AN ECONOMIC RESEARCH COUNCIL PAPER

A BUILT-IN BASIC-ECONOMY STABILIZER

L. St Clare Grondona

THE ECONOMIC RESEARCH COUNCIL
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London W1

Some price fluctuations within single years during 1960 to 1969 – and throughout that decade (a)*

Per long ton (excepting Wool) in British Markets (c)

The four years in which major fluctuations occurred were as in the initial 12 columns

	Minimum	Maximum	Margin	Minimum	Maximum	Margin	Minimum	Maximum	Margin	Minimum	Maximum	Margin	THROUGHOUT THE FULL DECADE Minimum	Maximum	Margin
Copper Month & year	£236 January 1964	£531 November 1964	**125%**	£356 August 1966	£765 April 1966	**115%**	£347 April 1967	£608 December 1967	**75%**	£432 August 1968	£818 March 1968	**89%**	£217 January 1961	£818 March 1968	**277%**
Lead Month & year	£54 January 1963	£78 December 1963	**46%**	£77 January 1964	£155 December 1964	**101%**	£95 July 1965	£156 February 1965	**64%**	£106 January 1969	£145 December 1969	**37%**	£50 August 1962	£156 February 1965	**212%**
Zinc Month & year	£66 January 1963	£99 December 1963	**50%**	£91 January 1964	£149 December 1964	**64%**	£92 August 1966	£115 March 1966	**25%**	£114 February 1969	£135 November 1969	**19%**	£63 August 1962	£149 December 1964	**136%**
Tin Month & year	£779 January 1961	£993 September 1961	**27%**	£1,020 March 1964	£1,715 October 1964	**68%**	£1,190 January 1965	£1,625 May 1965	**37%**	£1,348 January 1969	£1,647 December 1969	**22%**	£779 January 1961	£1,715 October 1964	**120%**
Rubber Month & year	£231 November 1960	£379 May 1960	**64%**	£174 September 1963	£219 January 1963	**26%**	£163 September 1966	£197 March 1966	**21%**	£145 February 1968	£197 December 1968	**35%**	£128 October 1967	£379 May 1960	**196%**
Sugar (b) Month & year	£40 January 1963	£105 October 1963	**163%**	£25 December 1964	£94 January 1964	**276%**	£12 January 1967	£32 June 1967	**167%**	£27 September 1969	£39 April 1969	**44%**	£12 January 1967	£105 October 1963	**775%**
Cocoa Month & year	£158 March 1961	£205 December 1961	**30%**	£94 July 1965	£171 January 1965	**82%**	£206 May 1967	£274 December 1967	**33%**	£260 June 1968	£434 December 1968	**67%**	£94 July 1965	£434 December 1968	**362%**
Wool (c) Month & year	£588 February 1963	£827 November 1963	**41%**	£588 December 1964	£799 February 1964	**36%**	£358 November 1967	£533 January 1967	**49%**	£377 January 1968	£524 November 1968	**39%**	£358 November 1967	£827 November 1963	**131%**

(a) Minimum and Maximum prices in *each* year of this Decade are shown for the above – and for other – commodities in the Appendices pp 36–47 wherein sources of figures are given

(b) Free prices – London Sugar Terminal. (c) Metric tons. 'Crossbred' includes 'Other' Wool – but not Merino. Prices are for Grade 46

* P.S. Owing to Parliamentary and public attention being focussed on the EEC, publication of this Paper was deferred for over a year (after its being put into print) pending the outcome of the EEC Debate at Westminster. Corresponding price fluctuations during 1970 and 1971 (10 months) are now included in Statistical Appendices pp 36–47

AN ECONOMIC RESEARCH COUNCIL PAPER

Entitled

A Built-in Basic-Economy Stabilizer

by

L. ST CLARE GRONDONA

With a Prefacing Letter by

SIR ROY HARROD

to

LORD BEECHING

as President of

THE ECONOMIC RESEARCH COUNCIL
10 Upper Berkeley Street,
London W1

BY THE SAME AUTHOR

Economics

Empire Stocktaking (1930)

Empire Stocktaking (1932)

Agricultural Reconstruction (1933)*

Britons in Partnership (1933)

National Reserves for Safety and Stabilization (1939)

Commonwealth Stocktaking (1953)

Utilizing World Abundance (1958)

Australia in the 1960's
(*Preface by Sir Robert Menzies, K.T., C.H., when Prime Minister of Australia*)

A Firm Foundation for Economy (1962)

And in lighter vein

The Adventures of a Jackeroo (1910)

The Romantic Story of Australia (1923)
(*Preface by Viscount Bruce of Melbourne, C.H., M.C., when Prime Minister of Australia*)

The Kangaroo Keeps on Talking (1924)
(*Preface by Earl Baldwin of Bewdley, K.G., when Prime Minister*)

**In collaboration with Henry Drummond-Wolff, M.P.*

CONTENTS

THE UNITED KINGDOM AND THE EEC

vis à vis

THE PROPOSALS IN THIS PAPER

Subsequent to the preparation of the text of this Paper HM Government was authorized by a majority vote in Parliament – on 28th October, 1971 – to proceed with the United Kingdom's application to enter the European Economic Community – subject to agreements on certain matters which (at the time of writing) have yet to be negotiated to mutual satisfaction.

In this connection special attention is invited to what now appears on page 35 of this Paper.

From Sir Roy Harrod

51 Campden Hill Square,
London W8

PREFACING LETTER

My dear Lord Beeching,

I am very happy to write to you, as its President, to congratulate the Economic Research Council on publishing Mr L. St Clare Grondona's most recent contribution to the problem of securing greater stability in primary product prices. Among those interested in this subject, he has been known to be the best expert on it for more than thirty years.

Such violent oscillations in these prices as are clearly tabulated in his Paper make no sense.* The rise in underlying total demand for basic commodities (or, in some cases, declines) usually proceed at a fairly regular rate. Oscillations in outputs of products subject to yield-variation, with resulting price-variation, point strongly to the need for a mechanism by which redundancies due to especially good seasons would be carried forward into lean years; but seasonal factors do not apply in respect of minerals which (in general terms) may be mined at will – at costs that depend on the location of ores and the metal-content of these. There is therefore no valid reason why market prices for metals should fluctuate as they do. If there were a sustained upward price movement due to constantly increasing demand with which supply was not able to keep pace, this *would* make sense. But, as brought to the surface in tabulated form, great increases in market prices for many metals (as well as for various perennial increments from the soil) are usually followed by equally disconcerting market price declines – with a resulting disorder of affairs that is wholly illogical.

The Grondona proposals proffer a detailed practical remedy.

Price has various functions in the economic system. One is to be a signal to producers that more (or less) output is needed. On the other side a change of price, based on *lasting* supply conditions, may be a valuable signal to producers to make some substitution against or in favour of the product in question in their methods of production. Large oscillations in these prices destroy their power of being effective signals. Producers would clearly be wrong to make important changes on the occasion of a peak or trough price, such as they would make if the price level in question was likely to be permanent. But the oscillation gets in the way of a price signal performing the useful

*See tabulated matter inset inside cover.

function it ought to fulfil. When there is a big ephemeral oscillation there may simultaneously be a genuine long-run movement upwards or downwards that it would be desirable for those concerned to take cognisance of. It becomes impossible for observers to disentangle any such genuine long-term movement from ephemeral oscillations. Thus they are left without the signals that they ought to have.

The oscillations do harm in other ways also. For instance a movement may have a 'multiplier' effect on the economy of a country in which the commodity in question figures importantly; such multiplier effects may cause an economy to become overheated, or conversely.

From early times in the study of the business cycle an important causal role was assigned to primary product price fluctuation. Recently there has been some shift of emphasis away from the study of the business cycle. But it is still with us, and the orthodox methods of ironing it out have not proved to have been 100 per cent successful.

In an environment of continuing spiralling inflation, such as we have been having recently, commodity price oscillation can, as Grondona shows, have the effect of promoting the spiral. If the prices of some important basic materials rise, user industrialists may feel impelled, after a time-lag, to pass them into the prices of *their* products. But we do not necessarily get a reverse movement when the prices fall from supernormal levels, owing to uncertainties about the future. A manufacturer is reluctant to reduce a quotation when he thinks that there is quite a good chance that he may have to put it up again. Consequent increases in the prices of finished products have further inflationary effects when spiralling is going on. They may cause wage demands to be greater than they would otherwise be, and this has a still further inflationary effect.

We are now especially interested in the affairs of the less developed countries. It is true that the sixties, christened ten years ago 'The Development Decade', have proved rather a flop in that respect. Nonetheless, interest in these countries must continue. Those importantly dependent on a particular primary product, or on a group of them, will be afflicted by strong oscillations in their domestic incomes and foreign exchange earnings. This is detrimental both to foreign investment in them and to their own forward planning.

Grondona deals with this matter in his Addendum No. 3.

The British scheme put forward during the war for preventing primary product price oscillation foundered partly because there was

an influential element on the American side holding that these matters could best be settled by the mechanisms of the free market. There should be no conflict between the services that the free market mechanism can render and a scheme of the sort advocated in this Paper. There does seem to be some tendency to excessive oscillations in what are known in economics as 'perfect' markets. One may cite the Stock Exchange. In less than perfect markets in which suppliers make their own price quotations, the cost of production exerts a steadying influence. This anchorage need not prevent lively competition and meaningful price changes from time to time.

There have been 'perfect' markets in which official limits have been placed on price changes, and yet these markets have been very effective in balancing supply and demand. One such is the gold bullion market, another the foreign exchange market. In the latter case, there are fixed limits, but market forces play a very active part in balancing supply and demand within these limits. (Of course the limits proposed by Grondona would be much further apart; there would be a wider 'band' as it has been called). There has been a movement of opinion recently towards having greater flexibility in foreign exchange markets. One plan is simply to have wider 'bands'. There is another plan, having a striking resemblance to the Grondona system, which is commonly called the 'crawling peg'. In this scheme free market forces would work in two ways. They would secure the balancing of supply and demand day by day within the statutory limits. But they would also be allowed to cause a gradual change in the exchange parity itself through time. Similarly under the Grondona system, while free market forces would govern supply and demand, a Price Stabilizing Corporation would always assure a known floor in the market for each commodity within its scope; and, *when any commodity was held in reserve*, a known market ceiling would likewise be assured – such floors and ceilings being predictably adjustable in conformity with pre-stated patterns of cause and effect. Nonetheless, within such limits (when both were effective) free market forces would continue to govern the long-run movement of any such commodity's price range itself.

I would call attention to two points about Grondona's work. One consists of its inherent quality of lucidity, precision, practicality, comprehensibility, and, above all, simplicity. As the years have passed, he has introduced various refinements, to meet criticisms, and to deal with newly perceived difficulties. But these refinements have

not tended to make his scheme more complicated; rather the other way round. A newly observed difficulty in his system as previously envisaged has suggested to him some change, not involving greater complication but simplification. This is evidence of a fine mind at work.

It happened to be my duty to attend the meetings of an inter-departmental committee, which was framing a scheme for commodity buffer stocks, which I mentioned above, to be submitted to the joint meeting of Americans, Canadians and British in Washington in 1943. Sometimes the discussions in our interdepartmental committee got somewhat complex, and I recall thinking what a good thing it would be if we could have the clear brain of Grondona at work among us.

The second point I wish to refer to is that he has consistently believed that we, the British, can go it alone in setting up a scheme of world-wide ambit. This seemed a good deal more feasible before the war than, on first view, it appears now, but he has grappled with this point, and supplied figures to vindicate his contention.

After setting out his reasons for discounting the present practicability of internationally-agreed inauguration and administration of his system, he shows in his Addendum No. 1 how each of a number of great commodity-importing nations could unilaterally adopt it in *principle* – without uniformity in the detailed functioning of each scheme, yet with all operating in harmony.

It is in this context that Mr Grondona makes brief references to some discussions he had with Mr Drugoslav Avramovic of the International Bank for Reconstruction and Development.* I can testify that Mr Avramovic was deeply impressed by Grondona's magisterial grasp of the subject.

The following are some of the important features of the system as outlined in his Paper.

(*a*) No controls or regulations are involved.

(*b*) No preliminary international agreement has to be reached before its implementation by any great commodity-importing nation.

(*c*) Its successful functioning under any one such nation's auspices does not depend upon the good will of other nations.

(*d*) There is no element of exclusiveness about it, because – to the extent it was required to operate – the resulting advantages would be world-wide.

*See Addendum No. 2

(*e*) Again to the extent to which it was required to operate, it would counteract inflation at the base of the most important sector of world economy.

(*f*) It would facilitate an expansion of well-founded (*earned*) liquidity.

(*g*) The necessary *investment* required would be moderate relative to the value of trade in commodities within its scope.

The world has been long-accustomed to Britain's setting patterns in political, legal, financial and social institutions that have served as models for emulation elsewhere – and London is still seen as a leading entrepôt for commodity-trading. Unilateral inauguration by this country of such a project as is advocated in this Paper would surely be one more step in keeping with our long tradition of institutional leadership in many fields of human endeavour – and thus regarded by other nations.

It seems to me that the issues involved cover so wide a range that HM Government would be well advised to appoint a fully representative *ad hoc* Committee with terms of reference that would require it:

(i) to examine the problem of serious instability of prices of durable basic commodities;

(ii) to take evidence in public and to hear and consider proposals designed to rectify these economy-disrupting anomalies; and,

(iii) to produce a Report.

The Cabinet should give serious attention to that Report.

I am sure you will agree that if Grondona were accorded the opportunity to appear before such a Committee and fully to describe his proposals, replying to questions as these arose, its Report would justify as worthwhile all the trouble he has taken in this field down through the decades.

Yours sincerely

January 1972 ROY HARROD

ENDORSEMENTS OF SIR ROY HARROD'S SUGGESTION IN HIS PREFACING LETTER

From Professor Nicholas Kaldor

I have for many years supported the idea of stabilizing prices of basic commodities by means of international buffer stocks tied, if possible, to the creation of a new international currency. My ideas have been pretty close to those of Mr Grondona; the difference between us has mainly concerned the question of whether such an idea requires an international agreement among the leading importing countries for its implementation, or whether as Mr Grondona supposes, it would be possible for a country such as the UK to initiate such a scheme through its own action, without waiting for others.

As I see it, the major attraction of a scheme of this kind, for which it would be difficult to find a substitute, is that it spreads the sources of 'money-making power' far and wide – among the commodity producers of the world – and would thereby tend to generate the maximum attainable rate of growth in world economy, and under conditions of stable prices, at least for basic materials. By ensuring that any increase in the output of basic commodities will generate a corresponding increase in the purchasing power of the producers, it will also ensure, through adequate 'multiplier' and 'accelerator' effects, that the growth of commodity absorption will proceed fast enough to match the long-term rate of growth of commodity production which, under the automatic functioning of the system, would gradually be brought into balance.

In other words, under this system it is the supply of basic materials which sets the limit to the rate of growth of world industrial production and not, as now, the rate of growth of effective demand, emanating from the advanced countries, which governs the growth of demand for and production of primary commodities. Its possible disadvantage for advanced capitalist countries is that it would make the 'rich' countries, not poorer, but less influential and powerful – since it would ensure a steady growth of income to the primary producing countries, and make them far less dependent on aid.

I therefore strongly support Sir Roy Harrod's recommendation (in his Prefacing Letter) that the Government should set up a

Committee of Inquiry with the terms of reference he suggests.

This is all the more urgent on account of the Government's plan to join the EEC. As the recent report by a panel of experts of the Atlantic Institute argued (A Future for European Agriculture, Atlantic Papers No 4, p 45) the highly protectionist system of the Common Agricultural Policy could only be liquidated when the world prices of the main agricultural commodities are stabilized by means of buffer stocks. The tremendous cost to this country of adopting the C.A.P. in its present form – as the 'membership fee' for joining Europe makes it all the more urgent that all possible alternatives to the C.A.P. as a means of price-stabilization be thoroughly explored.

Kings College
Cambridge
January 1972

N. KALDOR

From Lord Roberthall, K.C.M.G., C.B.

Like Professor Kaldor, I have also been in favour of international buffer stocks as a means of price stabilization for many years: I had hoped that these would be established under the International Trade Organization which was proposed at the end of the Second World War.

I therefore endorse the suggestion made by Sir Roy Harrod in his Prefacing Letter that the Government should favourably consider setting up a Committee of Enquiry with terms of reference on the lines he proposes.

ROBERTHALL

From Mr Donald Tyerman

In 1939, while I was its Assistant Editor, *The Economist*, in reviewing Mr St Clare Grondona's book *National Reserves for Safety and Stabilization*, said: '*The author offers a plan of action to solve a problem which is peerless in its complexities and world importance.*'

The principles epitomized in this Paper are on all-fours with what

Mr Grondona wrote in that book; and speaking quite personally now – a generation later – I see no reason to differ from that opinion. Today, as Professor Kaldor recognizes, these ideas for effecting stabilization of basic commodity prices are powerfully connected with realistic plans for stabilizing currency exchanges.

So I, too, readily endorse Sir Roy Harrod's recommendation in the final section of his Prefacing Letter.

DONALD TYERMAN

Professor Kaldor was Economic Adviser to the Chancellor of the Exchequer from 1964 until 1968.

Lord Roberthall was Director of the Economic Section of the Cabinet Office from 1947 until 1953 and, thereafter, Economic Adviser to HM Government until 1961.

Mr Tyerman was Assistant Editor of THE TIMES from 1944 until 1955 after which he returned to THE ECONOMIST as its Editor for over ten years up to his retirement in 1965.

NB *While both Professor Kaldor and Lord Roberthall (understandably) use the term 'buffer stocks', it is one that has been consistently avoided by the author for reasons given in the last section of paragraph 24 on page 22.*

'WHAT IS A £ STERLING?'

Prior to World War I, Bank of England notes carried a *Promise to Pay On Demand* their face value in gold coinage. In August, 1914, these were replaced by *Treasury Notes* inscribed thus: *Currency Notes are Legal Tender for the Payment of Any Amount, J. S. Bradbury, Permanent Secretary, HM Treasury.*

In 1928, Bank of England notes again appeared, then (and still) inscribed (e.g.) thus: *I Promise to pay the Bearer On Demand the Sum of One Pound*, followed by the Signature of the *Chief Cashier.*

That such a *Promise* means no more than that one piece of paper can be exchanged *On demand* for another piece of paper carrying the same inscription does not seem to disturb anyone.

Mr Bradbury became Lord Bradbury in 1925. Shortly before his death in 1953, *The Times* published this letter from that former Permanent Secretary to HM Treasury:

> SIR,—I have often been asked 'What is a £ sterling?' and, finding my inability to answer that question rather humiliating, I addressed it in turn to many of my friends who might know. The best reply I was able to get is that it is 'A Promise by the Chief Cashier at the Bank of England to Pay, at some date which Parliament may hereinafter determine, whatever Parliament in its wisdom may direct him to pay'.
>
> No doubt that is satisfactory as far as it goes; but it does not go very far. After all, what the man in the street wants is neither a bit of gold nor a promise to pay an abstraction; but something he can exchange for a loaf—or for forty loaves —of bread, and maybe for a few fishes.
>
> Your obedient servant,
>
> BRADBURY.

