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"COMMODITY MARKETING AND STABILISATION".

This is a subject which has been discussed fairly thoroughly by economists -- especially during the post-war period. It is now, I venture to suggest, a subject of greater importance and urgency than ever. The reason for this is simple: most under-developed countries are now engaged in economic planning and they are finding that one of the greatest constraints they have to deal with is shortage of foreign exchange with which to import capital goods. Developing countries today need to have stable and expanding foreign exchange earnings. In Africa where most countries are at the earliest stages of economic development this requirement is reinforced by the fact that most of these countries have just obtained political independence while economically they are still (and they are very much aware of this) heavily dependent -- dependent in two senses: (a) they still depend on their former colonial masters for the sale of their exports and source of their imports; (b) they depend on one or two commodities for their foreign exchange earnings (and often these earnings are substantial proportions of their GNP) e.g. in 1961 82% of total export earnings of Senegal came from groundnuts, groundnut oil and groundnut cakes. In the same year 60% of Sudan's total foreign exchange earnings came from cotton; for Egypt this crop contributed 70% of total export earnings. (1)

(1) The following table brings out the importance of certain export commodities in selected African Countries.

Share of Principal Export Commodity
in Total Exports - Average 1950-1958

<u>Country</u>	<u>Commodity</u>	<u>% share-average 1950-1958</u>
Mauritius	Sugar	98.5
Gambia	Groundnuts	94.3
Egypt	Raw Cotton	79.3
Liberia	Rubber	73.2
Ghana	Cocoa	72.7
Sudan	Raw Cotton	62.9
Rhodesia & Nyasaland	Copper	58.0
Ethiopia	Coffee	58.7

Source: Quoted, from the Yearbook of International Trade statistics, by the E.C.A. document E/CN.14/68

NB: The importance of sisal, coffee, cotton, tea in East Africa does not need to be emphasised.

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Another reason which makes the problem of commodity marketing and stabilisation important and urgent today is this: that in most underdeveloped countries population is increasing fast and therefore these countries have to rapidly increase their outputs and diversify themselves in order to feed the rapidly increasing population. In East Africa for instance where population increase is well over 2% per annum, we can expect population to double in 25 - 30 years. The important question to ask is this, will the agricultural output also be doubled in this brief period? (2) If it is not doubled then it means that the standards of living will fall -- and, therefore, in order to avoid this agricultural output must be increased by more than the rate of increase of population. This brings me to what I consider to be the ultimate solution of this problem in underdeveloped countries: namely that there must be industrialisation and diversification of patterns of production in order to bring about some measure of balanced growth between the two main sectors (primary sector and secondary sector) at both the national and international levels. This, I would like to emphasise, is the ultimate solution. All the other measures we can think of are no more than palliatives -- although this is not to suggest that these palliatives are not important. But this is to anticipate our conclusions.

In order to understand the problem of commodity marketing and stabilisation there are a number of things which should be kept in mind: (a) that the so-called industrial countries themselves produce the bulk of the world supply of food and raw materials e.g. it is estimated that North America, Western Europe and Japan produce 90% of the foodstuffs and 70% of the raw materials they consume. It is also worth mentioning that some of the major world exports of primary products e.g. wheat, come from the developed countries. (b) That there is very little trade between the underdeveloped countries themselves (usually only 10% of their total volume of trade). e.g. in 1961 Africa exported abroad \$ 6,550 million but intra-African exports were worth only \$ 520 million. For most countries, however, the proportion of their trade with other African countries was much smaller than what can be inferred from the above figures -- for the bulk of intra-African trade is trade between South Africa and Rhodesia and Nyasaland (actually 50% of recorded intra-African trade is trade between these two countries). (3) There is also a bit of trade between French-speaking North African countries and the French-speaking West African countries. (c) that most underdeveloped countries, as already mentioned, depend on one or two commodities for their foreign exchange earnings. (d) that virtually in all cases no underdeveloped country is capable of tackling the problem of price stabilisation on its own and, therefore, concerted or international effort is required.

