

PART IV

COMMODITY STABILIZATION POLICY AND THE LESS DEVELOPED COUNTRIES

(By Robert Loring Allen)

Instability in world markets for primary commodities causes sharp fluctuations in the exchange earnings of less developed countries. Recurrent disruption of import flows and balance-of-payments crises in less developed countries deter economic development and induce fluctuations in exports of industrial countries. Present policies are inadequate either to halt the fluctuations in exchange earnings or to prevent their harmful impact. In the following paragraphs we shall examine the record of instability and its causes, and consider policies and programs designed to reduce instability or modify its impact. Long-term commodity problems are studied in part V.

A. RECORD OF INSTABILITY

1. Instability of primary commodity trade

The average annual variation in the value of exports of primary producing countries in the postwar period has been about 12 percent. The Statistical Office of the United Nations and the International Monetary Fund have made elaborate studies which document fully the fluctuations in primary commodity trade. Since the turn of the century, the annual variations in export values have been greater for primary producing countries than for industrial countries. Between 1900 and 1913 average annual variation in the value of exports for the former was 9.7 percent and for the latter 7.7 percent. In the interwar period (1920-39) fluctuations for both increased. For export values of primary producing countries the annual variation was 18.1 percent and for industrial countries it was 14.0 percent. In the postwar period (1948-58) the value of exports of primary producing countries varied 13.3 percent annually, while that of industrial countries varied 10.8 percent annually.¹

Rubber experienced the greatest value variation in the postwar period, 30 percent per year. Crude petroleum had the least variation, 4 percent per year. Grains had wide year-to-year changes, 15 percent per year for corn and wheat, 25 percent per year for barley. Non-staple foods and beverages had smaller variations. Variations for

¹ "World Economic Survey, 1958," United Nations, New York, 1959, pp. 39-53; "International Compensation for Fluctuations in Commodity Trade," United Nations, New York, 1961, 96 pages, and "Fund Policies and Procedures in Relation to the Compensatory Financing of Commodity Fluctuations," International Monetary Fund Staff Papers, vol. VIII, No. 1, November 1960, pp. 1-76, are the three most recent valuable studies of commodity instability. The data cited in this section are derived primarily from them. Other studies include "National and International Measures for Full Employment," 1949; "Measures for International Economic Stability," 1951; "Instability in Export Markets of Underdeveloped Countries," 1952; and "Commodity Trade and Economic Development," 1954; "Annual Reviews of International Commodity Problems," all United Nations, New York.