This caused no more than a ripple of amused interest. But the disturbing fact is that there is no real measure-of-money-value in

Britain or anywhere else – which is one root cause of recurring economic disorders.

In physical spheres we have measures for length, breadth, volume, weight, density – and so on – which have enabled men to go far in mastering matter.

In contrast, because of the absence of money-value-measures, economics (in many respects) is a pseudo-science – something of patches, of expediency, and of compromise in which all-too-fallible human judgment essays to do its best – too often with scant success.

Readers of this Paper are invited to keep the foregoing in mind when thinking-through the text which follows.

NB It is suggested – especially in the light of the so-termed Dollar Crisis of late-1971 – that readers who first closely consider the text which now follows will *then* pay special regard to what appears on page 34 under the heading *World-Acceptable Commodity-Backed Currency is the Ultimate Goal of this System.*

PRECIS OF SYSTEM OUTLINED IN THIS PAPER

Commodity 'X' is any imported *durable*, essential, basic commodity which has constant utility-value.

> *Market prices for many such commodities fluctuate in an unpredictable and unbridled manner as disconcerting to their producers as to the user-industrialists concerned – with repercussional adverse effects on the whole economic superstructure.*

A Price Stabilizing Corporation (PSC) is a Statutory Authority unilaterally established by any great commodity-*importing* nation. It is financed by that nation's Treasury within precisely predictable limits. PSC's functioning is designed ultimately to bring about realistic stability of prices for 'X' within predictable, relatively narrow ranges of fluctuations.

The philosophy on which this system is founded, its objectives and the principles the application of which would enable these to be attained, are stated shortly in the section captioned INTRODUCTION (pp. 1 to 6).

HOW A PRICE STABILIZING CORPORATION WOULD OPERATE

> *Figures in brackets are cross-references to relevant paragraphs in the text – commencing page 7 – which is based on an assumption that HM Government in the UK unilaterally inaugurates the proposed system.* (1) *Its 'gearing' as in this Paper is illustrative – which explains several interpolations of '(say)'.* (27)

Commodity 'X' is accorded an *initial* valorizing Index (the Index) based upon the average of its import costs per ton or other standard unit during a prescribed period of (say) five years immediately preceding PSC's inception. (3) (4)*

PSC then stands ready to buy 'X' at (say) 10 per cent below such Index – which is 'X''s (initial) LOW *point* – subject to satisfactory pre-appraisal at profferer's cost and to his delivery in substantial units-of-volume (or in multiples thereof) to the appropriate of PSC's reception depots; (33) and, thereafter, for as long as any part of so-acquired reserves are held, PSC will sell on demand to collecting buyers – but only at the same percentage *above* Index which is 'X''s (initial) HIGH *point* (effective only when PSC holds reserves of 'X').

*See a Question as to the setting of the level of the *initial* Index in certain circumstances and the Reply thereto – Paragraph 36, page 28.

NB **There is always a floor in the market for substantial dealings at close to whatever is the then** LOW *point*; **and, when reserves are held, there is a ceiling in the market for substantial dealings at close to the level of the then** HIGH *point*. (11)

PSC NEVER *enters* MARKETS. PSC – *per se* inert – is not actuated by the profit motive. All the initiative to cause it to function must come initially from willing sellers; (24) and, later, from willing buyers. It does not 'bargain'; it is in no sense coercive. It buys and sells without national discrimination, in Bond where applicable. (5) (6)

HOLDINGS PUBLICISED. PSC regularly publicises its holdings (if any) of each commodity within its scope – with day-to-day holdings immediately ascertainable on telex enquiry.

INDEX AND POINTS ADJUSTMENTS. While PSC imposes no *time*-limit as to the applicability of 'X''s *initial* Index and *points*, its functioning conforms to a pre-stated pattern of cause and effect – as follows.

A 'BLOCK' DEFINED. An accumulation in PSC's holdings equivalent to (say) one-tenth of preceding annual average volume of imports of 'X' – termed a BLOCK – causes the values of its Index and *points* to fall automatically by (say) 5 per cent; and, if a second BLOCK of 'X' so accumulates, there is a further fall of 5 per cent (of *initial* levels); as there is if and when *any additional* BLOCK (of the same commodity) so accumulates. Thereby PSC's functioning conforms to the law of supply and demand – considered over the *long term*. (8)

ILLUSTRATIVE: Assume the average annual import of 'X' to have been 500,000 tons (with one BLOCK 50,000 tons) at an average cost cif over the immediately preceding quinquennium of £100 per ton; and that 'X''s initial Index was set at *par* with that. The result would be:

BLOCK	INDEX	LOW *point*	HIGH *point*
1st	£100	£90	£110 (conditional)
2nd	95	85.5	104.5 (effective)
3rd	90	81.0	99.0 „
4th	85	76.5	93.5 „
5th	80	72.0	88.0 „

And so on. (4) to (10)

NB This process reverses automatically if PSC's holdings diminish, BLOCK by BLOCK, up to the initial levels, but no higher excepting as specifically provided – see paragraph 16.

PSC'S TERMS OF PAYMENTS FOR PURCHASES

PSC pays cash sterling for all its purchases aggregating a first BLOCK of each commodity; but, for its purchases in excess of any first BLOCK, its payments are *deferred* – taking the form of Three-year Sterling Bonds bearing interest at (say) $3\frac{1}{8}$ per cent (not compounded) to provide a premium of 10 per cent on redemption. Such Bonds are strictly non-negotiable in the commercial sense, but they may be transferred to the *Treasury of the country of origin* (of the commodity for which they are in payment) in exchange for *its* currency – if *that* Treasury so approves and on such terms as it decides.

In the event, it is his domestic currency which is the producer's prime need.

Given that his Treasury accedes to his request, it then holds a short-term Bond on which is inscribed HM Government's *guarantee* safeguarding its holder against any possible devaluation of sterling during the intervening years – see NB in (9) and Addendum No. 2.

KEY CONTROL OF INVESTMENT-FINANCE

There is no leap-in-the-financial-dark involved, because the possible financial *investment*-commitment involved is statutorally limited by *relating* this to the aggregate of annual average costs cif (during the preceding quinquennium) of *all* the commodities brought within PSC's scope – a sum termed the *Key Control Figure*.

Assume this Key Control Figure to be £1,000 million which, in fact, covered the annual average import costs during 1965–1969 (inclusive) of all the industrial metals, textile and fibrous raw materials, rubber, cocoa and sugar – as well as many other durable basics the market prices of which fluctuate in an irrational and economy-disrupting fashion.

If £1,000 million were the precise preceding annual average cost of *all* the commodities brought within PSC's scope, that sum would represent the total of the *initial* Index-value of *ten* BLOCKS (equivalent to the annual average imports during the preceding quinquennium) of each such commodity. Hence, the *initial* Index-value of a first full-BLOCK-series (one BLOCK of each commodity) would be £100 million; whereby the *initial* LOW *point* value (of that full-BLOCK series) at 10 per cent below Index could not exceed £90 million – which would be the maximum cash-investment to which PSC could conceivably be committed during the initial *three years* following its inception. It is a very far-fetched hypothesis that there would be

surpluses to consumer-absorption equivalent to one-tenth in every commodity within PSC's scope within those initial three years.

For reasons made evident in paragraph 15 there would be no adverse effects on the balance of external payments involved in occasional Bond redemption – always more than three years (and more likely four or five years) after this system's inception; because *no such Bond would have been issued before a first* BLOCK *of the relevant commodity had been acquired by cash payments.*

RESERVES IN PSC'S CUSTODY BUT *COMMERCIAL* OWNERSHIP

A most important feature of PSC's functioning is its readiness to accept the custody of lodgments on deposit of commercially-owned stocks against its *Warrants* which (subject to prescribed conditions) would be firm securities for Bank loans. See paragraph 18 which shows that this aspect of the system would accord equal bargaining powers to sellers and buyers – *without any interference from* PSC.

ADMINISTRATION TO ACHIEVE MAXIMUM ECONOMIES

There is no scope whatever for bureaucracy in respect of PSC's administration of this system the details of which are set down shortly in paragraphs 31 to 33 on pp. 25–26. Assuming the procedures therein suggested were put into effect, PSC's administration would offer no scope for Professor Parkinson's fun.

MULTI-NATIONAL ADOPTION OF THIS SYSTEM

This is dealt with in Addendum No. 1(*b*) wherein it is shown that a number of great commodity-importing nations could unilaterally adopt this system in principle, without uniformity in detailed functioning, yet with all operating in *ultimate* harmony.

WORLD MARKET FLOORS AND CEILINGS

With only UK operating a PSC, 'X''s (then) LOW *point* would always represent the *world floor price* for that commodity at site of production *minus* freight charges to the UK; and, when PSC held substantial reserves of 'X', its then HIGH *point* would represent the *world ceiling price* at site of usage *plus* freight charges from the UK.

With several great commodity-importing nations each operating a PSC, the *highest* of the then LOW *points* for 'X' would be the world floor price at site of production – *minus* relevant freight charges; and the *lowest* of the (then) effective HIGH *points* would be 'X''s world ceiling price at site of usage – *plus* relevant freight charges.

INTRODUCTION

ECONOMIC EDIFICE ON SHIFTING SANDS

1 The industrial superstructure is built upon basic commodities having constant utility-value. Yet, though most of these are durable in the sense that they can be held in reserve without significant (if any) deterioration, their money-costs fluctuate in an irrational and bewildering manner with resulting instability at its base which is intensified throughout the whole economic edifice.

Some examples of economy-disrupting variations in market prices (per ton in all cases) are brought to the surface, on the sheet inset inside the cover, wherein the following (among other) fluctuations during the decade 1960 to 1969 inclusive outstand:

> **Copper:** Selling at £236 in January, 1964, its cost rose by 125 per cent to £531 in November of that year; fell to £331 in January, 1965, and rose to £570 during the following December. In March, 1968, it was up to £818, whereas, five months later, it was selling at £432. During 1969 its price ranged from a minimum of £510 to a maximum of £746.
>
> **Sugar:** Selling at £40 in January, 1963 (it had been below £20 in the previous twelve-month), its cost rose to £105 during October of that year, but was down to £25 within the next four months. In January, 1967, its price was around £12 whereas it was up to £32 in the following June. During 1969 it ranged from £27 to £39.
>
> **Cocoa:** Selling at £205 in December, 1961, fell to £94 in July of the following year. Throughout 1969 it ranged from £260 to £434.

Such (and similar) fluctuations in costs of durable basic products, most of which (apart from seasonal factors where applicable) can be produced at will, do not make sense by any reckoning.

> Far more water is precipitated on London and the Home Counties in a normal year than is required by their over 20 million inhabitants. But what would be our predicament if, having installed an efficient system of pipe distribution, we neglected to establish and maintain reservoirs holding sufficient to ensure continuity of water supply?

The logic, practicability and economic validity of what follows in this Paper rests upon that analogy, subject to the last paragraph on page 6.

II THE ORIGINAL GOLD STANDARD

(*a*) Gold is the only commodity to have had its price held stable for a long period when, for some 80 years up to August, 1914, the Bank of England *valorized* this metal by standing ready to buy it at 77s 9d per standard ounce, and to sell it at 77s 10½d – here termed the *gold points*.*

> A sovereign weighed a quarter of an ounce of which 99.765% was 'fine' gold and the rest of hardening metallic blend. A Bank of England note could always be exchanged (prior to August, 1914) for its face value in gold coinage.

(*b*) Other external-trading nations followed that example, each *unilaterally* establishing its own *gold points* in terms of its own currency; and, thereby, prior to World War I, because the currencies of all participating nations had known values in terms of gold and as things that are equal to the same thing are equal to one another, there was stability in foreign exchange.

That gold is not essential to man or beast is not at issue

(*c*) While the Gold Standard was never internationally administered – much less so controlled – its automatic multi-national functioning facilitated international trade; but it did *nothing* towards stabilizing prices of essential commodities.

III NEED FOR CONFIDENCE-ENGENDERING CURRENCY

The real worth of currency is its exchange value in terms of essential goods and of essential services.

IV RESERVES VITAL FOR ANY FORM OF PRICE STABILITY

The effectiveness of the Gold Standard (in stabilizing currency exchange *in terms of that metal*) was wholly dependent on each participating nation's having reserves of this ('universally' accepted) token of wealth because, while any nation's LOW *gold point* (its buying prices in terms of its own currency) could be constantly maintained, its HIGH *gold point* (its selling price in its own currency) was effective only when it held gold in reserve.

*In practice, the Bank of England took account of such factors as freight and insurance. As will be shown in what follows, commodity-points under the system as described in this Paper would invariably be related to (preceding annual average) import costs *inclusive* of freights and insurance.

V ADAPTATION OF POINTS-SYSTEM TO DURABLE BASIC COMMODITIES

The system whereby the price of gold used to be stabilized (to within 1½d per ounce in the United Kingdom) can be adapted *in principle only*, with precisely predictable adjustments replacing the rigidity of the *gold points*, so as to apply – by gradual process – to each of a wide range of imported durable essential basic commodities.

VI AN INDISPENSABLE CONDITION

The *sine qua non* is that, before any such system can become fully effective in respect of any individual commodity, there must have been established substantial (accessible) reserves of that commodity – impartially and predictably administered by a National Authority (as a type of Commodities Bank) adequately financed by the nation concerned; and as aloof from political, departmental or other interference as is the Judiciary.

VII INTERNATIONAL ADMINISTRATION NOT FEASIBLE

Of the several reasons that preclude this project's being inaugurated and administered internationally the chief is that there is not an international currency nor any substitute for this as there was during the period in which there was an effectively-operating gold standard. This matter is dealt with further in Addendum No. 1(*a*).

VIII UNILATERAL NATIONAL ADOPTION PRACTICABLE

If based in principle on what is described in this Paper, the proposed system can be initiated unilaterally by any great *commodity-importing* nation – without preliminary agreement with any other nation. In effect, as will be shown, participation by the nationals of other countries would come about automatically – without any encroachment on any nation's sovereign (or trading or fiscal) rights. What would be a boon for one would be a boon for all. How two or more nations' PSC's would operate independently towards the attainment of the same ends is shown in Addendum 1(*b*).

It is because this system has been conceived in Britain that it is hoped that HM Government in the United Kingdom will take the necessary initiative – and in the near future – thereby to establish a pattern (as when the Bank of England established the *gold points*) for other commodity-importing nations to consider adopting at least in principle – which would seem a highly probable eventuality.

IX PARTY-POLITICAL DIFFERENCES TRANSCENDED

The potential functioning of an administering Authority, outlined in what follows as though inaugurated by the British Government, needs to be fully understood and thought-through by Parliamentarians (the issues involved transcend Party differences) for its economic merits to be appreciated precedent to the necessary legislation's being enacted; not least because of *the counter-inflationary effects of its actual functioning* – vide XII below.

X SCEPTICISM IN SECTIONS OF BUSINESS COMMUNITY ILL-WARRANTED

Although innately simple this proposal requires particularly close scrutiny by those of the business community who have become inured to the disorders that have so long bedevilled commodity marketing. The reasons are that this system brings into effect quite new factors which, unless fully understood, may appear likely to interfere with legitimate free-marketing processes. Any such impression – as will be shown – would be entirely unwarranted. While there is a superficial similarity between the system outlined in this Paper and the operation of commodity buffer-stock schemes (e.g. that of the International Tin Council – *see* Addendum No. 4) there are in fact fundamental differences between these and the proposals which follow.

XI ONLY RELATIVELY NEGLIGIBLE INVESTMENT REQUIRED

The four stabilizing 'fins' projecting laterally from a 70,000-ton vessel, such as the Queen Elizabeth 2, weigh a mere 30 tons – each with a superficial area of only eight square yards. Yet these effectively counteract the rolling and pitching of these great ships in rough weather.

The amount of (ultimately premium-producing) investment in reserves required for the effective functioning of the proposed system (as will be made evident in this Paper) is likewise negligible by comparison with the volume and value of the imported products that can be brought within its scope.

XII COUNTERACTING INFLATION

Inflation is the most intractible of the world's economic problems – begotten as it is of lack of grounds for confidence in the continuity of purchasing power in terms of essential goods and of essential services. While to suggest that an overall solution of this problem had been devised would be charlatanesque, the actual *functioning* of the system as outlined in this Paper would establish an unprecedented measure of stability of price-costs at the base of the most important sector of world economy. In short, it is wholly practicable to thwart this malaise at basic levels of the raw-materials sector in precise ratio to the extent to which the proposed system was required to operate. This subject is elaborated upon in paragraph 22 of the text which follows.

XIII OPERATION OF INTERNATIONAL COMMODITY AGREEMENTS FACILITATED

There would be nothing in the functioning of the system outlined in what follows which would hamper the workings of any individual commodity Agreement whether in existence or in prospect. In fact, the making and operating of special Agreements would be greatly facilitated – if still considered necessary when the system advocated was in full operation. This will be made evident from a full reading of Addendum 4 dealing with the problems which confront the International Tin Buffer-Stock scheme.

That such Agreements may be weighted more-or-less in favour of the basic producer (providing such weighting is not excessive) should give no cause for legitimate complaint from the rest of us whose very existence is dependent on the constant labour of those who till the soil, tend the flocks and herds, range the forests, prise mineral wealth from the earth, and fish the seas.

That there are many millions of people in want in various parts of the world is largely the fault of the economic system – or lack of system – rather than that of the primary producer.

XIV COMMODITY PRICE STABILIZING SYSTEM *vis à vis* WORLD POPULATION INCREASE

Because all commodities eligible for inclusion under this system's aegis are both durable and essential, there can be no 'danger' attaching to the building up of such large reserves as might accumulate under its auspices (with the greater the volume – in terms of BLOCKS defined in paragraph 8 – the cheaper the price to first consumers) in view of

the ever-increasing world population – with corresponding augmented demands for such commodities especially if there is to be widespread improvement in living standards in underdeveloped countries.

Reverting to the analogy between the maintenance of water reservoirs and the maintenance of commodity reserves (paragraph I above), an indispensable feature of reservoir administration is that the water has to be kept under control – with properly installed spillways to provide a get-away in times of excessive flooding. It will be made evident in this Paper that a similar safeguard is built-in – under the proposed system – to cope with (generally temporary) excess output of commodities.

Admittedly the water reservoir analogy is strictly correct only in respect of substances in perennial supply. It has not precisely the same applicability to commodities – such as mineral substances – which are wasting assets. However, it is not likely to be disputed that a nation which builds up reserves of these would be more fortunately placed than otherwise. In the event, it is seldom that a year passes without new discoveries of extensive deposits of various types of minerals in one or other of the continents as witness – especially – what has occurred in Australia during the recent sixties.