These points are supposed to be introductory. For the purposes of our discussion I suggest that we try to answer the following questions: (a) What is the nature of the problem, in commodity marketing and stabilisation, facing the underdeveloped countries? (b) What national measures can a country employ to mitigate the effects of export price instability? What international measures can be taken to solve the problem -- if a solution is possible? (d) What role can the consuming countries play in solving this problem?

I will not attempt to answer the above questions in detail but I will mention one or two things which I consider to be important and on which we can base our discussion.

(2) This obviously, is simplifying a difficult problem and one should not just think of agricultural output. It is total output of all goods and services which is important. The rate of increase in population is not uniformly high but it has been estimated that even if Africa doubled her agricultural output she cannot hope to raise the national income per head by more than 0.5%.

(3) There are a few countries in Africa, however, which depend very much on other African countries for the sale of their exports. For instance in 1961 81% of upper Volta's exports went to Ghana. These exports were almost wholly live animals. The corresponding figures for Niger and Mauritania, again in the same year, were 33% and 75% respectively.

Again the bulk of these exports were live animals exported to Ghana and Nigeria. On the import side, however, the picture was vastly different. The proportion of imports coming from the rest of Africa for Upper Volta, Niger and Mauritania, in 1961, were 22%, 19% and 1% respectively.

II

The problem as I see it is made up of two factors:

- (i) Instability of prices of most primary products on which underdeveloped countries depend for their foreign exchange.
- (ii) The apparent downward secular trend in the prices of most of these products.

The actual instability is due to a whole lot of factors -- and, in fact, we can think of natural instability and what one could perhaps call 'economic' instability. Natural instability is caused by such things as weather, plant-diseases, pests, etc.,. This kind of instability works through the volume of output e.g. a drought or pest invasion could reduce a country's total output and therefore bring down the level of exports and foreign exchange earnings -- the latter consequence depending on whether these calamities fell upon only a few producers and were not widespread enough to seriously reduce the world supply and thus lead to higher prices. What I have called 'economic' instability is primarily caused by the inelasticity of output and the instability of effective demand in the consuming countries. This is not the place to go into detail about either the inelasticity of output which I have mentioned (and it would be worth keeping in mind that there is a difference between inelasticity of output and inelasticity of export supply) or the process of recession - transmission, except to mention that these are important forces, and that they contribute generously to both seasonal fluctuations and also the year-to-year fluctuations.

The second part of the problem is that of downward secular direction of the prices of most primary products i.e. there is a persistent deterioration in the terms of trade facing the primary producers. Now, as is well-known, an improvement in the terms of trade is not always a favourable thing -- unless it has been brought about by an increase in demand. At times also, there might be a fall in (commodity) terms of trade because the country has become very efficient and can now produce more goods and sell them at lower prices. In a case like this the producing country is nevertheless doing well for the fall in price is more than compensated for by the increase in the volumes of sales. However, the deterioration in the terms of trade facing the primary producers is a serious affair and brings about hardship - for the amount these countries can expect from their exports is falling steadily although the actual volume of exports has been increasing steadily. I would suggest that the unfavourable terms of trade will continue in the same direction for a number of reasons the most important of which is technology. Advance in technology has meant two things: (a) that the industrial countries can economise on raw materials and, indeed, produce equally good substitutes while (b) this same advance in technology leads, through better and more efficient methods of production, to greater supplies of primary products. One then wonders, as Hirschman has asked, whether technological advance should be policed? The underdeveloped primary producers are thus finding that they are getting less and less for more and more export quantities while their imports do not get cheaper equivalently. The problem is made worse by the fact that for most underdeveloped countries coffee or cotton etc. are the only ways of earning cash -- and they will therefore be produced even at lower prices than those prevailing today. This is the real possibility of the so-called theory of immiserizing growth.

