● PSF State Dept.: Cordell Hull Sept.-Dec. 1944

T-359

Hull folder 2-44

THE WHITE HOUSE

WASHINGTON

September 3, 1944.

MEMORANDUM FOR

HON. CORDELL HULL:

Private and ~~confidential~~

I like that idea about Jimmy Byrnes. I think, too, that he would be sufficiently tough and I doubt if Murphy will be.

F.D.R.

DECLASSIFIED
By Deputy Archivist of the U.S.
By W. J. Stewart Date MAR 3 1972

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

September 2, 1944.

MEMORANDUM FOR THE PRESIDENT

One of the most important and difficult tasks confronting us on the defeat of Germany will be the economic controls to be established over that country and the reorganization of German economy as a means of preventing any future German aggression. This would include the reconversion of German industry from war production to the needs of reparations and peace time uses and the possible dismantling of certain industries altogether. It is presumably our intention to divide the large landed Junker estates and to break up the powerful German industrial combines. To do this, in cooperation with our Allies, will require the appointment on the American side of a man with outstanding qualifications. I can think of no one better equipped for this task than Mr. James F. Byrnes ~~and I should like to suggest his name.~~

~~If you approve of the appointment,~~ He should be given the personal rank of Ambassador and sent to London to work with the nucleus planning group which General Eisenhower has set up and move into Germany later. The importance and difficulties of the job cannot be over-emphasized.

I, of course, have not said anything to Mr. Byrnes about this.

CH

BF Hull folder 2-44

10-2-44

DEPARTMENT OF STATE
WASHINGTON

September 5, 1944

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Appeal for Denial of Refuge to War Criminals.

In response to your memorandum of August 31, the proposed Swedish announcement that asylum will not be granted to war criminals results from urgent representations which we instructed our Missions in Bern, Stockholm, Madrid and Lisbon on August 23 to make. A paraphrase of the telegram to Bern is attached. The rapid progress of events in France did not allow time for consultation with the British and the Russians, but they were advised on August 24 of the action taken. Nothing definite has yet been heard from the Spanish, Portuguese or Swiss Governments and a further urgent telegram was sent the Legation at Bern on August 31.

CH

[8-23-44]

PARAPHRASE OF TELEGRAM

The text of the President's statement in regard to war criminals made on the preceding day was transmitted by you under instructions to the Swiss Government on July 21, 1943. The President declared in that statement that it was difficult to believe that asylum or protection to any such persons would be given by any neutral countries and that this Government would consider the harboring of any of the Axis leaders or their henchmen by a neutral government as contrary to those principles for which the peoples of the United Nations were waging war.

In its reply the Swiss Government expressed the belief that the American Government did not question the right of asylum as such. That belief was correct. Throughout its history, as the Federal Council is aware, the United States has been a haven for those who have been politically oppressed in Europe.

The real purpose of the President's statement of July 20, 1943, was not correctly recognized in the Swiss reply. It was in essence an appeal not to permit Axis leaders and their tools to take refuge in neutral countries.

The President's statement of July 20, 1943, pointed out that surrender by the Axis of war criminals to the

United

United Nations would be required at the successful close of the war. Obviously no problem would arise between Switzerland and the United Nations in this connection if the Swiss Government would not allow such persons to enter Swiss territory. It is further our belief that the Swiss authorities would regard such war criminals as undesirable aliens, whose admission into Swiss territory, even if they were not wanted for trial by the United Nations, would not be in the interest of Switzerland.

Please discuss this matter fully, frankly, and informally with the appropriate Swiss authorities and request assurance that they will not admit to Swiss territory these Axis leaders and their cohorts. You may leave with them an aide memoire in the sense of this telegram. You should frankly urge the appropriate Swiss authorities to give you this desired assurance, pointing out that their Government may be required momentarily to make a decision in regard to this question, as the wheels of justice are turning rapidly. In presenting the case you might draw attention to the following considerations.

Almost nine percent - nearly twelve million people - of the United States population are in our armed forces. The Merchant Seamen of the United States number over 200,000 men who are sailing thousands of vessels to all theaters of

action

action to supply the forces of the United Nations with vital implements of war. American civilians in the tens of millions are doing vital war work; almost every individual in the United States has been affected by the war. These people recognise the fact that a small group of individuals played the leading role in bringing the United Nations into this ghastly war against the Axis countries. If asylum or protection in neutral countries were given to any of these war criminals who are responsible for this war, the American people would not be able to understand or condone such action. The feeling of the American people that adequate measures must be taken to hold Axis leaders and their henchmen to strict accountability for their crimes and actions is increasing with the daily mounting casualty lists. I do not wish you to threaten the Swiss authorities; nevertheless you would be lacking in candor should you conceal from them our conviction that American-Swiss relations would be affected adversely for many years to come in the event that country should harbor within its borders any of the Axis leaders or their lackeys.

We have no doubt that our views on this matter are shared by large sections of public opinion in neutral countries as well as by other members of the United Nations and their associates.

Keep me fully informed of your discussions and urge the

Swiss

Swiss authorities to make an early reply.

We are giving the substance of this telegram in confidence to the British and Soviet Governments. The urgency of the matter did not permit advance consultation with them. We may communicate its substance in confidence to other United Nations governments.

(3461) Signed original of this letter sent to the Secretary of State at 10:00 A.M., 9/8/44. State PSF: Hull folder 2-44

September 6, 1944.

Dear Mr. Secretary:

During the past half century the United States has developed a tradition in opposition to private monopolies. The Sherman and Clayton Acts have become as much a part of the American way of life as the due process clause of the Constitution. By protecting the consumer against monopoly these statutes guarantee him the benefits of competition.

This policy goes hand in glove with the liberal principles of international trade for which you have stood through many years of public service. The trade agreement program has as its objective the elimination of barriers to the free flow of trade in international commerce; the anti-trust statutes aim at the elimination of monopolistic restraints of trade in inter-state and foreign commerce.

Unfortunately, a number of foreign countries, particularly in continental Europe, do not possess such a tradition against cartels. On the contrary, cartels have received encouragement from some of these governments. Especially is this true with respect to Germany. Moreover, cartels were utilized by the Nazis as governmental instrumentalities to achieve political ends. The history of the use of the I. G. Farben trust by the Nazis reads like a detective story. The defeat of the Nazi armies will have to be followed by the eradication of these weapons of economic warfare. But more than the elimination of the political activities of German cartels will be required. Cartel practices which restrict the free flow of goods in foreign commerce will have to be curbed. With international trade involved this end can be achieved only through collaborative action by the United Nations.

I hope that you will keep your eye on this whole subject of international cartels because we are approaching the time when discussions will almost certainly arise between us and other nations.

Very sincerely yours,

FRANKLIN D. ROOSEVELT

Honorable Cordell Hull,
The Secretary of State,
Washington, D. C.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

MEMORANDUM FOR THE PRESIDENT September 4, 1944

With reference to Judge Rosenman's memorandum suggesting the desirability of your making a statement--in the form of a letter to me--on the subject of international cartels, I think that the proposal has merit. Such a letter, however, should be drafted with a view towards setting forth the objectives of this Government, but in such a manner so as to retain flexibility with respect to the method of achieving that end. Something along the following lines I believe would be helpful:

"During the past half century the United States has developed a tradition in opposition to private monopolies. The Sherman and Clayton Acts have become as much a part of the American way of life as the due process clause of the Constitution. By protecting the consumer against monopoly these statutes guarantee him the benefits of competition.

"This policy goes hand in glove with the liberal principles of international trade for which you have stood through many years of public service. The trade agreement program has as its objective the elimination of barriers to the free flow of trade in international commerce; the anti-trust statutes aim at the elimination of monopolistic restraints of trade in inter-state and foreign commerce.

"Unfortunately, a number of foreign countries, particularly in continental Europe, do not possess such a tradition against cartels. On the contrary, cartels have received encouragement from some of these governments. Especially is this true with

respect

FOR VICTORY
BUY UNITED STATES DEFENSE BONDS AND STAMPS

respect to Germany. Moreover, cartels were utilized by the Nazis as governmental instrumentalities to achieve political ends. The history of the use of the I. G. Farben trust by the Nazis reads like a detective story. The defeat of the Nazi armies will have to be followed by the eradication of these weapons of economic warfare. But more than the elimination of the political activities of German cartels will be required. [redacted] cartel practices which restrict the free flow of goods in foreign commerce will have to be curbed. With international trade involved this end can be achieved only through collaborative action by the United Nations."

CH

Full folder 2-44

THE WHITE HOUSE
WASHINGTON

August 21, 1944.

MEMORANDUM FOR
THE SECRETARY OF STATE:

What do you think?

F.D.R.

(Original memorandum, 8-17 from S.I.R. sent - copy retained in files.)

August 17, 1944

[redacted]

MEMORANDUM FOR THE PRESIDENT

I think that it would be advisable for you, some time in early September, to make a statement or take some action on the subject of international cartels.