A BUILT-IN BASIC-ECONOMIC STABILIZER IF UNILATERALLY INITIATED BY THE UK

1 BRITISH INITIATIVE ASSUMED

Let it be assumed that there is statutorally established by HM Government in the United Kingdom a Commodities Price Stabilizing Corporation (PSC) financed by the Treasury, and administered by a small Board responsible thereto, to have within its range essential imported durable basic commodities the average annual cost (cif) of which over a stated period of immediately-preceding years had not exceeded a prescribed amount here termed the *Key Control Figure*.

Objectives:

(*a*) by gradual process (without PSC's entering competitive markets and without any form of coercion) to acquire reserves of such commodities;

(*b*) to administer so-acquired reserves in such a manner as to keep market prices for such products within predictable relatively narrow ranges of fluctuations; and, thus

(*c*) to provide currency-backing at maximum and minimum levels in terms of each so-held commodity.

2 WITH KEY CONTROL AT £1,000 MILLION

(*a*) Let it be further assumed that the prescribed period of preceding years was set at five years, e.g. 1965 to 1969 inclusive, during which the sum of £1,000 million represented rather more than the annual average aggregate import-costs of the following (among other) types of commodities all of which are durable in the sense that they can be held in reserve (at low cost) without significant (if any) deterioration:

The chief industrial metals; textiles and fibrous raw materials; certain crude substances for the manufacture of chemicals and fertilizers; certain nuts and seeds for expressing oils; natural rubber; sugar; cocoa; and grains.

Market prices for most of these commodities fluctuate in an economy-disrupting manner.*

*One exception is wheat, the price of which – though it fluctuated widely in the 1920's and 1930's – has been artificially maintained under a series of International Wheat Agreements since World War II. But their anticipated functioning has been frustrated by the uneconomic operation of the US Commodity Credit Corporation with world-wide inflationary consequences – a matter dealt with at some length in Addendum No. 5.

It is significant that at the outset of the 1970's there are large surpluses (to effective demand) of this cereal in the chief wheat-producing nations, as there are, also, of other grains as well as of wool – among other commodities.

Because of the extent of import-cost-coverage represented by £1,000 million it is suggested that this be taken *illustratively* as the Key Control Figure as in paragraph 1.

On that basis, and assuming this system to be geared and financed as illustrated in this Paper, the maximum cash-investment to which PSC could be conditionally committed could not exceed £90 million during the three years immediately following its inception.

Subject to what is in the intervening text, the validity of that statement is made clear in paragraph 12.

3 INITIAL VALORIZING INDEX AND COMMODITY POINTS

(*a*) PSC's functioning requires that there shall be determined for each commodity within its scope what is here termed an *initial* Valorizing Index (the Index) *automatically* and *predictably* adjustable in pre-notified circumstances related to each such product. It would be on this Index that each commodity's *points* – PSC's buying and (conditional) selling prices would be based. The LOW *point* at which PSC would stand ready to buy, at seller's behest and subject to rigid conditions, would be at a prescribed percentage *below* Index; and the HIGH *point* at which (when it held reserves acquired at the LOW *point*) it would sell on demand would be at the same percentage *above* Index.

> The conditions governing PSC's purchasing would require satisfactory pre-appraisal at vendor's cost with delivery – likewise at his cost – in prescribed-sized units-of-volume; as in paragraph 33, captioned 'Transactional Procedures'.

(*b*) While PSC's functioning could be geared in many ways it is of fundamental importance that, once such gearing had been initially determined and publicized, it should not be altered in any respect excepting by Statute; and then only after a prescribed period of (it is suggested) at least three years' (and preferably five years') notice.

(*c*) Although the gearing as described in what follows is primarily illustrative, it would seem likely to prove satisfactory to those directly involved – basic producers, intermediaries and user-industrialists; and it should certainly be to the advantage of the public as a whole. However, *special regard must be paid to what is in paragraph 27 in this connection.*

4 HOW GEARING WOULD GOVERN PSC'S FUNCTIONING

(*a*) Let 'X' represent any one commodity (or any special type thereof normally marketed as such) within PSC's scope; and, to simplify an explanation of PSC's functioning in conformity with the (long-term) law of supply and demand, suppose the average annual import cost (cif) of 'X' had been £100 per ton; and that this was adopted as 'X''s *initial* Index – with its (initial) LOW *point* at 10 per cent *below* Index (£90) at which PSC would stand ready to buy; and with its *conditional* (initial) HIGH *point* at 10 per cent *above* Index (£110) at which (when it held reserves of 'X' acquired at the LOW *point*) PSC would sell on demand.

(*b*) With the *points* always at 10 per cent below and above Index, the margin between LOW and HIGH *points* is a constant 22.2 per cent of the low point, e.g. the difference of £20 (between £110 and £90) is 22.2 per cent of £90; and that percentage-margin obtains at whatever level the Initial (or subsequently adjusted) Index stands.

(*c*) Although PSC is *per se* inert – and not actuated by a profit motive – having been required to buy it would almost inevitably be required later to sell in which event its gross premium would be 22.2 per cent of the cost of its purchase. If it were NOT so required to sell it would mean that an unprecedented measure of basic-commodity-price stability had come about – whereby its prime objective would have been achieved and with relatively small investment outlay.

The incidence of possible obsolescence in respect of a few commodities is elaborated upon in paragraph 21.

5 NO NATIONAL DISCRIMINATION – ALL TRANSACTIONS IN STERLING

PSC would buy (and later sell) without national or other sort of discrimination – solely on a commodity's merits. It would pay for its purchases in sterling, and would accept only sterling when selling.

6 TRANSACTIONS UNDER CUSTOMS BOND – IF APPLICABLE

PSC's transactions in commodities subject to customs and/or excise would be under Customs Bond – whereby its operating would not be hampered by tariffs.

NB Great Britain is ideally situated geographically for entrepôt trading in which regard it is perhaps true to say her merchanting community have had unique experience. Much such trading has been in commodities held under Customs Bond. When the proposed system came into full operation it would surely greatly stimulate this type of (profitable) enterprise.

7 HOLDINGS IN RESERVE PUBLICIZED

PSC would frequently and regularly publicize the precise volume of its holdings (if any) of each commodity within its scope. Day-to-day holdings would be immediately ascertainable on telex enquiry.

8 PREDICTABLE INDEX-AND-POINTS ADJUSTMENTS – A 'BLOCK' DEFINED

The initial Index and *points* would remain at their original levels unless and until there had accumulated reserves of 'X' equivalent to one-tenth of the average annual volume of this commodity as imported over the prescribed period of years preceding PSC's inception – such one-tenth aggregate being termed a BLOCK.

Thus, if that average annual imported volume of 'X' had been 500,000 tons, one BLOCK of that commodity would be 50,000 tons – to have acquired which at £90 a ton PSC would have made a cash investment of £4½ million. From the date of its first intake – and for as long as any reserves of 'X' were so held – PSC would sell on demand to collecting buyers at £110 per ton which would *then* represent 'X''s market ceiling – subject to what is in paragraph 11.

If and immediately a *first* BLOCK of 'X' had been taken into PSC's reserve, the Index-and-*points* levels (of this commodity only) would fall by 5 per cent, *and* by precisely that percentage of their *initial* levels at the intake (if any) of each subsequent additional BLOCK of 'X' – as detailed in paragraph 10. This process would automatically reverse if PSC's holdings of 'X' diminished BLOCK by BLOCK.

9 CONDITIONAL DEFERMENT OF PSC'S PAYMENTS

(*a*) If and immediately a first BLOCK of 'X' had been taken into PSC's reserve – and for so long as a first BLOCK remained intact – PSC's payments for further purchases of *that* product would be deferred for three years, taking the form of Three-Year Bonds carrying interest at $3\frac{1}{8}$ per cent – not compounded. These Bonds would be strictly non-negotiable in the commercial sense; but they could be transferred to the Treasury of the *country of origin* of the commodity (in deferred payment for which any had been issued) in exchange for that country's domestic currency, if *that* Treasury so approved and on such terms as it decided.

NB If the willingness of vendors to accept such Bonds be questioned the reply is that the choice would be theirs alone. The alternative would be to sell on the market for what such offerings would fetch in cash. Some might do this – but the more prudent would doubtless realize that such action would be extremely imprudent.

(*b*) In the event, it is his own nation's currency which is a producer's prime need. Assuming his country's Treasury to have approved his request, it would then be holding a short-term British-Treasury-Guaranteed security which, on redemption, would carry a premium of 10 per cent. It might well be that (by special agreement between the Bond-holding Treasury and HM Chancellor of the Exchequer) credits so acquired could be used in advance of redemption date. If, for example, Bond-holding nation 'A' had outstanding debts in the UK, HM Chancellor might approve of PSC Bonds being used in reduction of such debts; or some other special circumstances might obtain which would influence HM Chancellor to approve of earlier than Three-Year Redemption; e.g. if the bi-lateral balance with nation 'A' were in the UK's favour.

NB It is to be admitted that there might be some doubts (in the minds of those proffered Three-Year Bonds) as to the comparative value of sterling (*vis à vis* other major nations' currencies) as at date of Bond redemption; because it might be that, when redemption of such Bonds became due some time during the fourth (or subsequent) year following PSC's inception, sterling's external value had depreciated in terms of (say) US Dollars (if the continuity of value of *these* were accepted, as hitherto, as a criterion) either by deliberate devaluation – or for some other

reason. Hence, to engender complete confidence in the estimation of actual (or potential) Bond-holders, HM Treasury might *guarantee* that it would adjust any such deficiency by adding to the amount due on redemption the precise sum in sterling which would represent compensation in place of what would otherwise be a loss.

Alternatively, the International Bank for Reconstruction and Development (or the International Monetary Fund) might be invited to underwrite the continuity of value of Three-Year Bonds, in which regard see Addendum No. 2.

10 **A PATTERN OF CAUSE AND EFFECT**

Bearing in mind that PSC's holdings would be publicized, the following shows in detail how (with their initial levels as in paragraph 4) automatic Index-and-points adjustments would take effect.

First Conditional Adjustment: If and immediately PSC accumulates a *first* BLOCK of 'X' there is an automatic fall by 5 per cent of that product's Index and *points* which become: Index – £95; LOW *point* (payment deferred as in 9) – £85 10s; and HIGH *point* – £104 10s.

Second Conditional Adjustment: If and immediately PSC accumulates a second BLOCK of 'X' there is a second automatic fall by 5 per cent (of *initial* levels) in its Index and *points* which become: Index – £90: LOW *point* – £81 (deferred as in 9); and HIGH *point* – £99.

Subsequent Conditional Adjustments: In the event of there being further BLOCK-accumulations of 'X' there is a corresponding adjustment (always by 5 per cent of *initial* Index and *points*) at the intake of *each* additional BLOCK *thereof.* Thus, if four BLOCKS of 'X' accumulated, its Index and *points* (having fallen four times by 5 per cent of *initial* levels) become: Index – £80: LOW *point* (payment deferred) – £72; and HIGH *point* – £88; and so on.

Conditional REVERSAL *of Adjusting Process*: If reserves of 'X' diminish (in terms of BLOCKS) as a result of PSC's selling, the processes as above go into automatic reverse – up to the level of 'X''s *initial* Index and *points* but no higher *excepting as in the paragraph* 16.

11 **MARKET FLOORS AND CEILINGS IN RELATION TO PSC'S POINTS**

It is not suggested that, even when any commodity's HIGH *point* was effective (i.e. when PSC held reserves of that product) its LOW and HIGH *points* would represent the exact floor price and ceiling price of such commodity; because, as shown in paragraph 33 captioned 'Transactional Procedures', PSC would not be 'easy to deal with'. In short, it would buy – subject to satisfactory pre-appraisal – only in pre-specified substantial (maybe 50-ton) lots to be delivered by vendor. And it would sell only in the same sized UNITS-OF-VOLUME (to be collected by the buyer). Hence market dealings in smaller quantities than such pre-specified UNITS might occasionally be at lower (or higher) prices than those represented by a commodity's then *points*. But such deviations would not become significant; because, at some stage in market price decline it would become profitable for a speculator on the side-lines to buy up small lots to the aggregate of the relevant UNIT-OF-VOLUME which could be disposed of advantageously to PSC. Conversely, if there were any substantial rise in market prices above the relevant HIGH *point*, someone on the side-lines could buy a UNIT-OF-VOLUME from PSC, 'break it up', and sell it profitably in small lots.

12 **NO LEAP IN THE FINANCIAL DARK**

With the Key Control at £1,000 million, the *initial Index-value* of a *first* FULL-BLOCK-SERIES (one BLOCK of each commodity within PSC's scope) is £100 million. The *initial* LOW *point-value* (at 10 per cent less, i.e. the cash-investment involved in PSC's acquiring a first FULL-BLOCK-SERIES) could not exceed £90 million. It is a very far-fetched hypothesis that PSC would be required to buy such volumes of *all* eligible commodities during the initial three years of its functioning.

But if that did occur, it would be holding in (accessible) reserve one-tenth by volume of the nation's preceding annual average needs in durable basics essential to industrial progress on an unprecedentedly stable foundation.

13 **STABILIZING EFFECTS ON CURRENCIES**

Sterling would have known minimum and maximum values in terms of each commodity of which PSC held any reserves; and – freight factors apart – a similar measure of stability would apply to other nations' currencies; because no producer anywhere would voluntarily sell any substantial volume for less than he would net if he

consigned to UK and (as a last resort) sold to its PSC; and no buyer would voluntarily pay more for any substantial volume than its net cost if bought from PSC.

14 EFFECT OF MULTI-NATIONAL ADOPTION OF THIS SYSTEM

With this System being operated by two or more great commodity-importing nations (freight factors apart) and world floor price for 'X' would be the *highest* of the then LOW *points*; and the world ceiling price for 'X' would be the *lowest* of the then effective HIGH *points*. This is fully explained in Addendum No. 1(*b*).

15 EFFECT ON EXTERNAL UK'S BALANCE OF THREE-YEAR BOND REDEMPTION

An obvious question arising is: 'In the event of PSC's having been required to issue Three-Year Bonds to a considerable redemption value, what would be the effect on the external balance of payments in any year in which such Bonds had to be redeemed?'

The short answer is as follows:

By the time any such Bond had to be redeemed, the nation would have acquired 100 per cent of its imported user-needs (in *each* of the three intervening years) in any commodity in respect of which a Bond had been issued at an average price of 5 per cent below the average of such prices in the quinquennium prior to PSC's inception. Thus, if the average cost of annual imports of 'X' during that quinquennium had been £100 million, the same volumes imported in *each* of the three years following PSC's acquiring a first BLOCK of that commodity (and provided *some part* of that first BLOCK continued be held by PSC) would have cost less by £5 million p.a. to total £15 million; whereas the cost of Bond Redemption would be something less than £9.35 million; because that would be the redemption cost only in the event of a *full* second BLOCK's having been obtained against deferred payments. And, of course, if that had occurred the average cost per unit of, commercial purchases could have been still less – by another 5 per cent. (The sum of £9.35 million represents 8½ per cent of £100 million = £8.5 million + 10 per cent premium resulting from three years' interest at 3⅓ per cent – not compounded.)

Evidence as to the actual effect on the external balance of some unbridled price fluctuations is contained in tabulated form in respect of copper prices during 1968–1969 which follows the section of the Appendices which deals with that metal – see page 37.

16 **CONDITIONAL *RAISING* OF INITIAL INDEX AND POINTS**

If a prescribed period (say two years) elapses after PSC's inception without its acquiring reserves of 'X' (i.e. of any scheduled commodity within its scope) the Index and *points* for that commodity shall rise automatically by 5 per cent (of the original *initial* levels); and by a further such 5 per cent after each subsequent twelve-month until the date on which PSC does acquire reserves of 'X', whereupon the then Index and *points* shall become its new *initial* Index and *points* with conditional adjustments as in paragraph 10.

Such raising of *initial* Index shall likewise occur if, following disposals by PSC of reserves previously acquired of 'X', PSC has not had any replacement of such stocks for two years – or for whatever be the prescribed period.

NB This provision is to ensure that *ultimately* PSC will acquire reserves of practically the whole range of the durable basics within its scope – each *then* a currency-backing.

17 **PSC TO ACCEPT THE *CUSTODY* OF COMMERCIALLY-OWNED COMMODITIES**

The following is a most important feature of this system's functioning, its purposes being (*a*) to foster the establishment of commercially-owned reserves; and (*b*) to accord equal bargaining powers (as in paragraph 18) to producer-sellers and user-buyers. To these ends, PSC would stand ready to provide storage (at net cost of space occupied) for commercial owners on precisely the same conditions (satisfactory pre-appraisal and delivery in pre-specified UNITS-OF-VOLUME) as if such deposits were being sold to PSC instead of being lodged in its custody.

PSC's *Warrant* (receipt) for each such lodgment would be a firm security for Bank Loans up to near the level of the lodged commodity's LOW *point* at which it could be sold *in situ* for cash-sterling to PSC at any time *unless* PSC's *holdings of the relevant commodity had come to exceed a first* BLOCK *thereof* (when payment would be deferred as in paragraph 9).

Provisos

Endorsed on each *Warrant* there would be two provisos as follows:

1 If the price of any deposited commodity rise in any recognized British market above the level of that product's HIGH *point* (with PSC not holding reserves thereof in its *ownership*) the relevant *Warrant* becomes automatically void – when PSC forthwith pays

the depositor at the level of the appropriate LOW *point* and holds that purchase available to the first comer at its HIGH *point*.

2 Proviso No. 1 shall not apply in the case of a *bona fide* user-industrialist who has prudently established reserves (lodged with PSC) exclusively for his own use – and not to 'play the market' – subject to PSC's being given what it would consider satisfactory assurance in this regard – see paragraph 34 (b).

18 EQUALIZING OF BARGAINING POWERS

(*a*) The readiness of PSC to accept commercially-owned commodities as deposits against its negotiable Warrants affords to producer-sellers bargaining powers effectively to counteract the development of buyers-markets at (or close to) the level of the relevant LOW *point*; and the holding of reserves by PSC of reserves (in its custody) likewise counteracts the development of sellers-markets at (or close to) the level of the relevant HIGH *point*.

(*b*) The significance of the foregoing requires emphasis for two special reasons; the first that it would ensure both producer-sellers and user-buyers having equal bargaining powers; and, the second, that – to the extent that (and for as long as) reserves were held in PSC's custody but commercial ownership – PSC would be relieved of the necessity to provide funds for the *purchase* of such reserves and would derive revenue from the payment to it of storage costs so incurred. Under such auspices, in the event of market offerings being apparently in excess of then current user-needs to the extent that a commodity's price fell to (or near to) the level of its relevant LOW *point*, selling pressure could quickly be relaxed by withdrawal from the market of such excess offerings as had been creating a buyers' market.

