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INTERNATIONAL ORGANIZATIONS

(a) INTERNATIONAL AGENCIES

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INTERNATIONAL Agencies, as I shall use the term, will include those public activities in the field of food and agriculture which involve a considerable number of countries on a fairly well-organized basis. These organizations have a variety of purposes. They facilitate an interchange of information and ideas. They promote training of agricultural scientists. They provide technical assistance in the less developed countries. They supply a basis of co-operative action between countries. They make loans for economic development. They undertake to stabilize currencies and markets. They engage in philanthropic activities such as relief of famine or other disaster.

International organizations in this sense are generally of fairly recent origin. Practically all of them were first set up during the present century. It is interesting and useful to speculate on the reasons for their development—interesting because we like to understand origins, and useful because if we know the forces which generate a particular movement, we are more likely to be successful in predicting its outcome and in making it constructive.

As regards international affairs in agriculture, the present century is characterized by these features :

1. A virtual explosion of agricultural technology of uneven incidence throughout the world, coupled with a tremendous increase in population numbers.
2. A rapid but uneven emergence from a subsistence to a commercial type of agriculture, with increased dependence on and vulnerability to the market mechanism.
3. Shrinkage of distance and improved means of communication, which have thrust aside the veil of ignorance of conditions in other lands.

It is not surprising that developments as far-reaching as these would place in question the traditional reliance on national agencies, and would lead to a series of efforts at international co-operation. How have these forces served to bring about an expansion in the number and vigour of international agencies in agriculture?

The explosion of technology. The scientific revolution in agriculture

has generated powerful motives for the transfer of technical knowledge from the more advanced to the less advanced nations. Opportunity for trade, zeal to share knowledge, compassion for those in need—all of these cause the more advanced nations to spread their knowledge broadly. The less advanced nations see for the first time the possibility of a truly great advance against their ancient enemy, hunger. Expanding populations cause these nations to search out the secrets of technical knowledge. Thus the more developed and the less developed countries reach out toward one another, each recognizing the mutual advantage that comes from sharing problems and solutions. In these circumstances, the formation of international organizations to speed up the spread of technical knowledge was inevitable.

Commercial agriculture. When large areas have a subsistence type of agriculture, the institutions of the market have relatively little meaning. But as agriculture becomes commercialized and as nations become industrialized, we become more and more dependent upon prices and markets. As nations themselves become more specialized, international trade in agricultural products expands. This expansion, both within and between nations, has coincided with great disturbances in international trade. Wild price gyrations, inconvertible currencies, two major wars, the development of new techniques for expanding or curtailing trade, the increasing cleavage between the free world and the Sino-Soviet Bloc, the use of food as an instrument of international policy—all these forces have propelled us toward greater use of international organizations.

Greater awareness of how the other half lives. There was a time, of more limited knowledge, when want and plenty could co-exist to a considerable degree without major disturbance to political and economic institutions. Ignorance made poverty tolerable. But now we have the radio, the aeroplane, television, increased literacy, and better roads. True, there are hundreds of millions of people not yet touched by these developments. But other hundreds of millions are. The more advanced nations have been made more aware of the hunger in other lands, and in parts of their own. People in the less advanced nations have learned that it is possible to improve their lot. The formation of international organizations to promote trade and to encourage the exchange of technical knowledge is therefore a most natural development.

Behind all these motives lies a deep belief that if hunger could be overcome and trade rationalized then the deepest desire of mankind, for world peace, might be more nearly attainable. There is the feeling

that people of differing political ideologies can get together on problems of agricultural technology and mutually advantageous trade; and that if common ground of this kind can be established, the areas of understanding can gradually grow, leading ultimately to world peace. The world places great hope in international agricultural agencies. The objectives are great: to improve agriculture's terms of trade, to lift the whole level of living, to help bring about peace. That we should strive toward these goals is most logical; that the goals are easily attainable is a romantic delusion. International agencies must work with patience and zeal despite the enormous gulf between purpose and accomplishment.

It would be amazing indeed if society, which laboured for thousands of years to develop the family, the tribe, and the nation, were able in half a century to perfect the techniques of international organization. So, in our discussion of international agencies let us be charitable and hopefully constructive.

As I interpret the developments of the past half-century, those nations of the world which are free to speak are saying:

'We no longer tolerate colonialism as the basis for international relationships between the more advanced and the less advanced nations.

'We mistrust power blocks, whether dominated by the East or the West, as a means of organizing trade.

'We prefer, rather, to work towards building a community of advancing nations which can talk with one another and trade with one another as equals.

'One way to do this is to work together through international agencies in fields such as agriculture.'

On this basis one can explain the Food and Agriculture Organization and its predecessor, the International Institute of Agriculture, the Expanded Technical Assistance Programme of the United Nations, the United Nations Economic and Social Council, the World Bank, the Colombo Plan, the European Common Market, the General Agreement on Tariffs and Trade, various international commodity agreements, the United States Point Four Programme, the food programmes of the United States Government, and many other similar efforts.

I have been speaking generally of developments in agriculture during this century, and of efforts to capitalize on these developments through various governmentally sponsored international organizations. Let me point out that private competitive enterprise has served many of the same purposes as the international organizations.

The International Federation of Agricultural Producers is a non-governmental international organization which has done pioneering work in this field. Such world-wide advancement as agriculture achieved prior to the advent of international agencies (and it was considerable) was made chiefly by private competitive enterprise. We have simply become impatient with its slowness and critical of its shortcomings. Philanthropic organizations such as the Ford Foundation and the Rockefeller Foundation are international in their efforts and hence might be considered to come within the scope of this paper. They have been and will be great in breadth of vision and in actual accomplishment.

Among the very first purveyors of technical assistance were the agricultural missionaries, who have long known the needs of the body as well as the spirit. Charitable institutions such as National Catholic Welfare, Church World Service, and C.A.R.E. are international in their work. They function with varying degrees of government help and are in a sense international agencies with which this paper is concerned. Their welfare work has been well received, and well incorporated with national objectives.

The international professional organizations, with various shadings of public and private responsibility, have made and are making a significant contribution to material well-being and better understanding. This Conference, while in a sense unique, has some similarity to international efforts in other agricultural fields such as dairy, poultry, genetics, and agronomy. International professional organizations serve as clearing-houses on research, teaching, and extension techniques. Professional workers in every scientific field have much to learn from fellow scientists in other nations. The work of these agencies is widely recognized as constructive in the broadest sense.

International efforts for agricultural betterment must be to a large degree similar in their objectives to those of national governments. In the total of their accomplishment, the achievements of national governments immensely overshadow those of international agencies. The work of the international organizations must reinforce, not replace, private efforts. It must supplement, not be substituted for, the efforts of national governments.

It is well to note that increased interest in international organizations has paralleled, not replaced, a surge of nationalism. For example, of the seventy-six governments which are now members of F.A.O. eighteen did not exist as independent countries in 1943. The limited view is to see here potential quarrels between private and public agencies, between national and international organizations.

The broad view is to see a kit of tools which, in combination, can advance us several steps farther along the path towards economic well-being and better international relations.

Inevitably there will be disputes as to which approach is best adapted to any particular purpose. May I suggest some principles?

Nearly a hundred years ago, Abraham Lincoln thus addressed himself to the allocation of responsibility as between governments and private persons:

‘The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do for themselves, in their separate and individual capacities. In all that the people can individually do as well for themselves, government ought not to interfere.’

Time has not dimmed the wisdom of that view. Nor can the principle be confined to any one country. As to the level of government at which a given task should be performed, consider this additional principle:

Any given operation of government should be performed as close to the local level as possible, the criteria being efficiency and the development of broadly shared responsibility.

This means doing in the local community whatever can be well done there. Provincial governments should undertake what cannot well be accomplished locally. National governments should perform those services which the provinces cannot as well do, leaving for international agencies those tasks which they can discharge and which national governments cannot better accomplish.

These general principles leave much to judgement, of course. What I have said is that doubts should generally be resolved in favour of individual responsibility and as close to the people as possible. This still leaves a wide field of activity for international organizations in agriculture.

What forms do they take? Some are government-sponsored and some are private. Some are bilateral, some multilateral. Some are commodity-orientated and some are general. Some are tied in with political objectives and some are limited to technical matters. Some are production-orientated and some are market-orientated.

An argument persists on the merits of bilateral operations involving two nations such as in the Point Four Programme, compared with multilateral organizations involving many nations such as F.A.O. On technical assistance in agriculture, the United States Government spends about \$3.00 bilaterally for every \$1.00 spent multilaterally. This is partly because of the greater simplicity in

programming and the more ready adaptation to national objectives. It is partly because of the need to keep the United States Government contributions to multilateral efforts in some reasonable relation to the contributions of others. Yet the financial support given by the United States Government to F.A.O. has steadily increased. We are in earnest about keeping the multilateral forum going and we give it increased support. While bilateral programmes of technical assistance are often preferred by the nation which originates the aid, it is likely that multilateral programmes are preferred by the receiving nation.

Clearly, no one form of international organization is superior for all purposes. The choice of type depends upon objectives and operating conditions. It can be claimed that the existence of such a wide variety of organizational structures is evidence in itself that each has its place.

A persistent question arises: To what degree should international organizations be ideologically orientated, and to what degree should they be kept on a purely technical basis?

I do not see how such organizations can restrict their influence to technical matters. Are they attempting to convey technical assistance in the 'pure' sense? Very good; but technical assistance will modify the economic, political, and social structure in some direction. Are we trying to promote trade in agricultural products, or to stabilize markets? This involves some view as to the nature of markets, the role of government, and the objectives of trade, so that we are again in the area of ideology.

The motive which rates highest in international circles, when it is understood, is the genuine and undiluted desire to be helpful. There is a large element of this in many international operations, though recipient countries sometimes find this difficult to believe. They are inclined to discount this motive heavily and to look for a more subtle purpose.

The motive of widely shared economic gain as a basis for international agricultural organizations is universally recognized and, within the prevailing rules of the game, generally accepted.

