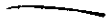


NOTE  
ON  
ECONOMICS OF RESTRICTION.



**NOTE  
ON  
ECONOMICS OF RESTRICTION**

**Issued by  
The Federation of Indian Chambers  
of Commerce and Industry.**

**28, Ferozshah Road,  
NEW DELHI.**

**Federation Research Department  
Publication No. 1**

The Committee of the Federation have had under consideration for some time past the desirability of creating a Research and Statistical Department with a view to make available to them latest information on questions relating to the development of trade and industry in this country. A beginning was made by the appointment of Mr. N. G. Abhyankar, B.A. (Hons.), M.Sc. (London), to organise such a Department. It is hoped that within a couple of months, a full-fledged Research Department will start functioning at the Federation office in Delhi.

In recent years, there has been a growing demand for restriction of output in most of the organised industries and some of the staple crops in India. The Committee of the Federation thought it advisable to collect information regarding schemes to restrict output, which were adopted in various other countries and directed the new Department to undertake a study of such restriction schemes. The Committee have pleasure in issuing this brochure on "Economics of restriction" for the public in general and the commercial and industrial community in particular. An attempt has been made in this small brochure to examine the working of restriction schemes which were adopted in the United Kingdom and the U.S.A. in recent years such as, the Agricultural Marketing Boards and the experiments under the New Deal and to discuss the theoretical validity and the practical difficulties of a general attempt at restricting production and output in any industry in a country. The Committee hope that the analysis contained in the brochure would prove useful in the consideration of the proposed schemes of restriction in India.

By Order of the Committee,

New Delhi,  
10th August, 1939.

D. G. MULHERKAR  
Secretary.

*With Compliments of  
N. G. Abhyankar.*

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# A NOTE ON ECONOMICS OF RESTRICTION.

Throughout the post-war years, there has been a growing demand for regulation of production and restriction of output of various commodities in many of the important countries in the world. The economic philosophy of abundance which dominated nineteenth century policy seems to have given place to a philosophy of regulation and control. It is quite natural to expect that in a period of falling prices, rising accumulations of stocks and heavy losses, schemes to restrict production and output with a view to raise prices should engage the attention of both the Government and private producers in various parts of the world. The great depression of 1929 has proved a fruitful mother of various new and ambitious attempts at restricting production and sales not only of important metals, but also of basic commodities and raw materials. The international schemes for the restriction of important metals like tin, copper, zinc, nickel and basic foodstuffs and raw materials like wheat, sugar, coffee and cotton, are glaring examples of these new experiments.

The main objective of all these restriction schemes has been to control the output or sales with a view to raise the prices of the commodities concerned and thus raising the incomes of the producers engaged in those particular industries producing these commodities. Broadly, there are two types of restriction schemes. The first scheme aims at the control of marketing of various products. Under this marketing control, the various producers sell their entire output to a Central Marketing Authority at a minimum guaranteed price. The Central Authority has the power to regulate the imports of similar commodities or substitutes as also to control the sales in excess of the quotas in order to maintain the guaranteed price in the market. In practice, however, the Central Marketing Authority has found it necessary to control and regulate home production and home output with a view to achieve its objective of maintaining a guaranteed minimum price. In effect, it has gradually become the second

type of restriction scheme, namely, the production restriction scheme. The aim of the second type of restriction is much more ambitious. It aims at the control of production and output of the commodities in question. It practically amounts to the creation of an artificial scarcity through restriction of output with a view to raise prices of commodities, as seen in the experiments under the New Deal Scheme in America. The justification of any particular restriction scheme primarily depends upon the fact whether it is resorted to as a temporary expedient or as a permanent weapon to solve the problem of adjusting supply to the changing conditions of demand. Many of the restriction schemes mentioned above were resorted to by way of frantic efforts to give relief to the producers in a period of catastrophic fall of prices which started in 1929. But the advocacy of restriction assumes the name of rationalisation of production in an industry when it aims at the second objective. For example, it is argued that it is one thing to adjust supply conditions to temporary changes in demand and quite another to adjust supply to a permanent decline in demand. The advocates of rationalisation in this case maintain that when a particular industry has a chronic surplus capacity which results in production in excess of demand, there should be no reason why the State should not be called upon to intervene in the affairs of the industry with a view to remove the surplus capacity. They accept the argument of the economist that the price mechanism would bring about the adjustment through the medium of falling prices and losses in that industry and rising prices in other industries, under normal circumstances. But they hold at the same time that this method of adjustment is much more painful than the method of a deliberate intervention with a view to adjust output to prevailing demand. For example, in his lucid analysis of the economics of restriction, Prof. Pigou has cited the case of the armament industry. The armament industry may be called upon in times of war to expand its capacity to meet wartime demand. With the cessation of hostilities, however, the armament industry will find itself burdened with a surplus capacity which is not suited to the normal peace-time demand for ammunitions and materials of war. It will then be faced with the problem of adjusting its productive capacity to the changed conditions of demand. As Prof. Pigou puts it, the issue before the industry is not the issue before a monopolist producer namely, of having a smaller or greater output which maximises his profits but of adjusting the