(*c*) While producers could *sell* such 'excess' wholly or in part to PSC (at the appropriate LOW *point*) it seems much more likely that they would *lodge* that 'excess' on deposit in PSC's custody when (unless a first BLOCK of 'X' had accumulated) they could borrow from their banks against an unprecedentedly firm security which could be exchanged *in situ* for cash up to the level of the then relevant LOW *point* as applied to the volume of whatever commodity was on deposit.

(*d*) It is conceivable that, by such tactics, producer-sellers (if working in unprecedentedly close combination) might be able to ensure a constant sellers' market but only up to the level of the relevant HIGH *point* which, if exceeded in the market, would lead to the immediate take-over by PSC of relevant deposits in its custody, with payment at

the appropriate LOW *point*, when it would stand ready to sell to first comers at the level of the then HIGH *point*.

(*e*) The strong probability is that the result of all this would be that (excepting in cases of *real* shortage) market prices (brokerage aside) would seldom be higher or lower by more than perhaps 5 per cent than the price level represented by PSC's Index of the commodity concerned.

(*f*) In this regard it is safe to assume that user-buyers would not regard the *selling* by producers to PSC at the LOW *point* with any enthusiasm; because if at a later date user-buyers had to purchase from PSC they would have to pay at the level of the then HIGH *point*. Hence, it would seem likely that (when there was an excess of market offerings) buyers would make the best possible bargain with sellers and deposit *their* resulting holdings in PSC custody using *their* Warrants as security for bank loans if they so wished. Such trading could of course be in 'deposits' *in situ* – with withdrawals only when required for usage.

(*g*) It would be as salutary as it was novel for basic producer-sellers to have the same bargaining counters as user-buyers. A constant margin of 22.2 per cent of the relevant LOW *point* between that and the then HIGH *point* should provide ample scope for the legitimate functioning of intermediaries.

19 ALL HOLDINGS TO BE INCLUDED IN ASSESSING BLOCKS

In regularly publicizing its commodity holdings (the precise extent of which could be ascertained on enquiry at any time) PSC would state the volumes held in its ownership and (separately) in its custody but in commercial ownership. However, both its own reserves and those held merely on deposit would be taken into account when assessing BLOCK-accumulations – if any.

20 OVERALL GUIDE FOR BASIC PRODUCERS

The extent of a surplus (if it occurs) of Commodity 'X' provides a self-evident guide to producers thereof; and if – over the longish term – reserves of 'X' increase, a proportion of the capital and enterprise devoted to producing 'X' will be devoted to producing other commodities of which no reserves (or only occasional small reserves) have been established under PSC auspices.

Thereby, something approaching well-balanced production of basics would come about gradually but surely.

21 POSSIBLE RISKS OF OBSOLESCENCE

In this regard the following question may be asked:

> 'What would be the position of PSC if it found itself in possession of very large reserves of some product the use of which had greatly diminished (and which was continuing to diminish) owing to competition from synthetics or from alternative natural substance?'

The reply is as follows:

(*a*) To qualify for valorization under PSC's auspices a commodity would need to be convertible into a wide range of consumer and/or capital goods that were in widespread and continuing demand. So it follows that no commodity would have been valorized if there had been a *likelihood* of its becoming obsolete to the extent contemplated in the question. From time to time it has been suggested that, for example, because of increasing outputs of synthetic rubber it might become unprofitable to produce plantation rubber. The best judges in this matter are the rubber-growing companies whose policy has not been to reduce their outputs but rather to reduce their costs (e.g. by 'budding' from the highest-latex-yielding trees on to 'stocks' of very hardy but lower-yielding types).

Wool is another natural product subject to increasing competition – from synthetic fibres – something emphasized by the fact that in May of this year (1970) it was announced by the Minister for Primary Production in Australia that, although wool production in that country would reach a record figure in the current twelve months, depressed prices would reduce its gross value by $A100 million below the previous year's receipts of $A836 million. But, here again, wool-growers are concentrating on lowering their production costs by various practical measures. (PS See also added relevant text, pages 29–31.)

(*b*) Copper is likewise subject to increasing substitution with aluminium – in the electrical manufacturing field; and the higher its price the more likely it will be that copper-producers will be priced-out of sections of the (former) usual markets for this metal.

(*c*) In short, no one can foresee what the future may hold in store for *any* product; and it is conceivable that at some stage PSC might, in fact, be holding large sterile stocks whose use had been largely replaced by some alternative material. But that would

certainly not mean that such reserves had ceased to have utility value. It would mean no more than that they had become unsaleable at PSC's then relevant HIGH *point*. Therefore, to provide for any such eventuality PSC's Charter (as statutorally defined) should contain a provision that if – at any stage – PSC had been holding not less than (say) two BLOCKS of one commodity for (say) two years without being called upon to make any sales (of that commodity) the relevant Index and *points* would (automatically) be lowered by a prescribed percentage annually. By such means the price for (then) sterile reserves (if any) would gradually fall and in due course the product concerned would be put to some alternative uses for which it had always been *physically* suitable. In the interim its producers would have had 'breathing space' in which to change their enterprise to the production of some other commodities not in excess supply. (PS Again see relevant added text on pages 32–33.)

(*d*) However, in a great many instances in the past the bogey of (seeming) obsolescence (in respect of basic commodities – as distinct from fabricated articles) has soon been laid – as witness the following (historic) price records (which can be matched by similar records related to most of the other basic materials).

Rubber: During 1922 its average price per lb (London) was 9¼d; during 1925 it was 25d; whereas during 1932 it fell to 2⅛d! In 1947 it was 8¼d at one stage and 16d at another. In 1951 the Korean War caused panic buying with the price rising to 71d – but during 1953 it fell to 16d. In May, 1960, it was up to 40½d while in October, 1967, it fell to 13¾d. More recent prices are shown in the Statistical Appendix.

> Incidentally, at one stage when its price was very low rubber was used as paving in Lombard Street in the City of London – presumably a very successful experiment.

Copper: In 1923 its price (on the London Metal Exchange) averaged £78.7 a ton; in 1934 £30.3. During 1952 it was down to £216 whereas during 1956 it rose to £437. It was again down to £216 in January, 1961, and up to £817 in March, 1968.*

*In this context a personal recollection by the author may not be out of place. His father (who died in 1904) had been the chief shareholder in a small though highly promising copper mine in Tasmania; but, owing to the price of this metal falling to below £19 a ton around 1903, that mine was obliged to suspend its workings when it was sold (at a knock-down price) to another mining concern – which still operates in a large way. Within two years of his father's death, the price of copper rose to the then unprecedented peak of £60 a ton! It may be that this boyhood recollection, and others of the bane of unstable commodity prices in the early years of this century, later influenced him to the extent exemplified in his writings on this theme.

22 COUNTER-INFLATIONARY FACTORS AT BASE OF ECONOMY

This is an elaboration of paragraph XII of the Introduction.

(*a*) If PSC were not called upon to function no investment-expenditure would be involved. If it *was* called upon to act there would automatically be achieved a degree of price stability, that had not theretofore obtained, for each commodity it took into its reserves; that is, for so long as it so held reserves. Moreover, the greater the volume of such reserves – beyond a first BLOCK of any commodity – the cheaper would be the average cost per unit of that product compared with the average of its cost during the preceding period of years on which the relevant initial valorizing Index had been based; but see 23 below.

(*b*) If industrialists were positively assured of continuity of supply of their raw materials within precisely predictable (relatively narrow) limits of market price movements – as they would be so long as PSC held relevant reserves – they would be in a position correspondingly to stabilize the selling prices of their finished products to *the extent to which their costs depended on what they had had to pay for their raw materials.* In this regard, as matters stand, when there is a steep rise in costs of a basic product the user-industrialists concerned normally seek to 'absorb' this without its being carried forward to the price of the finished article – which is prudently set at a level that enables that to be done. But – to the extent that this entails a lowering of profits – there is a limit to such indulgence beyond which increased raw-material costs must be passed on to the consumer. However – in existing circumstances – it certainly does not follow that a sudden fall (however considerable) in raw-product costs will result in the price of the finished article being lowered. Manufacturers are compelled to play for safety, and it is not usual for (probably temporary) declines in raw-material costs to be reflected in lower prices of finished goods.

(*c*) While in certain sectors of manufacturing, such costs (especially of metals and textiles) loom large, basic-material costs decrease in importance in inverse ratio to the extent of fabrication involved in producing finished products. Thus, in varying degrees, the wage-and-salary cost is the most important factor in respect of determining profitable selling prices. In this context, all that can be said in that regard is that such justification as obtains for constantly increasing remuneration demands – unless matched by increased productivity – would have less strength in proportion to any stabilization of (or reduction in) selling prices of essential manufactures to the extent that raw-material costs had been stabilized if not reduced.

23 HOW BASIC PRODUCERS WOULD FARE

(*a*) It would be grossly improper to suggest that an ultimate purpose of the proposed system would be to reduce the incomes of producers of commodities within PSC's scope. From the outset such producers would have the unprecedented boon of there being floors in markets close to the level of each commodity's LOW *point – a type of premium-free insurance*. Thus the producer of 'X' would receive his full returns from all his commercial sales; and, if the output of producers as-a-whole of 'X' exceeded buyers' then requirements (at prices not less than 'X''s LOW *point*), instead of this causing unbridled market depression, such then excess to current usage could be sold to PSC with the certainty that PSC could not re-sell excepting at a price higher by 22.2 per cent (if the proposed gearing had been adopted) than that which it had paid. Hence producers of 'X' would obtain income not only from their commercial sales but also from their disposals (if any) to PSC.

(*b*) Of course, if PSC's purchases came to aggregate a first BLOCK of 'X' (one-tenth of the UK's preceding annual imports) there would be a 5 per cent fall in that commodity's Index and *points* – whereby its average cost to the user-industrialist would be less by that percentage than the average corresponding cost over the preceding period of years on which 'X''s *initial* Index had been based.

(*c*) It must be emphasized that basic producers as-a-whole of any 'eligible' commodity would be the sole arbiters as to the extent to which their interests would be best served, in which regard they would have the following options:

(i) to restrict their productive enterprise so as to diminish outputs and maintain high price levels – *which they are free to do in any event*;

(ii) to produce – wittingly or unwittingly – above the then anticipated needs of user-industries at prices not less than the relevant LOW *points* and to dispose of surpluses (to current market absorption) to PSC; or

(iii) themselves to hold such 'surpluses' unremuneratively – as dead weight, or to sell them for what they would fetch.

In the event it would seem likely that they would have recourse to (ii) and that this System would function as intended.

NB *In the foregoing connections, special attention is invited to* Addendum No. 3 captioned THE LOW-INCOME COUNTRIES.

24 WHY WHAT IS ADVOCATED IS TERMED A SYSTEM

To describe the adoption of these proposals as initiating a *plan* could be somewhat misleading; because, it is reiterated, PSC is *per se* inert. In fact it is analogous to a clock which, though in good mechanical order, will not function unless it is actuated by 'winding'. It is not a clock which *plans* one's day; it is the position of its 'hands' which is our guide in allocating our time – although if the 'hands' be of a Bundy clock one has but small say in the matter!

In a similar sense PSC cannot operate unless *it* has been actuated in the first instance by willing sellers – whose prime consideration is their own best interest. Its *raison d'etre* is to stand ready (in the background) to put into effect a *system* the functioning of which makes evident the supply and demand situation in respect of commodity 'X' as clearly as do the hands of a clock denote the time. It would be in such circumstances that both basic producers *and* user-industrialists would themselves be able to make their own *plans* – with a measure of confidence for which, theretofore, there had been no firm grounds.

It may have been noted that PSC's reserves are not referred to at any stage as 'buffer-stocks'. This is to avoid confusion with such schemes as that of the International Tin Council whose Buffer-stock Manager *enters* the market as either buyer or seller of tin at his discretion – see Addendum No. 4 – which is something PSC would never do.

25 THE ELEMENT OF CONTAGION

There is a strong element of contagion in respect of irrational commodity-price fluctuation, especially when prices rise precipitately in periods of extreme tensions – either national or domestic; usually only to fall with even greater precipitation when such tensions relax. The greater the volumes and diversity of reserves held under PSC's auspices, the less would be the likelihood of such economy-disrupting incidence. There is likewise a considerable element of contagion in respect of price stability; that is to say, e.g. if there be stability in markets for *durable* basics, this will extend to a significant extent to many products not physically eligible to be brought within this system's scope. In this regard one example may suffice.

> The costs of production of many animal-products, e.g. meats, dairy products, poultry and eggs (all naturally perishable and ineligible for inclusion within PSC's scope unless susceptible of

some economical form of preservation) are largely dependent on the costs of animal feeding-stuffs of types that would qualify for inclusion within PSC's scope.

Many other examples might be cited, some obvious and others not so obvious – but nonetheless advantageous.

26 **POSSIBLE EXTENSION OF RANGE OF 'ELIGIBLES'**

That naturally perishable products preserved by dehydration, refrigeration or other means might ultimately be brought within PSC's scope is debatable. It would be prudent to limit the range of eligibles to durable (or near durable) commodities at the outset. However, in the light of experience, preserved perishables might be included as indeed might first-processed durable commodities such as steel in those basic forms which are raw materials for fabricating industries.

27 **IMPORTANT QUALIFICATION AS TO FOREGOING TEXT**

It is to be particularly emphasized that the foregoing text is designed to be basically *illustrative* in respect of such tentative suggestions as the following:

(*a*) that the sum £1,000 million be taken as the *Key Control* figure;

(*b*) as to the volume in reserve (of any product) which might aggregate a BLOCK – with resulting adjustment in its Index-and-*points* levels; and,

(*c*) as to the percentages by which such adjustments might be effected.

The prime purpose of the author is to make clear the underlying *principles* which would govern this system's effective functioning.

What is of overriding importance is that:

(i) all such details should have been determined and publicized at date of the Statutory inauguration of (what is here termed) a Price Stabilizing Corporation; and,

(ii) that such details should be simple and devoid of ambiguity.

Nevertheless, it may be that those directly concerned would consider the illustrative figures in this Paper as not being wide-of-the-mark.

28 WHY DOMESTICALLY-PRODUCED BASICS ARE EXCLUDED

It will not have escaped notice that this proposal is designed to have applicability only to (physically suitable) imported basic commodities – and that domestically-produced commodities are excluded. The reason is that, within the UK and many other advanced countries, domestic primary producers are already safeguarded against unremunerative prices. In some instances (in certain countries) such policies have been described – and with ample justification – as feather-bedding; see Addendum No. 5. Of course, any nation adopting this system would be free to make it applicable to its own domestic products; but it would be to befog the whole issue for a recommendation to that end to be included in this thesis.

29 RECOURSE TO PSC NOT LIKELY TO BE FREQUENT

In the event it would seem that only in exceptional circumstances would PSC be required actually to *buy* a commodity; but that would certainly not mean that it had failed in its purpose. In contrast, it would seem highly likely that – in the early years following its inception – it would fairly frequently be approached to accept the custody of commercially owned deposits – for the reasons set out in paragraph 18 above.

30 NATIONAL ECONOMIC ISOLATION IMPRACTICABLE

The economic problems confronting any great nation's Government are not confined to that nation; they extend to all the countries of the free world – according to the degree of economic inter-dependence of these one upon another. If (for example) H.M. Government in the United Kingdom is to establish a firmly-based economy, it must be by a means of which the rest of the world (tariff barriers notwithstanding) can take appropriate advantage – with the long-term effect a firm foundation for world economy.

It will be manifest that PSC's constant readiness to function would have an unprecedentedly-steadying effect on world markets; and that the wider the range of commodities brought within its scope, the greater would be its stabilizing influence.

NB *Certain important questions were raised by people eminent in their spheres who read the text of this Paper when in page-proof form. These, with the author's replies, appear on page* 28 *et seq.*

ADMINISTRATION OF A BRITISH PRICE STABILIZING CORPORATION

31 (*a*) *The Board:* Administrative control of PSC would be vested in the statutorally appointed Board comprising a Chairman and (perhaps two) part-time Members responsible to the Chancellor of the Exchequer. (See 34 below.)

(*b*) *Staff and Accommodation:* Permanent Staff would be minimal – chiefly recorders. Its personnel could be accommodated in a small suite of offices – unless prestige factors otherwise required.

(*c*) *Specialists:* Each member of a panel of Appraisers, nominated by the Commodity and Industrialists Associations concerned and approved by the Board, would receive a nominal retainer – with fee for services *when rendered.* Other Specialists would be similarly retained and remunerated.

(*d*) *Storage Depots:* PSC would not have recourse to construction of its own stores were it able more economically to acquire existing storage accommodation if this could be adapted to its special requirements. When it had to construct stores, the capital cost thereof (according to estimates from an eminent Construction Company) would range from something like £5 per-ton-capacity (for metals) to a maximum of around £15 per-ton-capacity for bulky commodities.

Stores, sited as far as practicable to suit the pre-ascertained convenience of sellers and buyers concerned, would be constructed with maximum economy with such security as to preclude the need for store-custodians.

Each depot would be equipped with lifting and stowing gear and be so *compartmented* as specially to accommodate the prescribed units-of-volume (of whatever was the commodity) which PSC would buy or (later) sell as in 33 (*a*) to (*c*) below.

32 **COUNTERING DETERIORATION – IF APPLICABLE**

Effective methods would be in readiness (under specialist direction as required) to counteract deterioration of such few eligible commodities (e.g. grains) as were susceptible thereto.

POSSIBLE STOCK ROTATION

If there were any doubt as to the efficacy of corrective measures against deterioration, the affected units in reserve would at once be sold (by *agents* acting for PSC) for what they would fetch. But,

concurrently, PSC – by its *agents* – would purchase a precisely similar volume of that commodity in the market. Such would be the only occasions when PSC might (obliquely) enter the market which, however, would not be disturbed because the volume sold would be precisely off-set by the volume purchased. This practice, known as 'stock rotation', has long been followed by the Ministry responsible for the maintenance of strategic reserves. No doubt some loss would be sustained in such circumstances; but close supervision and care of stocks would ensure that any losses due to deterioration would not be serious.

33 **TRANSACTIONAL PROCEDURES**

(*a*) *Deliveries only in prescribed units-of-volume:* It is reiterated that PSC would buy and (later) sell only in prescribed UNITS-OF-VOLUME (not to be confused with BLOCKS which would contain several hundred such UNITS-OF-VOLUME) perhaps 50-ton lots of e.g. copper (of which the annual average import by the UK is around 500,000 tons and of which a BLOCK would aggregate one-tenth); and of other specified volumes of other commodities.