Briefly, then, there is a chronic disequilibrium between supply and demand-- and this disequilibrium has brought about huge accumulations of stocks of many primary products. These stocks themselves present a problem of their own -- a problem which we cannot go into here except to mention that there is very little likelihood of their being eliminated in the near future for demand is not keeping up with supply for most of these products. This is not to suggest that demand could not be stimulated above existing levels but I doubt whether it could be stimulated well enough to solve this problem unless accompanied by effective measures aimed at reducing supply. (4)

The above are what I would consider to be the main features of the problem. It becomes a problem of even greater importance when it is recalled that besides bringing down the levels of domestic incomes, fluctuations in export earnings also bring about falls in government revenue -- the degree of severity of this depending on the extent to which the country concerned depends on foreign trade for its main source of revenue. We need not go into great detail in this -- except perhaps to mention that besides having other unfavourable consequences, export price instability can be very expensive e.g. a government can be forced to abandon fairly sound projects, started in time of good prices, because of lack of funds due to fall in the prices of its exports. As for the secular downward trend in these prices we can expect the primary producers (perhaps except the oil countries) to be in persistently precarious balance of payments positions most of the time.

III

What palliatives can an underdeveloped country undertake to mitigate the effects of export price instability? The solution is obviously to try to reduce the direct link between export prices on a few commodities with the level of domestic income and general activity. This is easily said: it is not easily put into effect. Historically several devices have been used -- stabilisation funds, Marketing Boards, Buffer stocks, export monopolies, stockholding, multiple exchange rates, etc. We do not have the time to go into detail about each of these devices. But we should mention that it should always be kept in mind that in attempting to insulate the domestic price given to the producer from the fluctuations of the actual export price, the ultimate aim should be to stabilise the producer incomes. It is often forgotten that price stability need not bring stability to producers' incomes e.g. if export prices vary inversely with the volume, then stabilisation of price would tend to destabilise the producer incomes by preventing movements in export prices from compensating for changes in the volume of exports. This is especially true where a country is a substantial producer of the commodity in question.

Nor should it be forgotten that perfect price stability is best achieved at zero price to the producer! This is, of course, an extreme point but it helps to bring out the important point that the lower the price to the producer the longer can the prescribed price be maintained. This brings about great dangers -- especially when stability becomes an end in itself. What in fact needs to be done is not to simply stabilise a given level of incomes but, rather, to attempt to stabilise an upward trend of these incomes.

(4) It is often said that the problem lies in the fact there is a limit to what the human stomach can take and therefore there must be a limit to what people can be expected to consume in the way of primary products. This is true: but it is equally true that most of these products are today very heavily taxed in the consuming countries and if prices were cheaper there is no doubt that there would be an expansion in the consumption of these goods. Also it should not be forgotten that besides the human capacity to eat the amount of ones income one consumes on food also depends on the composition of his diet.

It is perhaps worth pointing out that historically national measures of stabilisation have depended on a wide range of factors e.g. the attitude of the government to state intervention in the economy; the political power enjoyed by the farmers in the country; the budgetary position of the government; the importance of the country's output in total world supply; the nature of the commodity; etc. In a number of countries stabilisation devices have become very strong sources of government revenue. This is often criticised; but the verdict on export taxes, say, cannot be easily delivered - for the sources of revenue in these countries are few and in a number of cases, sudden increases in export prices are really windfall gains.