capacity which was suited to the level of demand under one set of conditions to the level of demand under a totally different set of circumstances. In such a case, a deliberate intervention by the State to adjust the supply to the prevailing level of demand may have some economic justification, but Prof. Pigou hastens to add that usually, the authors of such a scheme concentrate their attention upon the symptom of the disease namely, the falling prices and attempt to cure it by a monopolistic restriction of output and ignore the fundamental disease namely, the existence of surplus capacity and the need for its transference from that industry to other alternate lines of production.

It is not possible to give the description of the working of all the restriction schemes that were adopted during the last ten or fifteen years. It will be sufficient to give a description of two different schemes which are characteristic of the two types described above namely, the marketing control and the production control, such as the Agricultural Marketing Boards in England and the Agricultural Adjustment Act schemes in America.

### **The Agricultural Marketing Schemes in Great Britain**

In 1933, in the face of the catastrophic fall of prices which resulted from the depression of 1929, Great Britain passed two Agricultural Marketing Acts, one in 1931 and the other in 1933. Under these Marketing Acts, Great Britain established Marketing Boards for the following commodities, potatoes, hops, pigs and milk. The main aim of the Marketing Boards was to guarantee a minimum price to the producers in these lines of production by controlling home output and regulating the foreign imports of such commodities into United Kingdom. The Marketing Boards started originally as central monopolistic selling authorities and ultimately found it necessary to control the home production in order to achieve their objective. The following brief description of each of the schemes will show that the Marketing Boards did not achieve as great a success as it was claimed by the advocates and supporters of these marketing schemes :—

**Hops Marketing Scheme :** The Hops Marketing Board was established in 1932. It organised a centralised sales monopoly for approximately 1500 registered growers and, in the

following year, succeeded in almost doubling prices to their customers. The Government regulated the import of hops by imposition of a 15 per cent. ad valorem tariff. The Marketing Board adopted various measures such as, fines, for the producers who exceeded their production quota and also new entrants into the field. Under the Marketing Board Scheme, the Board arranged to sell hops to the brewers at an average price of £9/- per cwt. Unsold stocks were taken over by the Board and financed by a 10 sh. per cwt. of levy on the sale of hops. Under the regulation, imports of hops into England were not to exceed 15 per cent. of the total demand for hops. In effect, the brewers obtained practically all their requirements from home-grown supplies. The success of the Hops Marketing Scheme is largely due to the fact that the price of hops only represents a small proportion of the cost of beer and the consumers of beer are not very greatly penalised as a result of the working of the scheme.

**Potato Marketing Board :** The Potato Board was organised in 1933. It was elected by the registered producers who were engaged in this line of production. The Marketing Board controlled the total supply of potatoes coming to the market by the following measures ; firstly, by a rigorous control of imports ; secondly, by a system of quotas and fines for increased acreage on the part of each producer ; and thirdly, the Board prescribed a given size for potatoes and allowance was made for smaller and larger size of potatoes in the possession of each potato grower. The potato marketing scheme is by far the most successful scheme of the Marketing Board organised in England under the Marketing Acts of 1931 and 1932.