As is shown in Addendum No. 4 regarding the International Tin Council, it is stipulated that '*the minimum tonnage of all transactions* [by the Buffer-Stock Manager] *shall be in 5 tons, and larger tonnages shall be in multiples of 5 tons*'. But, whereas the Buffer-Stock Manager *enters* the market (as buyer or seller) at his discretion, PSC would remain in the background – inert unless at the volition of (first) sellers and (later) buyers. It is extremely unlikely that the UNITS-OF-VOLUME of tin which PSC would buy or sell would be so small as 5-ton lots. It would seem more likely that such UNITS would be of 20 tons (or perhaps a larger volume).

(*b*) *Adequate notice required:* A specified period of notice (may be 21 days) would be required of an intending vendor's wish to sell to (or of a depositor's wish to lodge with) PSC – with advice as to the then location of the offering.

(*c*) *Appraisal at prospective vendor's (or depositor's) cost:* Vendor (or depositor) would be required to pay (*to* PSC) the cost of Appraisal (irrespective of its outcome) to be carried out in the presence of PSC's Representative. If the offering did not survive appraisal it would be refused.

(*d*) *Delivery to be vendor's (or depositor's) responsibility:* If appraisal

was satisfactory, the onus and cost of delivering each acceptable unit-of-volume to its specified (numbered) *compartment* – under supervision of the Appraiser and of PSC's Representative – would rest wholly with the vendor (or depositor).

(*e*) *Buyers to collect :* The onus and cost of collecting any purchase (or of removing any deposited commodity) would rest wholly upon the buyer (or on the depositor).

34 **DUTIES OF PSC BOARD**

Apart from ensuring the greatest practicable economy in capital outlay on storage etc., and in respect of all aspects of administration, the only decisions the Board would be required to make would be in regard to

(*a*) the rotation of stocks as in paragraph 32; and,

(*b*) the acceptance or otherwise of assurances to PSC by user industrialists who deposited their own reserves in PSC's custody as in paragraph 17 – proviso 2.

However, it would clearly be this Board's concern to tender advice to the Chancellor of the Exchequer as to possible redemption of Bonds issued in deferred payment (as in paragraph 9 (b)) in advance of the date on which redemption was normally due; as well as in other matters such as the possible inclusion within PSC's scope of types not so scheduled initially.

35 **NO SCOPE FOR THE BUREAUCRAT**

If the text of this Paper has been clear, it will have been appreciated that would be no scope whatever for bureaucracy on the part of PSC's staff whose duties would virtually be as uncomplicated as those of Post Office counter-staff, albeit in reverse.

> A Post Office clerk supplies a money order for £1, charging that sum *plus 2½ per cent* (sixpence poundage); while he stands ready to 'buy' a money order for £1 at its precise face value. It is not for him to 'bargain' – nor would it be for any PSC official. Subject to satisfactory pre-appraisal (for which PSC's permanent officials would not be responsible) and to the other conditions specified above, its staff will pay for Commodity 'X' at its then Index value *minus 10 per cent ;* and, thereafter (for so long as stocks of 'X' are held in PSC's ownership) will stand ready to sell it on demand at its then Index value *plus 10 per cent.*

It is as simple as that – with no scope provided for Professor Parkinson's fun.

36 A PERTINENT QUESTION AS TO INITIAL INDEX

An eminent businessman who read the page proofs of this Paper raised this important question:

'If the supply of Commodity "Y" had been such as to cause market prices as at date of PSC's inception to have fallen by (say) 50 per cent below the preceding quinquennial average of its costs – assuming this to have been taken as the level of the *initial* Index for "Y", would not the level of its *initial* LOW *point* be such as to force market prices up to (or above) that level – and thereby encourage excess production for an obviously artificial market?'

REPLY:

Such a situation could certainly arise if the statutory implementation of this system was invariably based on the formula which (*solely for illustration*) is set down in paragraph 4. But, of course, any such state of affairs as that hypothesised would have been 'catered for' by an appropriate proviso in some such terms as the following (always assuming that it was decided that the *initial* Index was normally to be related to – if not at *par* with – the immediately preceding quinquennial average cost, cif):

> If the average of costs of any eligible commodity had declined over the (say) 12 months (or 24 months) immediately preceding date of PSC's inception to a level that was below the quinquennial average of such costs by a (stated) percentage, the *initial* Index for that commodity *shall be related to that preceding twelve-month average* (*or 24 month*), and NOT to the higher quinquennial average.
>
> Moreover, in any such case, the volume of a BLOCK (of such product) shall be equivalent to only (say) 5 per cent of the volume imported during the preceding twelve months, and NOT the equivalent of 10 per cent of the annual average over the preceding quinquennium; thereby 'hastening' the downward adjustments of its Index and *points* in the event of PSC's being required to make extensive purchases of that commodity.

In this connection special attention is invited to paragraph 21 captioned 'Possible Risks of Obsolescence'.

POSSIBLE UNWIELDY ACCUMULATIONS

37 When the text on the preceding page had been read by a Professor of Economics (LSE) he proffered this comment:

> Accepting the merits of eliminating as far as possible reliance on fallible human judgment (which elimination is a hall-mark of this system) it *might* nevertheless happen that, at some stage, PSC would find itself with burdensome accumulations of one or other commodity (if the *initial* Index and 'points' for that product – as revealed by subsequent events – had been set too high). And thereby Government finance *so used* would be sterilized, and mounting storage costs would be incurred.

REPLY: As similar misgivings may arise in the minds of others, that comment needs answering in some detail; and one type of sheep's wool will serve as a realistic example. At time of writing the Australian wool-growers (producing chiefly merino) are in a very difficult position – owing to competition from synthetic fibres. In order to stem price decline, the Australian Wool Commission (with Government support) is currently maintaining a domestic market-floor price of 36 cents(A) – rather less than 17p per lb, equivalent to $A794 (£370) per metric ton.

In mid-November, 1971, that Commission was holding about 100,000 m. tons which (at 36 cents) had cost some $A79 million. (£37 million). What the ultimate outcome will be is anyone's guess. But if commercial demand continues to diminish as to price and volume, it would seem that this stockpile will increase; unless the production of wool is lessened owing to seasonal factors, or because growers reduce their outputs in favour of some alternative enterprise – perhaps the raising of cattle.

It needs to be clearly understood that, in *principle*, *practice* and possible *financial commitment*, there are fundamental differences between: (*a*) the operations of the Australian Wool Commission (or any other means thus far tried-out towards achieving realistic stability of prices for basics) and (*b*) the functioning of the system outlined in this Paper.

38 **A PATTERN OF CAUSE AND EFFECT**

The volumes and costs of the UK's imports of merino wool during 1970 and the first ten months of 1971 represented an annual average of some 75,000 metric tons, at an average cost (cif) of close to £400 per ton. See page 46. For illustrative purposes, let it be assumed:

(*a*) that a British PSC were established in mid-1972 with an increasing surplus of merino wool then deemed to be in prospect;

(*b*) that, in consequence, a proviso (as indented under 'REPLY' on page 29) were to be applied to the preceding *two*-year average of costs (cif) i.e. £400 per m. ton instead of the (higher) *five*-year average; and that a merino BLOCK was set at one-tenth of imports over the same preceding two years, i.e. at 7,500 metric tons.

Next, suppose that, in the event, PSC had to *purchase* five BLOCKS – equivalent to a half-year's reserves (at recently-preceding rate of usage in the UK) without making *any* sales at the relevant HIGH points; bearing it in mind that, after *each* BLOCK intake, the Index and points would fall automatically by 5 per cent of their *initial* levels (and NOT by 5 per cent of their immediately-preceding levels – excepting in the case of the second BLOCK). In such an eventuality, we get the following results – by stages – up to five BLOCKS (and, also, as at the intake of *ten* BLOCKS – which would represent a full year's reserves on the basis of preceding recent usage). It is to be noted that the 'time factor' has no significance; it is the 'volume-factor' which has relevance.

Blocks	*Index*	*Low point*	*High point*	*Investment*	*Cumulative Investment*	*Tons held*
1st	£400	£360	£440	£2.6m (*a*)	£2.6m	7,500
minus 5%	*20*	*18*	*22*	*0.13m*		
2nd	380	342	418	2.47m (*b*)	£5.07m	15,000
minus	*20*	*18*	*22*	*0.13m*		
3rd	360	324	396	2.54m (*b*)	£7.41m	22,500
minus	*20*	*18*	*22*	*0.13m*		
4th	340	306	374	2.21m (*b*)	£9.62m	30,000
minus	*20*	*18*	*22*	*0.13m*		
5th	£320	£288	£352	£2.08m (*b*)	£11.7m	37,500
With 5 more deductions of initial 5%	...	...	...	...	...	...
10th	£220	£198	£242	£143 (*b*)	£20.15m	75,000

(*a*) PSC pays cash sterling for purchases comprising first BLOCK.

(*b*) Payments deferred for 3 years for purchases beyond first BLOCK (para. 9).

NB As mentioned in para. 21(*c*) PSC's Charter might contain a special provision that would accelerate the lowering of Index and points in prescribed circumstances.

It is certainly not suggested that any such surpluses (as those shown illustratively) are in prospect. At a certain stage price decline (if that should occur) wool (for which it is claimed 'there is no real substitute') would compete more effectively with synthetic fibres. In the interim, the Australian (or NZ) Wool Commission (or any other body or individual wool-producer) could either: (*a*) sell to PSC (with the certainty that no such purchase could be re-sold by PSC excepting at a price 22.2% above what it had paid); or (*b*) lodge in PSC's custody (while still in the depositor's ownership) in exchange for PSC's *Warrants* as securities for bank loans; see paragraph 17.

Those directly concerned as producers or users of wool may find the later text captioned *How a British* PSC *Could Influence World Prices* to be of special interest in the above context.

39 **PSC'S PREMIUMS LIKELY MORE THAN TO OFF-SET COST OF STERILE INVESTMENTS – IF ANY**

Reverting to the comment here under discussion, it needs to be kept in mind that, whereas PSC *might* accumulate large reserves of a *few* products (thereby sterilizing a *measurable* amount of Government finance) it would seem probable that it would have considerable turnovers (at gross premiums of 22.2 per cent) of a great many other commodities. In short, it would be a case of 'swings and roundabouts'. If it were otherwise it would mean that an unprecedented measure of steadiness in prices of basics had been achieved at relatively negligible investment 'cost'. And that would afford most welcome stability at the base of the industrial superstructure.

40 **STORAGE COSTS IN THIS CONTEXT**

These, under PSC aegis (with secure unattended reception depots and all 'handling' by sellers or buyers respectively) would be incomparably less than those incurred under commercial auspices – as is made evident in paragraph 31.

HOW A BRITISH PSC COULD INFLUENCE WORLD PRICES FOR A SPECIFIC COMMODITY

41 The economist of a large mining concern has raised this question:

> As the UK's commodity imports represent only a relatively small proportion of world exports of commodities, how could a unilaterally established British PSC operate effectively?

REPLY: Perhaps one illustration may suffice. The average annual world mine-production of copper from 1965 to 1969 (incl.) was some six million tons of which the UK's annual imports were rather more than 500,000 tons – about 8½ per cent of world output of virgin copper.

One cannot foresee at what level the *initial* copper Index would be set; but, for convenient illustration (and perhaps not unrealistically) assume that this was set at £450 per ton – with an *initial* Low point (Index minus 10 per cent) at £405, and an *initial* (conditional) HIGH point (Index plus 10 per cent) at £495.

Next assume that PSC took into reserve (at the behest of sellers) say 20,000 tons. The probability is that most of this would be on *deposit* (see paragraph 17) at no investment cost to PSC. But, if PSC had to *buy* the whole 20,000 tons at £405 per ton, its then total investment outlay would be £8.1 million. Thereafter, for as long as any part of such reserve copper was so held, the *market price* in the UK for any substantial purchase of this metal would be most unlikely to rise above the then *effective* HIGH point of £495 per ton. Moreover, in such circumstances, no copper-using industrialist *in any part of the world* (unless coerced by an import tax *imposed by his own Government*) would be disposed to pay more for copper than its cost at PSC's HIGH point – *plus relevant freight charges.*

However, this would not mean that he would in fact need to buy from PSC: rather would it mean that he would be hardly likely to pay more for copper (as a market price) domestically or anywhere else than its cost if bought from PSC; and copper sellers (competing as such) would make the best bargain they could (see paragraph 18) within the then limits of the effective copper 'band', i.e. between £405 and £495 per ton. Thus it would seem that the holding by PSC of a mere 0.33 per cent (or less) of the world's annual average mine-output of copper could effectively stabilize the price of this metal in all parts of the world. Manifestly, in the event of a persisting real world shortage (as distinct from an artificial or temporary shortage)

prices inevitably rise, exhausting the reserves held by a British (and any other) PSC.

If, in the event, a British PSC had to pay for a first full copper BLOCK (which, with the preceding annual average of the UK's imports of this metal at – say – 500,000 tons, would be 50,000 tons), the *investment* involved would total £20.52 million, a figure which should be compared with that on page 37 where it is shown that – volume for volume – the cost of copper imports by the UK in 1969 was higher than in 1969 by £38 million!

If PSC were required to buy in *excess* of a first BLOCK, its payments would be deferred for three years (see paragraph 9); and, at the intake of *each* additional BLOCK (if any) the Copper Index and points would automatically fall in values by 5 per cent of their *initial* values; see illustrative process as applied to merino wool – page 30.

Copper, a highly important essential commodity, is a wasting asset. It would therefore seem extremely unlikely that other copper-importing nations (or their nationals) would sit-back and 'allow' a British PSC to accumulate immense reserves of a metal that could be bought from that PSC only at a premium of 22.2 per cent above what that Corporation had itself paid. What needs emphasis is that, once substantial reserves had been established (by *any* nation's PSC) market prices would be held within known limits. See final paragraph of Precis – page xviii.

WORLD-ACCEPTABLE COMMODITY-BACKED CURRENCY(IES) IS THE ULTIMATE GOAL OF THIS SYSTEM

42 In the light of the 'Dollar Crisis' of 1971, those who closely study this Paper in all its implications may agree that the implementation, by one or more of the great commodity-importing nations, of the proposals it outlines could at least ameliorate some of the economy-disrupting effects of recurring 'monetary crises'; and that – by gradual process – a more stable order could result from currencies being supported in terms of *essential* durable commodities, in addition to their being backed (fictionally or in fact) by gold. In this context *durables* could include many of the 'ordinarily-perishables' which can be preserved by economical process for indefinitely long periods (see paragraph 26, page 23).

It was only after our (forced) abandonment of the gold standard that the term 'balance of payments' came into use. Prior thereto, the great trading nations' paper currencies were constantly exchangable on demand for known weights of gold. Thus, the holding by other nationals of e.g. a sterling credit was then deemed to be 'as good as gold'.

Only if and when there is (again) an internationally-acceptible currency (or currencies) will 'balance of payments' cease to have significance (in the sense that these now have significance). There is no balance-of-payments between any of the 51 states of the USA because their dollar is accepted without question whether in New York, Honolulu – or Alaska.

In short, the ideal of having a world-acceptable currency must remain unattainable unless and until it has backing in terms of material things that all peoples want. And all peoples *do* want and *need* a very wide range of commodities physically suitable for inclusion under this system's auspices. Hence, to the extent that any currency was constantly exchangeable for known maximum and minimum quantities of such basics, it would enjoy world-wide acceptance. Such an objective could be achieved – but only over the long term – by the implementing of the system advocated in this Paper, and in its author's writings on this theme over the past three decades.

THE UNITED KINGDOM AND THE EEC
vis à vis
THE PROPOSALS IN THIS PAPER

43 Having weighed up the relevant *pros* and *cons*, Parliament has authorized HM Government to proceed with the UK's application for admission to the European Economic Community – subject to agreements to mutual satisfaction on certain issues which (at time of writing) have yet to be negotiated.

Hence (assuming that those contentious issues are to be resolved) questions may arise as to whether or not the UK's position (as a Partner in the EEC) would be jeopardized in respect of HM Government's wishing statutorally to inaugurate means of implementing in principle the proposals epitomized in this Paper: constantly bearing it in mind that all transaction by a British PSC would (where applicable) be under Customs and Excise Bond. That is to say, the incidence of tariffs – however actuated – would not affect the proposed system's effective functioning.

The author confines his reply to saying that it would be unfortunate if entering EEC so vitiated Britain's sovereignty as to preclude unilateral action of this sort; because the operation of the system as advocated in this Paper is designed to be of advantage not only to the initiating nation but to all other nations. Here it is germaine to quote from the once much vaunted (if seldom recalled) Atlantic Charter, as follows:

> 'They [the Architects of that Charter, Franklin D. Roosevelt and Winston Churchill] desire to further the enjoyment by all states great or small . . . of access, on equal terms, to the . . . raw materials of the world which are needed for their economic advantage.'

Of course, if and when the EEC (either as at present constituted or 'enlarged') reached the stage of having a common currency – which even the most optimistic would regard merely as a very-long-term prospect – it would become practicable to have an EEC *Price Stabilizing Corporation.*

However, in the interim – if full credence is to be accorded to statements that the real sovereignty of individual nations comprising that Community would be unaffected – *there is no reason why any one (or more) such nations should not unilaterally inaugurate this system in terms of its own (their) own currency (ies). Vide Addendum No.* 1 (*c*).

Appendices

A DECADE OF IMPORTS OF CERTAIN BASIC COMMODITIES

Showing variations in gross costs (cif) and market price fluctuations. Costs and market prices are per long ton – excepting wool which are per metric ton.

The relative importance to the economy of the United Kingdom of the commodities referred to in this Appendix is shown by the annual volume and costs of imports of each during the decade 1960 to 1969 inclusive. The figures as here set down are based on HM Customs and Excise returns as published monthly in *Overseas Trade Accounts of the UK*. The effects on the nation's external balance of visible payments of oscillating costs will be evident to those who closely examine these figures. The most striking example in this regard has been in respect of copper – as shown on page 37. Market price fluctuations are as recorded by the relevant marketing organizations. All these commodities are durable in the sense that they can be held in reserve for long periods without significant (if any) deterioration – subject to the conditions suggested in paragraph 33 of this Paper.

COPPER

Imports during decade*				London Metal Exchange Prices per long ton				
	Volume '000 tons	Cost cif Gross £m.	per ton		Min.	Max.	Margin	Difference
1960	556	138	£248		£218	£280	£62	28%
1961	532	122	229		217	249	32	15%
1962	531	124	233		228	237	9	4%
1963	498	117	235		234	236	2	1%
1964	531	135	254		236	531	295	125%
5-year Averages	530	127	£240	5-year Extremes	£217	£531	£314	144%
1965	584	178	£304		£331	£570	£239	72%
1966	510	221	433		356	765	409	115%
1967	452	182	402		347	608	261	75%
1968	463	235	508		432	818	386	89%
1969	465	279	600		510	746	236	46%
5-year Averages	495	219	£449	5-year Extremes	£331	£818	£487	147%
10-year Averages	512	173	£345	10-year Extremes	£217	£818	£601	277%
1970	443	272	£615	12-month Extremes	£422	£749	£327	75%
1971 11 months	364	170	£466	10-month Extremes	£411	£513	£102	25%

*Imports include copper alloys.