At your suggestion, I have discussed the matter at length with State Department people and the present situation is briefly this:

As you know, the British are not much interested in anti-cartel discussions because:

(1) Several strong factions in their government believe that international cartels are good and should be encouraged;

(2) They incorrectly believe that the American people (outside of a small group) are not interested in the subject; and

(3) They believe that continued cartelization will give them a better position in the post-war world not only politically, but because of their foreign exchange situation.

Last fall, however, the British did reluctantly discuss the problems with the State Department in very general terms.

The other European countries are probably sympathetic with the British point of view. However, the Latin-American countries are sympathetic with our point of view on cartels as is, probably, Russia.

Largely as a result of the insistence of Secretary Hull, the British have agreed to continue to carry on cartel discussions, and the discussions are now set for the coming fall, without any definite date.

Probably the British would prefer to postpone them entirely until after the war, but I think this is one field where there will be an up-hill fight even to get any international action, and, therefore, I think it should be pushed now while the cohesive force of the war is in effect.

Besides, I think this is the time politically again to take a public position in the matter which would be consistent with your anti-monopoly policy.

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By Deputy Archivist of the U.S.
By W. J. Stewart Date MAR → 1972

There is a very good Inter-departmental Committee in the State Department on the subject of cartels, and they have prepared an excellent memorandum as a basis for those discussions with the British.

I assume that you would want to discuss this with Secretary Hull. The statement could take the form of a letter from you to him on this whole subject. If you think well of it I can, with the help of this State Department Committee, prepare a draft of such communication for your approval.

S. I. R.

T-367

THE WHITE HOUSE

WASHINGTON

September 9, 1944.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

FOR RECOMMENDATION.

F.D.R.

DEPARTMENT OF STATE
WASHINGTON
September 8, 1944

MEMORANDUM FOR THE PRESIDENT

Lend-Lease and General Economic Relations with the United Kingdom in "Phase 2"

1. The most important international economic problem of the transition and post-war periods will be the situation of the United Kingdom: the sterling-dollar relationship, the change in Britain's creditor position, the prospects for British export trade, and the commercial and financial policies which she will adopt in the light of the situation. This problem has its long run aspect - associated with the loss of overseas investment; the probable reduction in shipping, international banking, and insurance earnings; and the difficulty of reestablishing and expanding British export markets in the post-war world. The main outlines of this problem have been developing for several decades, although war has accentuated the difficulties. It is the Department's view that it is in the best interests both directly of the British and of the world in general if this long run problem is attacked by the adoption by the British of a liberal commercial policy with foreign exchange and investment operations handled in accordance with the principles of Bretton Woods.

2. Nevertheless, strong economic and political pressures will be brought to bear upon the British Government to adopt restrictive policies of commerce and finance, and these pressures will be in considerable measure induced by pressing, critical, short run problems of British economic adjustment at the close of the war. The United States can contribute greatly to the possibility of Anglo-American collaboration in sound post-war economic policies and relationships and to the attainment of high levels of economic activity and international

commerce

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State Dept. Letter, 1-11-72
By J. Schauble Date MAR 3 1972

commerce in and between the two nations and the rest of the world, by doing everything in its power to permit and assist Britain to enter "Phase 3" on as sound an economic foundation as possible.

3. The potentialities of Anglo-American and general international economic collaboration in the reconstruction and development of the world economy in "Phase 3" are large. They include the establishment of the Fund and Bank blueprinted at Bretton Woods, and the setting up of machinery for collaboration in the commercial policy field. Direct assistance, largely of a financial character, will in all probability be essentially on a loan and repayment basis. The institutions for carrying out these programs have yet in the main to be created.

4. In "Phase 2" there is more which we can do quickly and directly to set the stage for a favorable but slower development in the post-war period.

5. Turning first to the military situation, I must of course defer to the armed forces in matters of strategic policy and decision. Nevertheless it is clear that one of the most important objectives of United States policy must be to bring the British into the war operations in the Far East to the greatest possible extent. The advantages of such a course are obvious in producing an early end of the war, with the resultant saving in human and material costs. The disadvantages of the failure of the British to participate to the full in the war in the Far East deserve special emphasis:

a. Political - any indication that British participation in the Far Eastern struggle is at a rate below their utmost capabilities will produce immediate and hostile public reaction in the United States.

b. Economic - a great expansion of British exports with relatively weak British participation in the Far Eastern war will stir up the resentment of our export manufacturers and traders.

c. Lend-Lease - a failure to obtain full British participation in the Far Eastern military operations will be regarded as at least a partial failure of lend-lease policies and will create unfortunate circumstances in which to arrange for lend-lease settlement.

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By J. Schauble Date MAR 3 1972

d. General

SECRET

d. General Post-War - all of these factors will combine to produce the most difficult of circumstances in which to attempt to build Anglo-American and general political and economic collaboration to face the problems of the post-war world.

6. The economic problem then in "Phase 2" will be to permit a reasonable degree of reconversion in the United Kingdom, to be divided among reconstruction, the satisfaction of domestic needs, and the reestablishment of exports to pay for the imports which are essential to the economic life of Great Britain. This must be done in such a way as to:

a. Meet the immediate British problem of avoiding economic disaster.

b. Avoid the creation of obligations that will later plague Anglo-American relations.

c. Reduce to a minimum tendencies towards the adoption of discriminatory trade policies by the British.

d. Be politically acceptable to the American public.

7. It has been indicated that in "Phase 2" American production for war may be reduced by as much as 40 percent with a resultant reconversion to meet domestic civilian demands as well as to permit some increase in commercial exports. It is essential that there be a synchronized British reconversion program. The strain of five years of war, with bombing, severe rationing, and the dislocation of life produced by national service, will require, from the point of view of any government in the United Kingdom, substantial improvement in the conditions of civilian life. The necessities of British physical reconstruction and balances of payments will almost certainly mean that British

civilian

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State Dept. Letter, 1-11-72
By J. Schaubie Date MAR 3 1972

[redacted]

civilian standards will remain far below those in the United States. This should be recognized here as a laudable determination of the British to restrict consumption in accordance with the realities of their economic position.

8. If British reconversion is coordinated with our own, it will be right and proper, and it should be possible to justify to the Congress and the American people, to continue lend-lease aid on a reasonable scale to the British during the continuance of the Pacific war. It is my understanding that the British as yet have made no definite proposals for their overall lend-lease needs in "Phase 2", as they feel that the nature of these proposals must depend to a large degree on the strategic plans for the Far Eastern war. In view of the speed of military developments in Europe it is most important that we come to an early understanding with the British on this matter, so that a program of lend-lease can be worked out that will be fair to all concerned.

9. I therefore recommend the adoption of the following key economic policies with respect to the British in "Phase 2":

a. Synchronization of the American and British reconversion programs, recognizing that a greater proportion of the British productive capacity released from war production will be devoted to exports.

b. Maintenance of lend-lease deliveries to the United Kingdom in "Phase 2" reduced by about one-third overall. Lend-lease deliveries upon such a scale would recognize the continued British production for war, would not hamper reconversion in this country, and through the continuance of civilian items such as food (many items of which are likely to be in surplus in this country) would assist British reconversion without assuming responsibility for it.

10. These efforts to assist the British to enter "Phase 3" on as sound an economic foundation as possible must be accompanied by vigorous British efforts to join with us in pressing a world-wide program of multilateral reduction in barriers to international trade. The

Bretton Woods

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By J. Schauble Date MAR 3 1972

[redacted]

Bretton Woods agreements with respect to exchange manipulations, restrictions, and discriminations constitute a very important part of our commercial policy program. The British must be urged to implement these arrangements, and to join with us - through the Article VII conversations and otherwise - in thorough consideration of the remaining elements of our international economic program. It is of fundamental importance to the interests of the United States and to the establishment of the kind of economic conditions which we hope to see prevail in the post-war world that in formulating a lend-lease policy for "Phase 2" which will further these objectives we have assurances from the British that they will actively cooperate with us in achieving them. You are aware of the political situation in the British government which has impeded this, and I know you will agree that it is time that some forward steps be taken to resolve it.

CH

[redacted]

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date MAR 0 1972

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DEPARTMENT OF STATE
WASHINGTON

September 27, 1944

MEMORANDUM FOR THE PRESIDENT

Subject: Agreement on Principles Having Reference to the Continuance of Co-ordinated Control of Merchant Shipping.

On October 26, 1943 the Special Committee on Shipping adopted a report on the subject of shipping problems and policy during the transition period following the cessation of war conditions in Europe. At the same time the Committee appointed a subcommittee to study this problem and to report its recommendations to the Special Committee on Shipping.

On March 11, 1944 the subcommittee brought in its report which was approved. On June 15, 1944 there was laid before you a draft memorandum of principles which you approved.

Subsequently, an Inter-Allied Shipping Conference was held in London resulting in an agreement on principles having reference to the continuance of co-ordinated control of merchant shipping. The text of this agreement is being released on September 28, 1944. Copies of the agreement on principles and the press release are enclosed.