It is now twenty-nine years since the founding of the International Conference of Agricultural Economists. We are an international professional organization, private rather than governmental, broad in scope, focused on technical rather than ideological matters. We have had a long and, I think, successful history of dealing with the technical aspects of controversial matters in the field of agricultural economics. Certainly the framework laid out for our Conference is well suited to its purpose. Without intruding on the subject-matter

of Mr. Currie, who will address himself to the subject specifically, I wish to say simply that in my judgement the Conference has made good use of international machinery in the solution of agricultural problems. Light has been shed on many technical matters. An international conversation has been started among influential economists in many countries. This conversation keeps growing. The results appear on farms, in classrooms, around conference tables, in legislative halls, in business decisions, and in the deliberations of international organizations.

International dealings are inherently difficult. Every discipline in the social science field is involved: economics, ethics, and political science. The complications of differing languages and differing cultures are immense. Yet the effort grows. To the degree that economic discipline can be refined, clarified, advanced and purged of error, to that degree mistaken policies can be reduced in number and international relationships improved. Clearly, technical knowledge and better economic understanding can advance the material level of well-being. Clearly, international organizations can help disseminate these vital tools for human betterment. Historically, rising levels of living and the expansion of mutually advantageous exchange of goods have led to better terms of trade for our farm people and better international understanding for us all. This is an article of faith for those present at this meeting.

(b) COMMODITY AGREEMENTS

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IN international affairs, Canadians are becoming inveterate busybodies.¹ I trust that nothing I say here will impair that reputation. It is increasingly apparent to us, however, that there are heavy responsibilities to be borne as well as alluring solutions to perplexing problems in our troubled world to be championed by influential middle powers like Canada. Let me illustrate our busyness by quoting from the recent *Final Report of the Royal Commission on Canada's Economic Prospects*:²

We would suggest that one way in which the more highly industrialized countries of the West could help them (the under-developed countries) to identify their own interest more clearly with programmes for trade

¹ This was the theme of a convincing address by Canadian newspaperman Charles Lynch to the annual meeting of the Canadian Federation of Agriculture in Montreal, January 1958.

² Queen's Printer, Ottawa, 1958, p. 61.

liberalization would be by paying more attention to the problem of stabilizing commodity prices. We realize that there are great difficulties in the way and that the problems involved vary from commodity to commodity. But we believe that time and effort spent in trying to solve them would be well worth while.

You will realize, of course, that I speak only for myself at this Conference, and not as a representative of my employers or of Canada. I have tried to remain objective throughout, but in case I have not succeeded in avoiding Canadian biases entirely, perhaps I should remind you of Canada's trading posture in the world today, so that you may make any allowances which you think fitting.

Professor Jacob Viner of Princeton has recently described Canada's trading position as follows:¹

The prosperity of Canada's economy depends on the fortunes of its export trade in far greater degree than is the case for most other advanced countries, and to a far greater degree also than is indicated by the ratio of its exports of goods and services to its national income. The dependence of the prosperity of government employees, hair-dressers, shop-attendants, and nursemaids on the prosperity of grain-growers, lumbermen, and miners is, person for person, or dollar for dollar, contribution to the statistical 'gross national product', much greater than is the converse dependence. This makes Canadian prosperity highly contingent on the export-market trends for Canadian products, with reference both to volume trends and to trends of 'terms-of-trade'. Canada's exports, moreover, consist predominantly of natural-resources products, and it is the state of the export markets for these products which will for some time at least be the decisive factor in determining the level of Canadian economic well-being. This in turn makes Canada's prosperity peculiarly dependent on commercial policy; on its own commercial policy as it affects the competitive status of the production costs of Canadian primary products, and as it influences or misses the chance of influencing foreign, chiefly American, commercial policy with respect to Canadian staple exports; and on foreign commercial policy. There is a close and favourable correlation between Canadian prosperity and the American level of consumption of Canadian products.

Having regard to the expanding world population, to the economic development of hitherto retarded economies, and to the basic raw material nature of Canada's exports, we *should* be able to look forward to a good market in the future for Canadian commodities. Whether or not this occurs will depend a lot upon the amount and pattern of restrictions on world trade.

¹ Jacob Viner, 'The Gordon Commission Report', *The Queen's Quarterly*, Autumn 1957, p. 317.

Except for wheat, Canada's southern neighbour will remain her major market. The U.S.A. will also continue to be our leading source of imports. Such a degree of economic dependence causes a little uneasiness in Canada.

In the case of wheat, Canada has good hard wheat for sale, but payment has had to be made in good hard currency.¹ Canada hopefully participates in the International Wheat Agreement, and scolds deviators. Prime Minister Diefenbaker said in the U.S.A. last September:² 'Unless ordinary competitive practices remain, as far as surplus disposal is concerned, we cannot maintain our share of the world markets. We are losing that share,³ not through ordinary competition, but as a result of what has taken place as necessary and expedient for your country: export subsidies, barter deals, sales for foreign currency, which we in Canada cannot meet . . .'

My main assignment, as I understand it, is to initiate a discussion on the scope for international commodity agreements (referred to here simply as I.C.A.s).⁴ A student in this field is bound to be impressed by its complexity. One should not be intimidated by those economists who take up dogmatic positions on this subject, for two reasons. In the first place, much more than economics is involved. And, in the second place, a rigorous demonstration of some of the economic arguments would be extremely difficult to make. The major reasons for complexity in this field are inherent—i.e. diverse commodity characteristics and diverse national needs, attitudes, and policies, both economic and political in nature. But the inherent complexity is aggravated by domestic conflicts of interest and inconsistent actions, by wishful thinking (coherently and incoherently articulated) and by vague and ambiguous terminology.⁵

In order to assess past and potential performance of the international-agreement approach to commodity marketing problems, one should take a broader point of view as well as examine the records of specific commodity agreements, for the story of I.C.A.s is part of the general history of the ebb and flow of world trade. Accordingly, some attention to both the general and the specific levels will be given in this paper. Although the major subject is

¹ See *Final Report of the Royal Commission on Canada's Economic Prospects*, p. 157.

² At the Dartmouth College Convocation on Great Issues in the Anglo-Canadian-American Community, 5-7 Sept. 1957.

³ This was prominently so in 1957. Canada's share has recovered in 1958, however.

⁴ It is a pleasure to acknowledge the competent assistance of a senior student, Mr. George L. Beckford from Jamaica, who is now on the staff of Canada's Royal Commission on Price Spreads of Food Products in Ottawa.

⁵ The classic example of this is the adjective 'fair'—fair prices and fair shares.

multilateral commodity agreements, alternatives such as bilateral and unilateral action cannot be neglected altogether.

A multilateral commodity agreement is, I suppose, an association of more than two countries for the purpose of organizing the marketing of some product for their mutual benefit. Since World War II, the countries participating have included, usually, importers as well as exporters and the agreements have tended to be less restrictive in nature. The products involved are normally basic raw materials, which have been characterized by severe fluctuations in volume and value or the trading of which is jammed.¹ The traditional explanation for the price instability is that the demand and supply for raw materials tend to be inelastic. This generalization is rather too pat. It is truer in the short run than in the long, it is more applicable on the demand side to advanced countries with higher standards of living and, in the case of supply, it is truer of price decreases than of price increases. Still another distinction to be drawn here is between food and non-food commodities. The elasticity of demand for non-food items is likely to be greater than for food.

In general, international commodity agreements aim at stabilizing prices at 'fair levels' and at guaranteeing 'fair shares' in the market to the exporting and importing nations who are participating. What constitutes 'fair' prices is usually not clearly defined, probably because it has a contentious propensity. There may well be other motives in commodity agreements, such as expanding markets, promoting efficiency, and conserving natural resources. It is to be noted that emergency relief and developmental assistance have not been considered suitable objectives for I.C.A.s.

Although attention in this paper is focused on agricultural commodities, this distinction is sometimes artificial. Perhaps this can be illustrated by reference to the action of the U.S.A. in ceasing last year its strategic stockpiling of lead and zinc. This decision adversely affected foreign producers of lead and zinc, of course, but in addition it probably reduced the amount of bartered wheat with which regular dollar sales had to contend.

Multilateral commodity agreements date from the inter-World

¹ A quotation from the Report of the League of Nations Delegation on Economic Depressions entitled *The Transition from War to Peace Economy* (Part I, 1943, pp. 23-24) gives testimony to the instability of raw material markets: 'During the last twenty years, the price of wheat and of jute has been halved three times within about twelve months, the price of cotton three times in periods of under eighteen months . . . On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933, the price of crude rubber fluctuated between four cents a pound and twenty-five times that amount and was on several occasions doubled or halved in the space of a few months.'

War era. The First World War had induced over-expansion of raw material production in some countries. Production was also stimulated by technological advancement and by agricultural nationalism. The great depression of the 1930's delivered the final blow by undermining market demand. Exporting countries of primary products fought unsuccessfully against persistent surpluses by means of private cartels and domestic price-support schemes.

Professor E. S. Mason of Harvard has drawn attention to the fact that it was the producer groups who were responsible at that time for inter-governmental intervention in the form of commodity agreements.¹ It seems somewhat paradoxical that even in North American countries, where the consumer is supposed to be so pampered, commercial policy is producer-oriented. On the other hand, orthodox trade theory admits that conditions *can* exist where the gains from trade are lop-sided or even one-sided. The importers of commodities during the early 1930's may have been in such a favourable position.

Multilateral intervention in the commodity field was something new, at any rate, and up to World War II only wheat, sugar, beef, rubber, and tea (among agricultural commodities) had entered into agreement.² After World War II, interest in international action was keen along various lines, including modernized commodity agreements. It is upon the last decade, therefore, that we can concentrate our attention. General interest in international commodity agreements is enhanced at the present time by several recent and prospective events. Some examples: (1) The International Federation of Agricultural Producers drew attention at its 1957 Purdue Conference to mounting surpluses of farm products in various parts of the world;³ (2) an international study group for coffee has recently been set up; (3) a buffer stock agreement for cocoa has been under consideration; (4) the U.S.A.'s Public Law 480 (on surplus disposal) came up for extension recently; (5) the International Sugar Agreement and the International Wheat Agreement are coming up for renewal. In the case of the Wheat Agreement, this will mark its tenth anniversary.

For purposes of illustration, I have selected from I.C.A.s that exist or have existed two well-established agreements that provide some interesting contrasts—wheat and sugar.

¹ E. S. Mason, *Controlling World Trade, Cartels and Commodity Agreements* (C.E.D. Research Study), McGraw-Hill, New York, 1946, p. 152.

