severe for a number of developing countries, both because the peak of the usual boom was exceptionally high and because the subsequent recession has been exceptionally severe owing to the determination of certain key advanced-country governments — specifically the United States, Germany, and Japan — to fight and beat inflation thoroughly, in spite of the transient cost in terms of unemployment and low production. Both elements — the high peak associated with world inflation, and the low trough associated with determined anti-inflationary policy — have to be borne in mind in assessing the implications of recent experience for the developing countries. The peak was a cyclical peak, and the trough is a cyclical trough. Unfortunately, it has been my observation — based on the behavior of farmers in advanced countries, but easily transferable to understanding the attitudes of spokesmen and threorists for developing countries — that all farmers everywhere are firmly convinced that the highest price they have ever received ought to be the lowest price they should ever get for their products. This attitude, incidentally, is usually accompanied by the idea that since man cannot live without eating, he should pay as much for his food as he can be made to pay without starving to death.

Again, however, these issues have nothing to do with world inflation, except perhaps in providing historical evidence that can be misinterpreted to make a case for compensation for alleged injustice. Nor does the condition of world inflation add any strength to arguments for efforts to raise the real prices of primary products by cartelization, more attractively packaged as "an integrated commodity policy" or a "new international economic order." These arguments are the subject of the next section; for the present purpose, it is sufficient to note that such arguments concern the real relative prices of commodities, *and* that there is no reason to suppose that the money prices of such commodities persistently lag behind a general inflationary price movement. (This is in possible contrast to the prices of manufactures, which are not determined in organized commodity markets.)

What special problems, then, if any, are posed for developing countries by the fact of world inflation? One type of problem has already been touched on, the effect of unexpected inflation, or an unexpected acceleration in the normal rate of inflation, in reducing the real value of exports contracted for long in advance in terms of fixed money prices. This problem, it might be recalled, arose during the short-lived Korean War boom in primary product prices of 1950-52; but at that time, such is the influence of fashion on popular and governmental economic thinking, the official complaint at least in Southern Asia (the beneficiary of boom prices for rubber and tin) was that high commodity export prices were bad because they raised the cost of living for urban workers and diverted the farmers away

from the government's objective of achieving self-sufficiency in foodstuffs. The successor governments of the independent developing countries have since then of course become much more sophisticated, in the sense of appreciating that there is no reason why high prices for commodity exports should be passed along to the stupid farmers, instead of being creamed off for spending on and by the educated government bureaucracy in the name of promoting economic development, social justice, or what have you.

The problem of loss of real export proceeds from the effects of unexpected inflation under money-price contracting is, however, necessarily a transient one. Once inflation gets to be expected, either money contracts will come to be roughly appropriately indexed to provide the real prices bargained for, or producers (and even their governments acting for them) will cease entering upon long-term contracts and take their chances on the market when the product is ready for delivery. The longer-run problem, as students of the economics of inflation in the advanced countries have come to realize, is the disturbing effect of unexpected variations — accelerations and decelerations — in the rate of inflation itself, associated with changes on the emphasis of public opinion and governmental policy determination on the relative importance to be assigned to avoiding inflation and to achieving whatever objectives inflation helps in the short run to promote, and resulting in variations in both the rate of inflation and the level of economic activity. Note that I have put this point in a rather complex way, because research into the theory and empirical measurement of the so-called "Phillips curve" trade-off between inflation and unemployment has verified that there is no such trade-off in the long run, while more recent research on the basis of the "rational expectations" approach has emphasized that it is only unexpected changes in governmental policy that have leverage over the behaviour of the real economy. The point can be put another, somewhat different, way, related to Latin American experience with endemic severe chronic inflation — experience incidentally little known or analysed by the leading economists of the advanced countries. It is that, once inflation of this endemic but "stop-go" type gets a firm hold on an economy, it becomes more important to the economic individual to reach informed guesses on probable changes in the rate of inflation and in the government policies that determine it, than to evaluate the kind of market, demand, and cost information that is by traditional economic analysis assumed to be the strength

of a competitive relatively free economic system (a description used here to include the contemporary western-style "mixed" private and state enterprise system). And this in turn gives rise to both a great deal of inefficient decision-making, unconducive to economic development and modernization, and to apparently blatant injustice in the distribution of income and wealth.