C H

Enclosures:
1. Copy of Agreement on Principles.
2. Copy of Press Release.

Department of State

BUREAU / DIVISION: SD

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

The President
The White House

U. S. GOVERNMENT PRINTING OFFICE 3—1033

Hull folder 2-44

file

DEPARTMENT OF STATE
WASHINGTON

September 27, 1944

MEMORANDUM FOR THE PRESIDENT

Tentative Program for Dealing with International Cartels

In further response to your letter of September 6, directing attention to the importance of intergovernmental discussions on the subject of international cartels, there is herewith transmitted a statement of recommendations regarding policy for dealing with international cartels and related private business arrangements prepared by the interdepartmental Committee on Private Monopolies and Cartels and approved by the Executive Committee on Economic Foreign Policy.

The proposed cartel policy is regarded by the Executive Committee as tentative and preliminary, and as subject to such modifications as may be deemed desirable after consideration of further views on this and other aspects of commercial policy. A report on the closely related subject of intergovernmental commodity agreements is now under consideration by the Executive Committee and will soon be submitted to you.

It is believed, however, that the proposed cartel policy in its present form is sufficiently definitive to serve as a working basis in discussions with other governments. In view of such discussions, it is not believed that the statement should be made public. Alternative proposals are also being studied in order that carefully thought out recommendations may be available in case of need.

Enclosure:
Secret document
no. ECEFP D-53/44,
dated September 20,
1944

C H

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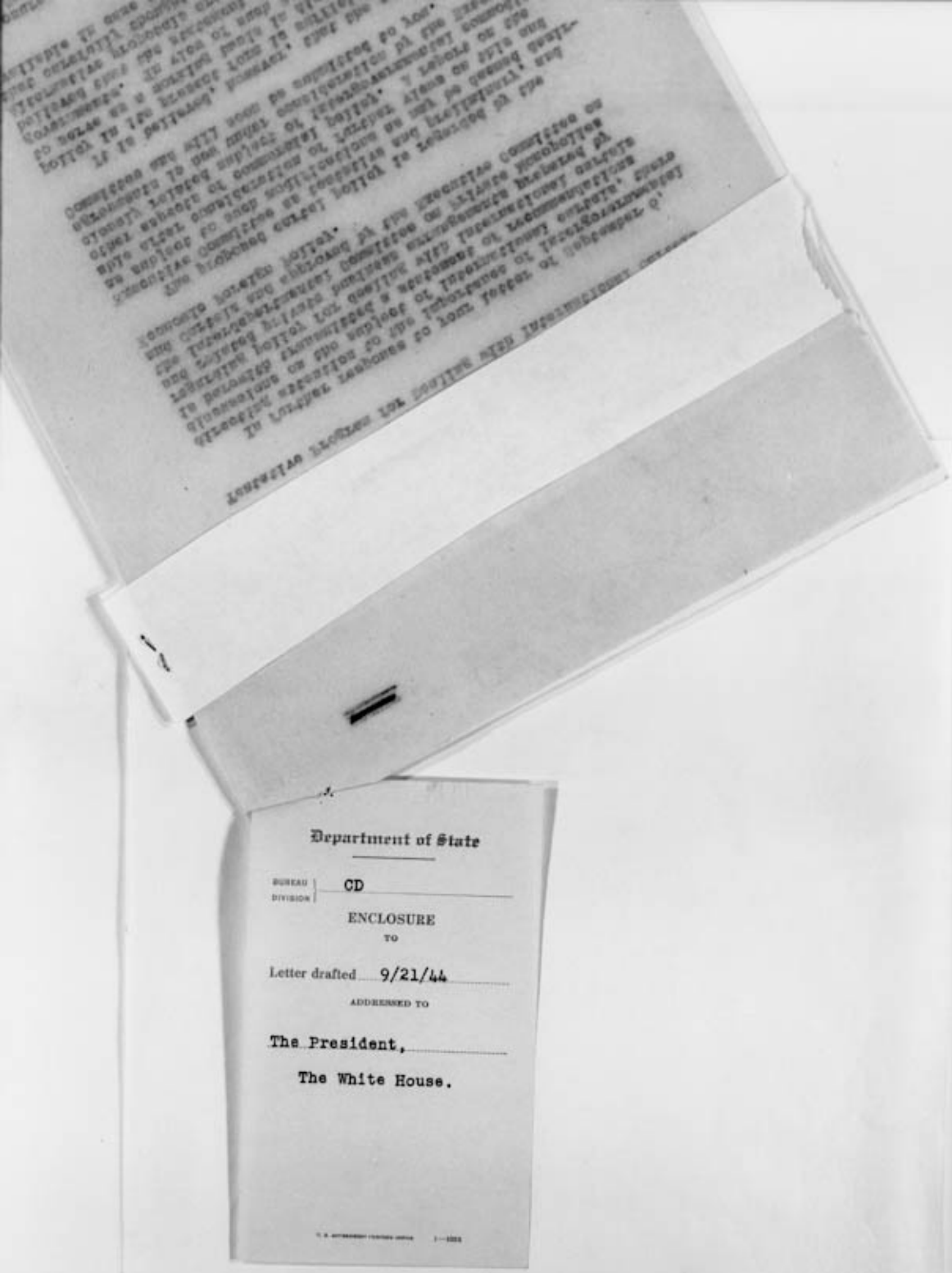
State Dept. Letter, 1-11-72
By J. Schaubie Date MAR 3 1972



Department of State

BUREAU / DIVISION: CD

ENCLOSURE

TO

Letter drafted 9/21/44

ADDRESSED TO

The President,

The White House.

DEPARTMENT OF STATE

FOR THE PRESS

SEPTEMBER 28, 1944
No. 460

~~CONFIDENTIAL~~

FUTURE RELEASE

NOTE DATE

CONFIDENTIAL RELEASE FOR PUBLICATION AT 10:00 A.M., E.W.T., THURSDAY, SEPTEMBER 28, 1944. NOT TO BE PREVIOUSLY PUBLISHED, QUOTED FROM OR USED IN ANY WAY.

The agreement on principles having reference to the continuance of coordinated control of merchant shipping which has now been published will bring about an adjustment in the present arrangements for the control of the employment of United Nations shipping. It can best be understood in relation to those arrangements. At present all British and United States ships (except certain coastal vessels) are under requisition to their respective governments. The great majority of ships under the flags of other United Nations are also under requisition by their governments and have been chartered for the duration of the war in Europe to the British Ministry of War Transport or the War Shipping Administration or have been otherwise made available for employment by one or the other of those bodies. In this way two pools of shipping are constituted, the employment of which is coordinated through the combined shipping adjustment boards, with arrangements for consultation between the British and United States and the other United Nations Governments.

At or soon after the general suspension of hostilities in Europe the existing agreements for the use by the British Ministry of War Transport and the War Shipping Administration of United Nations ships under other flags will terminate; but the requirements for ships will remain heavy for military purposes as well as for the supply of liberated areas, and all other purposes of the United Nations. In the agreement the governments which have cooperated in the provision of ships for United Nations purposes have agreed to continue to devote their shipping resources to these needs till the war in the Far East is won.

Machinery is provided for the effective collaboration by governments in the use of available shipping by the establishment of a United Maritime Council and United Maritime Executive Board. Through these bodies, which will come into operation on the general suspension of hostilities in Europe, the contracting governments will implement the principles laid down in the agreement. The principles will remain in effect till six months after the suspension of hostilities in Europe or the Far East (whichever is the later) unless terminated or modified earlier by unanimous agreement.

The

The agreement has been signed by the Governments of Belgium, Canada, Greece, Netherlands, Norway, Poland, United Kingdom and the United States of America, while the French Committee of National Liberation has signified that all French shipping is and remains at the disposal of the United Nations. The Soviet Government and other interested United Nations Governments have been kept informed. The agreement springs from the close collaboration achieved in the past and now existing between the governments which have mainly contributed to the provision of shipping to meet the needs of all the United Nations and it continues that collaboration for the general benefit into the succeeding phases. The cooperation of all United Nations not presently signatory and other friendly governments will be welcomed and it is contemplated that certain of them will accede to the agreement and participate in the central authority.

AGREEMENT ON PRINCIPLES HAVING REFERENCE TO THE CONTINUANCE OF CO-ORDINATED CONTROL OF MERCHANT SHIPPING

THE undersigned representatives, duly authorised by their respective Governments or Authorities, hereinafter referred to as contracting Governments, have agreed as follows:--

1. The contracting Governments declare that they accept as a common responsibility the provision of shipping for all military and other tasks necessary for, and arising out of, the completion of the war in Europe and the Far East and for the supplying of all the liberated areas as well as of the United Nations generally and territories under their authority.