² Joseph S. Davis, *International Commodity Agreements: Hope, Illusion, or Menace?* (Committee on International Economic Policy), New York, 1947, pp. 16-18.

³ I.F.A.P. *Report of the Ninth Ordinary General Meeting, Purdue University, 1957*. See especially pp. 26-31.

(a) *The International Wheat Agreement*¹

'Wheat is such an essential foodstuff that, in most countries of the world, governments take a close interest in its production and distribution.'² The first I.W.A. (International Wheat Agreement) was negotiated in 1933 among twenty-two exporting and importing countries, upon the initiative of the exporters, to restrict surplus wheat supplies in conformity with a reduced world demand. The importing members were to reduce their domestic production and increase their consumption, and the exporting members were to control their production so as to meet their export quotas and their own domestic requirements, plus a reserve. The 1933 I.W.A. promptly collapsed, however, and the blame was placed on an exporting member which broke ranks by exceeding its quota.

Following World War II the world supply-demand situation for wheat, as with other foods, was reversed for a while, with war-torn countries suffering shortages. In 1949 thirty-five importing countries agreed to buy wheat quotas totalling 456 million bushels from three exporting countries at a minimum price (\$1.50 initially), and the exporters agreed to sell the wheat to them at a maximum price (\$1.80). Between these limits sales prices were free. There were no restrictions on production. The free market price subsequently exceeded the I.W.A.'s maximum for most of the time during the Agreement. But when the I.W.A. was renegotiated in 1953 and 1956 it was under surplus supply conditions reminiscent of the 1933 Agreement. The price range was raised for the 1953 Agreement (\$2.05 and \$1.55), and lowered for the 1956 Agreement (\$2.00 and \$1.50). The United Kingdom abstained from the 1953 and 1956 Agreements, in the former case on the grounds that it did not leave enough scope for short-run price adjustments, and that it did nothing about bringing long-run demand and supply into balance by encouraging consumption, discouraging production, and disposing of existing surpluses. Participation in the I.W.A. might also have cramped Britain's return of the wheat trade to private hands.³

¹ The literature in this field is voluminous; I will mention only: F.A.O. *A Reconsideration of the Economics of the International Wheat Agreement*, Commodity Policy Studies No. 1, Rome, 1952; Wilfred Malenbaum, *The World Wheat Economy 1881-1939*, Harvard Univ. Press, 1953; Helen C. Farnsworth, 'International Wheat Agreements and Problems, 1949-56', *The Quarterly Journal of Economics*, May 1956, pp. 217-48; Helen C. Farnsworth, *Multiple Pricing of American Wheat, Present System vs. Two-Price Plan*, Stanford Food Research Institute, 1958; M. W. Menzies, *The Canadian Wheat Board and the International Wheat Trade*, Ph.D. Thesis, University of London, 1956.

² *Final Report of the Royal Commission on Canada's Economic Prospects*, p. 177.

³ Oxford Agricultural Economics Research Institute, *The Agricultural Register, New Series*, Oxford University Press, 1957, pp. 111-18.

The main objectives of the I.W.A.s were to minimize fluctuations in wheat prices about a 'fair' level, to assure exporters a market, and to assure importers supplies. The price range should be set so as to bracket the long-run normal. Forward range-pricing for wheat proved to be a very difficult task. Under the 1949 Agreement, as already mentioned, the market price bumped against the ceiling most of the time. Under the 1953 Agreement, the price floated between the limits, but a sharp break was only prevented by North American exporters piling up stocks. I suspect that this was the main reason why the United Kingdom stayed out of the 1956 Agreement. Other importers, apparently, were interested in avoiding low prices in order to shield their domestic price-support programmes.

Bilateral trading in wheat has not been superseded by the I.W.A.—witness the U.S.A. surplus disposal operations. These cannot be judged entirely on economic grounds, however, and I will return to this matter later.

The I.W.A.s have been moderately successful in achieving their stabilizing objectives.¹ The achievement has been substantial in relation to the demands made by the Korean War and then by the rapid shift-over from conditions of scarcity to surplus. The extreme diversity of needs, and the pressures which this shift must have engendered among the member nations can hardly be imagined. The fact that the I.W.A. remained afloat at all is remarkable. At the present time, it underwrites about 295 million bushels a year, i.e. about one-third of the world trade in wheat. The major significance of the I.W.A. still lies, however, in that three dozen or so diverse nations can meet to discuss their wheat marketing problems and devise an international mechanism for improving the situation.

The I.W.A. would probably succumb to the acid test of another world depression. But even if we are spared that misery, the I.W.A. will have to become more influential about disposing of present wheat surpluses and averting the build-up of new surpluses.² Stabilizing prices is not enough (or rather, it is too much) because without long-run adjustments in production the I.W.A. must die. This does not mean that it is largely responsible for generating existing surpluses, but it does mean that its reputation depends upon its assuming some responsibility for getting rid of them. The main obstacle here is lack of jurisdiction over domestic price-support and other policies.

¹ The economics of bulk-purchase agreements like the I.W.A. are becoming clearer. See Menzies, *op. cit.*, pp. 367-414, and J. Carter Murphy, 'Bulk-Purchase International Commodity Agreements', *The Journal of Political Economy*, Dec. 1956, pp. 502-19.

² F.A.O. 'Guiding Lines for Dealing with Agricultural Surpluses', *Report of the Council of F.A.O.*, Appendix C, Nov. 1954, p. 86.

At the very least the I.W.A. has a responsibility for the orderly adjustment of wheat prices, and for urging production adjustments upon high-cost producers, during times of chronic surplus.¹ Another thing it can do is to encourage exporting members to price their lower-grade wheat down into feed uses directly, or indirectly by inducing a shift of some wheat acreage into coarse grains.

(b) *The International Sugar Agreement*

'The common feature of . . . (prewar I.C.A.s) was that the participating exporting countries undertook to limit their exports to specified quantities and to take domestic measures to prevent production from exceeding the combined domestic and export requirements.'² An I.S.A. (International Sugar Agreement) of this kind was signed in 1937 by eighteen exporting countries and four importing countries. The participation of importers was unusual, however. Back in 1931 the Chadbourne Agreement among the producing associations of seven exporting countries had failed to control enough of the sugar supply to be very effective in bolstering price. The 1937 I.S.A. had the good fortune to come in on the economic upswing from the great depression. World War II caused destruction to beet sugar industries in some belligerent countries and this brought on an interval of shortages. Cuban expansion helped to make up the deficiencies, but (understandably for a monoculture economy) Cuba was unable to retrench sufficiently after the war was over.³ Sugar surpluses had reappeared by 1953 when a new I.S.A. was negotiated among twenty-two exporters (including the U.S.S.R.) and sixteen importers.

The 1953 I.S.A. had the stated objectives of assuring markets and supplies and stabilizing prices at a level which would encourage the consumption of sugar and yet maintain living standards in the exporting countries. (Thus the I.S.A. goes farther than the I.W.A. in defining a 'fair' price.) An interesting element of flexibility was built into the 1953 I.S.A. by making export quotas subject to automatic adjustment when the market price indicated a substantial shift in the supply-demand situation.⁴

The I.S.A. price zone is now 3.25-3.45 cents (U.S., f.a.s. Cuba)

¹ It was the view of the late Dr. E. C. Hope, Economist for the Canadian Federation of Agriculture, that the whole of world agriculture is being adversely affected by a fundamental maladjustment in wheat. At the time of his sudden tragic death, he was making plans to attend this Conference.

² F.A.O. *Observations on the Proposed International Sugar Agreement*. Commodity Policy Studies No. 4, Rome, June 1953, p. 3.

³ B. C. Swerling, 'The International Sugar Agreement of 1953', *The American Economic Review*, Dec. 1954, pp. 839 and 850.

⁴ F.A.O. *Observations on the Proposed International Sugar Agreement*, p. 7.

per pound, but when the market price exceeds or falls short of this range for seventeen consecutive days, the export quotas are automatically adjusted.¹ When the price drops below 3.15, a maximum cut of 20 per cent. is reached. At the other extreme, when the price rises above 4 cents, all export restrictions are suspended. Unlike the I.W.A., the main obligations under the I.S.A. rest on the exporters, although the expansion of domestic production by importers is limited. The exporters are not only under quota, but are obliged also to adjust their production so as not to exceed domestic consumption, plus exports and specified stocks. Participating members have priority in I.S.A. trade, but there are escape clauses in case of serious balance-of-payments difficulties.

World sugar consumption has been increasing, but it can be claimed that the International Sugar Council cannot take the credit for this.² Post-war incomes have been rising and the demand for sugar is income-elastic, at least in low income countries. The industrial use of sugar (in plastics, detergents, paints, and insecticides) is also increasing. The I.S.A.'s performance is impaired by numerous bilateral and other special agreements. The Agreement covers nearly 6 million tons of sugar—about 43 per cent. of world exports. The United Kingdom and the U.S.A. are committed only for their residual requirements under I.S.A. after their preferential supplies are obtained separately. Under a Commonwealth Sugar Agreement, Britain negotiates annually her buying price for part of the sugar produced in the Commonwealth. The Commonwealth sugar exporters are collectively limited to a quota under the I.S.A.

The I.S.A. probably has helped to stabilize sugar prices, but world sugar prices are still pretty volatile. In late 1956 and into 1957 sugar prices rose rapidly (to 6.85 cents), and then fell sharply. But for the first three years of the 1953 I.S.A., prices were low and fairly stable, and stocks were worked off. In 1954-5, however, the price dropped below the minimum. Domestic sugar-beet support programmes were threatened, but high-cost producers were protected by tariffs. Low-cost producers could have supplied their needs, but in commodity trade, again and again, economics runs up against over-riding socio-political considerations.³ In this case there is also an economic deterrent—the low-cost sugar producers happen to have harder currencies than most of the importers and high-cost producers.

Certain characteristics are discernible, in general, among I.C.A.s

¹ International Sugar Council *Statistical Bulletin*, London, May 1958, Appendix A.

² Lawrence Myers, *U.S.D.A. Commodity Stabilization Service, Sugar Reports No. 46*, Washington, 1956, p. 6.