It is true enough that a number of developing countries, especially but not exclusively in Latin America, have long persisted in creating this problem for themselves, and have further compounded its development-inhibiting effects by domestic price-intervention policies aimed at shielding the real incomes of significant social groups from the effects of inflation, and international economic intervention policies aimed at preserving a fixed exchange rate in spite of domestic inflation at a rate much faster than the slow upward trend of world prices. But the less developed countries as a group have, until the emergence of world inflation, had the important though under-appreciated advantage of trading with an advanced-country world characterized by fairly steady sustained economic growth at fairly stable (more accurately, slowly rising) prices. This favourable climate for economic development is what has been destroyed, at least temporarily, by world inflation. And it is, in all probability, far more important for the development of the developing countries than either the various impediments to their development posed by protectionist trade policies in the developed countries, or the various "countervailing monopoly" and collective monopoly policies now being demanded by the United Nations Conference on Trade and Development pressure group, under the rubric of "A New International Economic Order".

III. The « New International Economic Order » and « An Integrated Programme for Commodities »

1. *Introduction*

One of the major consequences of the world inflation and related developments has been the emergence with increased international political stridency of the demand of the Group of Seventy-Seven in the United Nations and UNCTAD for "a new international economic order" (earlier described as "a new world trade order") designed to

right the alleged past wrongs inflicted on developing countries by the prevailing G.A.T.T. system of liberal international trade. The "oil crisis" of 1973 and subsequent quintupling of the dollar price of oil lent massive (but in large part illusory) support to the idea that great income transfers from the wealthy countries could be extracted by cartellizing primary product marketing, even though oil is a uniquely strategic commodity and in its case cartellization has been facilitated by the divided interests of the multinational petroleum companies. The boom and subsequent collapse of primary foodstuff prices provided new support for the belief that competitive world markets unjustly prevent primary producers from obtaining "fair" prices for their products. Finally, discussion among monetary experts in the developed countries of "indexing" as a means of reducing the uncovenanted arbitrary income redistributions inherent in the process of unexpected inflation provided an opportunity to confuse commodity-market-instability issues with inflation issues by using the blanket term "indexing" to include the quite different objective of fixing the real relative prices of primary commodities in terms of manufactures.

Commodity agreements as a solution to the various problems of primary product exporters are neither a new idea, not yet an idea that has not been tried in practice, in historical experience. Commodity agreements of one kind and another have on the contrary over a half century of experience behind them, all of it a history of failure — of the various commodity agreements which have been experimented with, only the latest tin agreement survives, and only in a truncated fashion — and tin has the peculiar advantage of involving fairly large-scale enterprises. Yet the faith in commodity agreements as a panacea survives, and, as is usually the case, the faith rests either on ignorance of past history or the obstinate belief that what went wrong last time was attributable either to lack of will or cleverness, or unwillingness to commit sufficient financial resources to the enterprise — but never to inherent difficulties that could be understood in terms of elementary economic analysis.[2]

2 The popularity of international commodity agreements as a solution to problems of primary producers goes back to the interwar period, when it was an obvious extension of the 1920s British policy idea of "rationalizing" industry, and slightly later an obvious idea for benefitting primary producers in the Commonwealth and Empire. It derived some support from the continued advocacy over a long period of time of Mr. St. Clair Grondona, was endorsed at one point by Keynes, and became a standard prescription for many Oxford graduates and dons, presumably through the continuing advocacy of R. F. Harrod.