**Pigs and bacon :** In 1933, two separate Boards were organised for the maintenance of the prices of pigs which were reared for the bacon factories in England. A Pig Marketing Board representing some 140,000 producers and a Bacon Board representing some 500 curers fixed between them a contract price at which the bacon curers were prepared to buy pigs for bacon manufacture from the pig producers. The bacon curers were helped by Government by an imposition of a high protective duty on the imports of bacon into England from Denmark, which supplied nearly 80 per cent. of the British demand for bacon before the institution of the Marketing Scheme. The Pig and the Bacon Marketing Boards were the most unsuccess-



ful attempts made under the Agricultural Marketing Scheme by the authorities in England. Since imports were restricted, the price of Danish bacon rose, showing an insistent demand for the foreign product (Danish bacon is supposed to be, on an average, of a superior quality to the English bacon). Also the prices guaranteed to the home producers of pigs were so favourable as to increase considerably the supply of British bacon pigs so that English bacon prices fell forthwith and the Board of Trade found it necessary to restrict imports drastically and to lend the bacon curers £160,000/- to enable them to honour their contracts with the pig producers, and so save the scheme. Another defect of the Marketing Scheme was that while it controlled one part of the market, it did not control another important part of the same market. For example, pigs are grown for two purposes. Pigs are grown in the first place for the manufacture of ham and bacon and in the second place, for the manufacture of pork. As the supply of pigs for the pork market was not controlled, the supply of pigs for the pork market, where the price was not guaranteed, diminished and the supply of pigs for the bacon market, where the Government had guaranteed a minimum price, increased so as to upset the whole Marketing Scheme. In short, as a result of these marketing schemes, Great Britain now produces one-quarter instead of one-tenth of the bacon it consumes, but consumption is less, prices are higher and over-production at that price still threatens. Moreover, as a result of the quota, Denmark at one time was paid more for a less quantity of bacon,—a method hardly benefiting the consumers or assisting the balance of trade. One of the main weaknesses of the entire scheme was that it rested on the idea of a normal consumption of bacon for the whole of England and ignored the fact that needs of the market would be very different with bacon at 1s. instead of 1s. 6d. a pound. The Danish exports to Great Britain are 60 per cent. below the pre-planning days, but in spite of the sharp rise in the price of Danish bacon, British consumers have shown a preference for Danish bacon, a fact which threatens the success of the scheme in future.

**Milk Marketing Board:** In October, 1933, the Milk Marketing Board was established and it began to organise and control the production of milk produced in England and Wales. The main function of the Board which was elected by the producers of milk was to guarantee a minimum price for milk to

the milk producers. All the sales were effected through the Board and the milk was sold to the distributors at a minimum price. The main difficulty before the Milk Marketing Board in England was that in actual practice, there were two different markets for milk, namely, demand for liquid milk for drinking purposes and demand for milk for manufacturing purposes such as, butter, cheese, chocolates, etc. The maintenance of a guaranteed minimum price for all milk produced in England would actually have meant an increase in the Manufacturing costs of such products as cheese and butter, which had to face competition from foreign and Empire producers in the British market. The Milk Marketing Board got over this difficulty in the following way. It organised the whole of England and Wales into 11 regions and each region registered the producers of milk who had to sell their milk to the regional pools at prices fixed by the latter. Having purchased the milk from the milk producers at the minimum price, the Board sold the milk to distributors of liquid milk at a relatively higher price than the price charged to the customers who purchased milk for manufacturing purposes. This, however, has met with a serious opposition from the British public opinion which is insistent on the necessity of cheapening the price of liquid milk on nutritional grounds, and the re-organisation of the entire Milk Marketing Scheme is under the consideration of the Government for a long time, but the Government have not been able to establish a scheme which could satisfy all the interests concerned.

• It will be seen from the experience of the Marketing Boards in England that the Marketing Schemes inevitably led to the control of production and output and in some important respects, did not achieve the success which they were expected to achieve at the time of the passing of the Agricultural Marketing Acts.

### **The Agricultural Adjustment Act in America**

The Roosevelt administration in America passed the Agricultural Adjustment Act in 1933, with the intention of controlling output and raising prices of certain basic foodstuffs such as, wheat, cotton and other products. Under this scheme, the production of these agricultural commodities was to be under control. The main devices employed were as follows :—

Processing taxes equal to the difference between the market price and the guaranteed prices were imposed on the first processors of these primary commodities and the yield was in part distributed to some 3 million farmers who contracted to reduce their output and in part used to rent land and withhold from cultivation. Marketing agreements were adopted, settling fixed minimum and wholesale prices. The State itself assisted the market by buying from the distressed farming areas, large quantities of foodstuffs for purposes of relief distribution. The State advanced loans at a low rate of interest to facilitate the redemption of mortgages and reduction of interest costs of the farmers, and the State also advanced loans to growers of maize and cotton on the security of unsold stocks to enable them to hold out longer for better prices.