EFFECT ON THE EXTERNAL BALANCE OF HIGHER COPPER PRICES IN 1969 COMPARED WITH 1968

	Tons of copper imported	*Gross cost cif(a)*	*Average cost per ton*
1969	465,649	£279,447,000	£600
1968	463,109	£234,953,000	£507
Margins	+2,540	+£44,494,000	+£93
Off-set cost of additional imports in 1969 at average costs per ton in that year		£1,524,000	
NET INCREASE in import costs volume for volume in 1969		£42,970,000	

RE-EXPORTS	1968		1969	
	Tons	*Receipts*	*Tons*	*Receipts*
	2,968	£1,600,000	7,543	£4,330,000

Net additional cost – volume for volume – of retained imports of copper during 1969 compared with corresponding cost in 1968 by which the external balance was adversely affected **£38,640,000**

Similar – if not so spectacular – comparisons can be made in respect of many other commodities.

(*a*) Source Overseas Trade of the UK as issued by the Board of Trade.

NB Speaking in 1959, Sir Ronald Prain* (Chairman of what is now the Roan Selection Trust with large copper interests in Zambia in association with the Zambian Government) said that, with the price of copper at £250 a ton, substitution would be likely to commence – and to increase if its price continued to rise. None could then foresee that inflation was later to distort all currency values. Nevertheless, copper was held below £240 per ton (in the UK) from 1960 until mid-1964 – thanks to the chief mining companies' maintaining what was termed a 'Producers Price' at remarkably stable levels. But during 1964 – for various reasons – the situation got out of hand, as shown in the figures tabulated above.

As the chief substitute for copper is aluminium, it must be very disconcerting to copper producers that the annual average price for aluminium (ingots) which was £188 per m. ton in 1964 had risen by only some 42 per cent to £256 in 1970.

**With Sir Ronald Prain's concurrence.*

Appendices continue overleaf

LEAD

Imports during decade*

	Volume '000 tons	Cost cif Gross £m.	per ton
1960	212	15.6	£74
1961	181	11.7	65
1962	181	10.0	55
1963	181	11.2	62
1964	192	21.2	110
5-year Averages	189	13.9	£73
1965	216	26.6	£123
1966	205	21.8	106
1967	181	18.4	102
1968	215	28.8	134
1969	227	34.6	122
5-year Averages	209	26.0	£117
10-year Averages	199	19.9	£95
1970	252	40.1	£159
1971 11 months	202	27.5	£131

London Metal Exchange Prices—per long ton

	Min.	Max.	Margin	Difference
	£62	£79	£17	24%
	58	68	10	17%
	50	62	12	24%
	54	78	24	46%
	77	155	78	101%
5-year Extremes	£50	£155	£105	210%
	£95	£156	£61	64%
	78	111	33	42%
	78	96	18	23%
	91	109	18	20%
	106	145	39	37%
5-year Extremes	£78	£156	£78	100%
10-year Extremes	£50	£156	£106	210%
12-month Extremes	£110	£145	£35	32%
10-month Extremes	£91	£110	£19	22%

*Imports include lead alloys as well as 'lead bullion' (which has a high silver content). LME prices are for other than lead bullion.

ZINC

Imports during decade*				London Metal Exchange Prices—per long ton				
	Volume '000 tons	Cost cif Gross £m.	per ton		Min.	Max.	Margin	Difference
1960	192	18.2	£95		£77	£96	£19	25%
1961	163	13.7	83		67	87	20	30%
1962	145	10.5	72		63	72	9	14%
1963	161	13.0	81		66	99	33	50%
1964	192	23.0	120		91	149	58	64%
5-year Averages	171	15.7	£90	5-year Extremes	£63	£149	£89	136%
1965	154	22.8	£112		£104	£123	£19	18%
1966	184	20.4	111		92	115	23	25%
1967	160	17.1	107		95	114	19	20%
1968	170	20.2	118		107	117	10	9%
1969	162	20.1	122		114	135	21	19%
5-year Averages	166	20.1	£114	5-year Extremes	£92	£135	£43	68%
10-year Averages	168	17.9	£102	*10-year* Extremes	£63	£149	£86	136%
1970	161	21.5	£133*	12-month Extremes	£119	£128	£9	8%
1971 *11 months*	153	21.3	£131	10-month Extremes	£111	£133	£22	19%

*That the overall cost (cif) of zinc imports in 1970 was higher than the maximum LME price would seem to be due to a higher proportion than usual of zinc alloys that were included.

Appendices continue overleaf

TIN METAL and TIN-IN-CONCENTRATES

NB *Imports of tin-in-concentrates are set in italics;* market prices are for metal.

	Imports during decade	Volume '000 tons	Cost cif Gross £m.	per ton	London Metal Exchange Prices—per long ton	Min.	Max.	Margin	Difference
1960	Metal	2.9	2.3	£793		£780	£823	£43	5%
	Con's	*24.8*	*17.8*	*718*					
1961	Metal	1.8	1.6	889		779	993	214	27%
	Con's	*22.3*	*17.6*	*789*					
1962	Metal	9.2	8.4	913		845	975	130	15%
	Con's	*17.4*	*13.7*	*787*					
1963	Metal	7.9	7.2	911		849	1,035	186	22%
	Con's	*16.2*	*12.8*	*790*					
1964	Metal	8.9	10.8	1,213		1,020	1,715	695	68%
	Con's	*16.7*	*18.5*	*1,108*					
5-year Averages	Metal	6.1	6.1	£944	5-year Extremes	£779	£1,715	£936	120%
	Con's	*19.5*	*16.1*	*839*					
1965	Metal	9.3	12.9	1,387		£1,190	£1,625	£435	37%
	Con's	*15.5*	*18.2*	*1,174*					
1966	Metal	10.1	13.0	1,287		1,195	1,456	261	22%
	Con's	*19.4*	*22.7*	*1,170*					
1967	Metal	8.5	10.3	1,212		1,342	1,370	28	2%
	Con's	*23.3*	*24.3*	*1,043*					
1968	Metal	9.4	12.6	1,340		1,288	1,456	168	13%
	Con's	*23.4*	*27.8*	*1,188*					
1969	Metal	7.1	10.2	1,437		1,348	1,647	299	22%
	Con's	*26.6*	*35.2*	*1,323*					
5-yr. Averages	Metal	8.9	11.8	£1,333	5-year Extremes	£1,180	£1,647	£467	40%
	Con's	*21.6*	*25.6*	*1,180*					
10-yr. Averages	Metal	7.5	8.9	£1,138	10-year Extremes	£779	£1,715	£936	120%
	Con's	*20.6*	*20.9*	*1,009*					
1970	Metal	6.3	10.0	£1,507	12-month Extremes	£1,432	£1,638	£206	14%
	Con's	*29.9*	*30.2*	*1,160*					
1971 8mths	Metal	5.8	8,4	£1,446	10-month Extremes	£1,398	£1,497	£99	7%
	Con's	*12.9*	*n.a.*	*n.a.*					

*Imports of metal include tin alloys.

RUBBER

Imports during decade*	Volume '000 tons	Cost cif Gross £m.	per ton	British Market Prices – per ton	Min.	Max.	Margin	Difference
1960	210	63.5	£303		£231	£380	£149	65%
1961	272	62.2	229		203	247	44	22%
1962	231	50.4	218		202	234	32	16%
1963	199	41.2	207		175	219	44	25%
1964	198	38.0	191		174	202	28	16%
5-year Averages	222	31.1	£230	5-year Extremes	£174	£380	£206	118%
1965	196	36.5	£186		£178	£209	£31	17%
1966	184	34.3	186		163	197	34	21%
1967	191	31.1	163		128	169	41	32%
1968	199	33.6	168		145	197	52	36%
1969	198	43.7	220		187	274	87	47%
5-year Averages	194	35.8	£185	5-year Extremes	£128	£274	£146	114%
10-year Averages	208	43.4	£208	10-year Extremes	£128	£380	£252	197%
1970	198	38.8	£196	12-month Extremes	£155	£229	£74	48%
1971 8 months	133	22.4	£168	10-month Extremes	£128	£170	£42	33%

*Including all types of natural rubber as well as liquid latex – in terms of dry rubber content.
Market prices are those quoted for No. 1 RSS on the London Rubber Market.

Appendices continue overleaf

COCOA

Imports during decade	Volume '000 tons	Cost cif Gross £m.	per ton	British Market Prices – per ton*	Min.	Max.	Margin	Difference
1960	97.5	22.8	£234		£190	£230	£40	21%
1961	91.5	16.7	183		158	205	47	30%
1962	113.1	19.4	172		158	180	22	14%
1963	114.0	20.1	176		181	220	39	22%
1964	77.2	14.8	192		173	201	28	16%
5-year Averages	98.7	18.8	£190	5-year Extremes	£158	£230	£72	46%
1965	81.0	12.3	£152		£94	£171	£77	82%
1966	106.1	14.9	140		171	209	38	22%
1967	87.2	17.5	201		206	274	68	33%
1968	76.2	18.2	239		260	434	174	67%
1969	100.7	32.7	325		365	397	32	9%
5-year Averages	90.2	19.1	£212	5-year Extremes	£94	£434	£340	362%
10-year Averages	94.5	18.9	£200	10-year Extremes	£94	£434	£340	362%
1970	80.9	27.8	£343	12-months Extremes	£264	£374	£110	42%
1971 11 mths	78.1	21.7	£278	12-months Extremes	£192	£294	£102	53%

*London spot – ex Ghana; by courtesy of Messrs Gill & Duffus Ltd.

PALM KERNELS

Imports during decade	Volume '000 tons	Cost cif Gross £m.	per ton	British Market Prices – per ton*	Min.	Max.	Margin	Difference
1960	237.4	14.97	£63.0		£49.3	£71.9	£22.6	46%
1961	224.3	11.21	49.9		45.2	53.1	7.9	17%
1962	209.0	10.06	48.1		46.2	57.7	11.5	25%
1963	207.6	11.24	54.2		52.3	62.0	9.7	19%
1964	191.0	10.63	55.7		52.1	60.2	8.1	16%
5-year Averages	213.5	11.62	£54.2	5-year Extremes	£45.2	£71.9	£26.7	60%
1965	203.7	12.81	£62.9		£59.2	£74.1	£14.9	20%
1966	165.8	9.94	60.0		52.1	66.6	14.5	28%
1967	96.8	5.35	55.2		52.1	83.5	31.4	60%
1968	50.9	3.64	71.5		64.4	91.5	27.1	42%
1969	43.3	2.86	66.5		58.2	75.8	17.6	30%
5-year Averages	112.0	6.92	£63.2	5-year Extremes	£52.1	£91.5	£39.4	75%
10-year Averages	163.0	9.27	£58.7	10-year Extremes	£45.2	£91.5	£46.3	102%
1970	37.4	2.60	£69.5	12-month Extremes	£62.3	£76.4	£14.1	23%
1971 11 mths	44.0	2.89	£65.7	10-month Extremes	£55.0	£77.0	£22.0	40%

*By courtesy of *The Public Ledger*.

Appendices continue overleaf

GROUNDNUTS

Imports during decade (a)	Volume '000 tons	Cost cif Gross £m.	per ton	British Market Prices—per ton (b) *	Min.	Max.	Margin	Difference
1960	132.3	9.52	£72.0		£58.4	£77.0	£18.6	32%
1961	163.5	11.57	70.7		60.5	81.3	20.8	34%
1962	212.3	14.25	67.1		55.9	72.1	16.2	29%
1963	194.7	12.87	66.1		59.2	65.3	6.1	10%
1964	147.8	10.58	71.6		61.2	76.2	15.0	25%
5-year Averages	170.1	11.76	£69.5	5-year Extremes	£55.9	£81.3	£25.4	45%
1965	91.4	7.82	£85.7		£70.1	£81.8	£11.7	17%
1966	80.0	7.44	93.0		65.0	73.2	8.2	13%
1967	102.8	8.60	72.4		57.0	70.8	13.8	24%
1968	117.8	8.98	76.2		65.5	82.8	17.3	26%
1969	72.1	7.32	101.5		78.5	93.5	15.0	19%
5-year Averages	92.8	8.03	£85.7	5-year Extremes	£57.0	£93.5	£36.5	64%
10-year Averages	131.4	9.89	£77.6	10-year Extremes	£55.9	£93.5	£37.6	67%
1970	61.3	7.63	£124.4	12-month Extremes	£89.0	£113.0	£24.0	29%
1971 11 mths	43.1	5.53	£128.4	10-month Extremes	£93.5	£132.0	£38.5	41%

(a) Imports include high grades for human consumption.
(b) Prices for nuts for crushing.
*By courtesy of *The Public Ledger*.

COPRA

Imports during decade	Volume '000 tons	Cost cif Gross £m.	per ton	British Market Prices—per ton*	Min.	Max.	Margin	Difference
1960	75.0	6.06	£80.8		£59.0	£97.1	£38.1	64%
1961	97.1	5.95	61.3		54.4	66.8	12.4	23%
1962	71.4	4.80	58.8		57.0	69.7	12.7	22%
1963	76.3	4.99	65.4		62.2	74.7	12.5	20%
1964	55.7	3.91	70.1		66.2	76.0	9.8	15%
5-year Averages	75.1	5.02	£67.3	5-year Extremes	£54.4	£97.1	£42.7	78%
1965	55.6	4.58	£82.4		£71.5	£100.1	£28.6	40%
1966	55.2	3.97	71.8		58.1	82.5	24.4	42%
1967	41.8	2.83	67.7		62.7	109.6	46.9	75%
1968	47.5	4.71	99.1		79.6	120.4	40.8	51%
1969	45.0	3.71	82.4		75.6	105.0	29.4	39%
5-year Averages	49.0	3.96	£80.7	5-year Extremes	£5.81	£120.4	£62.3	107%
10-year Averages	62.1	4.49	£74.0	10-year Extremes	£54.4	£120.4	£66.0	121%
1970	31.2	2.77	£88.8	12-month Extremes	£82.9	£103.4	£20.5	24%
1971 11 mths	31.4	2.78	£88.8	10-month Extremes	£68.3	£97.5	£29.2	43%

*By courtesy of *The Public Ledger*.

Appendices continue overleaf

WOOL – SHEEP'S – MERINO AND CROSSBRED

		Imports during decade (a) Volume '000 m. tons	Cost cif Gross £m.	per m. ton		British Market Fluctuations—per m. ton Min.	Max.	Margin	Difference
1960	Merino	154	71	463	(b. i)	£735	£909	£174	24%
	X-bred	*139*	*63*	*454*	(b. ii)	*560*	*671*	*110*	*20%*
1961	Merino	142	64	452		753	900	147	19%
	X-bred	*147*	*64*	*433*		*560*	*606*	*46*	*8%*
1962	Merino	137	62	449		781	900	119	15%
	X-bred	*146*	*62*	*424*		*524*	*588*	*64*	*12%*
1963	Merino	141	73	519		928	1,056	129	14%
	X-bred	*145*	*67*	*462*		*588*	*827*	*239*	*41%*
1964	Merino	126	74	589		836	1,102	266	32%
	X-bred	*133*	*71*	*536*		*588*	*799*	*211*	*36%*
5-yr. Averages	Merino	140	69	£492	5-year	£735	£1,102	£367	50%
	X-bred	*142*	*65*	*461*	Extremes	*524*	*827*	*303*	*58%*
1965	Merino	121	57	£477		£799	£919	£119	15%
	X-bred	*133*	*58*	*437*		*551*	*652*	*101*	*18%*
1966	Merino	106	53	500		863	983	119	14%
	X-bred	*130*	*57*	*436*		*533*	*597*	*64*	*12%*
1967	Merino	115	52	455		790	946	156	20%
	X-bred	*120*	*47*	*394*		*358*	*533*	*175*	*49%*
1968	Merino	107	50	471		928	1,001	75	8%
	X-bred	*140*	*48*	*345*		*377*	*524*	*147*	*39%*
1969	Merino	104	52	500		854	964	110	13%
	X-bred	*131*	*47*	*361*		*413*	*450*	*37*	*9%*
5-yr. Averages	Merino	111	53	£480	5-year	£790	£1,001	£211	27%
	X-bred	*131*	*51*	*394*	Extremes	*358*	*652*	*294*	*82%*
10-yr. Averages	Merino	125	61	£487	10-year	£735	£1,102	£367	50%
	X-bred	*136*	*58*	*428*	Extremes	*358*	*827*	*468*	*131%*
1970	Merino	86	37	£435	12-month	£661	£854	£193	29%
	X-bred	*119*	*42*	*350*	Extremes	*395*	*450*	*55*	*14%*
1971 9 mths	Merino	43	16	£367	10-month	£670	£730	£60	9%
	X-bred	*84*	*29*	*342*	Extremes	*390*	*470*	*80*	*21%*

SOURCES: NZ Wool Commission by courtesy of International Wool Secretariat.

(a) Import figures for Merino include greasy, scoured and clean wool as well as skin wool; and similarly for crossbred – which includes 'other' sheep's wool.

(b) Minimum and maximum prices are quoted from weekly average prices:
(i) for Merino: of 64's – the most typical grade;
(ii) for crossbred: of 46's – likewise the most typical grade.

SUGAR

Much the greater part of the sugar imported by the UK is that under the Commonwealth Sugar Agreement, briefly described in a note following this table – in which those proportions imported under the CSA annually are shown in italics. The gross imported tonnages include CSA sugar. The prices quoted are for sugar from: (a) non-Commonwealth countries; and, (b) Commonwealth countries in excess (if any) of the quota allotted to each country under the CSA. Prices are those recorded daily in the London Sugar Terminal Market – for free offerings.