Nor is the concept of "an integrated commodity policy" a new concept. In fact, the UNCTAD Secretariat has been attempting for over a dozen years to endow the concept with concrete meaning. But the task has proved impossible, because the objectives sought to be implemented were inconsistent at even the most elementary level of economic analysis. They included such objectives as stabilizing prices in the short run, raising prices in every run, achieving prices that would be "fair" and "just" to producers while not being unfair to consumers ("equitable to consumers and remunerative to producers," in the current catch-phrase), maximizing profits from exports, maximizing foreign exchange earnings from exports, and achieving "parity" (though it was usually not called that) of real income for primary-product and manufacturing-goods producers.

The "integration" part of the "integrated commodity policy" was only too obviously a political integration, UNCTAD style — that is, the description as an "integrated" and therefore presumably considered and attention-deserving policy, of a ragbag of individual policies that might, like any politician's election platform, command an electoral majority by promising something for everyone. In short, the word "integration" applied not to the policy, but to the demand for something for nothing for everybody who thought he deserved it. The contemporary demand for "an integrated commodity policy," to be discussed below, has exactly the same features of being "integrated" only in the sense of demanding the creation of a monopoly of the same general sort for a sufficient number of would-be monopolists to make the idea of organized monopoly for exploitation of consumers by producers politically appealing to a majority of producer; it is "integrated" in fact only in the sense of seeking to establish a common fund to finance detailed schemes of an as-yet-to-be-worked-out kind for individual commodities; and it attempts to enlist the support of the consumers whom it is intended to exploit as willing accomplices in their own exploitation by deliberate misapplication of concepts of fairness and justice derived from unconnected areas of economic discussion. (The most noteworthy example is the attempt to misapply the concept of "indexing," as a means of providing automatic protection of income-recipients against the windfall gains and losses inherent in an unanticipated inflationary increase in the *general* level of *money* prices, to the quite different and debatable proposal to fix the *relative real* prices of particular primary commodities in terms of industrial products.)

Before proceeding to detailed consideration of the proposed "integrated commodity policy," it is relevant to call attention to the extent to which that policy, and the demand for a so-called "new international economic order" of which it is a part, is based on a fossilized piece of politico-economic analysis of the development problem whose inspiration was the economic phenomena of the Great Depression of the 1930s, and in particular the Prebisch world-vision in which the terms of trade between commodities and manufactures inevitably turn trend-wise against commodities, requiring policies on the one hand of forced industrialization and on the other of countervailing monopolization to counteract the presumed monopoly powers of the industrialized countries to force down commodity prices in terms of manufactures. The strength of this mythological view of the process of economic development, a view which UNCTAD's own so-called experts have been unable to document statistically, except by the intellectually shady process of taking each successive peak of commodity prices reached under world boom conditions as the floor from which to make subsequent measurements, can only be accounted for by a deep emotional and political need to find an external scapegoat for the condition of economic backwardness, a need whose strength has to be appreciated if rational consideration of proposed ostensibly economic policies is to be at all possible. One aspect of the Prebisch world view is specially worth mentioning, since its significance has only come to be appreciated recently, and still imperfectly. While the historical experience of deep world depression from which the Prebisch vision originates was a phenomenon of the Keynesian short run, during which population as well as technology can be safely assumed to be constant for practical purposes, any longer-run proposition or policy proposal concentrating on the terms of trade as a strategic variable cannot hope to comprehend the economic forces at work without paying great attention to the role of population, and particularly to the classical Malthusian presumption that unless checked population tends to breed to the level of subsistence, in determining the international division of the gains from trade — including the possibility of altering this distribution by the organization of producer (or producer-country) monopoly power.

2. *The "Integrated Programme for Commodities"*

The "Integrated Programme for Commodities"[3] has four general objectives:

(i) To encourage more orderly conditions in general in commodity trade, both with regard to prices and the volume of trade, in the interest of both producers and consumers;

(ii) To ensure adequate growth in the real commodity export returns of individual developing countries;

(iii) To reduce fluctuations in export earnings; and

(iv) To improve access to markets of developed countries for developing country exports of primary and processed products.