³ Leslie A. Wheeler, *Sugar, I.F.A.P. Commodity Memorandum No. 1*, Aug. 1952, p. 1.

up to the present. Being commodity arrangements, they are necessarily a piece-meal approach to trading. They are subordinate to no over-all supervising agency which might keep them in harmony with each other. Although the United Nations should ultimately be responsible, there is no existing intermediary that obviously fills this gap. This was to have been one of the functions of the International Trade Organization.

It has been suggested to me that the International Monetary Fund could exert a beneficial influence upon I.C.A.s by means of exchange loans. Many under-developed countries rely heavily for their foreign exchange upon exports of a basic raw material, and so, in times of commodity surpluses and exchange deficits, I.M.F. exchange loans might be made conditional upon appropriate production adjustments. However, this suggestion overlooks the fact that some of the biggest surpluses are generated in wealthy countries which are less likely to have such serious balance-of-payments problems.

Since the General Agreement on Tariffs and Trade is preoccupied with non-agricultural commodities, what we may need for co-ordinating agricultural I.C.A.s is an 'A.A.T.T.', i.e. an Agreement on Agricultural Tariffs and Trade. It would have to take the broader and longer-run points of view, and try to promote *surplus-prevention* policies. Cheap solutions to existing commodity problems cannot be expected.

I.C.A.s seem to be more interested in stabilizing fluctuations than in promoting basic supply-demand adjustments. They are more interested in restrictions of supply in times of surplus than in expanding consumption by lowering prices. These characteristics are symptoms, I suppose, of a basic bias of I.C.A.s in favour of the producer-exporter, i.e. they have tended to be international price-supporting, market-sharing arrangements. This is more marked when contrasted with the spirit prevailing at the Hot Springs Conference of 1943 when the expressed concern was for feeding hungry consumers. To support prices (nationally or internationally) is not without risks to the producers themselves, since it may stimulate a substitution of products, natural or synthetic. It seems that our world is sufficiently big for there always to be someone ready to undersell us.

I.C.A.s can cope with mild recessions, apparently, but probably not with deep, prolonged depressions. In so far as I.C.A.s keep prices from plunging at the onset of a depression, they would reinforce the incentive at such times for the unemployed to return to the farm in search of food and shelter. This would aggravate the surplus situation and hasten the collapse of the agreements.

In regulating supply, an I.C.A. is handicapped unless potential as well as existing exporters are considered. This means that I.C.A.s cannot afford to include or exclude countries on the basis of their political and economic ideologies. An invitation does not ensure accession of an outsider, of course, but it is a necessary prerequisite.

I.C.A.s obviously need appropriate domestic programmes in member countries, but participation in an I.C.A. is more likely to be regarded as supplementary to domestic policy than the reverse. Genuine participation in an I.C.A., however, requires some concession of national sovereignty. This is the bedrock upon which rational international action founders. An international *multi-commodity* marketing board is still a long way off. High domestic price supports, irresponsible surplus disposal, and illiberal commercial policies are incompatible with effective I.C.A. operations. Most countries exempt farm products from their commitments for freeing trade. The more advanced countries that are deficient in home food supplies protect their agriculture to reduce their vulnerability, but even the exporters of agricultural products such as Canada protect their own farmers. About 40 per cent. of the U.S.A.'s agricultural exports in 1956-7 were disposed of under various government programmes.

A type of I.C.A. that has not been used, except for tin, is the international buffer stock. It may be that a clearer distinction should be made here between food and non-food commodities. Many underdeveloped economies are precariously tied to the export of a non-food commodity to stronger importing countries. Since the elasticity of demand is likely to be greater for the non-food commodities, this may make buffer-stock schemes more effective in this case for stabilizing producer incomes. But even for food commodity agreements, it seems to be necessary for buffer stocks to be held on a national basis in order to make them acceptably workable. This is what the U.S.A. and Canada do with wheat and Cuba with sugar.

Can I.C.A.s cope with mounting surpluses? A little over a year ago, in reaction to recommendations of the I.F.A.P. at the Purdue Conference, a working party was set up to study the proper role of F.A.O.'s Sub-Committee on Surplus Disposal.¹ The I.F.A.P. recommended that the Sub-Committee's consultative procedures be strengthened. The Working Party reported that the Sub-Committee was handicapped by having been given no definition of a surplus. It hinges upon an acceptable definition of a fair price, which as I have indicated has not been forthcoming.

¹ I.F.A.P. *Report of Ninth Ordinary General Meeting*, Purdue University, 1957.

The Working Party also reported that the Sub-Committee might be able to influence a particular country's legislation in the long run, but in the short run the Sub-Committee could influence only the interpretation and implementation of existing surplus disposal legislation. Since transactions under these laws often involve bilateral deals, there is an understandable reluctance on the part of the principals to disclose the details to the Sub-Committee. An international agency such as the Sub-Committee or an I.C.A. has even less influence on unilateral subsidized disposal operations conducted along competitive tender lines.

In the interests of world welfare, it would seem to be desirable for I.C.A.s to encourage consumption by concentrating production in low-cost countries and exporting at popular prices, but over-riding national political considerations usually frustrate this. No wonder 'fairness' has defied definition. The producer and consumer draw entirely different conclusions from a conviction which they share in common. They both believe that food is vital. The food producer concludes, however, that a producer of such a vital commodity should be assured of good prices. The consumer concludes that such a vital item as food should be good and cheap.

The immediate future of I.C.A.s depends mainly, I think, on whether we are lucky enough to avoid the depression which has been haunting us. But the long-run future of I.C.A.s surely depends on the progress made towards relaxing world tensions. Until then, I.C.A.s cannot be popular with powerful nations because these nations, faced with surpluses, will insist on reserving control over their trade as a tool of diplomacy and an armament of economic warfare. State trading could be compatible with I.C.A.s, but *the accent is still on power*. The distant prospect of peace to this economic rivalry lies in international co-operation. Meanwhile, we shall be likely to continue to grope our way along between desperate nationalism on the one hand and multilateral management of trade on the other.

One further point: Commenting on the establishment of the recent Coffee Study Group, the U.S. Secretary of State said that the trouble was not decreased consumption of coffee, but over-production, due largely to producing countries' not having the statistics to know what they were doing.¹ Certainly, such commodity study groups, so far as they go, are a good thing. In the international field, as in the domestic, there is also a great need for more policy research. At the present moment the contagion of economic isolationism appears to be spreading, regional trading blocs notwithstanding.

¹ *I.F.A.P. News*, July 1958.

Paradoxically, liberal trade seems to be a luxury policy that can be afforded politically only during times of prosperity.

I.C.A.s have essentially a restraining or preventive virtue. With markets weak now, the need for multilateral marketing agreements, flexible and diverse, sometimes on a commodity basis, sometimes temporary and sometimes continuous, is greater than ever.¹ Such I.C.A.s could not cure all our trading ills, but they could at least provide deterrents to neo-mercantilism.

In conclusion, however, I must admit that I do not consider the establishment of I.C.A.s to be of the first order of importance in international economic affairs.² I.C.A.s do not reach deeply and widely enough, nor are they sufficiently creative. In the short run, top priority should be given to getting slack influential economies back on their feet. And in the long run, I would select as most important the devising of some programme for assisting the development of retarded economies without widening the gap which already exists between them and their benefactors. I do believe, however, that international commodity agreements could make a contribution to such a programme by preventing the capricious markets that jeopardize economic development.³

(c) INTER-REGIONAL GROUPINGS

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SINCE the end of the Second World War, Europe—more than the rest of the world—has witnessed several attempts at inter-regional regroupings for economic purposes. The benefits of these regroupings have already been felt for several years, and are increasing.

In what follows I shall try to sketch the evolution which has taken place, and to show how the principal treaties are bound together and how the various initiatives have succeeded one to another leading towards (a) the organization of the Common Market (whose statute is ready), and (b) to the organization of a Free Trade Area (whose statute is still being studied).

¹ Rising commodity production and falling prices in recent years can be clearly traced in the latest publications of the U.N. Commission on International Commodity Trade—*Commodity Survey, 1957*, and *Review of the Situation of International Trade in Primary Commodities*, 17 April 1958.

² 'Turning Point for Commodities', *The Economist*, 21 June 1958, p. 40.

³ 'A New Deal for Latin America', *Winnipeg Free Press*, 21 June 1958.

Benelux. Benelux, whose treaty of pre-union was signed 15 October 1949, is the oldest attempt at a regional regrouping. Its aims were: the gradual abolition of obstacles to trade between the three countries, the achievement of the most satisfactory level of employment in the economic circumstances and of the highest standard of life compatible with monetary stability and, finally, a common foreign trade policy which should promote the most favourable exchange of goods and services with other countries by means of the freest possible trade.

By April 1950 the trade between the three countries was already 91 per cent. free. The co-ordination of trade policy with other countries came into effect on 1 March 1954, when a common list of freed exchanges was fixed. All obstacles to the free circulation of goods and property were abolished on 15 May 1956. Finally, on 3 February 1958, the treaty creating the Economic Union between the three countries was signed at The Hague. This treaty contains the fundamental rules for the economic co-operation between the Benelux countries. The transitory convention deals with the last measures to be adopted within a limited time in order to achieve the third and last objective, viz. 'the free circulation of persons, goods, and services. This implies the co-ordination of economic, financial, and social policies as well as a common policy concerning economic and financial relations with other countries; also, an agreed and unified policy of exchange rates between the Dutch florin, and the Belgian and Luxembourg francs on one side and foreign currencies on the other.' The union will be completed within the next five years. In the transitory period a system of minimum prices has been established for the agricultural products listed below.¹

O.E.E.C. In the meantime the convention creating the European Organization of Economic Co-operation was signed in Paris, 16 April 1948. It includes seventeen members.² In a spirit of mutual aid, the founders proclaimed their determination to unite and increase their economic forces, to restore their economies, or to keep them stable, and to restore the confidence in their currencies; to augment their

¹ Cattle (except oxen), pigs; bovine and porcine meat (except bacon), whether fresh or frozen; salted, dried, smoked, cooked or otherwise prepared meat; fresh (cream or creamless) milk, curdled milk; fermented milk, milk cream; condensed tinned up-sugared milk; butter; eggs, shelled eggs, yolks; tomatoes; onions; new potatoes produced between 1 Jan. and 25 May incl.; unclassified potatoes; cauliflowers, red and white cabbage, chicory; cabbage-lettuces; carrots; fresh beans and peas; fresh apples, pears, cherries, plums, and strawberries; sugar-beet (whole or cut, fresh or dried).