There were certainly some very decisive effects from this agricultural policy. In 1933, before the restriction programme could be effectively operated as regards new operation, six million young pigs were slaughtered and ten million acres (about one quarter of the total of cotton) were ploughed in, compensation being granted on the basis of a compulsory quota scheme. Farm incomes and farm prices showed an upward trend, as can be seen from the following figures :—

COMMODITY	DECEMBER		
	1932	1933	1934
Wheat (hard winter No. 2)	42.30	81.10	105.20
Cotton (middling)	5.80	9.90	12.80
Maize (No. 2 mixed)	23.10	47.80	93.80
Hogs	6.00	8.30	13.60
Butter	23.00	19.90	29.00
Sugar	4.10	4.30	4.30
Rice	2.00	3.90	4.90
Tobacco	9.48	13.99	20.26

During the three years ending 1935, farm prices were raised about 66 per cent. and agricultural incomes increased by 40 per cent. The American experiments showed that the processing taxes were shifted on to the consumers and resulted in an increase of the prices of cotton, pork, and maize. It resulted in

reducing consumption at home and also adversely affected some of the exports. Thus the cotton acreage was drastically restricted in 1933. Though a fixed price encouraged production mostly through increased yield, refusal to accept any world market price in 1934 resulted in unsold stocks and only the Government's buying the unexported surplus made the cotton scheme an apparent success. Some of the experts hold the view that due to the rise in price of American cotton, the manufacturers both in America and outside were greatly affected and they feared that due to the price raising schemes, America might lose a good deal of her ground, so far as cotton exports were concerned. In 1935, the processing taxes in America were declared unconstitutional and the financial base of the A.A.A. disappeared. Clearly, it is true that the prices of cotton and foodstuffs showed a marked improvement after the institution of the restriction schemes, but it cannot be denied that the severe American drought which occurred in 1934 and the all-round signs of recovery in the world as a whole were largely responsible for the upward trend of American prices.

An analysis of the various restriction schemes points out some of the essential conditions which must be obtained for a successful working of any general scheme. For example, in a marketing control scheme, stocks of commodities like wheat, or sugar, are apt to accumulate and even if measures are taken to hold the stocks off the market, their existence is a constant menace to the success of the control as was revealed in the Canadian wheat pool. The following conditions seem to be essential for a success of a production control scheme :—

- (i) The concentration of production in relatively few hands. The relatively better success of restriction of some of the metals like tin shows the importance of this point.
- (ii) The ability of the authority to regulate the imports or exports of the same commodity or its substitutes.
- (iii) The reaction of the rise of prices on internal consumption or in technical terms, the elasticity of demand for that commodity.
- (iv) The cooperation coming forth from the producers on the one hand and the ability of the Government

to offer adequate inducement. The vast amount of relief payments distributed by the American Treasury to persuade the farmers to reduce their acreage under cotton shows that it will be unwise to draw a parallel between a country like U. S. A. and poorer countries like Egypt and India.

- (v) Experience of recent years shows that most of the important schemes of restriction have been propounded not in respect of commodities such as, nickel or tin, where production was concentrated in few hands, but in respect of basic food-stuffs and raw materials like wheat, sugar, coffee, cotton, the production of which is scattered over many countries and is organised in small hitherto competitive units. The organisation of production and the number of units participating in such production are also important considerations.

So far an attempt has been made to describe the nature and analyse the working of some of the important restriction schemes which were adopted in post-war years in England and America. The main conclusion which emerges from the working of the restriction schemes such as, the Marketing Boards in England and the experiments under the Rooseveltian programme is that the results achieved by the schemes were not commensurate with the cost which such schemes involved for the national exchequer and the consumers as a whole. Apart from the practical aspects of the restriction schemes, however, one fundamental question namely, the desirability or otherwise of restrictionism, remains to be discussed. Historically, restriction of production has always become a popular theme in periods of acute economic depression and falling prices, while in periods of prosperity and good trade, all such talk has tended to disappear, and the authors of specific restriction schemes have found that the particular restriction schemes have tended to break down through the defection of individual producers who saw the opportunities of increasing their own profits by expanding their production beyond their narrowly restricted quotas. It will be seen from this that a severe recession in demand has always been at the bottom of any advocacy for the restriction of output in any line of production and that at best, restriction of output has been adopted only as a frantic remedy