These are restated in relation to commodity arrangements as follows:

(a) Reduction of excessive fluctuations in commodity prices and supplies, taking account of the special importance of this objective in the cases of essential foodstuffs and natural products facing competition from stable-priced substitutes;

(b) Establishment and maintenance of commodity prices at levels which, in real terms, are equitable to consumers and remunerative to producers, ...

(c) Assurance of access to supplies of primary commodities for importing countries, with particular attention to essential foodstuffs and raw materials;

(d) Assurance of access to markets, especially those of developed countries, for commodity exporting countries;

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[3] Quotations and paraphrases in this section are taken from: "An Integrated Programme for Commodities: Specific Proposals for Decision and Action by Governments," Report by the Secretary-General of UNCTAD, TD/B/C.1/193, 28 Oct. 1975. Supporting documents are TD/B/C.1/194 to 197. It is sometimes argued, with apparent seriousness, that the wording and argument of documents of this kind should be disregarded, as being politically constrained pronouncements, and that instead the economist should either concentrate his attention on the internal staff documents that are presumed to provide the scientific basis for the propaganda publications (but which unfortunately are generally not available for public scrutiny), or assume that such documentation exists and supports the propaganda publications. This argument is both disingenuous and inadmissible, quite apart from the published evidence that the UNCTAD directorate has deliberately suppressed expert scientific studies whose findings disagree with its published propaganda. The Secretariat of an international institution must be held to be responsible for the scientific quality of the documents it puts into circulation, and it is certainly no part of a professional economist's responsibility to connive at that Secretariat's efforts to pass propaganda off as scientific work.

(e) Expansion of the processing of primary commodities in developing countries;

(f) Improvement of the competitiveness of natural products vis-à-vis synthetics;

(g) Improvement of the quantity and reliability of food aid to developing countries in need.

However, " to ensure that no developing country experiences an adverse net effect from commodity pricing policies pursued within the integrated programme, differential measures in favour of developing importing countries... should be an accepted feature of international commodity arrangements established within the programme," including "special measures for 'least developed' and 'most seriously affected' developing countries which are exporting or importing members" of arrangements within the integrated programme. Specifically mentioned are exemption from sharing the financial costs and risks of stocks, and preferred treatment in the allocation of export quotas.

Priority is to be given to 17 commodities of importance to developing countries in international trade, covering three-quarters of their exports from their agricultural and mineral sectors (*excluding petroleum*), and particularly to 10 " core commodities ": cocoa, coffee, tea, sugar, hard fibres, jute and manufactures, cotton, rubber, copper, tin. (The other seven are bananas, wheat, rice and meat; wool; and iron ore and bauxite.)

The specific proposals of the Secretary-General of UNCTAD for international action are as follows:

(a) The establishment of a common fund for the financing of international stocks;

(b) The setting up of a series of international commodity stocks;

(c) The negotiation of other measures necessary for the attainment of the objectives of the programme within the framework of international commodity agreements;

(d) Improved compensatory financing for the maintenance of stability in export earnings.

The common fund and the international stocking policies are regarded as the core of the program. The " other measures " essentially remove any " integrative " element of the program such as might be provided by a standard format for the individual stocking arrangements, leaving the common fund — described as " essential if impetus is to be given to the building up of international stocks of major storable commodities " — as the only integrative feature. The provision for " improved compensatory financing " for stabilizing export earnings is an indirect recognition of the fact that stabilizing, and even on average raising, the prices of commodities is an indirect and inefficient way of stabilizing and possibly increasing the flow of disposable income to the developing countries. Taken as a whole, the action program can without blatant unfairness be described as a demand for a massive investment of funds by the developed countries to underwrite experiments with and promotion of individual commodity-by-commodity agreements, experiments to the pursuit of which UNCTAD Secretariat and its developing-nation clientele are committed in spite of an uneasy half-recognition that international commodity agreements — aside from the difficulty of devising and operating them — are an exceedingly doubtful instrument for promoting economic development.