² Belgium, Denmark, Germany, France, Greece, Ireland, Italy, Luxembourg, Holland, Norway, Austria, Portugal, Turkey, U.K., Sweden. Associated members: Canada and U.S.A. Observer member: Yugoslavia.

exchanges, to reduce the impediments to mutual trade, to favour full employment and diminish the obstacles to the free movement of persons.

In practice, apart from the distribution of Marshall aid, O.E.E.C. has not gone beyond freeing commercial exchanges and creating the European Payments Union. It has freed up to 90 per cent. of the exchanges of individual imports. It has not prevented new protective measures in favour of exports. These achievements of O.E.E.C. were an undeniable contribution (*a*) to the economic development and stability of Europe, and (*b*) to the formation of a habit, among the member states, of mutual consultation on economic policy and of taking into account the points of view of others.

European Coal and Steel Community (C.E.C.A.). The treaty of the Community, which came into force on 25 July 1952, has the same general aims as Benelux and O.E.E.C.; but it also aims at making more advanced experiments in a limited field, by means of an organism provided with authority and power over the member states. An international, indeed supra-national, organism was thus entrusted with the management of mines and coal works and of steel works of all kinds in Holland, Belgium, Luxembourg, Western Germany, France, and Italy.

The general aims of C.E.C.A. as stated in the treaty are threefold:

1. Political: (*a*) the creation of close economic links between the basic industrial produce of France and Germany, such as would make the preparation for armed conflict between the two countries not only unthinkable but materially impossible; and (*b*) the setting up of a supra-national authority, having real power, whose common decisions would form the beginnings of a European federation.

2. Economic: The setting up of a common market for coal and steel for 160 million people, contributing to the economic expansion, fuller employment, and higher standard of life of the member states, in harmony with their general economy.

3. Social: The improvement of working and living conditions in the direction of progressive equalization.

C.E.C.A. differs from Benelux in that it pursues at the same time economic and political aims. Limited as it is to two sectors, it embodies also the principle of extension which should lead to European integration. After an experimental period lasting five years, the competence of C.E.C.A. became final and irrevocable on 10 February 1958. This competence covers the plans of production, investments, sharing of orders and production, prices, and transport tariffs.

The success of the Benelux pre-union is apparent in an increase

in trade between the three countries, amounting to 574 million dollars in 1950 and 956 million dollars in 1955. In the same period, trade between Benelux and other countries increased from 3·442 million to 5·096 million dollars for imports and from 2·509 million to 4·520 million dollars for exports. Giving an index of 100 to 1950, world exports were 149 in 1955, those of Benelux to other countries, 180; those between the three countries, 167; imports in the whole world and within the three countries reached 167, while those from other countries to Benelux increased only to 144. Export trade within Benelux and from it outwards expanded, therefore, much faster than world exports; and although import trade within the three countries expanded at the same rate as world imports, the rate was considerably lower for imports into Benelux from other countries. This means that the organization of Benelux was very profitable for the three contracting countries.

In spite of the fears which arose in Belgium and Italy when the C.E.C.A. treaty was being prepared, because those countries thought they would suffer in their coal and steel production, the results went far beyond all hopes. The Belgian mines received important grants for modernization, and during the first five years Italian steel-works were protected by a customs curtain limiting the imports by the other five partners. Moreover, in the course of the five years, steps were taken to ensure a balance in the prices of transport and to fix a common customs tariff *vis-à-vis* other countries. Between 1952 and 1957 coal production increased by 4 per cent. and steel production by 42·8 as against 23·8 for the U.S.A. and 29·4 for the United Kingdom.

As a result of the abolition of discriminatory prices in rail transport, trade between the C.E.C.A. countries increased by 22 per cent. for coal, 15 per cent. for coke, 51 per cent. for iron ore, 153 per cent. for steel, and 167 per cent. for scrap-iron. During this period there has not been any unemployment, and wages for miners and steelworkers have increased by 25 or 30 per cent. C.E.C.A. has elaborated a system of social insurance and spent 5,000 million francs for the professional readjustment of 20,000 workers.

The Common Market. The examples of Benelux and C.E.C.A. cleared the way for the creation of the European Common Market; in fact, the suggestion to consider the possible organization of a common market came from C.E.C.A. From this suggestion—which was an inescapable mission—the conferences of Messina (1–3 June 1951), Venice (28 May 1956) and Val Duchesse (9 March 1957) were born. The treaty was finally signed on 25 March 1957 and put into force on 1 January 1958.

The six signatories (Belgium, Holland, Luxembourg, Germany, France, and Italy) represent approximately 160 million people (6 per cent. of the world's population), spread over 475,000 square miles, with 12 per cent. of the world's revenue. They include industrial zones rich in coal, iron and electrical energy, providing 15 per cent. of the world's industrial production. Agricultural production equals 7 per cent. of world production. The treaty provides for oversea territories controlled by the members to be associated in the common market.¹

The experience of Benelux had shown that it was not enough to abolish customs and adopt a common external tariff, but that there were problems of harmonization and specific agricultural problems to be solved, and a whole series of adaptations to be organized, unless one was prepared to liquidate the enterprises.

In Benelux, from certain points of view, there were only two partners with perfect equality. Decisions were taken with the unanimity of two, and no provisions were to be considered depriving governments of their right of veto. With six states it would have been dangerous to demand unanimity for every step; vote by majority had to be chosen. The choice of this system, coupled with the disproportion between the power of the several partners, has led to a supra-national institutional organization with a council of ministers. All matters of importance are determined by a majority vote of the Council, votes being weighted according to the relative importance of the countries represented.

This leads to the expectation of a heavy and complicated administration; figures of from 5,000 to 10,000 officials are being mentioned. On the other hand, parliamentary circles are determined to play a more active part in the Common Market than they do in Benelux and C.E.C.A.²

Aims. By means of a common market and by progressively bringing together the economic policies of the member states, the Community aims at promoting the harmonious development of economic

¹ Western French Africa (Senegal, Sudan, Guinea, Ivory Coast, Dahomey, Mauritania, Niger, Upper Volta); Equatorial French Africa (Middle Congo-Ubanguie, Shari, Chad, Gabon, St-Pierre-et-Miquelon); Gomore Archipelago; Madagascar, French Somaliland; New Caledonia; French Settlements in Oceania; Autonomous Republic of Gago; French administered territories in Gameraun; Belgian Congo and Ruanda-Urundi; Italian Somaliland; and Dutch New Guinea.

² Organs of the community: 152 parliamentary delegates = Assembly (with deliberative and control power); 17 representatives designated by the Governments (Council, as an organ taking decisions and co-ordinating the economic policies of the member states, with majority vote; Commission in charge of the functioning and development of the community; Economic and social committee with a consultative role); Court of justice.

activities in the whole area. This includes a continued and balanced expansion, an increased stability, an enhanced standard of life, and closer relations between the member states.

With this in view, the activity of the community implies, in accordance with the conditions and the rhythm foreseen by the treaty: (*a*) the elimination of customs, quantitative restrictions on the movement of goods, and similar measures between member states; (*b*) setting up a common customs tariff and commercial policy towards other countries; (*c*) the abolition of obstacles to the free circulation of persons, services, and capital; (*d*) setting up a common agricultural policy; (*e*) setting up a common transport policy; (*f*) setting up a system guaranteeing no unfair competition; (*g*) application of rules for the co-ordination of the economic policies of the member states and for remedying deficiencies in their balance of payments; (*h*) unification of national legislations as far as is necessary for the common market to work smoothly; (*i*) creation of a Social European Fund for improving the opportunities of employment and the standard of life of the workers; (*j*) institution of a European Bank of Investment, for the promotion of economic expansion within the community by means of new resources; (*k*) promotion of partnership with overseas countries and territories, in order to increase trade and collaborate towards economic and social development.

For the transitory period a system of minimum prices has been foreseen; this would be administered by each country according to criteria unanimously fixed by the Council of Ministers, on the proposal of the Commission.

The fundamental characteristics of the treaty are irreversibility, the interdiction of discriminatory practices based on nationality, progressiveness, and an open door for other European states to join in. Let us also remark that the treaty contains some principles of harmonization according to which member states co-ordinate their economic policies as much as is required for the achievement of the aims of the treaty itself. Moreover, the institutions will see that the internal and external financial stability of the member states is not compromised.

The treaty contains special clauses for agricultural policy, aiming at an increase in real productivity, not limited to technical progress but taking into account all factors, particularly the problems of manpower. Productivity is thus considered in relation to a higher standard of life.

Its task will be: (*a*) to stabilize markets; (*b*) to ensure supplies; (*c*) to guarantee reasonable prices for the consumer, with due regard

to the special characteristics of the agricultural economy which is more tied up with natural conditions, and therefore, more rigid.

For this purpose it has provided for : (a) a common organization of agricultural markets, (b) the co-ordination of agricultural organizations, and (c) the creation of a European organization of markets. The common organization would regulate prices, subventions, systems of stocking, and mechanism for stabilizing external markets within the limits of the fixed aims, avoiding all discrimination. The treaty contemplates the possibility of the creation of orientation and guarantee funds. Agricultural teaching and extension could be standardized and financed in common; consumers might be reached by common publicity campaigns.

I have mentioned already that one of the fundamental principles of the common market was its progressive character. This means that the European Economic Union will materialize within twelve or at most fifteen years. The process will take more or less the following course, which is necessary because of the special situation of the member states. For many years they have taken different measures to protect their economies. These have resulted in an artificial structure and diverging orientations, which forced the negotiators of the treaty to allow for delays, to take into account differences in various economic sectors, and to make arrangements flexible enough for lessons to be learnt from the march of events during the shaping of the Common Market, and also to provide for the liberation, not only of products, but also of services, capital, and persons.

In the course of the fifteen years, but without pre-arranged dates, these steps will be taken : (a) rules for a common transport policy will be established; (b) trade policies will be made uniform; (c) freedom will be gradually assured for services such as banks, assurances, &c.; (d) free movements of workers will be organized; (e) equal policies will be pursued concerning the right to work, conditions of work, protection against professional accidents and illnesses : the first step will be to fix a minimum insurance rate, which should lead to harmonizing all insurance provisions in the future. A European social fund will be established to facilitate the offer and mobility of manpower; (f) the quota system will be abolished.

