tion. If stocks become large, the burden can become severe and not easily financed by less developed countries. Furthermore, stocks operate most effectively as a stabilizer when they are relatively small. If they become large in relation, say, to annual output, they tend to act as a depressant on price and a destabilizing influence on the market. With large stocks overhanging the market, prices have difficulty moving upward because at any moment inventories may be disgorged, possibly worsening the situation. If a holder of large stocks becomes discouraged, he may sell out at low prices in order to salvage something and in the process drive prices even lower.

3. Fluctuations in industrial countries

Business fluctuations in importing countries exercise a major influence on world markets for primary commodities. Assuming there is a 1-to-1 percentage relationship between domestic output and imports, a fall of 1 percent in domestic output in industrial countries represents a 1 percent cut in imports of primary products. Such a cut may be small to the industrial countries, but may be serious in terms of price or volume, or both, to less developed countries.

The situation is more serious than that depicted above, since industrial countries also produce domestically many of the primary commodities which they import. Assume that total requirements of a given commodity for the industrial countries at full employment is 100 of which 50 percent is imported and 50 percent is produced domestically. Then assume a recession in which total demand for the product declines from 100 to 75. If the cuts were distributed evenly between domestic and foreign producers as indicated above, exports decline by 25 percent. Institutional and business arrangements, however, as well as government protection of domestic industries, tend to favor domestic interests over foreign sources of supply. Hence imports of primary products may decrease by more than 25 percent.

The annual average change in domestic production of lead in the United States was 5 and 13 percent in the United Kingdom. The corresponding changes in import volume of this product were 26 and 22 percent. Many other products share this fate.[4] Even when domestic production is absent and imports are the sole source of supply, the impact of a decline in business on primary commodities trade is often exaggerated by the tendency of buyers in industrial countries to draw down inventories and halt purchasing.

Many circumstances and events, wholly unrelated to commodity markets, contribute to instability. Expectations about the economic and political future often weight heavily and in conjunction with other factors can upset the market. Fortuitous political events such as the Suez hostilities, the Berlin crisis, expected changes in governmental policies, and other events can move markets up or down, depending upon the nature of the event and how it is interpreted.

C. INTERNATIONAL COMMODITY AGREEMENTS AND ARRANGEMENTS

There are in general two approaches to the problem of instability of exchange earnings arising from fluctuations of the world markets for the primary commodity exports of less developed countries: (1) Meas-

[4] "World Economic Survey, 1958," United Nations, New York, 1959, pp. 48–52, and table 16.