2. The contracting Governments undertake to continue to maintain such powers of control over all ships which are registered in their territories or are otherwise under their authority as will enable them effectively to direct each ship's employment in accordance with the foregoing declaration. Subject to the provisions of paragraphs 3 and 9, this control shall continue to be exercised by each contracting Government through the mechanism of requisitioning for use or title.

3. The contracting Governments agree not to release from control any ships under their authority or permit them to be employed in any non-essential services or for any non-essential cargo unless the total overall tonnage is in excess of the total overall requirements, and then only in accordance with a mutually acceptable formula which shall not discriminate against the commercial shipping interests of any nation and shall extend to all contracting Governments an equitable opportunity for their respective tonnages to engage in commercial trades.

4. Neutral Governments having ships under their control in excess of the tonnage required to carry on their essential import requirements shall be invited to subscribe to obligations in respect of all their ships which shall ensure that their employment is in conformity with the general purposes of the United Nations.

5. The contracting Governments undertake to exercise control over the facilities for shipping available in their territories, by suitable measures on the lines of the United States and British Ship Warrant Schemes, and to take such other measures as may be necessary to secure that ships under all flags are used in conformity with the purposes of the United Nations. Other Governments acceding hereto shall give a similar undertaking.

6. Without prejudice to questions of disposition or title, the employment of such ships as may at any time be permitted to operate under enemy flag or authority shall be determined to serve the requirements of the United Nations.

7.--(a) In order that the allocation of all ships under United Nations control may continue to be effectively determined to meet the requirements of the United Nations, a central authority shall be established, to come into operation upon the general suspension of hostilities with Germany. The central authority shall be organised in accordance with the plan agreed in the Annex.

(b) The central authority shall determine the employment of ships for the purpose of giving effect to the responsibilities assumed by each

each contracting Government in paragraph 1 to provide the tonnage required from time to time to meet current requirements for ships for the military and other purposes of the United Nations, and ships shall be allocated for those purposes by those Governments in accordance with the decisions of the central authority. So far as is consistent with the efficient overall use of shipping as determined by the central authority for those purposes, and with the provisions of paragraph 7 (c), each contracting Government may allocate ships under its own authority, wholly or partly to cover the essential import requirements of territories for which it has special shipping responsibilities.

(c) In general, ships under the flag of one of the contracting Governments shall be under the control of the Government of that flag, or the Government to which they have been chartered.

In order to meet the special case of military requirements those ships which have been taken up, under agreements made by the United States Government and/or United Kingdom Government with the other Governments having authority for those ships, for use as troopships, hospital ships, and for other purposes in the service of the armed forces, shall remain on charter as at present to the War Shipping Administration and/or the Ministry of War Transport as the case may be, under arrangements to be agreed between the Governments severally concerned. (Any further ships required for such purposes shall be dealt with in a like manner.)

The fact that these ships are assigned to military requirements shall not prejudice the right of the Governments concerned to discuss with the central authority the measures to be taken to provide shipping for their essential requirements within the scope of paragraph 1.

(d) The contracting Governments shall supply to one another, through the central authority, all information necessary to the effective working of the arrangements, e.g., regarding programmes, employment of tonnage, and projected programmes, subject to the requirements of military secrecy.

(e) The central authority shall also initiate the action to be taken to give effect to paragraph 5 and shall direct action under paragraph 6.

(f) The terms of remuneration to be paid by the users (Government or private) of ships shall be determined by the central authority on a

fair

fair and reasonable basis in such manner as to give effect to the following two basic principles:--

(i) Ships of all flags performing the same or similar services should charge the same freights.

(ii) Ships must be employed as required without regard to financial considerations.

8. The principles herein agreed shall apply to all types of merchant ships, irrespective of size, including passenger ships, tankers and whale factories when not used for whaling (but paragraph 7 (b) will not be applicable to ships engaged in coastal trades and short trades between nearby countries, the arrangements for control of which shall be appropriate to meet the requirements prevailing in each particular area).

The principles shall also be applied to the extent necessary, through suitable machinery, to fishing vessels, whale catchers, and other similar craft in those areas where special measures in respect of such craft are agreed to be necessary. A special authority shall be set up capable of apportioning between naval and commercial services such craft as are available in those areas.

9. The foregoing principles shall take effect on the coming into operation of the central authority, and shall remain in effect for a period not extending beyond six months after the general suspension of hostilities in Europe or the Far East, whichever may be the later, unless it is unanimously agreed among the Governments represented on the duly authorised body of the central authority that any or all of the agreed principles may be terminated or modified earlier.

Done in London on the 5th day of August, 1944.

- - - -

ANNEX

Organization of the Central Authority.

1. The central authority shall consist of--

(a) A Council (United Maritime Council).
(b) An Executive Board (United Maritime Executive Board).

(a) The United Maritime Council

2. Each contracting Government shall be represented on the Council. Membership of the Council shall also be open to all other Governments, whether of the United Nations or of neutral countries, which desire to accede and are prepared to accept the obligations of contracting Governments.

3. The Council shall meet when deemed necessary and at least twice a year at such places as may be convenient. Meetings shall be arranged by the Executive Board. The Council shall elect its own Chairman and determine its own procedure. The meetings of the Council are intended to provide the opportunity for informing the contracting Governments as to the overall shipping situation and to make possible the interchange of views between the contracting Governments on general questions of policy arising out of the working of the Executive Board.

(b) The United Maritime Executive Board.

4. The Executive Board shall be established with Branches in Washington and London under War Shipping Administration and Ministry of War Transport chairmanship respectively.

5. The Executive Board shall exercise through its Branches the executive functions of the central authority. Appropriate machinery under the two Branches shall be established for the purpose of enabling them to discharge the functions described in paragraph 7 of the Agreement on Principles. Machinery to carry out the arrangements under paragraph 8 of that Agreement as regards ships engaged in coasting and short sea trades, and as regards small craft shall be set up under the Executive Board.

6. The division of day-to-day responsibility between the two Branches of the Executive Board shall be established as convenient from time to time. So that the two Branches of the Executive Board may work in unison, meetings of the Executive Board as a whole shall be arranged at the instance of the two chairmen, as often as may be necessary, and at such place as may be convenient from time to time.

7. The membership of the Executive Board shall be restricted in numbers. By reason of their large experience in shipping normally engaged in international trade, and their large contribution of ships for the common purpose, the following Governments shall be represented on the Executive Board:

Government of the United Kingdom of Great Britain and Northern Ireland;
Government of the United States of America;
Government of the Netherlands;
Government of Norway.

It shall

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It shall be open to the members of the Executive Board to recommend to contracting Governments additions to the membership of the Executive Board as circumstances may require in order to promote the effective working of the central authority.

8. Each contracting Government not represented on the Executive Board shall be represented by an associate member who shall be consulted by, and entitled to attend meetings of, the Executive Board or its Branches on matters affecting ships under the authority of that Government, or on matters affecting the supply of ships for the territories under the authority of that Government.

9. The Executive Board and its Branches shall proceed by agreement among the members. There shall be no voting.

10. The decisions of the Executive Board affecting the ships under the authority of any contracting Government shall be reached with the consent of that Government, acting through its representative on the Executive Board or through its associate member, as the case may be.

11. The Executive Board shall be the duly authorised body for the purpose of paragraph 9 of the Agreement on Principles, but it is understood that no decision reached under that paragraph by the Governments represented on the Executive Board shall impose any new or greater obligation on any other contracting Government without its express consent.

12. A Planning Committee shall be set up to begin work in London as soon as possible after the signature of the Agreement on Principles for the purpose of working out on a basis satisfactory to the contracting Governments the details of the machinery required to enable the Executive Board to discharge its functions, including the functions under paragraph 7 (f). Any contracting Government may be represented on the Planning Committee.

13. The Executive Board shall have the full use of the machinery and procedure of the War Shipping Administration and Ministry of War Transport in order to avoid duplication.

14. The contracting Governments shall nominate their representatives on the Planning Committee to the Governments of the United States and the United Kingdom, as soon as practicable. They shall also so nominate their representatives as members or as associate members of the Executive Board as the case may be. The Governments of the United States and the United Kingdom shall be responsible, in consultation with the other contracting Governments concerned, for determining the date of coming into operation of the central authority in accordance with paragraph 7 (a) of the Agreement on Principles.

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ECEFP D-53/44
(Cf. D-11 and D-49)
September 20, 1944

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TENTATIVE PROGRAM FOR DEALING WITH INTERNATIONAL CARTELS

(As approved by the Executive Committee on Economic Foreign Policy on September 15, 1944)

SUMMARY

1. The United States should advocate, in discussions with other nations, the adoption of a coordinated program by which each nation undertakes to prohibit the most restrictive cartel practices which burden international trade.

2. International conventions and national laws about patents, trade marks, and company organizations should be amended or supplemented to make such restrictive cartel practices more difficult.

3. Programs involving international regulation of trade or production undertaken for such purposes as international security, conservation, and public health and morals, and in dealing under certain prescribed conditions with the correction of basic economic maladjustments should be agreed upon by the governments rather than private interests.