Before the end of the fourth year : (a) all impediments to the free circulation of capital will be lifted; (b) all obstacles to payments will be abolished; (c) all quantitative restrictions on exports will be lifted; (d) the collection of up to 25 per cent. of customs duty on imported products and up to 30 per cent. of taxes will be suspended; (e) customs duties according to the common tariff will be applied in all

cases in which they do not differ by more than 15 per cent. from the present ones.

Before the end of the second stage: (*a*) disparities in fiscal legislation will be abolished; (*b*) the collection of up to 50 per cent. of customs duties on imported products and up to 60 per cent. of taxes will be suspended; (*c*) customs duties on exports will be completely abolished; (*d*) the common tariff will be integrally applied; (*e*) the gradual abolition of quotas will be continued.

During the third stage the programmes of the first two stages will be completed.

Article XXIV of G.A.T.T. considers that the common tariff in a customs union could not have a greater general influence than the tariffs whose place it takes. Accordingly, article 18 of the Common Market treaty declares that the member states are ready to contribute to the development of international trade and to the reduction of obstacles to exchange, by concluding agreements, aiming at the reduction of customs duties below the general level, of which they could take advantage in consequence of a customs union. This would be on the basis of reciprocity and of mutual advantage. In practice, this principle is embodied in article 19: 'the duties of the common customs tariff are fixed at the level of the arithmetical average of the duties in force in the four customs territories of the community'.

The establishment of a common customs tariff is no doubt one of the more delicate tasks. It is not enough to meet the needs of healthy competition and to ensure supplies for industry while avoiding unfair competition on finished products inside the community. The common market must also promote trade between the member countries and the other countries.

The decision by six states to join together for a market with common tariffs seems, at first sight, to be a protective measure to the disadvantage of other states, members of O.E.E.C., who are partners in a wider zone of free trade with less pronounced commitments than those accepted by the six states. This was also the case of the United Kingdom, which could not enter the European Economic Community without abandoning traditional relations with the Commonwealth, while other countries wanted to keep up their particular connexions and their traditional trade channels.

The association with oversea territories was objected to by the United Kingdom and several South American, Asiatic, and African states. Other states, fearing that the Common Market may degenerate into a wide preferential zone, refused to admit that there is agreement between the stipulations of G.A.T.T. and the Common Market.

The Free Trade Area. In order to avoid a split in Europe, an attempt is being made, under the aegis of O.E.E.C., to organize a free trade area for the advantage of the member countries. Certain countries, e.g. Belgium, Holland and Germany, although they belong to the Common Market, support the development of this area. The same is true of Switzerland, Portugal and Greece. The Scandinavian countries are also very favourable to the creation of a big market in which Sweden would find an unexpected opportunity for expansion and Denmark an assured outlet for its agricultural produce. The industrial associations of the northern countries have published a common declaration expressing the hope that the Free Trade Area will materialize, and asking for the united market to embrace all products, inclusive of those of agriculture and fishing.

On the other hand, the United Kingdom, for the reasons stated above, accepts the creation of a free trade area, but puts as a condition of its membership the exclusion of agricultural products. Other members of O.E.E.C., while admitting that they ought to co-operate on agricultural matters, are reluctant to abandon the protection of their national agriculture. If the agricultural sector is excluded, the possibility of balancing the advantages and disadvantages of the free trade area would be impaired.

Another difficulty would arise (if the idea of the Free Trade Area were carried to its final consequences) in cases where the differences between the common external tariff of the Eleven and that of the Six, or between their respective trade policies, would favour such a diversion of trade as could only be avoided by extensive and expensive controls.

The creation of the Free Trade Area seems then to have become more difficult since the creation of the Common Market. Still, considerable efforts are being made, for political and economic reasons, to create that Area. The advantage of the wide market assured by the treaty of Rome would thus be much increased in a market of 250 million people. In this Free Trade Area there would be no common tariff directed against the external world. The degree of political and economic integration would be less advanced in the Free Trade Area, therefore, than in the Common Market.

In order to arrive at the harmonization of the six-country market with the Free Trade Area it will be necessary for both groups to keep to the lowest possible level of external tariffs, for the progressive abolition of the other trade restrictions between members to be applied, and for a solution to be found regarding the agricultural products which are more or less protected in the Common Market.

The Free Trade Area need not, therefore, compete with, or absorb, the European Economic Community; it should rather complete it by establishing new and closer links between it and the other European countries with which the Six have successfully co-operated for the last ten years.

It must be admitted that there were initial difficulties in bringing about a more advanced economic union such as the Common Market, with countries which, as they became more numerous, were more and more divergent in character. The Common Market, at the centre of the area, remains the most advanced nucleus; its importance and extent could increase, since the Common Market remains open for other countries to join. One should mould the Free Trade Area, therefore, as closely as possible on the pattern of the Common Market, and provide for a harmonious development of the two organizations together.

Although the organization of the Common Market is a jump into the unknown, there is no doubt—if one remembers the results of Benelux and C.E.C.A.—that the inter-regional regroupings which are now developing in Europe will have repercussions favourable to everybody. In any case, we cannot go wrong if we say that the fact of organizing these regroupings will have these consequences: (1) it will make the inhabitants of the countries in question think as Europeans; (2) it will bring about specialization in the new industries favoured by the new organizations, and increase specialization where it exists; (3) it will favour trade and exchanges; (4) it will reduce import prices; (5) it will strengthen the power of negotiation with outside countries; (6) it will bring about a reduction in prices consequent on the widened market and the standardization of consumer goods; (7) it will make it easier to lead to good ends a policy based on contingencies; (8) it will lead to the gradual abolition of protectionist measures and unfair competition; (9) it will increase economic security, continuously hampered by arbitrary measures which are a constant menace to international trade.

Contrary to what pessimists think, considering that the foreseen development will be sufficiently slow, I do not believe that the organization of wide markets will upset existing economies to any considerable degree. The new activities and expansions will, rather, be in everybody's interest.

Probably the most active regions will benefit most from the Common Market; but the other members will profit too; and the treaty contemplates measures to help the more handicapped countries. On the other hand, the fact that there are in the union countries selling

at very different prices, is very favourable. Finally, standards of life will be raised, the industrial and agricultural structure of Europe will be strengthened, and Europe's influence and power in international politics will be increased.

Among the conditions of success, the harmonization of wages, insurance rates, and taxes must be mentioned side by side with the need for stability in currencies. But one of the very first conditions of success lies in the inclusion of the largest possible number of member states; this would clear the way to even wider association.

R. SAVARY, *International Federation of Agricultural Producers, France*

Being the first speaker expected to comment on *three* papers at this Conference, and having to discuss in particular the statement of one colleague of ministerial rank, I have naturally wondered why I deserve such a signal honour. My conclusion is that this choice was intended to sanction the presumption of non-governmental organizations and especially that of their spokesmen. If I am correct I accept the responsibility once more of stating the layman's case. I am assured at least of receiving treatment which cannot be less encouraging than that to which inter-governmental meetings have accustomed me: I never know which I should admire more—the perfect patience with which these august bodies listen to representations from citizens' groups or their unwavering determination to ignore them entirely!

Professor Baptist has succeeded in condensing a particularly complex subject. The necessity of painting an over-all picture of the clauses of the Treaty of Rome left him little room for a critical study. I would like to know, though, if his objective statement has placed in sufficient relief the criticisms—certain of which are very harsh—made in connexion with the agricultural clauses of the Treaty.

An essential feature of the Community is in effect the particular place reserved for agriculture. Priority in this sector had clearly been given to social objectives. As is normal in an area where the disparity between agricultural and non-agricultural incomes is particularly pronounced and where the average income of consumers is higher than that of producers, social objectives tend to favour the protection of farmers. As protection against competition from the other members of the Community was precisely what the Treaty proposed to eliminate, the common organization of markets must be substituted for competition. This will give its real form to the agricultural and commercial policy of the Community for external trade as well as for relations with third countries. But it is not known what

measures will be adopted to bring it about. No one can yet say whether the relative liberalism of certain partners married to the rigid protectionism of certain others will produce an acceptable offspring. In any hypothesis the Six consider that this is a domestic affair and they deny the competence of the General Agreement on Tariffs and Trade. The Community appears as a single entity.

Professor Haviland has painted a balanced picture of the various aspects of commodity agreements. Perhaps he has not put sufficiently in relief the paradoxical nature of the present situation. This appears to be characterized by a state of affairs where supporters and opponents of an international organization for the principal international markets for agricultural products have managed to neutralize each others' respective efforts. In the first place, commodity agreements remain an element of economic policy approved by the United Nations but it has been impossible so far to reach agreement on an effective procedure. It is not sufficiently realized that the United Nations still refers, for the sake of expediency, to a chapter of the Havana Charter which has never been ratified. Secondly, existing agreements are far from meeting ideal conditions. The International Sugar Agreement covers only a very small fraction of international trade in this product of which the greater volume is in the form of trade within preferential areas. As for the Wheat Agreement, it is a well-known fact that perhaps the most important clause, the undertaking by importing countries to buy given quantities at minimum prices, has never been put into effect.

One of the reasons why the policy for commodity agreements is at a standstill is without doubt because few commodities lend themselves to such agreements and that these commodities are precisely those where international trade is concentrated in the smallest number of hands. Opposition in those quarters whose political and financial influence is commensurate with their economic strength has also played a role which it is impossible to ignore.

While being in complete agreement with Professor Haviland on the general framework of the problem of international commodity agreements, and on its relatively secondary character with respect to other more fundamental aspects, I personally attach considerable importance to three principal considerations :

1. The conclusion of international commodity agreements, when they are manifestly necessary, is the touchstone of the willingness of governments to place their national policies in an international framework.

2. A certain stability of prices of a few essential primary products—which should in no event signify long-term rigidity—is indispensable to prop up a larger undertaking for international co-operation.
3. In an era when it has been proved to the hilt that price support policies—or, to be more precise, intervention by governments in the setting of prices and the flow of trade—are both quasi-universal and of a lasting nature, it must be recognized that the mechanism of international markets has become unworkable. Without a free market there is no free price; without free national markets there is no free international price.

