

and to benefit rich countries, which import commodities and export manufactured products. In support of this view, Prebisch has argued that underdeveloped countries' terms of trade have in fact fallen since the latter part of the 19th century. He has been challenged by a number of economists, both as to theory and fact, but unfortunately the distinctions between logic and observation have not always been maintained. The theoretical objections point to a number of inconsistencies in his rather complex argument. The empirical ones question the data he has cited and argue that conclusions as to the long-term course of terms of trade depend on the choice of base period.

PRIMARY PRODUCER CAN BOUNCE BACK

No final conclusions about either fact or theory seem to be possible as yet. In recent years world demand for most major commodities other than petroleum has increased slowly compared to demand for goods and services in general, while commodity supplies have increased rather rapidly, thanks to the stimulus of high prices in the 1950's, the growth of synthetic output (particularly fiber and rubber) and protectionist policies in the rich countries. It may however be doubted whether world commodity prices will long continue sluggish or declining if world population continues to increase at current rates. * * *

A third source of confusion lies in the debate about what commodity agreements can accomplish. The poor countries, supported at UNCTAD by the government of France, sometimes appear to claim that higher commodity prices, secured by international agreement, are a source of instant prosperity. Most rich countries seem to argue that commodity agreements could not be effective in raising prices above market levels, but only in stabilizing prices over a cycle. This contention in its extreme form is obviously wrong, as witness the high prices paid to farmers in countries where agriculture is protected, or the high prices received for crude petroleum by low-cost exporters in the Middle East and Venezuela. The confusion lies both in the effort of rich countries to prove that because the policy is undesirable, or leads to administrative complications, it is therefore impossible; and in the effort of poor countries to show that because high commodity prices have often been beneficial in the past, they can therefore be legislated as a development panacea for the future.

This last dispute of course reflects the fact that each side assumes away the obstacles to its case and, thereby, simply sidesteps the central issues: What are the effects of commodity agreements on price? Who pays and who benefits from the higher prices? What commodities could be subject to effective international action in the interests of underdeveloped countries? Could the objectives of commodity agreements be met more easily by other devices that are both feasible technically *and* likely to be adopted?

THE TROUBLE WITH SUBSIDIES

It is clear that rich countries can pay poor countries any "price" they want for commodity exports. There is no logical, constitutional, or economic barrier to doubling or tripling the revenues that underdeveloped countries receive for commodity exports. This has nothing to do with whether demand is elastic (revenues declining in response to price rises) or inelastic (revenues rising in response to higher prices). If, for example, the governments of industrial countries want to pay some amount into an economic development fund for each pound of coffee they import, that sum can be as large as the generosity of governments allow. It is simply a subsidy to coffee-growing countries, and there is no limit to the amount of a subsidy.

But subsidies are not a popular technique for supporting farmers' incomes. The technique of operating through market prices via supply control is universally preferred by farmers and governments, because the consequent income transfer takes on the status of an impersonal market transaction rather than a gift, and does not enter as an item in the government budget. Furthermore, there is no particular reason to tie direct subsidy into commodity production. If rich countries want to subsidize poor ones, they can do it by foreign aid appropriations rather than subsidies to commodity exporters.

LONG LIST, BUT MANY HITCHES

Therefore the income-increasing objectives of international commodity agreements are expected to operate through supply restriction. These techniques can normally succeed in raising producers' incomes only if demand for their output