to tide over the days of depression and has been abandoned in periods of succeeding boom and prosperity. It follows from this that before embarking on a desperate measure of a doubtful utility like restriction of production, each and every country must carefully consider whether the recession in demand, which calls for restriction in any particular line of production, is likely to be a temporary or a permanent phenomenon. For example, the falling off of demand for the products of any industry may be merely a part of the general recession in demand which characterises the downward phase of the trade cycle and which may be followed by a revival in demand in the upward phase. Another important aspect of this question which has a vital bearing on conditions in countries with low standard of living such as, India and China, should not be ignored while deciding the desirability or otherwise of restricting the output in any of the industries in such countries. For example, in recent years, there has been a talk of a temporary overproduction in some of the established industries in India such as, the sugar industry in U. P., the jute industry in Bengal and in recent months, the textile industry as a whole. And the minds of the economists in this country have naturally turned to the experiment of restriction of production attempted in other countries of the world. It will be of vital importance to carefully consider all the factors which make for the success of restriction scheme and which have been analysed in the preceding pages before embarking upon a costly experiment such as, restriction of production in a poor country like India. But what is of much greater consequence to the economic prosperity and progress of this country is the need to examine whether the fundamental condition namely, a permanent recession in demand, obtains in this country. It is a commonplace of the economic life in India that the standard of life of the people is deplorably low and the per capita consumption of even the most elementary necessities of life such as, food, clothing, shelter, is perhaps one of the lowest in the world. While this is true of consumption, the various productive industries which cater for the satisfaction of these elementary wants such as, textiles, cement, sugar and so on, are supposed to be on the brink of so-called overproduction. We, in India, have a pathetic sight that millions of people are unfed, unclothed and are without shelter, while the organised and established industries cannot increase their production for fear of spoiling the market. In other words, we have the celebrated dilemma of poverty in the midst of plenty ;

while there are millions of people whose elementary wants go unsatisfied, there are large resources, which remain either unused, unemployed or chronically underemployed. The conclusion is obvious. India has a vast population, the majority of which lives in utter destitution. They have wants but they cannot make their wants effective and utilise the available resources to their full capacity in order to satisfy their wants, because they lack the wherewithal to back their wants and to turn them into effective demand. On this showing, it would appear that the supreme task before the economic statesmanship in this country is to solve this problem of translating the elementary wants of the people into effective demand backed by money. Granted the validity of these views and further granted that chronic underconsumption is rife in this country, it seems preposterous to suggest that the output in any of the lines of production which cater for the satisfaction of elementary wants should be curtailed. It is, therefore, seriously open to doubt whether restriction of production which is invariably associated with increase in prices and diminution in output, is the correct method to solve the major economic ills from which some of the industries are suffering under the present stage of economic developments in this country.

## APPENDIX 'A'.

### A description of the various restriction scheme.

#### 1. Tin.

The scheme of restriction of Tin organised by the International Tin Committee in 1934 offers a most successful example of restriction schemes adopted in recent years. The International Tin Committee, consisting of representatives of the Governments of Bolivia, Malaya, Nigeria, Siam and the Netherlands Indies, was formed in February, 1931, and at that time controlled 87 per cent. of the world production. World production of Tin-ore, measured in terms of the metal contained, fell from 195,000 metric tons in 1929 to 88,000 in 1933. The greater part of this decrease took place in 1933, when mine production dropped by about 13 per cent. because of agreed restrictions in the countries mentioned above. Other producing countries, China, Burma, Belgium-Congo and the United Kingdom increased their share of the world output from 8 per cent. in 1929 to 20 per cent. in 1933. But, early in 1934, most of the countries which had remained aloof joined the restriction scheme receiving quotas substantially greater than their 1929 production. Meantime, the price of Tin had been raised very substantially in terms of Gold by 66 per cent. between June 1932 and June 1934. This was the result, not only of the restricted production but also of considerable diminution of stocks, which from a peak of 62,000 tons in 1931 declined to 27,000 tons in 1933. The International Pool was formed which gradually realised 21,000 tons of stocks in 1933 and a buffer pool of 8,000 tons was subsequently formed at the end of the year.

#### 2. Copper.

The copper control scheme was on the whole less effective than the tin scheme because of the rapid increase of supplies from areas outside the scope of the agreement, notably Northern Rhodesia.