The common fund is crucial to the whole policy, the main reason given for it being to encourage the development of stocking schemes by assuring finance. The total sum mentioned is \$3 billion, \$1 billion of capital and \$2 billion of loans. The point is made that the common fund would need less finance than the aggregate of the individual stocking schemes. How significant this pooling effect would be is doubtful, for two main reasons. One reason is that the fund is envisaged, not as a common pool of finance, but as a source for finance of the individual commodity schemes; hence there is no assurance that surplus financial assets in one scheme will be available to finance stocks of commodities in other schemes. The other reason is that the economies of finance achievable by pooling finance are greater or less according as the financial needs of the pooling members vary inversely or directly with one another; and, as studies by Richard Cooper among others have shown (and as is evident from the business-cycle-related behavior of commodity prices in general), there is probably not that much scope for economies from pooling finance among commodity agreements (pooling of foreign exchange reserves might possibly offer more gains). Mention should also be made of two mysterious allusions to presumptive advantages — the increased " bargaining strength " of the common fund, and " redressing the balance between the developed and the developing countries."

Turning to stocking arrangements, the relevant paragraph reads as follows:

> International stocking measures are proposed for export commodities subject to natural variation in supply (e.g. tropical beverages, sugar, cotton, jute and hard fibres). They are also advocated for commodities with a history of disruption in output or demand, and where international stock management would help to prevent temporary restriction of production, wastage and uneconomic investment (copper, tin and rubber). Furthermore, sicurity of basic food grain supplies at reasonable prices, entailing the creation of international stocks of wheat and rise, is in the interest of developing countries as importers, among other measures for assistance with food trade problems of importing countries.

The problem of storage of food-grains against famine or scarcity conditions will not be dealt with here, since it is in principle a different problem than commodity price stabilization in general. The first two sentences of the paragraph lump together two different economic problems — instability of supply, and instability of demand — requiring quite different solutions, in a manner that one has to learn to tolerate as measuring the economic illiteracy of the UNCTAD economic secretariat. The elementary economic analysis required to demonstrate that, apart from certain exceptional cases of constellation of demand and supply elasticities, stocking aimed at stabilizing prices will reduce the instability of producer incomes when the instability of prices is due to random or unforeseen cyclical demand shifts, but will increase that instability of incomes when the instability of prices originates on the supply side, is too familar to need rehearsal. The later section of the document on "compensatory financing" in fact recognizes that "more stable world prices may not always [sic] stabilize earnings for an individual country if its export supply is adversely affected by poor crop conditions."

The section on "other measures for individual commodities" stresses supply management (including export quotas and uniform export taxes) and concludes that while

> By means of stocking, supply management or trade commitments, or by combinations of these measures, it should be possible, for some commodities at least, to achieve the objective of maintaining prices at adequate levels in real terms

"in some cases it might not be possible to prevent a deterioration in the trend of prices in real terms, especially if world inflation continues

to be relatively rapid." Why commodity prices, whose volatility it is the objective of the program to counteract, should be stickier than other prices in adjusting to inflation, is not explained, especially given the emphasis often placed in Prebisch-style arguments on the rigid administered nature of the prices of manufactured goods. The main point, however, is that the argument of this section changes the intended purpose of commodity agreements from price stabilization to the maintenance or raising of the real price of the commodities covered by the agreements in terms of manufactured goods (or other goods in general). In other words, it becomes the maintenance of what in the history of American agricultural policy was described as "parity" between farm and industrial prices, though as a later reference indicates this objective is confused, either in ignorance or deliberately, with the notion of "indexing" of prices.

The section on "compensatory financing" refers generally to the "inadequacy" (undefined, except by implication) of existing provisions, and asks for more emphasis on a commodity orientation and on real export earnings, and more liberal terms, including a grant element for the poorest countries.

