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## Beyond Commodity Policy: Structural Changes and Financial Compensation

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The question of commodity policy is central on the UNCTAD agenda. It is not quite so clear how central it is to the new international economic order but it clearly is important there also. In the current discussion the question usually presents itself as proposals for an 'integrated policy' (linked with UNCTAD and with the broad support of the Third World) versus the 'commodity-by-commodity approach' (favoured by the First World, with various nuances and distinctions).

However, this is a framework which, while it may be necessary for specific international discussion, is too narrow within the context of a new international economic order. For that purpose it may be useful to distinguish four rather than two families of possible approaches and action. These are, in addition to the integrated and commodity-by-commodity approach, the financial compensatory approach and the structural approach.

The financial compensatory approach has also been actively discussed and in fact has been included by UNCTAD as an element in its integrated approach. To the industrial countries, however, it looks more like an alternative to the integrated approach and as complementary—a 'second leg'—to the commodity-by-commodity approach.

The structural approach is surprisingly neglected in the current discussions, probably because it is too 'interdisciplinary' to fit tidily into a negotiating pattern. The structural approach looks at trade in commodities not by itself but as part of a chain of production, transport, distribution, financing, etc as well as trade. The structural approach may be exemplified by the case of bananas, where it is found on analysis that little more than one-tenth of the final consumer dollar spent on bananas accrues to the actual producers, and only a fraction of that to the indigenous small producer. In such situations, obviously much can be done to increase the income of the small local producer even without the usual instruments of commodity agreements.

The structural approach has been recently emphasized in research and analysis within the IDS, to begin with on a commodity-by-commodity

basis. Its advantage is that it has a natural focus on the weaker commodities whereas concentration on conventional commodity agreements has the opposite tendency of 'to him who hath shall be given'. A further advantage is that its natural focus on individual commodities could recommend it to First World thinking, while its emphasis on major structural changes could recommend it to more radical Third World thinking. It has the disadvantage, however, of being clearly more difficult to negotiate than either simple agreements of a conventional type or global agreements of the financial compensatory type or common funds for an integrated commodity policy.

For this reason, financial compensatory arrangements are a more direct and realistic alternative to commodity policy in the strict sense. The preference they enjoy from the First World industrial countries is clear. It has several sources:

1. They do not interfere with market mechanisms—this appeals of course particularly to the ideologically market-oriented countries, such as the US and West Germany.
2. They keep political and economic control more firmly in the hands of the countries which supply the money for the compensatory schemes, *i.e.* the industrial countries (although possibly OPEC may take some share). This will be particularly true if the financial compensatory schemes are vested in the IMF as they are at present; it will be less true if such schemes are shifted into UNCTAD or other bodies where Third World countries have more control. It is not *necessarily* true that financial compensatory schemes give more control to the industrial countries. One can certainly imagine, on the one hand, compensatory schemes in which the compensation is automatically given on certain objective criteria, without strings attached and in the form of grants; and, on the other hand, commodity agreements which are very much hedged with conditions and provisos, giving a good deal of control to the consumer countries. However, in practice it is likely to be the other way round. Higher revenue to producers under commodity agreements are normally without repayment conditions and are unconditionally at the disposal of the exporting country, while financial compensation is usually

given as a loan (except perhaps for the poorest countries) and could become subject to conditions of the producers 'putting their house in order', particularly if administered by the IMF.

3. For the industrial countries, with clever arrangements the financing of compensatory schemes can be in political terms 'cost free'. One example would be the financing of compensatory schemes through gold sales by the IMF as presently agreed in the arrangements for the IMF Trust Fund. At a later date such schemes could be financed from the 'link' with SDRs even though at the present time the 'link' seems to have been pushed into the background. In a different sense the industrial countries can always take the resources for contributing to compensatory schemes from their normal aid programmes and this will make them cost free in a political sense.

4. Compensatory schemes do not impose specific burdens on specific consumers or consuming industries in respect of specific commodities. The burden is therefore less visible and the need for politically difficult adjustment policies and measures of internal redistribution is thereby avoided.

5. There are also features of financial compensatory schemes which are particularly emphasized by the industrial countries and which would be genuinely advantageous to poor exporting countries. Such financial agreements can be impartially applied to strong and weak commodities, they can be integrated or commodity-by-commodity depending on whether the export proceeds to be stabilized are those of individual commodities, many or all commodities taken together, or even total export proceeds from all sources. They result in payments to the governments of exporting countries, rather than to wealthy producers, or producers in rich countries or subsidiaries of multinational corporations in the Third World exporting countries. Of course, the fact that the payment goes to the government can also be considered a disadvantage, where the government policy is not directed to relief of poverty or to other types of true development. However, even in the case of commodity agreements which raise prices in world markets or stabilise the volume of demand in world markets, a non-developmental government will find it possible to divert the benefit to non-developmental purposes.

6. Finally, compensatory arrangements are also presented by industrial countries as avoiding some of the 'anti-productive' features of commodity agreements, *i.e.* stimulating excessive new investment in the case of high prices or the stimulation of synthetic substitutes, etc. But this

is a questionable argument: rationally at least, the benefits of financial compensatory payments and the additional guarantee of proceeds offered by compensatory schemes should have a similar effect to artificially raised commodity prices in the case of stimulating new investment, although not in stimulating synthetic or other substitution.

If an academic writer can presume to give any advice to the Third World countries, it would be this: It seems that the industrial countries are willing to consider much wider and much better financed compensatory schemes than the present small beginnings such as the IMF facility or the Stabex plan in the Lome Agreement. There seems no reason why major schemes of this kind could not become an important element of the new international economic order as visualized by the Third World. By going along with the industrial countries in a preference for financial compensation over certain forms of more specific commodity policy, the Third World countries should be able to obtain three very important concessions: (1) that the export earnings to be stabilized should be *real* export earnings and not money export earnings—this would introduce the principle of indexation at the point where it would probably be most acceptable to the industrial countries, (2) to make arrangements for the control of such compensatory schemes to be to a significant extent in their hands, and (3) that the compensatory payments be made to a significant extent, and particularly to the poorer countries, in the form of grants so as not to add to debt burdens. One would also think that the Third World could accept such arrangements as a complement rather than a substitute for more specific commodity policy measures, which would in any case take much longer to negotiate. They might reflect that once the industrial countries finance compensatory arrangements, they themselves acquire a vested interest in commodity arrangements which would minimize the call on the funds for the financial compensatory schemes.