#### 3. Zinc.

The zinc production is largely controlled by the cartel formed at Brussels in July 1933 including producers in Australia,



Belgium, Canada, Czechoslovakia, France, Germany, Italy, Mexico, Norway, Poland and the United Kingdom, the principal important producing areas remaining outside the agreement being Japan, U. S. A. and the U. S. S. R. In 1933, production was restricted on the basis of quotas amounting to 45 per cent. of the pre-depression quotas, though smelter production greatly increased. There, was, therefore, a large reduction of stocks which fell from 206,000 tons in August in 1931 to 109,000 in May, 1934. The price of the metal in terms of sterling rose some 20 per cent. in 1933. In January 1934, the Cartel agreement was renewed, the quotas being continued at 50 per cent. to which figure, they were raised on August 1st, 1933.

#### 4. Nickel.

Nickel is another metal which is strongly controlled in this case by amalgamation carried through in 1929. Production outside the control of the single unit is not great and demand has been considerable in 1933, so that world production rose in that year above its pre-depression level, the price rising from £172 to £230 per ton, after the depreciation of sterling.

#### 5. Silver.

The agreement on silver reached at the Monetary and Economic Conference is not an agreement among certain Governments to regulate the marketing of the metal. The countries holding large stocks mainly of demonitised silver agreed not to sell more than specified amounts while the United States Government agreed to neutralise her sales by purchasing at least equivalent amounts of American silver. Since the silver buying policy of the United States was put into operation at the beginning of 1934, the price of silver in the world market has been very firm, but the going off the silver standard by the Chinese Government has introduced new complications in the silver situation since 1936.

6. The most significant developments of 1933, however, have been the scheme developed for controlling and restricting the output of agricultural produce—wheat, rubber, cotton, silk, coffee, tea and sugar. Reference is made here to some important International agreements for limiting the supply of agricultural products.

**Sugar :** The plan to control sugar production which was launched in 1931 has been the longest in operation. By this plan, the output of sugar in the controlled area—Belgium, Cuba, Czechoslovakia, Germany, Hungary, Java, Mexico, Peru, Poland and Yugoslavia has been greatly reduced. But production has continued to increase in other areas. Thus, while the area under wheat was reduced in the control countries by a third between 1930-34, it was slightly greater in the rest of the world. The total production including cane as well as beet sugar is summarised in the following table :—

**World production of Raw Sugar.**

(In 000 tons)

AREA.	1929-30	1930-31	1931-32	1932-33	1933-34
Controlled Area.	129	113	88	62	58
Uncontrolled Area.	150	173	180	183	202
World	279	286	268	245	260

The result has been relative maintenance of world sugar stocks which in May, 1934, were equal to about 30 weeks consumption as compared with 33 weeks in 1932, despite considerable reduction of stocks in countries practising restriction, the price of sugar remaining the very low.

### 7. Coffee.

Coffee is another commodity which has been subjected to control for a long period and is still low in price and suffering from large stocks of accumulation. Brazilian production is so large a proportion of the world total that its fluctuations dominate the market. Despite the fact that since the beginning of 1931, the Brazilian Government has destroyed 32 million bags (of 60 kilogrammes) the visible world stocks remain very large. The world consumption has been very stationary despite low prices and the record Brazilian harvest in 1933-34 was the main cause of a surplus of world production over current consumption in that year amounting to more than 17 million bags.

### 8. Tea.

Tea restriction scheme introduced in April, 1933, has been much more successful, because tea is produced on large scale

plantations and there is, therefore, not the same difficulty, as for example with rubber and coffee, in controlling the production of small farmers and particularly native production. The scheme covers production in Ceylon, India and Netherland Indies and the export quota allotted for 1933-34 was 85 per cent. of the maximum exports in any of the three years 1929-31. The demand for tea is inelastic in the most important markets and the restriction affected was adequate to cause a substantial diminution of stocks and the market rise in prices. Quota was, in consequence, raised to  $87\frac{1}{2}$  per cent. for 1934-35.