3. *Critical Discussion*

Contemplation of the "Integrated Programme for Commodities" suggests any number of questions, of which only three general ones are raised here. The first is whether the developing countries group, in its own interests, is well advised to press for a "new international economic order" based on the effort to exploit monopoly power in particular commodities on a "fair shares" basis to be achieved somehow by agreement among exporting and importing nations with varying interests in particular commodities. The second, closely related, question is why it is that political figures (including in this term the staff of UNCTAD) are so tenacious in their insistence on formulating questions of "exploitation" or more neutrally of "justice" in terms of schemes for rigging prices and adjusting supplies and production, in spite of the virtually axiomatic elementary economic principle that prices neither define the true problem nor provide an effective way to its solution. With respect to both questions, one might well venture the judgement that the ideas of Raùl Prebisch, especially as institutionalized and vulgarized through UNCTAD,

have become an increasingly powerful obstacle to co-operation in the promotion of the development of the developing countries, in the specific sense that sympathy with aspirations for development has to be demonstrated by the acceptance of economic nonsense and the endorsement of proposals that not only maximize the prospective costs and minimize the prospective return for the developed countries, but are certain to create dissension among the developing countries as well (witness the need to develop a new category of especially disadvantaged countries to reflect the differential impact among developing countries of the increase in the price of oil).

The third question is why so little attention has been paid to the means by which an integrated program for commodities might be implemented so as to achieve the objectives (or some of them) that it is intended to serve, as compared and contrasted with the effort put into argument for new institutional arrangements and discussion of the problems they are intended to deal with and the objectives they are intended to serve. As an apparently simple but in fact almost-impossible-to-solve question, what should the manager of a commodity stock actually do, in his day-to-day operations, in order to smooth out price fluctuations? As a protracted discussion of practical operating rules in *The Economic Journal* in the early 1950s showed, there is no easy solution, *even if* one vastly over-simplifies the problem by assuming that producers act in ignorance of the fact that the stockpile manager is operating to affect prices. One can, of course, assume that producer incomes do not matter, that the real purpose is to stabilize and increase the taxes that governments of developing countries can extract from their primary producers; but while that assumption is only too congenial to some varieties of economic development specialist, it both prejudges the issue of what "development" means and how it is best achieved, and makes a nonsense of the moral rhetoric about the obligation of the rich to contribute resources to the poor.[4] To approach the point from a different angle, it is rather ironic that at the same time as central banks have been abandoning their conviction that they know how to intervene to stabilize exchange rates, and

4 There is nothing morally commanding about a presumed obligation of taxpayers and consumers in countries whose average citizen is well off to surrender resources to the governments and ruling elites of countries whose average citizen is poor — especially if the latter's poverty is maintained and increased by the policies of his government towards him.

commercial banks their belief that they can outguess the private exchange speculators, the developing countries have been demanding changes in the organization of world trade in commodities that assume that international organizations can easily manage the very similar markets in commodities.

In view of these considerations, it seems that acceptance of the proposition that what is most required is the organization of commodity trade in a series of stocking agreements reinforced by measures to restrict output and raise prices, or to fix real prices of commodities in terms of manufactures or import goods in general, and implementation of that acceptance in the concrete form of subscribing a large sum of investment capital to finance commodity schemes, would be a most undesirable response on the part of both the developed countries and the economists advising them. It would also be a response that disregarded what comes close to being a professional consensus among those who have looked carefully into the problems that are sought to be remedied by commodity policy. That consensus can be summarized briefly, in two general principles. First, insofar as stability is concerned, compensatory financing related to shortfalls of foreign exchange earnings (and possibly in some cases excesses of import expenditure) in relation to expected levels is the most effective approach. Second, insofar as resource transfers from richer to poorer nations are concerned, aid related to needs and capacities to pay is far superior to transfers related to exports and imports of particular commodities. Awareness of either principle is scarcely reflected in the assertion that existing compensatory financing arrangements are "inadequate."