4. To facilitate the development and administration of this program, there should be established an International Office for Business Practices.

COMMENT

These proposals are based upon conclusions that the typical effects of cartels are to reduce output, raise and stabilize selling prices, increase profit margins, reduce employment, and protect high cost members; and that

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through such activities cartels reduce employment and investment opportunities, hinder the development of liveral policies in international trade, delay the readjustment of dislocated industries, and sometimes thwart national policies or serve as the instrument of aggressive governments. The claims that cartels help preserve balance in international payments and that they can help solve problems of economic readjustment are regarded as unfounded.

It is recognized that pressures to organize cartels arise in large part from depressions, trade barriers, and unbalanced over-expansion of particular industries, and that the success of a program directed against cartel restrictions must depend in large part upon successful policies for coping with such matters.

A TENTATIVE PROGRAM FOR DEALING WITH INTERNATIONAL CARTELS

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A TENTATIVE PROGRAM FOR DEALING WITH INTERNATIONAL CARTELS

I. STATEMENT OF THE PROBLEM

A. Nature of Cartels

Cartels arise from a desire to increase profits and to avoid competition which tends to lower prices, reduce profit margins, threaten the existence of high-cost producers, and diminish established capital values. A cartel is a kind of treaty of alliance between economic rivals. It does not completely eliminate their rivalry, but it does suppress certain forms of rivalry, chiefly those which result in price competition. Individual firms continue to seek their own expansion and preferment, but they do so through striving for larger relative production quotas, control over patents and technological superiority, and through securing political support for extending their respective spheres of influence and control. Like any treaty of peace, a cartel is not permanent and may give way to the more vigorous forms of economic rivalry if one or more of the participating firms feels strong enough to bear temporary losses or reductions of profits in the hope of achieving greater long-run advantages, or if it feels sure of adequate governmental backing for its aggressive policies.

Closely related to cartels are large international trusts and combines. Within any one of these, unified control has replaced competition. In some industries several large combines have established their predominance in various parts of the world and have associated themselves through jointly controlled subsidiaries for operations in other parts of the world, thereby eliminating competition in a large portion of the world market. Moreover, as combination decreases the number and increases the size of business units, cartel agreements among the remaining enterprises are easier to form and maintain.

This memorandum deals primarily with policy in respect of cartels rather than combines because measures can more readily be formulated for controlling the

activities

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activities of cartels than for controlling trusts and combines. Certain issues associated with restrictive practices by combines are very similar to those raised by cartel activities; and measures are of course desirable to prevent business groups from accomplishing through combination what they are forbidden to accomplish by cartel agreements. A separate memorandum will later deal specifically with problems growing out of activities of combines. Reference is made in this memorandum, however, to the extension of policies concerning cartels to govern combines as well.

B. Operations of Cartels

In their attempts to maintain or increase profits, cartels engage in a variety of practices. The pattern for each cartel consists of a combination of practices adapted to fit ever-changing conditions. The most frequent of these practices are the partitioning of exclusive fields of industrial activity (e.g., the Standard Oil - I. G. Farben "division of fields agreement" of 1929); division of markets through agreement to allocate trade territory (e.g., Dupont - Imperial Chemical Industries agreement for sharing world markets); allocation of production or export quotas through agreement to set absolute or relative limits on amounts of goods produced, sold, or exported (a standard device of the International Tin Cartel); restrictions upon new productive capacity (characteristic of the cartel arrangements among nitrogen producers); and fixing of prices and terms of sale (well illustrated by the International Aluminum Cartel).

These devices may be implemented by some form of direct agreement, by the terms of patent licensing contracts, or by stock participations and joint control of subsidiary firms.

Cartels have enjoyed, moreover, some degree of government protection or support. Sometimes, indeed, government assistance seems to have been an essential requisite to the formation and continued existence or effectiveness of international cartel arrangements. Both the tin and the rubber cartels clearly belong in this category. Tacit government assent was given, furthermore, to master agreements of a cartel character made in the inter-war period among the top manufacturing associations of Germany and

France and of Germany and England, followed after the outbreak of the present war by a similar agreement involving associations in England and France.

C. Effects of Cartel Operations

The effects of cartels may be classified as: (1) those which affect primarily the cartelized industry, including its customers, employees, and employers; and (2) those which affect wider groups up to and including nations and the international community as a whole.

1. Effects on the Cartelized Industry

The following effects may be outlined as of practically universal occurrence during the continuance of a cartel agreement: (a) reduced output; (b) higher selling prices; (c) higher profit margins; (d) reduced employment; (e) protection of high-cost producer members; and (f) more stable prices for cartel members.

It should be noted, however, that when a substantial number of enterprises participate in a cartel, it is often subject to intermittent breakdowns. During those periods prices are likely to drop sharply, output and employment to increase, and profit margins to suffer. The succession of control and loss of control may well produce greater instability in such industries than would have prevailed without the cartel.

Frequently, but not universally, cartels retard the rate of technological progress, inhibit or limit the introduction of new inventions, and obstruct the rationalization of production. On the other hand, they may actually promote the interchange of scientific and technological knowledge in situations where there would otherwise be a strong tendency to secrecy and exclusiveness in guarding industrial processes. These contrary effects with regard to technology are often observable in one and the same cartel. For example, the relations between Standard Oil and I. G. Farben were of such a nature as to produce close working cooperation between two of the world's greatest industrial research organizations, with advantages to both sides, while at the same time business considerations often dictated the desirability of holding out or restricting the use of new methods or products.

2. Effects on Wider Groups and Communities

Experts are by no means agreed upon all the wider effects of cartels, but it is possible to indicate briefly some of those which are generally regarded as less controversial.

a. Reduction of Employment and Investment Opportunities

Cartels foster and propagate a general business philosophy of restrictionism. Through restricting sales opportunities by higher prices, restricting production, and restricting the expansion of cartelized industries, cartels contribute to the difficulty of maintaining employment. This result may be enhanced to the extent that cartels increase profits as a share of total income. An important school of thought believes that a larger share of profits means a greater relative amount of saving, particularly corporate saving; in the absence of expanding investment opportunities, such enhancement of savings exercises a depressive effect on employment, and this effect is likely to be accentuated by restrictive practices of cartels which limit opportunities to invest.

b. Hindrance to Liberal International Trade Policy

In the international field, cartels impose by private treaty artificial barriers to international trade which give rise to international frictions and disputes, disturb the course of multilateral trade, and restrict opportunities for additional investment. By reserving the markets of colonies and mandates to producers situated in the imperial country, cartels also constitute a form of trade discrimination. For these reasons cartel practices are in conflict with measures to liberalize international trade policy.

c. Influence on International Trade and Payments Balances

International cartels also affect the balance of trade and the balance of payments of the various countries which are concerned either as buyers or as sellers of cartelized products. This influence is exercised

through both price and quota allocation policies, and is most significant in a few cases in which a national economy rests heavily upon the exportation of one or two commodities. For example, on the one hand, Bolivia depends to a considerable extent upon tin exports for foreign exchange and public revenue. The maintenance of the tin cartel is therefore a matter of national interest to Bolivians. On the other hand, cartels in the chemical and other industries aggravate Bolivia's balance of trade difficulties by maintaining high prices upon imported commodities and by preventing so far as possible the development of manufacture in Latin America. Since various countries will probably be in urgent need of foreign exchange after the war, it is reasonable to expect that unless more constructive methods of cartel control are adopted, there will be pressure from some governments for cartelization of their principal exports, and that such pressure will be more vigorous when imports into such countries are also cartelized.

d. Hindrance to Readjustments of Markets

Cartels often are used as devices to cushion the impact of serious economic dislocations. The cushioning effect is designed to benefit primarily the firms immediately affected, but sometimes wider groups are also indirectly assisted, at least from a short-run point of view. The most obvious type of cushioning is that undertaken by an established group to protect itself against the invasion of its markets by new-comers. The heavy investments in war plants which have been made in the principal belligerent countries have expanded the productive facilities in many industries to an unprecedented degree. Return to peace-time production is therefore likely to call forth unusual efforts by established groups to minimize new competition in their markets.

Readjustment of national frontiers and erection of new national barriers to trade, such as followed the peace of 1919, would disrupt the established markets of many producers and impel them to seek protective restrictions upon market areas which they hope to retain or invade. Such offsetting protections may be sought either in further trade barrier laws or in cartel agreements, or in both. The proliferation of cartels in Central Europe

following World War I was partly due to efforts to cushion such economic dislocations. In such cases the cartel and the tariff have the effect of freezing existing conditions in the industry; at the expense of high prices and technological backwardness, the threatened producers attempt to diminish the rigors of what is at best a very painful process of adjustment. If, after the present war, trade barriers are allowed to impede the flow of commerce across national frontiers, it is very likely that a cartelization movement will obtain the support of certain governments as after the last war.

e. Political Effects

The political effects of cartels are subject to heated controversy, but four points at any rate seem beyond dispute. First, cartels necessarily imply the organization of producers, and organized groups exercise more political influence than unorganized groups. Hence cartels necessarily strengthen the political position of cartelized business as against unorganized business and the rest of the community. Second, the national interest is frequently asserted to be, and sometimes actually is, significantly involved in the success of a national group in an international cartel. Governments find themselves, therefore, under pressure to come to the support of their own business groups. Third, cartel policy often runs contrary to the policy of a national state, and under such circumstances may, in some cases, even circumvent or nullify national policies. Fourth, when an aggressive government undertakes political and industrial penetration of other countries, cartels often afford a convenient means.