### 9. Wheat.

The wheat agreement which was concluded in London shortly after the Monetary and Economic Conference was a limited agreement among the principal exporting countries to restrict their exports in the 1933-34 season and except in the Danubian group, to reduce their acreage by approximately 15 per cent. It was hoped that by thus relieving the world market, higher prices would be secured and the marketing countries might then lower their import restrictions. In fact, the production in the importing countries continued to increase and the prices did not rise to the level at which it was possible to reduce the import restrictions. This price was 63.2 gold cents and was to be maintained for at least 16 weeks. In January, 1934, price of May-futures at Liverpool was 43 gold cents. The average price of all-wheat imported into United Kingdom during the month of August was 55 gold cents per bushel. Among the exporting countries the allocation of the export quotas gave rise to disagreements in the early months of 1934. The Argentine asked for an additional quota of 40 million bushels and continued to export heavily despite the failure to reach agreement on this point. Meanwhile, however, the continued drought in the United States and poor harvest in other important areas caused the diminution of stocks and an upward price tendency, though in the middle of 1934, the wheat problem as a whole was still very far from being solved.

### 10. Cotton.

The cotton production control was largely the concern of one country, the United States. By 1933-34, the production of American Cotton fell from its peak of 17 million bales in 1931-32 to 13 million bales, while a further reduction was planned

for 1934-35. The area harvested in 1933 and 1934 fell to 30 million acres as compared with 36 million in the preceding year. Under the Bank Head Act passed in 1934, the acreage had to be reduced to 25 million in 1934-35. The new crop which is to be marketed free of tax being fixed at 10 million bales. Production elsewhere rose from 11 million bales in 1932-33 to 13 million bales in 1933-34. Despite a substantial reduction in the American crop and some recovery in demand, there still remained substantial accumulated stocks mostly of American cotton. In July 31, 1933, their total stocks were 16 million bales compared with 9 million in 1929 and 17 million in 1932. Of this total, American cotton accounted in 1934 for 11 million bales. Since July 31, 1934, however, there has been a very substantial reduction in the production.

### 11. Rubber.

Despite the unfortunate experience of earlier schemes rubber was subjected to international control in 1933. The annual world production exceeded consumption by large quantities in every year from 1925 to 1933 and world stocks at the end of 1933 were equal to almost one year's production. In May 1934, an agreement was reached among the main producing countries to regulate exports. These countries control over 99 per cent. of world production. In consequence of the agreement and even in anticipation of it, the price of rubber rose sharply. The new scheme is comprehensive in the sense not only of including practically all the important areas of production but also of exercising control over native as well as plantation rubber. Even before the scheme went into operation, the price of smoke sheet rubber in London rose from 2.16 pence per lb. in 1933 to £ 5.15 pence in March 1934 and to 6.5 pence in 1935.

## APPENDIX 'B'.

### An Extract from the League of Nations World Survey on Commodity restriction schemes.

"The operation of regulation schemes was much affected, first by the rapid rate of recovery towards the end of 1936 and during the first half of 1937, and later by the business recession which started towards the end of 1937. In nearly all cases, restrictions were substantially relaxed during the first period of rapidly increasing demand. In the case of rubber, exports were restricted to 60 per cent. of the basic quotas in the first half of 1936, but they were raised to 65% for the second half of 1936, to 75% in March 1937, to 80% in June 1937 and to 90% in September 1937. In the case of tin, export quotas were raised from 100% in the first half of 1937 to 110% for the second half of that year; and in the case of copper, production quotas were raised by degrees from 75% in August 1936 to 105% in November 1936, while in January 1937 all restrictions temporarily suspended.

The recession in the United States and the subsequent slowing-down of recovery in many other countries towards the end of 1937 greatly reduced the demand for raw materials. Prices of raw materials fell rapidly, and stocks, which in many cases had been reduced to low levels, began to rise again. The market for rubber, for example, is very dependent upon the demands of the American motor-car industry, and as much as 54% of the world output of rubber in 1937 was imported into the United States. The recession in the United States led to a reduction in the quotas for rubber from 90% to 70% for the first, to 60% for the second, and to 45% for the third quarter of 1938. In the case of tin, export quotas were reduced from 110% to 70% for the first, to 55% for the second, and to 45% for the third quarter of 1938. Moreover, in July 1938, a buffer pool was instituted, the main object of which is to reduce fluctuations in the price of tin by stocking and holding tin off the market when the price is unduly low and by selling from the pool when the price rises. Of the 45% tin quota permitted for the third quarter of 1938, 10% is to be contributed to the formation of the buffer pool, leaving an effective quota of only 35% for the market. The restriction of copper production, which had been abandoned in January 1937, was re-imposed

at 105% of the basic quotas for December 1937, and this quota was reduced to 95% for the third quarter of 1938. The Conference of the European Timber Export Convention decided to cut export quotas for 1938 by a further 5% in January, 1938, following a previous decision to cut these quotas by 10%. At the Sugar Conference in May 1937, an agreement was formed by which export quotas were fixed for the sugar-exporting countries. The agreement allowed for a maximum cut of 5% in these quotas, and in April 1938 the International Sugar Council imposed this 5% reduction; and in July 1938 the exporting countries agreed to further voluntary reductions of exports, representing in all an additional reduction of 6.2% of the total export quotas for the year 1938-39.