If a "constructive" response to the demand for commodity arrangements that makes some concession to the proposition that such arrangements could under favorable circumstances and with intelligent management ease the problems of the governments, perhaps even the publics, of developing countries is desired, one approach might be to contribute resources generously to further research on the management principles and operating rules required to achieve the objectives that commodity agreements are intended to achieve. What does a price-stabilization stocking arrangement have to do, in terms of deciding when to buy or to sell and how much, to be successful in achieving its objective? How should it conduct its operations to minimize the destabilizing effects of its running out of cash, or out

of commodity?[5] Another important question, raised by the prospective simultaneous existence of agreements covering a majority or all of the commodities most important in developing-country trade, is the requirement of consistency among the actions of the different stocking schemes, for example those projected for coffee, tea, and cocoa (or even more seriously, among the seventeen major commodities, those for hard fibre, jute, and wool). This kind of question becomes far more serious, if the objective of the commodity agreements is to raise and not stabilize prices. In that event, questions would also arise about the development effects of export quotas, taxes, and related arrangements for restricting exports and/or production, especially since the UNCTAD literature tends to ignore the effects of such adjuncts to price-raising schemes in creating instability in producer production planning and investment decisions, not to speak of reducing the income-earning opportunities of at least some groups of producers.

A more fundamental approach still, though one not likely to command much interest in the confrontational setting of the United Nations and the limited economic understanding of the UNCTAD staff, would be to concentrate on the issue of why commodity prices fluctuate as much as they do, how far and in what respects such fluctuations have the undeniable adverse development effects that UNCTAD lore — and earlier popular beliefs about the development problem — invariably and sweepingly attribute to them, and what if anything can be done to mitigate the fluctuations by tackling the basic causes rather than the symptoms (in the form of price fluctuations themselves). One might suggest that both the instability and the low level (by comparison with aspirations or expectations) of the commodity export earnings of developing countries are associated with the limitation of access to alternative income-producing opportunities, in the exporting developing countries, a consequence partly

[5] Some experts believe that the problem with commodities is that there is not enough speculation, in the sense that speculation takes too short-run a perspective and hence tends to produce destabilizing "band-wagon" effects on prices. An alternative way of putting this point is that markets function reasonably well in fair weather but go wild when disasters strike. If this proposition is accepted, it raises a very serious problem indeed with respect to the probable effectiveness of commodity stock arrangements, since such arrangements necessarily assume that a stock of finite size, related to normal trade volumes, is sufficient to provide the desired degree of stability, whereas the contention is that it is the cases of deviation *outside* the normal range of variation that cause the serious trouble — and would in turn require a capacity for market intervention far transcending that of a normally constituted buffer stock.

of the low level of economic development itself, as reflected in relative current scarcity of industrial skills (including the skills required by modern agriculture), and partly of a rapid rate of growth of population which both inhibits the development of skills and creates an elastic supply of low-income-earning labor. This, in turn, would suggest a constructive response to less-developed-country demands in the indirect forms of substantial support for population control policies and for programs of mass elementary education with an emphasis on vocational training.

IV. Concluding Remarks

What chances are there, if any, of a return to what seems in retrospect more and more of a "golden age" in world economic development, the period of stable growth of the late 1950s and early 1960s? And what, if anything, could developing nations do to support and facilitate a restoration of such conditions?

On the first question, I am sorry to have to say that I personally am rather pessimistic. There are two reasons for this. The first has already been touched on in relation to Latin American experience. It is the danger of the world economy settling down into a quasi-equilibrium of stop-go inflation, in which political democracy is maintained by letting first the stable-money advocates and then the growth, full employment, and social justice school take turns in setting the levers of economic policy.