It is no longer possible to have international prices set by international competition. It is no longer possible to have 'competition', in the economic sense of the word, between governments in the marketing of a product. It is possible only to have a form of economic warfare.

I well understand that many of us advocate breaking this vicious circle by freeing the price structure on national markets. But how many really believe that this objective will be attained in the short term? However long it may be (and there are good reasons for thinking that this long time will be really long) the dilemma is unavoidable: international co-operation or economic warfare.

We must choose international co-operation.

Some say that any formula to stabilize the international market tends to perpetuate, even to aggravate, the distortions, the effects of which it seeks to correct. I do not believe that this drawback should be inevitable. To admit it is to say that conscious action of men is incapable of putting into effect rational and realistic solutions.

If we turn now to Mr. Paarlberg, who has so successfully analysed the fundamental traits of international co-operation in referring to three elements (the technical revolution, the shift to a market economy, and improved communications) we must without doubt add a fourth, barely less general in character: the role played by governments in the economy or, if preferred, governmental intervention. At what pace can it be hoped to advance on the road to more effective international co-operation? Don Paarlberg warns us against the 'romantic delusion' that rapid progress is possible. I do not share his pessimism. If the results of efforts for international co-operation are not enough it is due above all to a lack of civic courage by statesmen and to their timid attitude toward certain special interests. Most of the obstacles standing in the way of harmonization of national

policies and the organization of markets are not due essentially to the nature of things but to an exaggerated respect for certain pre-conceived ideas.

The first condition for increased progress consists of an unshakable policy decision to start on the road to international cooperation. In this respect the way in which Chairman Spaak propelled the last phase of the negotiations which, after years of shillyshallying, led to the signature of the Treaty of Rome could serve as a lesson. There are no technical or theoretical objections which can hold out against a firm desire to succeed.

C. M. CASTILLO,¹ *United Nations Economic Commission for Latin America, Mexico*

I think that in being 'charitable and hopefully constructive' in his discussion, Dr. Paarlberg has left out some consideration of the problems we face in this field. I agree with him that it would be impossible to expect society to 'be able in half a century to perfect the techniques of international organization'. But I do think that the only way to improve on what we now have is by continuous study and evaluation of the achievements, difficulties, and shortcomings of the activities involved.

Some of the more important international agricultural programmes are those having to do with the transfer of technological knowledge from the more to the less fully developed countries—the so-called technical assistance programmes. It is obvious, at least to those of us who have had an opportunity to see them functioning and growing in recent years, that all is not well with our technical co-operation activities.

One of the greatest problems that the more highly developed countries will have to tackle is that of the relationship between their programmes of technical co-operation and the purely political objectives of their general foreign policies. The solution to this problem lies in their moving closer and closer to the idea that technical co-operation so far as possible should be taken out of politics. This does not mean necessarily that bilateral programmes should be discarded as a method of effecting technical co-operation. It means first, that more and more emphasis should be given to the multilateral programmes of the United Nations and of its specialized agencies and, secondly, that the administration of bilateral programmes should be taken out of political departments and placed in either technical centralized departments or in decentralized, autonomous institutions.

¹ Expressing his own views, which are not necessarily those of the Commission.

As for the international organizations, it seems that one of the more important aspects they will have to watch is that of keeping the international bureaucracy responsive to the needs of the recipient countries. There is always the danger, especially in large-scale organizations, of losing the flexibility which is required to adjust operations to changing conditions. However, I think that the recipient countries have much to do in this connexion. To the extent that they are able to define their needs clearly, and to integrate their requests for technical co-operation into their own development programmes, to that extent the operations of the international agencies will become more efficient and the international civil servant more useful and responsive to their needs.

On international commodity agreements I should like to make three brief comments. In the first place, it seems that this approach to foreign trade difficulties is probably applicable to problems that arise from maladjustments of supply and demand in relation to individual products. I do not see how they could be used successfully to stabilize prices in those instances where we deal with general economic fluctuations. The case of wool at the present time seems to be a good illustration. This means that keeping their economic house in order will become more and more an international responsibility of the developed countries. In the second place, Mr. Haviland's conclusion in evaluating international commodity agreements is that their relative effectiveness is not yet clear, although available evidence shows at least a slightly favourable net effect. In this respect, I think that we should not be discouraged by recent failures or deviations from the main objectives, and that this approach should be given a fair chance.

•The problem of the relationship of prices of primary products which we export with those of manufactured goods which we import is a real one; it is not a mental invention. I was somewhat intrigued the other day by the comment made by Professor Morgan in his forthcoming article, quoted in Professor Hanau's paper, to the effect that the unfavourable trend in the relative prices of primary commodities is not general, because the period of observation, 1876 to 1948, constitutes only an atypical episode. I do not know how long a period has to be in order to become a typical episode. Following him, we should perhaps conclude that one of these centuries we shall go back to normal. However, I do know that we in Latin America are very much concerned with the outlook of declining relative prices for coffee, cotton, and mineral products over the next five or ten years, and that the only way out we see at present is some kind of

international agreement that will prevent prices from hitting rock bottom and that will enable us to make the appropriate adjustments in our production structures.

I would like to say a few words about the United States Public Law 480, on surplus disposal. Mr. Haviland seems to be bothered by some of its effects on the Canadian situation. So are some other people from other developed countries. Nevertheless, I think that a fair evaluation of this programme should also take into account the benefit that its operation has brought to other countries in the way of providing timely supplies of basic foods in emergency periods, saving scarce foreign currency, and furnishing funds for development and monetary stabilization schemes.

Mr. Baptist's paper on European efforts towards economic integration points to the difficulties of bringing the agricultural sector into this type of programme. Regional integration seeks to facilitate economic development by enlarging the market and, in so doing, making it possible to attain a more adequate and efficient division of labour. Specialization, however, is very difficult to achieve with pre-existing economic activities mainly in the area of traditional agriculture.

We face the same difficulties in Central America, where Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica intend to develop a small common market over the next decade. Many of the agricultural commodities included in the product lists of the multilateral trade agreement that was signed last June are products subject to quantitative export and import controls. It is obvious that because of ignorance of future demand in the countries involved, it will be impossible to organize a healthy and stable flow of agricultural trade on a regional basis, and to adjust production policy to the needs of the five countries considered as an integrated whole. With these ideas in mind, we are beginning to experiment with a different approach to integration related specifically to agriculture. This approach has the basic purpose of co-ordinating national policies in such a way as to enable the five countries to move away from quantitative controls to a system of intermediate term export and import quotas, based on total estimated needs and minimum import requirements. In turn the overall objective is to attain a reasonable degree of regional self-sufficiency in the production of food and raw material for industrial development.

I should like to join Dr. Paarlberg in his note of optimism about the future of international organizations. In spite of their problems, it is obvious that they constitute the best mechanism we have yet

devised to solve our international problems. For, in the final analysis, the far-reaching purpose of the activities we have been discussing is, in the words of the distinguished Prime Minister of India, to define the basis of international order in terms, not of competition and acquisitiveness, but of co-operation, the good of each contributing to the good of all.

M. CÉPÈDE, *Institut National Agronomique, Paris, France*

I wish to emphasize a particular aspect of the European Economic Community—the part it intends to play in the under-developed regions, particularly in the countries and territories associated with it.

Certainly, by its very constitution, it tends to become a most substantial entity, more prosperous and above all more capable of having an increasingly liberal policy in international negotiations without jeopardizing the economies of its members and particularly its agricultural sector. It is like a trapezist who needs to be sure of having a good net not too near the ground before he launches himself into space. It is a condition in which, in an enlarged and well-organized market, agriculture and producers and consumers in general are safeguarded against the major economic catastrophes to which international trade may expose them.

Many of us regret that by actual international commodity agreements, such as are envisaged in Chapter VI of the Havana Charter but which have never been implemented, this safeguard against wide fluctuations has not been established on a world scale for all mankind. But without renouncing a positive attitude towards the world plan, we have been realistic and have begun with a more limited approach—the regional approach. No one who is reconciled to this limited approach, however, would agree that the European Economic Community is only a group of neighbouring countries at similar and relatively high levels of development acting selfishly to defend or to raise their economic standards. Certainly France, for example, which gives to the development of under-developed countries an important part of her national income (in fact the most important part, according to the Economic and Social Council of the United Nations Organization), has decided to proceed with this effort.

It seems to us most important that the European Economic Community has taken to contributing according to principles analogous to those which we have established, for example, for the development of the countries of black Africa. The Treaty has anticipated an investment fund for these countries. France already contributes Fr. 120 milliard per year, representing 20 per cent. of their national incomes, to

the African countries with which she is particularly associated. It would be impossible for them to invest this amount out of their own revenues. But what is perhaps more important is that the free-trade area is in a unique way anticipated by the Treaty.

The Common Market is open to the products of the associated countries. These countries have, as a set-off, the right for economic reasons (the protection of infant industries, for example) to impose duties on imports from the Community, including those coming from countries with which they have special relationships. Favourable terms of trade should thus be assured for the products of the associated countries which are on the road to development. The Community which represents about 12 per cent. of the world's income (excluding U.S.S.R. and China) has thus declared itself consecrated to the economic development of its associated countries by methods which are proving themselves daily. It is not able, except under the penalty of being ineffective, to apply these methods to the whole world, but if the other efforts of the other developed countries or groups of developed countries prove themselves equally generous and effective, this will be an important contribution to economic development.

Moreover, if a co-ordination leading to integration on a world scale could be realized at the same time in the two spheres foreseen by the Rome Treaty: (1) investment for development, and (2) organization of markets to assure favourable terms of trade to developing countries, the promoters of the Community should be very happy.

In effect they wish, by the regional approach, to contribute to these objectives, beginning by 'sweeping in front of their own door'.

M. MESA ANDRACA, *Mexico, D.F.*

It should be remembered that, when that great American statesman Franklin Delano Roosevelt proposed at Hot Springs the creation of the Food and Agriculture Organization, he pointed out that one of its main purposes should be to overcome the problems of hunger and poverty whose very existence constitutes a permanent menace to world peace.

Hunger and poverty still exist in many countries. We, as agricultural economists, know very well that one of their fundamental causes is unsatisfactory income distribution. In order to solve this problem, it is essential to solve the problem of the distribution of land ownership, since land represents the most important production factor. In many places, there are still anachronistic land tenure structures that stand in the way of economic development.