Like all barriers to the expansion of trade, cartels help to prepare the soil in which aggressive ideologies and movements sink their roots. The Nazi demand for "Lebensraum", for example, found German business men and German workers receptive largely because of the excess productive capacity and unemployment which the monopolistic structure of German industry had done so much to create. It found cartels convenient instruments to use for an aggressive governmental purpose. But this is a different matter from charging cartels with directly inciting aggression. Most representatives of cartels are no doubt sincere when they protest that, far from inciting aggression, they favor cooperation between business men of different countries.

II. OBJECTIVES OF A PROGRAM FOR DEALING WITH CARTELS

The foregoing analysis of the nature and effects of cartels suggests that the objectives of a cartel policy should be on the one hand to eliminate the restrictive and injurious practices of cartels, and on the other hand to attack positively the very real economic problems which, if left unsolved, generate strong pressure for cartelization. The two aspects of this policy are closely interdependent; indeed, the failure to adopt positive measures would seriously jeopardize the chances of eliminating restrictive cartel practices.

A. Elimination of Restrictive Practices

Those practices which are generally agreed to be injurious and indefensible from the public standpoint include the following: allocating markets, restricting output or exports, fixing prices, maintaining uneconomically high-cost producers, and hindering the dissemination and use of technological knowledge. Elimination of these practices would limit the artificial raising of profits at the expense of other kinds of income, a process which contributed to the difficulty of maintaining the general level of employment. It would, moreover, lessen the political dangers of private and undemocratic formation of foreign policy. It would also supplement other measures designed to liberalize international commercial policy and restore the multilateral character of world trade. Finally, the elimination of restrictive cartel practices would abolish private trade discriminations based on the reservation of markets of colonies and mandates to producers situated in the imperial country.

B. Solution of Problems Which Generate Pressure for Cartellization

The objectives of a cartel program, in this respect should be at least four-fold.

1. Promotion of Interchange of Technological Knowledge

Under certain circumstances, as indicated earlier, cartels facilitate the interchange of technical information and industrial know-how. In some fields, the termination of restrictive cartel practices might induce resort

to secrecy and exclusiveness in the development and utilization of new and improved processes. To the extent that this is likely to happen, it would clearly be desirable to provide alternative means to continue the interchange and development of industrial technology.

2. Readjustments of War-expanded Industries to Civilian Demands

Severe maladjustments in particular industries may give rise to urgent, if transitory, need for measures of readjustment. In the immediate post-war period this problem is likely to assume unusual importance. Although little can be said for the effectiveness of cartels in dealing with such exceptional problems, lack of any well-considered international policy is likely to evoke cartels just as it evokes governmental trade barriers, as symptoms of a distress which demands some remedy. The "solution" of such readjustment problems which is offered by cartels is really no solution at all, but rather an attempt to avoid the problems or postpone their most disagreeable effects. Indeed, as in the case of governmental trade barriers, the net result of such measures may be to aggravate and prolong the basic conditions with which it is sought to deal. In nearly every case, the basis of the difficulty will be discovered to lie in the existence of excess capacity in certain industries. The real problem is to divert the surplus resources out of the afflicted industry and into other branches of production for which an adequate demand, either domestic or export, exists or can be developed. Cartels by their very nature cannot even begin to provide a solution of this problem. They are confined to individual industries and cannot take an over-all view of the economic problems of a single country, still less of the international community. A fruitful approach to problems of this kind must inevitably transcend the scope of any conceivable cartel policy if the latter is understood in the narrow sense of measures specifically concerned with cartels and their practices. But since failure to cope with such problems must jeopardize the success of international policy toward cartels, emphasis of the importance of solving, or at least aiding in the solution of this very important range of problems is regarded as a legitimate adjunct to a cartel program.

3. Discouragement of Cartelization as a Remedy for Balance of Payments Difficulties

Countries are frequently confronted with a difficult problem in the form of serious unbalance in their international payments position. It is sometimes alleged in support of cartels that they provide a useful and effective device to assist in the solution of this problem. As a general proposition, this suggestion is not persuasive because in most cases there is little reason to believe that cartels have contributed much to the solution of such problems. Even with regard to a single commodity, a cartel arrangement beneficial to the payments position of one country is likely to be detrimental to that of another. Hence, the more generally the cartel system is applied to commodities moving in international trade, the less likely it is that any single country will derive important benefits from it. What is gained in the way of higher prices for exports is likely to be offset, at least in part, and perhaps more than offset, by higher prices for imports. Furthermore, it seems clear that cartels inhibit the over-all expansion of trade and employment which alone can provide the necessary background for a general solution of the complicated and interdependent balance of payments problems of all the countries which make the international economy. Nevertheless, where a country's balance of payments is largely dependent upon a single commodity, and through cartelization the existing export market for this commodity has been protected, the disappearance of the cartel may involve difficulties in the international payment position of the country. Under such circumstances it may be desirable for other governments to provide temporary aid in financing imports and to assist in the development of alternative national undertakings.

C. Intergovernmental Agreements

Prohibition of restrictive private agreements in international trade will doubtless call forth increased business pressure upon governments to enter into restrictive agreements similar in their effects to those which would otherwise have been privately negotiated. It

should

should be recognized that under certain prescribed conditions still to be formulated intergovernmental agreements involving the regulation of trade or production in respect of certain commodities may be warranted.

III. RECOMMENDATIONS CONCERNING A CARTEL PROGRAM

The foregoing discussion suggests that, in the absence of a constructive program, various types of industrial maladjustment may generate strong pressure for international cartels either with or without governmental supervision. In some circles there is a tendency to believe that, under governmental supervision, international cartels might be converted into useful instruments of public policy capable of dealing effectively with the industrial maladjustments under consideration. This belief must be rejected. The European experience of cartel regulation has been both extensive and unhappy. Attempts in various countries at governmental control of business policies with respect to production and price have revealed a strong tendency for the principles and aims of the regulated group to become those of the regulating authority. In the international field, where the added possibility exists of playing governments off against each other, there can be little doubt that government regulation would be even less effective. It does not, therefore, appear practicable to set up a cartel program in terms of regulating certain practices while encouraging cartels to proceed along constructive lines.

It is, in fact, necessary to attack the problem from another angle. The most promising approach is believed to include the following steps: (a) a series of measures designed to eliminate restrictive cartel practices in international trade; (b) provision for research on a basis which will make a larger portion of new technology widely available for business use; and (c) provision for governmentally originated and controlled agreements in certain cases in which the public interest requires limitation or regulation of world trade.

These three suggested steps are considered below, and appropriate machinery for action is briefly suggested.

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This memorandum also points out the relationship of the proposed program to measures for correcting industrial maladjustments and difficulties in the international balance of payments, and to broader measures for providing full employment. The success of those measures would, of course, reduce the pressures toward cartelization.

A. Elimination of Undesirable Cartel Effects

Nothing in the proposed program toward cartels is designed to prohibit agreements between business enterprises when the agreements do not involve restrictive measures. Restrictive practices, however, should be prohibited, and patent and trade-mark laws should be modified.

1. Prohibition of Restrictive Practices

Price fixing, division of fields, quota allocations, division of markets, and similar cartel practices should be prohibited by governments. The prohibition should be international in scope. Each country participating in the program should undertake to enforce these prohibitory provisions on business firms which operate under its jurisdiction but which are engaged in international trade, and should undertake also to assist other countries in their effort to do so.

Supplements to this memorandum will set forth more explicitly the types of agreements between business enterprises to be prohibited. Provision will be made, moreover, for amendment to these detailed statements in the light of experience. Any private agreement not thus explicitly prohibited will be presumed to be permissible in so far as it is consistent with the national laws of the various governments which have jurisdiction over it.

Consideration also should be given to the possibility that registration of enduring international agreements between private firms might be required. Such a requirement would necessitate caution in determining the scope of the registration requirement, in order that pertinent documents might be procured without excessive registration of trivia.

Such

Such registration might be with the governments of the various participating countries or with an international agency such as that suggested in Section IV of this memorandum.

Measures to prevent or limit similar practices by international trusts or combines, and to register such enterprises may also be desirable.

2. Modification of Patent and Trade-mark Laws

Alteration should be made of national patent and trade-mark laws and international conventions so that licensing contracts may no longer provide legal cover for what would otherwise be prohibited agreements and so that technological improvements may be more accessible.