A number of economists are of the opinion that historically the national stabilisation measures have been ineffective - if not actually harmful. True, there are dangers in stabilisation policies but it is equally true that in Africa at any rate most of the producers are small and simple peasants with little knowledge of the world market forces and who, therefore, need some measure of insulation. In the former British colonies and dependencies the attempt to insulate the producer has been through the marketing board - a statutory body which participates in the actual trading (and often has a monopoly of export) and operates a price assistance fund. In the former French colonies the attempt to protect the producer is being tried through a somewhat different but broadly similar device - 'Caisse de Stabilisation der Prix' or Price Stabilisation Fund. These Stabilisation Funds (in former French colonies) are successors to the old 'Support Funds' which were operated in these countries during the second World War. The French-type Stabilisation Funds do not take part in the actual buying and selling of the commodities. They operate by controlling the private traders dealing in the commodity. They fix a minimum producers' price - the price actually being fixed by the Local Quotation Committees. This 'reference' price is fixed before the season - after looking at the spot and forward world prices as well as the price prevailing in France. (France buys most of these exports. She also largely fixes the price of groundnuts and controls that of cotton). Now, if the exporter gets less than the reference price the Fund is obliged to compensate him for the whole or part of the difference. And vice versa. In this way the Government has a lot of say in the trading margin. These Stabilisation Funds can draw extra funds from the French National Fund (The National Fund for the Stabilisation of Prices of Overseas Territories). This has been immensely helpful - for these Stabilisation Funds were started in time of low prices and the availability of funds from France means that the Funds can take a fairly long-term view. Anyway, it would be correct to say that the problems facing the former French colonies are somewhat less acute than those facing the former British possessions. This is for a number of reasons - e.g. the integration of the old French colonies' exports with the commercial policy of France plus the very generous preference granted to these ex-colonies' exports somewhat reduces the instability of export earnings of these ex-colonies. Moreover, the fact that the Stabilisation Funds can draw extra funds from France as they need them means that they have sufficient confidence in going about their activities. One very outstanding difference between these Funds and the British-type Marketing Board is that the Stabilisation Funds in French ex-colonies are less involved in the economies of the countries in which they are than the Marketing Boards in the former British colonies.

I think it would be wrong to say that these efforts have not achieved anything. I am, for one, convinced that they have played a useful part - in providing technical knowledge; in stabilising prices and at times incomes; in providing revenue for the government when alternative sources would not have yielded as much; in conjunction with the export taxes in preventing inflation; etc. But saying that stabilisation Funds and Marketing Boards have done all this is not to say that they have been uniformly effective and helpful. The only general advantage which can be claimed for them is that they have provided a way in which the government could tap the agricultural sector for the purposes of building the infra-structure and thus facilitate the emergence of other activities in the economy.

National measures, however, cannot solve, by themselves, the problem. For instance one country, even if it is the most important producer, cannot try to stabilise the price unilaterally without jeopardising its own position e.g. when Brazil, in 1930s, tried to hold up the price of coffee by holding back supplies, she was reduced from being a 60% world producer to the 45% world producer she has been in recent years. This happened because other countries in Latin America and Africa increased their supplies. Thus it is easily seen that if for no other reason an international action is required - and today this takes the form of International Commodity Agreements.

There are several difficulties in concluding inter-national commodity agreements. The first difficulty is also their greatest attraction and advantage - namely that they try to take into account all the interests of the exporting and importing countries. It would be idle to expect these interests to be the same - and, in fact, there might be a conflict in the interests of different producer-groups. But if we just think of the producers and the consumers, should the importing country be included in these agreements? It is now generally agreed that they should be - and for the following reasons: (a) they, (the importers) will be convinced that the producers are not forming a suppliers' monopoly; (b) they can also help to bring all the producers into the agreement by threatening not to buy from non-members e.g. the present International Coffee Agreement is not really to the interest of the small producers like Uganda but they have to join because U.S.A. will discriminate against non-members. (c) they can help by controlling recessions in their own countries. (We shall have occasion to return to this point).

Another difficulty in concluding International Commodity Agreements is that these agreements usually deal with only one commodity - the export or the import. One would perhaps expect that if the agreement covered, say, the main export and the main import, they would be easier to conclude and maintain for sometime - for the exporter might be prepared to see the price of its commodity held down as long as the same thing was done to its main import. But whereas this might be so for two commodities, an agreement covering a whole range of imports and exports would be extremely difficult to negotiate and also perhaps unrealistic - if only because the actual structure of imports and exports is changing all the time.