The key question here concerns the political situation and likely political developments in the United States, in this election year. The Ford Administration of 1974-76 managed to stick fairly firmly and consistently to the policy of not allowing recovery from the recession to override the need to break inflationary expectation and the inflation process. But this was partly due to Administration preoccupation with other issues, which left the way relatively free for independent restrictive monetary policy. Demands for faster expansion, or more insidiously for further cushions against the effects of unemployment that would threaten to destroy its anti-inflationary lesson-value, have been mounting, and the successor administration, which at the time of writing is widely expected to be a Carter administration, may well turn to attempting to accelerate recovery by inflationary monetary expansion.

The other reasons for doubt concern the current lines of evolution of the international monetary system, and are too complex to go into fully here. Briefly, the International Monetary Fund was designed specifically to forestall the re-emergence of the international liquidity shortage that underlaid the Great Depression of the 1930s. It has ever since been on the side of expansion of international liquidity as a cure for the world's ills, even though the problem has become the converse of the 1930s problem, namely excessive expansion of international liquidity supporting world inflation. And this pro-inflationary stance has been reinforced by the natural tendency of the Fund, like other international institutions and like quasi-governmental national institutions, to try to strengthen its political support and acceptability by catering to the special interests of politically powerful groups of constituents. Specifically, the Fund has been cultivating support in two areas by potentially extremely inflationary devices. First, it has been steadily enlarging its role as a lender of international liquidity on concessionary terms to developing countries in balance-of-payments difficulties. Second, it has collaborated in the development of a compromise between the European desire to restore gold to a significant role as a form of international liquidity and the American desire to demonetize gold and reduce it to a commodity like any other, a compromise which, stripped of its technical detail and mystery, amounts to adding official gold reserves back into the total of usable international liquidity at something like four times their original monetary value.

What, if anything, can the less developed countries do to facilitate a return to conditions of stable world economic growth? Again, my answer has to be pessimistic. There is little these countries can do, other than encourage or oppose policies adopted or recommended in the advanced countries, on grounds of an overall world interest that should be given consideration along with national self-interest. Unfortunately, however, the attitudes of the developing countries have an indirect influence, inasmuch as national self-seeking on their part sets a tone or climate for national self-seeking by the individual developed countries. In this respect, one can if one wants to be brutally realistic discern a tragic sequence in which the self-seeking of the developing countries, or more accurately of those of their politicians and intellectuals who have concentrated their attention on seeking painless development and affluence by speechifying with high moral indignation in demand of special transfers and treatment on the basis of alleged past economic wrongs, has gradually closed off one after another of the avenues of genuine help in the development process from the advanced countries. Thus the demand for aid without strings has increasingly turned into the reality of less and less aid of any kind; the demand for unilateral trade preferences for the manufactures of the developing countries in the markets of the advanced countries has turned into the reality of carefully restricted access to markets and the development of a neo-neo-colonialism in the form of affiliate membership in the European Economic Community; and the demands for control over the developing-country activities of the multinational corporation and of technological transfers is likely to mean the gradual retreat of the multinational corporation and its technology from operations in the developing countries (with the probable exception of the countries of Chinese cultural origin of South-East Asia, which are tough enough and confident enough to take their chances in free international competition). On the specific problem of world inflation the danger is that the developing-country group will be so fascinated with their re-discovery of the age-old fallacy that the creation of money is a way of getting something for nothing — something real for something paper — that they will provide indirect support for international and advanced-country domestic monetary policies that will guarantee the continuation of world inflation on a stop-go basis.

In conclusion, I offer a speculative thought for readers to contemplate. Since the industrial revolution, the world economy has enjoyed two periods of fairly steady and sustained stable economic growth — a long one following the end of the Napoleonic Wars, and a much shorter one following the end of the Second World and the Korean War. In each case, the expansion period was ended, and succeeded by a period of inflation, depression, economic nationalism, *ad hoc* policy-making and general economic confusion, as a result of a war that very soon after it started was fairly clearly seen by thinking people as having been a ghastly mistake. The thought I offer is the very simple one that if economists want to achieve a better and deeper understanding of the economics of peace and growth, they need to devote more time and effort than they have yet done to the economics — and the politics and sociology — of war and its economic disturbances.

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