Imports during decade				British Market Prices—per long ton LST				
	Volume '000 tons	Cost cif Gross £m.	per ton		Min.	Max.	Margin	Difference
1960	2,029	72.5	£32.8		£26.5	£31.0	£5.4	21%
of which CSA	*1,462*		*44.4*					
1961	2,061	63.6	30.9		21.5	30.5	9.0	42%
of which CSA	*1,382*		*45.1*					
1962	2,046	53.9	26.3		19.7	32.5	12.8	65%
of which CSA	*1,624*		*45.8*					
1963	2,925	173.0	59.1		40.0	105.0	65.0	163%
of which CSA	*1,886*		*46.0*					
1964	2,727	144.2	52.9		24.7	93.7	69.0	279%
of which CSA	*1,771*		*46.0*					
5-year	2,358	101.4	£43.0	5-year	£19.7	£105.0	£85.3	533%
Averages *CSA*	*1,625*		*45.5*	Extremes				
1965	2,088	93.1	£44.6		£17.7	£24.5	£6.8	38%
of which CSA	*1,718*		*42.0*					
1966	2,132	93.8	44.6		13.7	22.9	9.2	67%
of which CSA	*1,718*		*43.5*					
1967	2,104	91.9	43.7		12.3	32.0	19.7	162%
of which CSA	*1,718*		*43.5*					
1968	1,957	92.3	47.2		16.0	31.0	15.0	94%
of which CSA	*1,718*		*43.5*					
1969	2,061	100.2	48.6		27.5	39.3	11.8	43%
of which CSA	*1,718*		*43.5*					
5-year	2,068	94.3	£45.7	5-year	£12.3	£39.3	£27.0	219%
Averages *CSA*	*1,718*		*43.2*	Extremes				
10-year	2,216	97.8	£44.1	10-year	£12.3	£105.0	£92.7	753%
Averages *CSA*	*1,671*		*44.4*	Extremes				
1970	1,810	115.6	£52.4	12-month				
of which CSA	1,718		43.5	Extremes	£30.0	£45	£15	50%
1971	n.a.			10-month				
of which CSA	n.a.			Extremes	£43.2	£53.0	£10.7	25%

Under the CSA, Commonwealth producers are guaranteed a price of around £44 a ton for annual quotas aggregating 1,718,000 tons since 1964. Prices for sugar produced in the UK are administered by the Sugar Board through which all such sugar is sold. Though 'free' market prices fluctuate widely, the cost of sugar to the domestic consumer is notably stable.

INTERNATIONAL ADMINISTRATION IMPRACTICABLE

(*a*) As was said in paragraph VII of the Introduction it would be quite impracticable for this system to be inaugurated and administered internationally for various reasons which include the fact that there is no international currency nor any substitute for this as in the days of the effectively operating Gold Standard. It would be virtually impossible to secure international agreements as to the levels in various countries and in varying currencies at which initial valorizing indices should be set; and the deciding where reserves were to be held would tend to lead to interminable wrangling.

MULTI-NATIONAL ADMINISTRATION ILLUSTRATED

(b) COMMODITIES TO FIND THEIR OWN PRICE LEVELS

To illustrate the system in multi-national operation, suppose that the initial valorization index for one metal, by each of three nations' Price Stabilizing Corporations (*inter alia*) was as shown below; that the BLOCK in each case was 50,000 tons; and that the conditional index and *points*-reduction was by 5 per cent on the intake, by each PSC, of one BLOCK – with further reductions each of 5 per cent (of the initial index and *points*) at each subsequent intake of each additional BLOCK. It is *not suggested* that the initial indices of any three separate PSC's *would differ to the extents shown* in this illustration, which is designed solely to make clear the automatic working of the system, when operating multi-nationally. On the other hand, initial indices and *points might vary to a far greater extent than is shown*; and there would doubtless be other variables as indicated in paragraph (*d*) of this Addendum.

Nations operating PSC's	*Initial index per ton*	*Initial low point per ton*	*Conditional high point per ton*
UK	£100	£90	£110
USA	$260	$234	$286
Sterling equivalent	(£108.33)	(£97.5)	(£119.17)
France	Fr.1,200	Fr.1,080	Fr.1,320
Sterling equivalent	(£90.9)	(£81.8)	(£100)

At the (illustrative) levels of exchange shown in the above table (and apart from freight and insurance which would be relatively constant) the American PSC's initial LOW *point* would prove more attractive (in terms of money) than the British initial LOW *point*; and France's initial LOW *point* would be least attractive – to the extents shown in the conversions, in brackets (i.e. with £1 = $2.40 or Fr.1,320).

(c) CHOICES OPEN TO SELLERS

Only if and when commercial prices in any part of the world were less attractive, in the estimation of sellers, than the relatively highest of the LOW *points* then offering, would producers consider selling to *any* PSC. Then, on the illustration given (and unless freight charges were a deterrent), they would consign to the American PSC – because $234 is a better money price (by £7.5 a ton) than £90. But, if and as soon as two BLOCKS of this metal had accumulated with the US PSC, its dollar *points* would have dropped twice by 5 per cent to $211 (LOW) – equivalent to £88; and $258 (HIGH) – equivalent to £107.55 (which would then be the world-ceiling price). At that stage (freight costs apart) the British PSC's sterling *points* would have become more attractive; and (if the product continued in surplus) further consignments (for which markets paying £90 or better could not be found) would tend to be sent to Great Britain for sale to the British PSC – unless disposed of on as good (or better) terms in the British market. Then, similarly, if two BLOCKS accumulated in Britain (causing the then British LOW *point* to reduce by 10 per cent of £90 to £81) the initial French LOW *point* at £81.8 and the British second-adjusted LOW *point* would be about the same levels. And, if this system were operated by Germany, Italy, Sweden, Belgium, Japan – and other nations – temporary surpluses to market absorption would flow automatically into a wide range of national 'pools', thereby establishing multi-national (near) parities of values (of each so-held commodity) in terms of the currencies of all such nations. There would then be an overall minimum world price, equivalent to the highest (then) effective LOW *point* – *minus* cost of freight and insurance; and there would then be an overall maximum world price, equivalent to the lowest (then) effective HIGH *point* – *plus* cost of freight and insurance.

NB If the foregoing be clear, it will be evident that several nations' Stabilizing Corporations – although each operated independently – could ultimately achieve harmony in respect of price-ranges for all commodities brought by one (or other, or all) such nation(s) within its/their scope.

(d) NICE INITIAL UNIFORMITY NOT TO BE EXPECTED

It is to be reiterated that there would be nothing approaching the nice uniformity (varying initial index and *points*-values apart) which is visualized in the foregoing illustrative example. Sizes of BLOCKS would obviously vary considerably among PSC's, especially if each adopted the yard-stick of a BLOCK's approximating to one-tenth of a nation's annual usage of a product; *vide* paragraph 8. Moreover, some nations might set their *points* at less than (or more than) 10 per cent below and above their index. No such divergencies could affect the ultimate results which would inevitably depend upon the volumes of surpluses that were taken in by PSC's. In short, if there were not substantial surpluses, no reserves would be taken in by any PSC, and the situation (as compared with before the inauguration of this system) would remain unaltered – excepting that all producers of (conditionally) valorized goods would have the advantage of a premium-free insurance against the recurrence of slump. It is as well to repeat here that the setting up by any nation of a PSC would in no way hamper it in imposing tariffs or in conceding preferences – as is made clear, so far as the United Kingdom is concerned, in paragraph 6.

(e) PSC'S COULD NOT 'COMPETE'

It has been suggested – by people who have not thought through the working of this system – that it might lead to competition between different nations' PSC's, but that idea is, of course, quite untenable. However, suppose that – with some such objective in mind – Nation 'A' waited until several other countries had set up their Stabilizing Corporations, each announcing its initial *points* and that Nation 'A' then followed suit – but with initial *points* very much higher than the others, with a view to providing special inducements to consignors. For it to do anything of the sort could only mean that it had overlooked the fact that without ever establishing its own PSC, it could at any time attract consignments simply by offering higher prices than those obtainable elsewhere – always provided that the sellers were satisfied with the reciprocal purchasing power of Nation 'A''s currency. It would be absurd to suggest that the mere setting-up of its own PSC would vest Nation 'A' with any special 'drawing power' as a buyer.

ADDENDUM NO. 2

INTEREST OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

After taking over as Governor of the World Bank, Mr McNamara appointed Mr Drugoslav Avramovic to carry out a World Survey of Commodity Marketing. This gentleman wrote to the author from Washington saying he was visiting London and would like us to meet for discussions. Protracted talks followed. It must suffice, here, to say that Mr Avramovic was informed on all aspects of the proposals now summarized in this Paper, and that he assured the author that he would make a full report on our discussions to his masters at the IBRD.

STAGE AT WHICH (SAY) IBRD BACKING WOULD BE A BOON*

It is in respect of the maintenance of the face value of the Three-Year BONDS referred to in paragraph 9(*b*) that a form of (conditional) IBRD support could be of inestimable value; because it *might* be that, when redemption of such BONDS became due (some time during the fourth – or later – year following PSC's inception), sterling's external value in terms of (say) US Dollars had depreciated – either by deliberate devaluation or for some other reason. It would be in such circumstances that IBRD support could provide a form of assurance – printed on each Bond – that its holder would not sustain any consequential significant financial loss. While it is obvious that (in the intervening years) sterling would have *appreciated* – instead of depreciating – in external value, *in terms of each commodity held under* PSC *auspices*, it might be that the underwriting assurance on each Bond would be in something like the following terms:

> **PROVISIONAL GUARANTEE**
>
> If, on the date this BOND becomes due for redemption by HM Government in the United Kingdom, the external value of sterling in terms of (say) US Dollars shall have declined by (say) 1 per cent – or by a higher percentage – the International Bank for Reconstruction and Development will then forthwith pay to the BOND HOLDER in gold (or equivalent) the percentage value by which sterling has depreciated related to this BOND's face value.

In the highly unlikely event of the Guarantor having to fulfil his undertaking wholly or in part, HM Treasury would automatically

become indebted to the Guarantor in the sum(s) so involved; and until such debt was fully discharged the Guarantor's security would be a first and inalienable lien upon the British PSC's reserves. In no circumstances should this Guarantee be given in respect of home-produced commodities.

NB Manifestly such GUARANTEE (if forthcoming) would be accorded in the case of a Stabilizing Authority of any great commodity-importing nation which adopted this System – operated on approved *principles* – but only in respect of imported commodities.

*This was written before the 'NB' was interpolated following paragraph 9(b) of the preceding text. While the assurance by HM Treasury (in the UK) as proposed in that interpolation should prove all-sufficient *per se*, background underwriting in some such form as in the above suggested 'Provisional Guarantee' would have special significance in that it would inspire world-wide confidence in this system's efficacy and integrity. Moreover, it would encourage other great commodity-importing nations to emulate Britain's example by themselves adopting the same system (unilaterally) as they did in respect of the original gold standard.

ADDENDUM NO. 3

THE LOW-INCOME COUNTRIES

It is to the economic and political advantage of the generally affluent nations and, in many instances, it is their inherited moral responsibility to co-operate with low-income countries in assisting their peoples to improve their living standards. Many such countries are endowed with great mineral, forestal and (actual or potential) pastoral, plantation and agricultural wealth – notably in Africa and South America; whereas the natural resources of others are more-or-less limited to perennial increments from the soil. Then there are mainland Asian territories – with many of their peoples highly skilled – which have immense natural wealth, with industrialization proceeding apace. Their problems relate chiefly to the growths of their populations; but, improving agricultural techniques coupled with remarkable increases in grain yields (along with other important factors) give rise to hopes that they will become self-supporting in terms of basic foodstuffs.

The question arising in the context of this Paper is as to the extent to which this system could be of value to low-income territories. While the *direct* advantages would be limited to producers of substances physically eligible for inclusion under a PSC's auspices, indirect advantages would accrue to others in the relevant communities. Such commodities would include (especially) industrial metals, certain timbers, sugar, cocoa and (perhaps) coffee, rubber, certain nuts and seeds, and various animal and vegetable fibres.

Increasing capital investment is essential if such countries are properly to develop their resources; and there could be no more effective means of attracting such investment than by ensuring predictably stable prices for resulting increased outputs – and this is especially true in respect of mining. As to those concerned with production (for export) of perennial increments from the soil which (seasonal factors apart) can be produced at will, it is logical and equitable that there should be some reliable guide that would enable producers to adjust their enterprises to accord with the (world) supply and demand situation as brought to the surface under this system's functioning.

However, precisely the same logic does not apply to those who prise mineral wealth from the earth, because metals are wasting assets. Hence countries endowed with resources of this description need

long-term recompense from their exploitation – not merely to be left with holes in the ground and derelict mining plants after deposits have been worked out or when the returns from such enterprises become unprofitable.

A PSC ensures that durable basics in excess of *then* market absorption (at not less than then known minimum price levels) can always be exchanged for alternative goods and services needed for the economic and social advantages of the basic producers themselves – with the certainty that any such purchase by a PSC cannot be re-sold excepting at a price substantially higher than that which it had paid. But it is to be understood that it would invariably be a case of 'first in, first out'. Thus: suppose the initial Index for Commodity 'X' were £100 a ton – with initial LOW point at £90 and (conditional) HIGH point at £110. If (on the illustrative gearing as in paragraph 8 of the main text) PSC acquired *two* BLOCKS of 'X' the then Index-and-points levels (having fallen twice by 5 per cent (of their original levels)) would have become: Index £90; LOW point £81; and HIGH point £99. For as long as PSC's holdings of 'X' were in excess of *two* BLOCKS – what it had bought at £81 could be sold only at £99; but, if and as soon as its holdings became less than *two* BLOCKS Index and points for 'X' would automatically rise by 5 per cent to become: Index £95; LOW point £85.5; and HIGH point £104.5. If, later, its holdings were reduced by sales to less than one BLOCK the initial Index-and-points levels would again operate. If, however, PSC was without any reserves of 'X' for a prescribed period, Index-and-points levels would rise automatically by 5 per cent annually – as described in paragraph 16 of the main text.

INDUSTRIALIZATION

It is logical that many (more) of the Low Income Countries wish to have secondary industries to use more of their own raw products to the best advantage (as e.g. in India). But, in some regions, it might seem that industrial expansion would need very high tariff protection – at least initially. However, it is to be kept in mind that in many lands industrial enterprises could have two real advantages: (i) raw materials at hand; and (ii) substantially lower *money*-wage rates than in industrialized communities; whereas the *real* value (as local buying power) of such remunerations could be much greater than its *money*-value might suggest.

It is very desirable that a major part of the equity in all internal enterprises – primary or secondary – should be held domestically.

ADDENDUM NO. 4

THE INTERNATIONAL TIN AGREEMENTS BUFFER-STOCK SCHEME

The International Tin Agreement and its workings are dealt with here at some length for two reasons:

(i) *Its objectives are on all-fours with those of a* PSC: but

(ii) the means whereby the attainment of these objectives is sought (under the ITA) differ markedly from those which a PSC would adopt – if in conformity with what has been outlined in this Paper.

Between 1930 and 1937 there were three such Agreements all designed to counteract severe oscillations in prices. The third of these – to which seven producing countries subscribed – was that of 1937–41 under which it was decided to establish a buffer stock of some 15,000 tons in an effort to keep prices between £200 and £230 per ton. Speaking as Chairman of the London Tin Corporation in July, 1938, Captain Oliver Lyttelton, DSO, MC (now Viscount Chandos), made these comments:

> 'The theoretical case in favour of the buffer stock scheme is overwhelming. Nobody can suppose that it was good management to have allowed the violent fluctuations we have seen in tin prices. During the twenty-one market days from 12th February to 15th March, 1937, tin rose by £82 per ton from £229 to £311. Then, during the thirty-eight market days from 15th September to 8th November in the same year, prices fell by £83 from £264 to £181. . . . These are facts, not surmises; and they prove conclusively that a buffer stock of the size now contemplated would have been sufficient to arrest both movements.'

A buffer stock of 15,500 tons was, in fact, established by July, 1939; but the whole scheme was thrown out of gear by the incidence of war – which led to the Agreement's being wound up.

On March 1st, 1954, a new International Tin Agreement came into potential effect; but it differed, as to its constituent Members, from its predecessors in that those which subscribed to it included the Governments of both tin-producing nations and *tin-importing* countries. The producing Members were Belgian Congo, Bolivia, Malaya, Nigeria, Indonesia and Thailand; and the importing

Members included all the chief Western European nations, the United Kingdom, Canada, Australia, India and Japan. The objectives of the International Tin Council which it established are here quoted in full because – in general terms – these have applicability to a great many other basic products. *That twenty-six nations were of one mind in desiring realistic stability in tin prices is an earnest of the wish, on all sides, for stability of prices over the widest possible range of essential commodities.*

OBJECTIVES

The objectives of this Agreement are:

(*a*) To prevent or alleviate widespread unemployment or underemployment and other serious difficulties which are likely to result from maladjustments between supply and demand for tin;

(*b*) to prevent excessive fluctuations in the price of tin and to achieve a reasonable degree of stability of price on a basis which will secure long-term equilibrium between supply and demand;

(*c*) to ensure adequate supplies of tin at reasonable prices at all times; and

(*d*) to provide a framework for the consideration and development of measures to promote the progressively more economic production of tin while protecting tin deposits from unnecessary waste or premature abandonment.

The Agreement then went on to require that the *producing* countries which were parties to it should establish (on a quota basis) a buffer stock of which 'not more than 75 per cent shall be in tin metal' and the balance in cash equivalent – to aggregate 25,000 tons (in cash and kind). Of this, the initial contributions should include 15,000 tons of tin metal to be due 'on such date as the Council may decide'. This date was subsequently fixed as at September 15th, 1956. The purpose of this buffer stock was to enable initial floor and ceiling prices to be maintained at levels 'which the Council, from time to time, consider appropriate to the attainment of its objectives'. The initial floor and ceiling prices were set at '£640 sterling' and '£880 sterling' (respectively) per ton. In effect, this would mean that the 'permitted' market fluctuations could extend to 37½ per cent above the level of the floor price – always assuming that the Council had at its disposal (*a*) the *cash reserves* essential to buy all tin offering, over and above market absorption, at £640 per ton; and (*b*) the essential *tin reserves* to

meet all market demands over and above traders' ability to supply these – at £880 per ton.

During the intervening years the (theoretical) 'floor' and 'ceiling' prices were raised from time to time. In August, 1970, they stood thus:

Floor: £1,260 ..... Ceiling £1,650 – per *metric* ton.

Thus the margin between 'floor' and 'ceiling' is currently £345 – equivalent to 27.38 per cent of the 'floor' level.

The reason 'theoretical' is interpolated above (by the writer) will be made evident in what follows.

The administration of this scheme was entrusted to a 'Buffer Stock Manager'; and, in order to make clear some of the difficulties involved, Article IX of this Agreement is now quoted in full. However, the qualifying phrases which are italicized in what follows *are not printed in the Agreement* as published.

MANAGEMENT AND OPERATION

1 The Manager shall be responsible for the operation of the buffer stock and in particular for buying, selling and maintaining stocks of tin in accordance with the provisions of this Article and of Article XI.

2 If the price of cash tin on the London Metal Exchange –

(*a*) is equal to or greater than the ceiling price, the Manager shall, *if he has tin at his disposal* –

(i) offer tin for sale on the London Metal Exchange at the ceiling price, until either the cash price on the London Metal Exchange falls below the ceiling price or *the tin at his disposal is exhausted*;

(ii) accept bids for tin at the ceiling price, adjusted for location and such other factors as may be determined by the Chairman, direct from consumers in participating countries or agents acting directly on their behalf, provided that the minimum tonnage of all such transactions shall be 5 tons and larger tonnages shall be in multiples of 5 tons; provided also that the Manager in accepting such direct bids shall have regard to the fair and equitable disposal of tin in the buffer stock;

(*b*) is in the upper third of the range between the floor and ceiling prices, the Manager may offer tin for sale on the London Metal Exchange at the market price if he considers it necessary to prevent the market price from rising too steeply;

(*c*) is in the middle third of the range between the floor and ceiling prices, the Manager shall neither buy nor sell unless the Council by a distributed simple majority decides otherwise;

(*d*) is in the lower third of the range between the floor and ceiling prices, the Manager may buy cash tin on the London Metal Exchange at the *market* price if he considers it necessary to prevent the market price from falling too steeply;

(*e*) is equal to or less than the floor price, the Manager shall, *if he has funds at his disposal*, offer to buy cash tin on the London Metal Exchange at the floor price until either the cash price on the London Metal Exchange is above the floor price or *the funds at his disposal are exhausted*.