There are other difficulties which we should mention. Some international commodity agreements (e.g. the Tin Agreement) require stockholding in the form of buffer stocks. Who is going to pay this cost? The importing countries might be prepared to prevent the price from falling below a certain 'floor'

as long as they are promised that the price will not be raised above a certain 'ceiling', but will they also be prepared to share the cost of holding stocks? If the consuming countries will not pay for the cost of holding buffer stocks, how will this cost be distributed among the producers? These are important questions and they apply to all export (quota) restrictions schemes. (We might notice, incidentally that the buffer stock principle will only work where stocks do not deteriorate very much in value. This rules out most of the food products). Another formidable difficulty is this: that for most commodities there are several varieties in each commodity each of which has different price patterns. This means that the interests of the producers of different varieties might conflict: how do you then bring about compromise and international co-operation in this ?

The list of these problems could be extended - but it is not necessary. I just wanted to point out that over and above administrative difficulties there are several more, and more formidable, problems and difficulties in concluding international commodity agreements. This, incidentally, explains why we have so few of these agreements.

International Commodity Agreements can take several forms: they can take the form of multilateral long-term Contracts (e.g. the International Wheat Agreement); they can operate through quota restrictions on exports (e.g. the International Sugar Agreement and the International Coffee Agreement); or they can try to stabilise the price of the commodity concerned through a scheme of Buffer Stocks (e.g. the International Tin Agreement). These types have their own difficulties and merits (see Appendix) but it should be mentioned that today there is the great danger that some of these agreements could lower the total welfare of all the countries they are supposed to aid by giving protection to the high-cost producer and thus restricting output of the low-cost producers. This is certainly what is happening with the present International Coffee Agreement. In a number of African countries output could be substantially increased at small cost. It is also said that in Colombia improved methods of production could be introduced with greatly favourable effects on output but that this cannot be done because the export quotas are too small.

In concluding this section on International Commodity Agreements it is important to say, again, that even these are palliatives - not the ultimate solution. But these agreements, together with the national efforts, can be very useful in reducing short-run fluctuations and instability in export prices. But they should not be looked at as permanent measures - if only because they do not (and are not likely to) measure up to the problem at hand.

In this problem of stabilisation of primary products export prices, the developed countries have an exceedingly important role to play. Briefly, they can do two major things:

- (i) they can try and ensure that recessions in their own countries are minimised in order to keep up their levels of imports. They can go further - they could remove the high taxes they levy on exports from underdeveloped countries - especially taxes on tropical exotic products.

- (ii) they can give aid to underdeveloped countries for the purposes of capital formation in order to hasten industrialisation and diversification of these countries.⁵ This process will initially take the form of import-substitution, and it will require the good will of developed countries to allow tropical products to enter their ports free when the underdeveloped countries themselves are charging protective taxes against the developed countries' exports.

CONCLUDING REMARKS.

The ultimate solution to the problem of export price instability is industrialisation and diversification - and nothing less. For this reason the palliatives which have to be used in the interim period should be designed under the total strategy for economic development - and they should help towards that goal. It is for this reason that ad hoc measures in this field are to be deplored and avoided. Also in the interim period the underdeveloped primary producing countries have to make a special attempt to export more and more of semi-finished goods and manufactured goods. If we take Africa for instance, five-sixths of its exports are food, beverages and raw materials. Actually this figure would be much higher but for the fact that under the Standard International Trade Classification base metals come in the manufacturing section. The underdeveloped countries have also to try to trade more and more with each other. There is very little trade between underdeveloped countries - and most of these countries are competitive instead of being, at any to some extent, complementary. In trying to increase trade among themselves they will need to come to some agreements about economic co-operation. Given this they could supply each other with most of their food requirements and also an increasing share of their needs for manufactured goods.

One could also, in crude terms, say that underdeveloped countries have to think of making their economies depend on something produced and mainly consumed internally. The developed countries can have their economies more stable because they are the best consumers of the manufactured goods which they produce. In underdeveloped primary producing countries there is a great dependence on foreign trade and most underdeveloped countries hardly consume the goods they try to sell e.g. in East Africa we consume very little of the coffee, sisal, tea and cotton on which our economies so heavily depend.