The F.A.O. has been concerned with the study of this problem and has organized two Land Use and Land Tenure Seminars, one in 1953 which was held in Brazil, for Latin America, and another in Bangkok for the Far Eastern countries. One of the recommendations passed by the Latin American F.A.O. Seminar for agrarian research is now functioning in Mexico on a permanent basis with the purpose of carrying out land tenure investigations in that part of the world. The last two conferences of F.A.O. have agreed to co-operate with the Centre for these purposes.

So long as the land tenure systems of the so-called under-developed countries maintain unsatisfactory forms of land ownership it will be very difficult to eradicate poverty from the face of the world. Therefore, I should like to submit for your consideration the need to focus the activities of international agricultural organizations on the important and urgent agrarian problem. As Mr. Aziz put it yesterday the economic progress of the under-developed countries cannot be obtained without the indispensable aid of land reform.

E. M. OJALA, *F.A.O. Regional Office, Bangkok, Thailand*

I particularly noticed Dr. Paarlberg's statement that the objectives of international efforts for agricultural betterment cannot be very different from the objectives of national governments. I am sure that national governments understand this but I sometimes wish that it were also well understood outside government circles. There is considerable scope within the limitations that have been mentioned for useful action by international agencies and Dr. Paarlberg gives some wise guidance as to the criteria which should guide them in their efforts. I have the impression that governments watch this matter carefully themselves when they review the budgets of the agencies from time to time.

I have a few reflections on the tasks of the F.A.O., with which I am closely associated, and also of the Economic Commission for Asia and the Far East, with which we in the Economics Division of the F.A.O. work very closely through the Regional Office in Bangkok. Of course, everyone is convinced of the value of the exchange of information that F.A.O. and E.C.A.F.E. provide, especially in contributing authoritative statistics of agricultural production, commodity trade, &c., as well as information about technical problems that are commonly experienced and on which much work is being done in many different countries. If I may be specific I would refer to a preliminary report which we have just completed at Bang-

kok on the agricultural economic research recently conducted or at present planned in the countries of Asia and the Far East. This is an attempt in the framework of international action to indicate the scope and content of work in agricultural economics in the region, with a view to encouraging further expenditure by government and universities on this type of work.

I should like to indicate one or two other points. One is the value of international agencies in developing agreed principles of economic conduct in fields of vital common interest to governments. Following the failure of attempts to develop such principles in a wide general field concerning international trade, it seems that F.A.O.'s work in establishing by agreement among governments some principles of surplus disposal raises an international standard which, despite its limitations, is a useful thing. There might be scope for something similar in relation to agreed principles of agricultural support—a matter to which much study is being devoted under F.A.O.'s auspices at the present time. Failing the development of agreed principles there is scope for consultation, and it is one aspect of F.A.O.'s work to provide an accepted forum for international consultation on some of these problems of common concern. I am referring here to the Consultative Sub-Committee on Surplus Disposal and the commodity study groups established for rice, coarse grain, cocoa, and coconuts.

My final point relates to Dr. Paarlberg's dictum that the emphasis should be upon promoting local action and responsibility. In international work from Bangkok the projects that have given me personally most pleasure have been those where we have been able to apply this emphasis. For instance, we had authority to study the domestic marketing of certain products, particularly rice. It is of basic importance for governments to have the facts about the way rice moves, the channels of trade and margins. This information is basic to policy for the improvement of welfare, for if government do not have the facts, they still have to take decisions. Their decisions can be much better founded of course if the information is there. Rather than make secretariat studies ourselves we decided to promote field work by the national research institutions. As one result of our interest in this subject, an institute in Indonesia undertook the first study of the internal marketing of rice in that country. My point is that following international initiative several Indonesian economists were trained for this type of research by participation in field work in their own country. In this way some permanent improvement in the capacity to do this type of work was developed.

G. GAETANI-D'ARAGONA, *Institute of Agricultural Economics, University of Naples, Italy*

Professor Baptist's point relating to the necessity of preserving some defence of agricultural prices within the European Common Market in order to safeguard agricultural incomes within the participating countries seems to me to be of particular interest.

Actually, the treaty contains clauses appropriate to the support of agricultural prices, first, with respect to the lower levels of prices in the markets outside the European Community, secondly, against violent oscillations of prices on the Community's unified market owing to disequilibrium between the overall aggregates of supply and demand within the Community and, thirdly, in the short run, with respect to various levels of existing prices on the individual national markets of the Community.

In addition to protecting the prices of agricultural products within the E.C.M. against price competition from outside, it appears to be necessary to support incomes in order to raise them to the levels in the non-agricultural sectors within the Community. A policy of support of farm incomes inside the E.C.M. can be implemented in two ways: by maintaining relatively high agricultural prices (a policy of indirect support), or by directly supporting farm incomes (tax reductions, free public services, &c.), leaving the prices inside the Community to adjust freely in response to the dynamics of the integrated market.

The Community is now following the first course by implementing policies of freedom of movement of agricultural products within the Community. My main comment is that a policy of protecting agricultural incomes within the Community against the disturbing (but also in a certain sense, beneficial) influences of the lower costs of production of many agricultural products of countries with more favourable relationships of land to labour, can be realized by a policy of indirect payments to the agricultural sector, even in the framework of a declining degree of support of agricultural prices.

The major obstacle to a policy of direct or indirect payments to the agricultural producers if applied on a national basis, is the increased burden on the national budgets of some of the six countries. This applies particularly to the countries with high proportions of rural population. At present, when we are far from overall integration of the economies of the six countries, the cost of such a policy is onerous and practically untenable for some countries, such as Italy and France.

In Italy the population active in agriculture in 1956 was 37 per cent. of the total, and their income 22 per cent. of the national income. In France 29 per cent. of the total population was engaged in agriculture and provided 20 per cent. of the national income. In these countries the burden on the national budgets for direct or indirect compensatory payments to the agricultural sector is still considerable, given the great disparity of *per caput* income as between the rural and the extra-agricultural sectors. In other countries of the Community, such as Western Germany and Belgium, the financial burdens related to a policy of direct support of farm prices, tend to be restricted because of the minor disparity of incomes as between the agricultural and the extra-agricultural sectors of the population.

Agricultural Employment as Percentage of Total Employment

	O.E.E.C. <i>combined</i>	E.C.M.	Nether- lands	Belgium	France	West Germany	Italy
Pre-war . . .	34	35	20	17	36	27	48
1950 . . .	31	30	13	10	33	23	41
1956 . . .	28	26	12	10	29	n.a.	37

Source: O.E.E.C.—Agricultural and Food Statistics—Monthly Statistical Bulletin, Paris, February 1959.

If it were possible instead to set in motion a policy of direct support of agricultural incomes on an integrated basis by means of financial action sustained by the Community as a whole, the policy would be easier to apply for the following reasons. The agricultural population in the six countries together is a relatively lower proportion (28 per cent.); the burden of compensatory payment would be reduced by freer movement of farm workers between the six countries, thus more rapidly reducing the surplus agricultural population of some areas; and a policy of compensatory payments undertaken on an integrated basis would leave wholesale agricultural prices within the Community free gradually to approach international levels, thus raising the real *per caput* income of the population within the Common Market.

A. G. BAPTIST (*in reply*)

I am particularly pleased with Dr. Savary's remarks because they give me an opportunity to express my apprehensions about the possibility of exaggerated protection of agriculture in the Common Market. This is my principal concern, as I have said more than once in my own country.

Mr. Gaetani-d'Aragona pointed out some of the difficulties of agricultural protection and he has strengthened my impression that the protection of agricultural prices in the European market will not go so far as some people first thought. This would be impossible.

Mr. Castillo has told us that five Latin-American countries are trying to co-ordinate national policies so as to enable them to move away from quantitative controls towards a system of intermediate term export-import allocations based on total estimated needs and minimum import requirements. This will be done in the European market also.

I hope all these attempts to organize regional groupings will be successful and lead to still larger organizations and wider agreements in the future.

W. E. HAVILAND (*in reply*)

I entirely agree with Dr. Savary that we should make further study of when and where commodity agreements are needed and are suitable, and that we must have a good deal of international co-operation if we are to develop further along the lines of international commodity agreements. With regard to sugar, the way the International Sugar Agreement is set up does not prevent sharp falls in the price of sugar. Sugar prices are still very volatile.

Dr. Castillo said that he felt that international commodity agreements were suitable for helping to reduce maladjustments between the supply of and demand for commodities, but that this presupposes that in general the economies would be kept at a full-employment level by other means. I agree with that. I also agree that we should not be discouraged; we should give commodity agreements a chance, as I suggested in my paper. With respect to U.S. Public Law 480, I would be content to let the recipient countries judge it. But there are rival exporting countries that might not be so magnanimous, and opinion even among the recipient countries is far from unanimous, because the deals often have indirect repercussions which are far from satisfactory from their point of view. This is an instance of the mixed-up and contradictory situation which Dr. Savary said generally exists in international agricultural trade at the present time.

D. PAARLBERG (*in reply*)

Dr. Castillo suggested that the U.S.A. should broaden the basis of its technical assistance so as to relate our effort more appropriately to the needs of the recipient countries. In our technical assistance, we subscribe to the principle of comparative advantage. We strive as

nearly as we are able to encourage the development, in the recipient countries, of the production of those commodities which have a comparative advantage—which after an initial period will be sufficiently well developed to be able to stand on their own. It is not always clear which commodities these are. Experts disagree on this point. Even if it were possible to determine them, the recipient countries still might not consider them to be the commodities whose production should be encouraged. Sometimes there is a strong desire—even an unwarranted desire—to make the country self-sufficient. Sometimes there is a great desire for foreign exchange in the short period. These are recognized difficulties, also there are political difficulties, sometimes, in encouraging the production of commodities which have a comparative advantage in the recipient countries, but which compete with some of our American export crops. It is impossible to avoid the political process in matters like this. The United States operates under the representative system of government, which cannot be perfect. We believe its errors are fewer than its successes. We have made progress and, in a number of countries, we are encouraging the production of commodities which compete with our exports. We do this because we see that it is helpful to these countries to encourage the production of adapted commodities. If we have achieved less than complete success in following this programme of comparative advantage, it is something which I think should be looked upon with charity by countries which have political problems of their own.