B. Promotion of Research

There is difficulty in establishing new enterprises in some industries throughout the world and in developing the industries of non-industrial nations because so much of modern technological development is concentrated in a few enterprises, exchanged with others on a restrictive basis, and surrounded with secrecy. Mere termination of restrictive covenants based upon patents will not be sufficient to overcome this handicap. It is neither feasible nor desirable to prevent the continued private enjoyment of the results of research in the great industrial research laboratories. But it is possible to increase the portion of technology which is open to large and small concerns alike by strengthening and extending the research and development activities which have already been undertaken by non-commercial agencies in various countries throughout the world. Hence, a program to prevent restrictive cartel practices properly includes establishment in each major producing area of an institution for scientific and technical research and development, such as is proposed in a bill now under consideration by the Kilgore Committee, or adaptation of existing institutions to the purpose; and establishment of international machinery for cooperation among such institutions to the end that new technology may become available for use by business enterprises as widely and speedily as possible.

C. Intergovernmental

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The subject of international organization and procedure for dealing with intergovernmental commodity agreements is under consideration by the Committee on Commodity Agreements which is expected to submit a report at an early date.

IV. MACHINERY FOR IMPLEMENTING A CARTEL CONTROL PROGRAM

The program outlined in the preceding section is submitted as a possible basis for discussions with other governments. It is therefore desirable to indicate briefly the machinery to implement the various proposals.

A. International Conventions on Practices

The first proposal, elimination of restrictive cartel practices, would be achieved by international conventions in which each government would agree to prohibit specified cartel practices and would undertake to provide adequate national measures of enforcement. Necessary modifications of patent and trade-mark laws would also be developed by international agreement in the form of amendments to international conventions for the protection of industrial property and drafts of uniform clauses to be included in national laws.

B. International Conventions on Research

Similar conventions should be devised to implement the proposal for the interchange of industrial technology and for research. These would provide for the establishment or designation of domestic research institutions to carry out the program of research and international cooperation described above.

C. International Office for Business Practices

To facilitate intergovernmental agreements in the matters outlined above, and for other purposes, an International Office for Business Practices should be established.

This Office might assist in the prevention of undesirable cartel practices by serving as a registration agency for international agreements, by studying the activities of international business organizations, and by investigating alleged cases of restrictive cartel activity and recommending corrective measures to the participating governments. It might act as an agency for the exchange of pertinent technological information, including results of governmentally-sponsored research, among the participating member governments. It might develop proposals for more effective prevention of private restrictive agreements and for modification of international patent and trade-mark arrangements. Plans for the organization and functions of the Office are being given further study.

V. RELATION OF A CARTEL POLICY TO OTHER ECONOMIC POLICIES

The cartel policy proposed above should be viewed as an integral part of a broader policy of international action to promote fuller production and employment and to facilitate the flow of international commerce and trade. The function of a cartel program, like that of a program concerned with governmental trade barriers, is to remove specific obstacles to the accomplishment of these broad purposes.

The various policies and programs in the economic field should be complementary. The drag of cartel restrictions would be a handicap to the maintenance of high levels of income and employment, to the elimination of trade barriers, and to the development of useful ways of dealing with industrial maladjustments and with unbalance in national payments. Similarly, the failure of programs concerned with these matters would intensify the pressures which evoke cartels.

Affirmative steps to bring about high levels of income and employment and to remove trade barriers are obviously appropriate objectives of programs for international action. Though their success is highly important for the cartel program, they require no further discussion here.

It seems

It seems desirable, however, to point out that there are possibilities of using governmental policies toward industry to contribute to the solution of industrial maladjustments and unbalance in international payments by methods other than restrictive action. When there is a persistent difficulty in maintaining the balance of payments such as cannot be handled through an international monetary and banking system, the remedy might appropriately include a shift of resources from one export industry to another, so as to make possible the acquisition of exchange on the required scale, and the development of appropriate domestic industries which can produce commodities to take the place of imports. Similarly, the problem of persistent and substantial excess capacity may necessitate the shifting of resources, particularly labor, into fields of greater usefulness. Such a shifting of resources calls for technical ability and financing which some countries may not possess on a scale commensurate with their problems. Therefore technical and financial assistance on an international scale can sometimes facilitate desirable readjustment. Measures of this kind--essentially based upon technical missions, development commissions, and international loans--furnish a constructive alternative to the characteristic cartel efforts to keep dying industries alive and to maintain trade balances by restrictive measures.

Unused excess capacity in industry finds its counterpart in agricultural production in the form of recurrent surplus production of commodities. This problem may also be dealt with by measures which include reallocation of resources and the relocation of producers and workers. To effect these shifts, technical and financial measures may be needed, the latter in the form of long-term loans at low interest rates. These measures may serve to assist poorer countries to establish new industries or expand old ones, to resettle and re-equip agricultural producers for the cultivation of commodities promising better incomes, and to expand water, transportation, electricity, and other basic resources for the development of industry and agriculture. International agreements to limit tariff protection, subsidies, and other measures that bolster the position of high-cost producers may also be needed. In order

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to effect a reallocation of resources, high-cost producers should be exposed to world competition. And to induce nations to accept such exposure in respect of a commodity they produce at a disadvantage, there must be at hand the prospect of increased opportunities for commodities which they produce at an advantage.

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TENTATIVE PROGRAM FOR DEALING WITH INTERNATIONAL CARTELS

(As approved by the Executive Committee on Economic Foreign Policy on September 15, 1944)

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These proposals are based upon conclusions that the typical effects of cartels are to reduce output, raise and stabilize selling prices, increase profit margins, reduce employment, and protect high cost members; and that

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A TENTATIVE PROGRAM FOR DEALING WITH
INTERNATIONAL CARTELS

I. STATEMENT OF THE PROBLEM

A. Nature of Cartels

Cartels arise from a desire to increase profits and to avoid competition which tends to lower prices, reduce profit margins, threaten the existence of high-cost producers, and diminish established capital values. A cartel is a kind of treaty of alliance between economic rivals. It does not completely eliminate their rivalry, but it does suppress certain forms of rivalry, chiefly those which result in price competition. Individual firms continue to seek their own expansion and preferment, but they do so through striving for larger relative production quotas, control over patents and technological superiority, and through securing political support for extending their respective spheres of influence and control. Like any treaty of peace, a cartel is not permanent and may give way to the more vigorous forms of economic rivalry if one or more of the participating firms feels strong enough to bear temporary losses or reductions of profits in the hope of achieving greater long-run advantages, or if it feels sure of adequate governmental backing for its aggressive policies.

Closely related to cartels are large international trusts and combines. Within any one of these, unified control has replaced competition. In some industries several large combines have established their predominance in various parts of the world and have associated themselves through jointly controlled subsidiaries for operations in other parts of the world, thereby eliminating competition in a large portion of the world market. Moreover, as combination decreases the number and increases the size of business units, cartel agreements among the remaining enterprises are easier to form and maintain.

This memorandum deals primarily with policy in respect of cartels rather than combines because measures can more readily be formulated for controlling the

activities

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State Dept. Letter, 1-11-72
By J. Schauble Date MAR 3 1972

activities of cartels than for controlling trusts and combines. Certain issues associated with restrictive practices by combines are very similar to those raised by cartel activities; and measures are of course desirable to prevent business groups from accomplishing through combination what they are forbidden to accomplish by cartel agreements. A separate memorandum will later deal specifically with problems growing out of activities of combines. Reference is made in this memorandum, however, to the extension of policies concerning cartels to govern combines as well.

B. Operations of Cartels

In their attempts to maintain or increase profits, cartels engage in a variety of practices. The pattern for each cartel consists of a combination of practices adapted to fit ever-changing conditions. The most frequent of these practices are the partitioning of exclusive fields of industrial activity (e.g., the Standard Oil - I. G. Farben "division of fields agreement" of 1929); division of markets through agreement to allocate trade territory (e.g., Dupont - Imperial Chemical Industries agreement for sharing world markets); allocation of production or export quotas through agreement to set absolute or relative limits on amounts of goods produced, sold, or exported (a standard device of the International Tin Cartel); restrictions upon new productive capacity (characteristic of the cartel arrangements among nitrogen producers); and fixing of prices and terms of sale (well illustrated by the International Aluminum Cartel).

These devices may be implemented by some form of direct agreement, by the terms of patent licensing contracts, or by stock participations and joint control of subsidiary firms.

Cartels have enjoyed, moreover, some degree of government protection or support. Sometimes, indeed, government assistance seems to have been an essential requisite to the formation and continued existence or effectiveness of international cartel arrangements. Both the tin and the rubber cartels clearly belong in this category. Tacit government assent was given, furthermore, to master agreements of a cartel character made in the inter-war period among the top manufacturing associations of Germany and

France and of Germany and England, followed after the outbreak of the present war by a similar agreement involving associations in England and France.

C. Effects of Cartel Operations

The effects of cartels may be classified as: (1) those which affect primarily the cartelized industry, including its customers, employees, and employers; and (2) those which affect wider groups up to and including nations and the international community as a whole.

