

products to accept the principle of such transfers to other rich countries unless it is simply incidental to a policy of reaching domestic self-sufficiency, *à la* EEC.

The commodity approach to capital transfers suffers from many disadvantages in terms of administrative difficulties, economic inefficiency, promotion of substitute production, and encouragement of over-production. Its advantages are (1) it disguises the income transfer, thus apparently easing the recipient's conscience and relieving the donor of the burden of aid administration, a seemingly inescapable adjunct of official aid transfers; (2) it seems, within limits, to be more acceptable to importing countries than free trade in commodities, perhaps because the system is analogous to domestic commodity support programs. For these reasons, it seems likely that international discussion of policies for tropical exports will continue to revolve around price-fixing schemes. However, the increasing interest in supplementary finance (payments to underdeveloped countries whose export earnings over a period of time fail to meet reasonable expectations, because of circumstances beyond their own control—such as a long-term decline in world commodity prices, for example), arising from the United Nations experts' report and the UNCTAD resolution on the subject, may presage a gradual turning away from a single commodity approach.

PRICE STABILITY

The issue of price and earnings stabilization has become thoroughly confused with that of income transfer. Price stability and earnings stability are not the same for the individual exporter even if aggregate demand remains constant. If Colombian coffee output rises or falls 20 percent, constant world prices destabilize earnings. Stable earnings are sometimes asserted to be the goal, but it is not worth much to either importer or exporter simply to reduce short-term fluctuations around a trend by borrowing now and paying back later. The South wants to have greater price certainty but is not willing to reduce its freedom of action substantially in exchange for those benefits. It seeks much more strenuously to avoid low prices for products in inelastic demand, but that is not a question of stability.

If the objective were price stability, it would be possible to do something toward this goal by better price forecasting, use of buffer stocks, export controls, or price compensation schemes. The case for price stability is stronger than that for earnings stability because the prices of many commodities fluctuate so widely that they offer a poor set of signals for investment planning. They may also lead buyers to seek substitutes with more stable price levels. Providing that the system chosen to stabilize prices is a reasonably good forecaster of the market, it should help promote more rational investment. The extent to which this is desirable—and therefore also the price worth paying for it—depends on relevant opportunity costs. The amount of these costs is not an appropriate subject for aggregative analysis; and the detailed research that could offer some guidelines remains, as yet, largely prospective. The inference from existing work is that price stability isn't worth much as a guide to investment in terms of effects on GNP growth. However, we are still far from a definitive judgment on this subject.