3 At any time when under the provisions of paragraph 2 of this Article the Manager may buy or sell cash tin on the London Metal Exchange, he may, within the framework of the general instructions he may have received,

(*a*) buy or sell three-months tin on the London Metal Exchange;

(*b*) buy or sell either cash or forward tin on any other established market for tin.

4 Notwithstanding the provisions of this Article the Council may authorize the Manager, *if his funds are inadequate to meet his operational expenses*, to sell sufficient quantities of tin at the current market price to meet his current operational expenditure.

ADMINISTRATIVE AND OPERATIONAL DIFFERENCES

The fundamental difference between the foregoing and the proposed functioning of the Price Stabilizing Corporation is that the International Tin Council seeks to ensure both floor *and* ceiling prices to achieve which (*a*) it must have funds available to absorb all tin offered to it at the floor price; and (*b*) it must have tin stocks available to meet all demands made upon it for the supply of tin at the ceiling price. In contrast, the Price Stabilizing Corporation would *guarantee* only a floor price; but subject to predictable adjustment it would provide an absolutely firm assurance in that regard. Whether or not the PSC could provide a ceiling would be conditional upon its having acquired reserves at its LOW *point*. But, if and when the PSC

ceiling became effective, market price movements (on the suggested gearing) would be limited to 22.2 per cent – instead of being permitted to extend to 27.38 per cent which is the range between £1,260 and £1,605. So far as the International Tin Council is concerned, in order to be able to function successfully, it would need to be in as *relatively* strong a position (*a*) financially (in relation to its possible commitments as a tin buyer) and (*b*) in respect of its tin holdings (in relation to its possible commitments as a seller of tin) as was the Bank of England when it was maintaining both a floor price and a ceiling price for gold. The weaknesses of the International Tin Council in its functioning are shown in Article IX of the Agreement by such provisos as '*if he* (the Manager) *has funds at his disposal*'; and '*if he had tin at his disposal*'.

In the event the Buffer-Stock Manager has on various occasions exhausted his cash reserves on the one hand, and his tin reserves on the other. If a PSC had been in the background the first of these obstacles need not have been encountered; because, if tin offerings were so great as to depress the market, those regarded by him as being in excess could at any time have been sold to PSC at its then LOW tin-point (with the certainty that such disposals could not be re-sold by PSC excepting at the then HIGH tin-point); or he could have deposited such excess with PSC against its Warrants as firm securities for Bank loans. In the latter event he would continue to be in a position to bargain with user-buyers – as the I.T.C. would continue to own the tin so lodged with PSC.

However, perhaps the most striking difference between the functionings of the Buffer-Stock Manager and of PSC is that, under ITA auspices, the extent of its tin-holdings is not publicised, and no-one knows if and when the Buffer-Stock Manager will decide to enter the market either as buyer or seller. In contrast, all are aware of the precise tonnage (if any) of PSC's holdings; and that PSC *never* enters the market either as buyer or seller. To vest PSC's officers with buying and selling (and bargaining) powers would completely negative its automatic functioning and engender the exercise of a type of bureaucracy which is wholly foreign to the conception of the system described in this Paper.

Nevertheless, in treating of the International Tin Agreement, two very significant factors should be kept in mind when the Price Stabilizing system, as advocated in this Paper, is being considered. The first is that so anxious are the major tin-producing countries to have price stability that they have accepted full responsibility for

providing not only the whole of the tin buffer stock designed to maintain a ceiling price but also the whole of the buffer cash reserves designed to maintain a floor price; or, at least, to *endeavour* to fulfil both these requirements. The only contribution to ITC funds from the 'importing members' is the relatively insignificant sum required to meet administrative (managerial) expenses. *In striking contrast, under the* PSC *system producers are not required to make any contribution whatsoever*. Nevertheless, PSC would afford them a constant premium-free insurance against precipitate price decline; and there would be no such qualification as '*if funds were available*'. The second significant point is that the Governments of the twenty-six nations that are parties to the International Tin Agreement have accepted tin prices on the London Metal Exchange as their guide in the administration of their whole enterprise.

Without doubt the reader will have appreciated that, while the administration of the Tin Scheme is fraught with intricacies, uncertainties, and possible pitfalls, the proposed automatic functioning of the PSC system is essentially simple, and devoid either of intricacies or of uncertainties (excepting as to whether production of any valorized product will be such that reserves will be established) or of pitfalls. It would seem likely that the PSC would valorize tin as a matter of course; and, thereby, the administration of the Tin Scheme would then have firm background support which, otherwise is just not there!

Nevertheless, the Buffer Stock manager was able to effect noteworthy stability of tin prices during most of the years listed on page 40. Although the situation got out of hand in 1964–65, over a period of twelve years, the maximum percentage margin between the lowest and highest tin prices (at 120 per cent) was much below corresponding percentages for copper (277 per cent) and for lead (212 per cent). What occurred in 1964-65 could have been avoided if a PSC had then been ready to operate; because the Buffer-Stock Manager might have been able greatly to increase his purchases of this metal – *lodging* these with PSC (see paras. 17 to 20) thereby being put into a position to borrow from banks against PSC Warrants.

ADDENDUM NO. 5

INFLATIONARY EFFECTS OF INTERNATIONAL WHEAT AGREEMENTS

As mentioned in paragraph 2(*a*) the first post-war International Wheat Agreement of 1949–53 was frustrated by the policy of the US Commodity Credit Corporation. Under that Agreement Canada, the USA, Australia and France jointly agreed to supply about 40 importing countries with 12 million tons of wheat annually during the four years covered by that Agreement. Each importing nation undertook to buy a prescribed minimum – with the UK taking 4½ million tons. The agreed minimum price for 1949–50 (crop year ending July 31st) was to be 150 cents; but it was to fall in 1950–1 to 140 cents, in 1951–2 to 130 cents, and in 1952–3 to 120 cents. The maximum price however was to remain constant at 180 cents over the whole period. These prices related to a high-grade Canadian wheat (No. 1 Manitoba) as at Fort William/Port Arthur on the shores of the Great Lakes flanking the US and Canadian borders. For other grades prices were to be negotiated between the maximum and minimum as prescribed.

At the time this Agreement was signed the exporting countries were holding a carry-over from preceding seasons of nearly 12 million tons, and it seemed reasonable therefore to expect that – if the average output was at least maintained in succeeding years and demand did not increase – prices would fall more or less in proportion to the declining scale permitted under the IWA, the declared purpose of which was to 'ensure supplies of wheat to importing countries at equitable and stable prices'.

It is evident that it must then have been considered by the exporting parties to that Agreement that an annual decline in minimum price by 10 cents per bushel from 150 down to as low as 120 cents would be equitable – provided output continued at least at normal levels. In the event, however, notwithstanding that there was an unprecedented series of bountiful seasons – with yields per acre far above average – the IWA wheat price was *maintained* throughout those four years at the *maximum* of 180 cents. Demand did not increase, and, in that period, surpluses (in the four exporting countries) rose to exceed 25 million tons, sufficient to provide the importing countries with over two years' supply without the production of one more bushel.

The reason for this strange state of affairs was not far to seek. The

American Commodity Credit Corporation is the instrument whereby an extremely effective system of practically rigid price support for wheat (and for other farm products) is implemented within America; and, notwithstanding that the USA – as a party to the IWA – had undertaken to provide 5 million tons at a maximum of 180 cents a bushel, its Government-financed CCC guaranteed to American growers a minimum price in 1949–50 of 199 cents; in 1950–1 of 218 cents; in 1951–2 of 220 cents; and in 1952–3 of 221 cents. Thus throughout those four years the CCC's guaranteed price was at least 19 cents, and up to 41 cents, higher than the IWA's ceiling price of 180 cents. But that is only part of the story, because though many more millions of tons of wheat passed into CCC's surplus, the prices in the free(?) American domestic market were always much higher than the CCC's 'support' price; and, in order to provide its quota under the IWA, the American Government had to pay to growers a price that included the difference between the internal *market* price on day of purchase and that obtained under the International Wheat Agreement. In 1953 the Director of Finance of the United States Department of Agriculture testified that the American taxpayer had to provide $174 million for the privilege of supplying their nation's quota under the International Wheat Agreement. The situation was even more unsatisfactory in succeeding years. That such a state of affairs was astonishingly anomalous is beside the point – it is what occurred.

The effect in neighbouring Canada on wheat prices – both internal and external – was inevitable as the quota supplied by the USA represented over 40 per cent of the total IWA exports, and as the Americans were not disposed further to subsidize their quota – so as to enable American wheat to be sold via the IWA at less than 180 cents – it was not to be expected that Canada would offer her share (generally of higher grade than American wheat) at lower than that figure, and Australia and France (the other two exporting parties) fell into line.

WIDESPREAD INFLATIONARY CONSEQUENCES

As similar 'support' prices were extended to all grains (as well as to other farm products) – with hundreds of millions of dollars being put into circulation in payment for commodities constantly accumulating in sterile hordes – the result was highly inflationary.

Grains are not only the most important of men's foods the world over; they are also highly important as feeding-stuffs for livestock – especially for the production of meats and of dairy-and-poultry

products. If the manifest intention of the International Wheat Agreement of 1949–53 (and of subsequent IW Agreements) had not been frustrated by the CCC, prices of grains would have fallen from year to year – and living costs (to the extent that these depend on food prices) would have fallen by gradual process throughout the forty countries that were the importing parties to the IW Agreement.

TERMS OF THE CURRENT IW AGREEMENT

The following is a precise quotation from a document issued by the International Wheat Council in 1969.

> 'The price range in the 1962 International Wheat Agreement was expressed as $1.62½ at the minimum and $2.02½ at the maximum per bushel for No 1 Manitoba in bulk, in store Fort William/Port Arthur, at parity for the Canadian $ determined for the purposes of the International Monetary Fund as at 1st March 1949 which equals the US $. The new price range, negotiated in Geneva – in the context of the Kennedy Round – and embodied in the Wheat Trade Convention, is US $1.73 per bushel at the minimum and US $2.13 at the maximum for hard red winter No. 2 (ordinary) fob Gulf. The increase in the price level represented by the new range can be calculated in varying ways but may be broadly stated as in the region of 20 cents per bushel.'

To say the least, it is difficult to reconcile an increase in price level of 20 per cent (or, indeed, any increase) with the following facts.

WHEAT SITUATION IN 1970

In May, 1970, the US CCC was holding 7 million tons of wheat – before the intake that would result from the 1970–71 harvest.

There are also large accumulations of this grain in Canada as well as in Australia. And, whereas India has long had to acquire wheat from external sources, on the latest available information it would seem that it is likely soon to be self-sufficient in all grain production.

It may be added that sterile wheat surpluses would have been even greater if it had not been for a succession of bad seasons in mainland China which imported immense tonnages from both Australia and Canada. The USA, of course, would not permit her nationals to sell to China.

It must suffice, here, to point to the fact that under such a system as has been outlined in this Paper, the price of this all-important grain (and all which that implies) would have been re-adjusted – by gradual and foreseeable process – in inverse ratio to accumulations taken into reserve.

There used to be an often-heard adage '*When wheat is a dollar a bushel all's well with the world!*' And that was in the days (which the author can remember) when its growers trudged after horse-drawn cultivating implements and, later, sowed by hand; when the standing crop had to be cut by simple reapers (before the advent of the reaper-and-binder) and then to be laboriously threshed and winnowed to obtain the grain. It is doubtful that one man could have cultivated and harvested more than fifty acres annually in those days.

Now, with tractor-drawn multi-furrowed ploughs, and wide cultivating implements and seed-drills, one man can cultivate upwards of a thousand acres single-handed; and, with the combine header-harvester, he can himself garner the grain. Moreover, what with greatly improved varieties of wheat and artificial fertilizers, yields per acre are generally double if not treble what they were when that old adage was in vogue.

Despite the vast difference in the value of the dollar when the above-quoted adage was in vogue, compared with now-a-days, if the facts in the foregoing paragraph be kept in mind, it might well have proved that wheat prices ranging from 120 to 150 cents a bushel would have become profitable to efficient growers had it not been for the general inflation for which the maintenance of artificially high price levels for this grain had been largely responsible. One's warrant for saying this derives from the terms of the first post war IW Agreement as quoted above.

'GOING INTO THE NOT-RAISING-HOGS-BUSINESS'

Reverting to the US Commodity Credit Corporation, its rigid price support policy led to such unwieldy surpluses of so many farm products that it had recourse to what would theretofore have been regarded as incredible tactics, with results that Senator Goldwater (Republican, Arizona) caused to be inserted in Congressional Records (in February, 1958) the following letter from one of his constituents.

'Dear Mr Senator,

My friend Bordeaux, over in Pima county, received a $1,000 check from the Government this year for not raising 50 hogs. So I am going into the not-raising-hogs-business next year.

What I want to know is, in your opinion, what is the best kind of hog not to raise? The hardest work in this business is going to be to keep an inventory of how many hogs I have not raised. I plan to operate on a small scale at first, holding myself down to about 4,000 hogs, which means I will have $80,000. Now these hogs I will not raise will not eat 100,000 bushels of corn.

I understand that you also pay farmers for not raising corn. So will you pay me anything for not raising 100,000 bushels of corn not to feed the hogs I am not raising?

P.S. Can I raise ten or twelve hogs on the side – just enough to get a few sides of bacon to eat?'

SLAUGHTER OF DAIRY COWS WITHIN THE EEC

On 4th August, 1971, the EEC Commission reported that since January, 1970, 235,000 cows had been slaughtered with compensation to their owners at £80 per cow; and that subsidies were being paid to farmers '*not to put up for sale*' the milk from a further 271,600 cows.

During 1971, British viewers were treated to televised pictures of large tonnages of good quality apples and pears being picked, put into cases and weighed, to be paid for out of EEC funds – and then to be ploughed into the ground!

Verb. sap. It is but a short step from paying farmers to slaughter livestock to paying them to refrain from producing this, that or the other. Hence, it could be that we may yet hear the deliberations of the Council of Ministers of the EEC being enlivened by letters in strains similar to that received by the redoubtable Arizonian Senator.

In this context special importance attaches to Professor Kaldor's observation in the final paragraph of his contribution – commencing page x.

BIOGRAPHICAL

L. St Clare Grondona, Australian born of English-Irish parentage,* after leaving Xavier College, spent three years on a million-acre sheep and cattle station in Queensland – by turn drover, stockrider and junior overseer; and occasional tutor to children remote from schools. His *Adventures of a Jackeroo* appeared when he was nineteen. His wounds when with the Australian forces in World War I precluded his resuming work on the land, so he joined the Federal Department of Repatriation and was soon in charge of that Department in NSW. He was with the Australian Delegation to the Imperial Economic Conference in London in 1923 following which he became Director of Information at the Australian section of the British Empire Exhibition. He wrote *The Romantic Story of Australia* (to which his Prime Minister, later Viscount Bruce of Melbourne, contributed a Preface) and followed this with *The Kangaroo Keeps on Talking* (to which the then British Prime Minister – later Earl Baldwin of Bewdley – wrote an Introduction).

His *Empire Stocktaking* (1930) was accorded eulogistic leading articles and reviews; and two years later he produced *Britons in Partnership* of which *The Times* said: 'This is a drastic project for the reclamation of the vast estates of Empire – a door to realities which cannot be read without a glow of exhilaration.'

Late in 1934, he was appointed District Commissioner in the Special Areas in NW England. When the Chief Commissioner, Sir Malcolm Stewart, resigned in 1938, Mr Grondona did likewise and became economics consultant to Intercement, S.A., in Paris. In early 1939 his *National Reserves for Safety and Stabilization* appeared. While this, too, was enthusiastically received by the responsible Press, the imminence of war put paid to its then consideration by HM Government. Its author joined the British Army in 1940. He was commandant of one of the chief prisoner-of-war interrogation centres. Some recollections of his experiences in regard to Marshal Messe (GOC Italian Forces in North Africa) F.M. von Rundsted, F.M. von Thoma and other high-ranking Germans, as published recently in the *Royal United Services Journal* attracted widespread interest.

*The author's father was Charles Henry Grondona, an Englishman (whose forebears had been Spanish/Italian) who went to Australia in 1885. He was active in promoting the Federation of the six (then) Colonies, as a representative of Victoria at the preliminary Conferences which led to the establishment of the Commonwealth of Australia in 1901. He died shortly afterwards when only forty-three.

On the termination of hostilities in Europe, he became commandant of the Political Instructional Centre for German prisoners – several thousand of whom volunteered to attend series of courses conducted on university lines, under Foreign Office auspices, until August 1948.

In 1958, he produced *Utilizing World Abundance* – a post-war elaboration of *National Reserves* – which was likewise commended in the Press, as well as by MPs of all Parties in debates in the Commons.

In early 1960, he was invited to Australia to present a thesis on his stabilizing system at the XIIth International Congress of Scientific Management in Melbourne – where twenty-nine nations were represented. His Parliamentarian friends suggested that he visit, also, several other Commonwealth countries and, to facilitate his reception at Ministerial levels, letters were sent in advance by the Chairman of the Conservative Commonwealth Affairs Committee (now Lord Mortenmere) and by Mr Harold Wilson – then Shadow Chancellor of the Exchequer.

In the event, Mr Grondona had long discussions with Finance Ministers in Rawalpindi, New Delhi, Kuala Lumpur, Singapore, Canberra, Wellington (NZ) and Ottawa; and he addressed many groups of Parliamentarians in those capitals. Great interest was evinced in his proposal in all these countries, but none was in a position to implement it; because his system can be effective only if administered by a great commodity-*importing* nation – as distinct from countries that are primarily *exporters* of basic commodities.

When re-visiting his native land, he travelled widely as a guest of the several States, and later produced *Australia in the 1960s* to which the then Australian Prime Minister, Sir Robert Menzies, wrote an appreciative Preface.

It may be apposite to conclude these notes with a quotation from a sentence from *The Times Review of Industry* in its comments on that book: 'Mr Grondona's writings about Australia and the Commonwealth over the past thirty years have won for him an enduring place in the respect and affection of his fellow countrymen.'

That observation was perhaps as gratifying to Mr Grondona as it was to those of his friends who saw it.

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