In a time of failing demand, of reduced prices and of increasing stock, it is to be expected that output will be restricted, or else that the scheme of regulation will break down through the defection of individual producers who see the opportunity of increasing their own profits by expanding their production beyond their narrowly restricted quotas. Up to the present, no important international regulation scheme has broken down; and in general, as described above, output has been severely restricted. In the case of tea, however, restrictions have actually been relaxed; for in November 1937 the International Tea Committee raised the export quotas for the year beginning April 1938 from 87  $\frac{1}{2}$ % to 92  $\frac{1}{2}$ % of the standard production of the restricting countries. Production by countries outside the restriction scheme is more important in the case of tea than in the case of most of the other restriction schemes; for example, in 1936, 19% of the world exports of tea came from countries outside the restriction scheme, whereas in the same year less than 3% of the world production of rubber came from outside producers. The action of the International Tea Committee has been ascribed to a desire to bring about a reduction in the price of tea, in order both to stimulate consumption and to deter countries outside the scheme from increasing their production.

On the other hand, Brazil's national scheme for the restriction of her coffee exports to maintain coffee prices was substantially modified in November 1937 after the failure of a Pan-American Coffee Conference to agree to a scheme of general restriction. The tax which was levied on coffee exports

for the purpose of buying up surplus coffee and keeping it off the market was reduced by 75%. As the following figures show, Brazil —

**Exports of Brazilian Coffee as a  
Percentage of Total World Exports of Coffee.**

1929	1935	1936	1937
59.4	56.2	51.1	47.0

by attempting alone to maintain coffee prices, had been losing ground to competing producers, and the reduction in the export duty was intended to reduce the price of Brazilian coffee in order to meet the competition of foreign countries more effectively.”

## APPENDIX 'C'.

Statistical figures relating to the production and stock of the five commodities :

Wheat, Coffee, Cotton, Rubber and Sugar.**Wheat.**

	Average		Average				
	1925-29	1930-34	1932-33	1933-34	1934-35	1935-36	1936-37
Current supplies. (million metric tons).	97	101	102	101	92	94	92
Season-end stocks. (million metric tons).	21	28	29	31	25	20	13

**Coffee.**

Quintals (ooo,ooo's)

	Average		Average				
	1925-26-1929-30	1930-31-1934-35	1932-33	1933-34	1934-35	1935-36	1936-37
<b>Production :</b>							
Brazil.	12.4	15.8	15.4	17.8	16.5	10.5	13.0
<b>Consumption :</b>							
End-of-season stocks.	9.6	15.8	13.8	15.4	13.8	15.4	—

**Cotton.**

(ooo's)

	Average		Average				
	1925-26-1929-30	1929-30	1932-33	1933-34	1934-35	1935-36	1936-37
<b>Production :</b>							
American cotton.	3,310	3,214	2,819	2,829	2,089	2,307	2,690
Outside growths.	2,460	2,536	2,351	2,931	3,031	3,423	4,160



**Stocks on 1st****August :**American  
cotton.

4,919 13,229 11,814 10,682 9,176 7,077

Cotton mill  
stocks.

4,863 4,462 5,050 5,337 — —

**Cotton mill**

Stocks (excl :

Germany &  
Italy).

4,463 4,063 4,566 4,860 4,329 4,469

Total stocks.

1929	1932	1933	1934	1935	1936
9,625	17,046	16,076	15,879	13,591	11,846

**Rubber.**

Metric tons (000's)

	Average							
	1925-29	1925	1929	1932	1933	1934	1935	1936
World shipments.	671	534	882	720	867	1,033	887	869
World stocks.	270	156	385	649	674	757	672	516

**Sugar**

(Quintals (000,000's))

	Average		Average					
	1925-26- 1929-30	1930-31- 1934-35	1932- 33	1933- 34	1934- 35	1935- 36	1936- 37	
World total output.	238	237	218	230	235	253	276	
Stocks	79	99	97	91	82	79	—	

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