5. It might be worth mentioning that straight aid is better than transfer of income through artificially high prices (e.g. if a group of producers and consumers get together and shift the terms of trade against the consumers this is, in effect, transfer of income from the consumers to the producers) - if only because high prices will tend to make the primary producers concentrate on producing more raw materials and primary products in general - instead of thinking about diversification.

APPENDIX

A full account of the merits and disadvantages of the various stabilisation principles there are would be long and too involved for the purpose of this paper. However, this is not something we can simply ignore in a paper of this sort and we shall therefore, very briefly, say something about it.

A. THE EXPORT QUOTA (RESTRICTIONS) SYSTEM.

This system of stabilisation has the following disadvantages:

- a. it implies misallocation of resources by
- b. protecting the inefficient (high-cost) producer and making it impossible for the efficient (low-cost) producer to increase his output. This system may also inhibit the introduction of new methods of production and improvement in the already existing methods. By doing this the system can easily keep supply below the optimum.
- c. Which base year shall be used to work out the quotas of various producers?
- d. How do you introduce flexibility in such a rigid system? In particular, how do you take account, in the quota share-out, of future new and expanding markets?

The export quota system has, however, a number of advantages:

- a. it is precise and manageable,
- b. it avoids stock accumulation,
- c. it requires little or no financing,
- d. it requires no continuous operating decisions - as in Buffer Stocks system.

B. THE SYSTEM OF PURCHASE CONTRACTS (MULTI-LATERAL CONTRACTS)

This is the principle or system used for the International Wheat Agreement. The greatest advantage or merit of this system is that, provided that not all supplies are covered by it, it preserves the free market for the purpose of indicating the trend and also in allocating the resources. This is no mean advantage - for in the absence of thorough-going central planning prices are valuable indicators and allocators of resources. (In the case of the International Wheat Agreement, however, the U.S.A. and Canada are such important producers that their policies keep the free market price within the agreed floor and ceiling prices).

However, there are several requirements for this system to work - and the two most important are:-

- a. the system requires that the governments of the participating countries be able to control trade in the commodity in question;
- b. it requires that the market be highly organised and that there be thorough standardisation of commodities by grades.

It is well worth noticing that in this system politics become very obvious and can assume great importance.

C. THE BUFFER STOCK PRINCIPLE.

This, in theory, is the ideal system. As it has often been pointed out this system strongly resembles the open market operations of a Central Bank - in that the system does not interfere with the working of the market but, rather, tries to change the balance between supply and demand. It is also claimed that in this system there is little government control in output and trade. It is also worth mentioning that this system allows competition between the high-cost and low-cost producers. But even here there are problems:

- a. Only some commodities can be held in stocks without deteriorating in value;
- b. where is the money to come from for buying and the maintenance of stocks?
- c. how do you prevent some suppliers from trying to increase their exports through subsidies? i.e. this system, in order to work well, requires a relatively more free market in which to operate. In fact it seems as if it is necessary to have a clause about export quotas, when needed, for this system to work out efficiently.
- d. timing is absolutely essential in a system like this - in order not to accumulate stocks which would after a time be impossible to dispose of. This, incidentally, points out the danger, inherent in schemes of this sort, of speculation. The manager of the Buffer Stock should therefore have wide discretionary powers and the ability to act effectively and swiftly if conditions suddenly change.
- e. this system requires continuous decision-making i.e. operating decisions e.g. whether to buy or to sell or to wait for a while, etc.

Some of these problems in this system are made more formidable by the fact that there is, in any case, difficulties in reaching agreement about price ranges, volumes of operation, etc. Above all, a conflict of interests of producers and consumers (and between groups of producers most of the time!) seems inevitable. This, however, is not confined to this system.

CONCLUSION.

In conclusion we can say, again, that international agreements, even when added to the national efforts, do not measure up to the problem at hand. But they can be quite helpful before the final solution (economic development and industrialisation and diversification) comes about. We do not need to remind ourselves, however, that it might be impossible to achieve 100% stability - and nor would it be really desirable. But we can be certain, however, that economic development and industrialisation will reduce the importance of this problem.
