

price supports as a means of transferring income to farmers. Their standard arguments against price control through international commodity agreements are:

(1) They interfere with normal operation of markets, and tend to build up surplus production in response to higher prices; pressure of these supplies leads to breakdown of agreements, or at least to erosion of their effects on price.

(2) Because commodity agreements are usually based on export quota systems, they tend to freeze historical production patterns, to the disadvantage of efficient producers.

(3) They require a complex apparatus for control of exports and supply, which is further complicated by the existence of different grades of each commodity, each of which has a submarket of its own with fluctuating prices.

(4) Price and output controls, as established in commodity agreements, are an inefficient way to redistribute world income, as compared to direct subsidy, because price controls lead to less efficient production and lesser satisfaction of consumer preference than subsidies do.

(5) The income-redistributing effects of higher commodity prices may mean in effect that low-income consumers in industrial countries are forced to pay for improvements in the living standards of high-income producers in the underdeveloped countries. * * *

The controversy between governments of rich and poor countries has been thoroughly confused because they are simultaneously discussing several different issues without necessarily recognizing it.

First of all, much of the discussion of commodity agreements stresses price stability as an objective at least coequal with higher prices. Thus the UNCTAD resolution on the subject calls for: "suitable international arrangements . . . designed to *increase and stabilize* primary commodity export earnings, particularly of developing countries, at equitable and remunerative prices. . . ."

In fact, stabilizing earnings as such (i.e., smoothing out periodic fluctuations around a trend) is a trivial goal in poor countries' eyes. It has been much stressed, however, for two reasons: (1) year-to-year commodity price fluctuations are dramatic, and the advantages of greater stability, in terms of central economic planning and private investment, seem both obvious and ideologically innocuous; and (2) the stabilization goal offers an acceptable argument for introducing international commodity agreements, which can then be used to raise prices to "remunerative" levels.

STABILIZATION SMOKESCREEN

Statistical evidence indicates that short-term fluctuations in export earnings do not slow down economic development, as compared to steady annual receipts. Though this statement is the reverse of what is usually said by spokesmen of poor countries, the proof-of-the-pudding principle casts substantial doubt on their contentions. If a country wants to stabilize annual export revenues, it has only to set money aside in good years, and spend it in bad ones. Yet very few countries do this.¹ The obvious answer is that poor countries lack the reserves to finance such stabilization in light of their aspirations for development. While this proposition may be perfectly valid, those who offer it frequently fail to recognize that it amounts to a demand for more foreign exchange in the guise of stabilization goals. Alisdair MacBean's exhaustive study of this subject² demonstrates conclusively that there has been no correlation in recent decades between income growth in poor countries and export fluctuations. Indeed, MacBean's conclusion, based on extensive analysis, is that short-run fluctuations in national income bear very little relation to fluctuations in export earnings. To the extent that short-term balance-of-payments problems arise entirely as a result of short-term fluctuations around an earnings trend, IMF credits, bilateral loans, and suppliers' credits are readily available; poor countries appear to feel no urgent need for additional safeguards aimed solely at the objective of stabilizing year-to-year earnings. What poor countries do want is higher prices (or at least no decline in prices) for commodities; "stabilization" objectives are primarily a tactic toward that goal.

A second source of confusion is between fact and theory about underdeveloped countries' terms of trade (export prices divided by import prices). According to theories developed by the Argentinian economist, Raul Prebisch, who now serves as Secretary-General of UNCTAD, there are inexorable forces at work tending to reduce the prices of commodities relative to manufactured products. This tends to hurt poor countries, which export mostly commodities,

Footnotes at end of article, p. 184.