1. Effects on the Cartelized Industry

The following effects may be outlined as of practically universal occurrence during the continuance of a cartel agreement: (a) reduced output; (b) higher selling prices; (c) higher profit margins; (d) reduced employment; (e) protection of high-cost producer members; and (f) more stable prices for cartel members.

It should be noted, however, that when a substantial number of enterprises participate in a cartel, it is often subject to intermittent breakdowns. During those periods prices are likely to drop sharply, output and employment to increase, and profit margins to suffer. The succession of control and loss of control may well produce greater instability in such industries than would have prevailed without the cartel.

Frequently, but not universally, cartels retard the rate of technological progress, inhibit or limit the introduction of new inventions, and obstruct the rationalization of production. On the other hand, they may actually promote the interchange of scientific and technological knowledge in situations where there would otherwise be a strong tendency to secrecy and exclusiveness in guarding industrial processes. These contrary effects with regard to technology are often observable in one and the same cartel. For example, the relations between Standard Oil and I. G. Farben were of such a nature as to produce close working cooperation between two of the world's greatest industrial research organizations, with advantages to both sides, while at the same time business considerations often dictated the desirability of holding out or restricting the use of new methods or products.

2. Effects on Wider Groups and Communities

Experts are by no means agreed upon all the wider effects of cartels, but it is possible to indicate briefly some of those which are generally regarded as less controversial.

a. Reduction of Employment and Investment Opportunities

Cartels foster and propagate a general business philosophy of restrictionism. Through restricting sales opportunities by higher prices, restricting production, and restricting the expansion of cartelized industries, cartels contribute to the difficulty of maintaining employment. This result may be enhanced to the extent that cartels increase profits as a share of total income. An important school of thought believes that a larger share of profits means a greater relative amount of saving, particularly corporate saving; in the absence of expanding investment opportunities, such enhancement of savings exercises a depressive effect on employment, and this effect is likely to be accentuated by restrictive practices of cartels which limit opportunities to invest.

b. Hindrance to Liberal International Trade Policy

In the international field, cartels impose by private treaty artificial barriers to international trade which give rise to international frictions and disputes, disturb the course of multilateral trade, and restrict opportunities for additional investment. By reserving the markets of colonies and mandates to producers situated in the imperial country, cartels also constitute a form of trade discrimination. For these reasons cartel practices are in conflict with measures to liberalize international trade policy.

c. Influence on International Trade and Payments Balances

International cartels also affect the balance of trade and the balance of payments of the various countries which are concerned either as buyers or as sellers of cartelized products. This influence is exercised

through both price and quota allocation policies, and is most significant in a few cases in which a national economy rests heavily upon the exportation of one or two commodities. For example, on the one hand, Bolivia depends to a considerable extent upon tin exports for foreign exchange and public revenue. The maintenance of the tin cartel is therefore a matter of national interest to Bolivians. On the other hand, cartels in the chemical and other industries aggravate Bolivia's balance of trade difficulties by maintaining high prices upon imported commodities and by preventing so far as possible the development of manufacture in Latin America. Since various countries will probably be in urgent need of foreign exchange after the war, it is reasonable to expect that unless more constructive methods of cartel control are adopted, there will be pressure from some governments for cartelization of their principal exports, and that such pressure will be more vigorous when imports into such countries are also cartelized.

d. Hindrance to Readjustments of Markets

Cartels often are used as devices to cushion the impact of serious economic dislocations. The cushioning effect is designed to benefit primarily the firms immediately affected, but sometimes wider groups are also indirectly assisted, at least from a short-run point of view. The most obvious type of cushioning is that undertaken by an established group to protect itself against the invasion of its markets by new-comers. The heavy investments in war plants which have been made in the principal belligerent countries have expanded the productive facilities in many industries to an unprecedented degree. Return to peace-time production is therefore likely to call forth unusual efforts by established groups to minimize new competition in their markets.

Readjustment of national frontiers and erection of new national barriers to trade, such as followed the peace of 1919, would disrupt the established markets of many producers and impel them to seek protective restrictions upon market areas which they hope to retain or invade. Such offsetting protections may be sought either in further trade barrier laws or in cartel agreements, or in both. The proliferation of cartels in Central Europe

following World War I was partly due to efforts to cushion such economic dislocations. In such cases the cartel and the tariff have the effect of freezing existing conditions in the industry; at the expense of high prices and technological backwardness, the threatened producers attempt to diminish the rigors of what is at best a very painful process of adjustment. If, after the present war, trade barriers are allowed to impede the flow of commerce across national frontiers, it is very likely that a cartelization movement will obtain the support of certain governments as after the last war.

e. Political Effects

The political effects of cartels are subject to heated controversy, but four points at any rate seem beyond dispute. First, cartels necessarily imply the organization of producers, and organized groups exercise more political influence than unorganized groups. Hence cartels necessarily strengthen the political position of cartelized business as against unorganized business and the rest of the community. Second, the national interest is frequently asserted to be, and sometimes actually is, significantly involved in the success of a national group in an international cartel. Governments find themselves, therefore, under pressure to come to the support of their own business groups. Third, cartel policy often runs contrary to the policy of a national state, and under such circumstances may, in some cases, even circumvent or nullify national policies. Fourth, when an aggressive government undertakes political and industrial penetration of other countries, cartels often afford a convenient means.

Like all barriers to the expansion of trade, cartels help to prepare the soil in which aggressive ideologies and movements sink their roots. The Nazi demand for "Lebensraum", for example, found German business men and German workers receptive largely because of the excess productive capacity and unemployment which the monopolistic structure of German industry had done so much to create. It found cartels convenient instruments to use for an aggressive governmental purpose. But this is a different matter from charging cartels with directly inciting aggression. Most representatives of cartels are no doubt sincere when they protest that, far from inciting aggression, they favor cooperation between business men of different countries.

II. OBJECTIVES OF A PROGRAM FOR DEALING WITH CARTELS

The foregoing analysis of the nature and effects of cartels suggests that the objectives of a cartel policy should be on the one hand to eliminate the restrictive and injurious practices of cartels, and on the other hand to attack positively the very real economic problems which, if left unsolved, generate strong pressure for cartelization. The two aspects of this policy are closely interdependent; indeed, the failure to adopt positive measures would seriously jeopardize the chances of eliminating restrictive cartel practices.

A. Elimination of Restrictive Practices

Those practices which are generally agreed to be injurious and indefensible from the public standpoint include the following: allocating markets, restricting output or exports, fixing prices, maintaining uneconomically high-cost producers, and hindering the dissemination and use of technological knowledge. Elimination of these practices would limit the artificial raising of profits at the expense of other kinds of income, a process which contributed to the difficulty of maintaining the general level of employment. It would, moreover, lessen the political dangers of private and undemocratic formation of foreign policy. It would also supplement other measures designed to liberalize international commercial policy and restore the multilateral character of world trade. Finally, the elimination of restrictive cartel practices would abolish private trade discriminations based on the reservation of markets of colonies and mandates to producers situated in the imperial country.

B. Solution of Problems Which Generate Pressure for Cartelization

The objectives of a cartel program, in this respect should be at least four-fold.

1. Promotion of Interchange of Technological Knowledge

Under certain circumstances, as indicated earlier, cartels facilitate the interchange of technical information and industrial know-how. In some fields, the termination of restrictive cartel practices might induce resort

to secrecy and exclusiveness in the development and utilization of new and improved processes. To the extent that this is likely to happen, it would clearly be desirable to provide alternative means to continue the interchange and development of industrial technology.

2. Readjustments of War-expanded Industries to Civilian Demands

Severe maladjustments in particular industries may give rise to urgent, if transitory, need for measures of readjustment. In the immediate post-war period this problem is likely to assume unusual importance. Although little can be said for the effectiveness of cartels in dealing with such exceptional problems, lack of any well-considered international policy is likely to evoke cartels just as it evokes governmental trade barriers, as symptoms of a distress which demands some remedy. The "solution" of such readjustment problems which is offered by cartels is really no solution at all, but rather an attempt to avoid the problems or postpone their most disagreeable effects. Indeed, as in the case of governmental trade barriers, the net result of such measures may be to aggravate and prolong the basic conditions with which it is sought to deal. In nearly every case, the basis of the difficulty will be discovered to lie in the existence of excess capacity in certain industries. The real problem is to divert the surplus resources out of the afflicted industry and into other branches of production for which an adequate demand, either domestic or export, exists or can be developed. Cartels by their very nature cannot even begin to provide a solution of this problem. They are confined to individual industries and cannot take an over-all view of the economic problems of a single country, still less of the international community. A fruitful approach to problems of this kind must inevitably transcend the scope of any conceivable cartel policy if the latter is understood in the narrow sense of measures specifically concerned with cartels and their practices. But since failure to cope with such problems must jeopardize the success of international policy toward cartels, emphasis of the importance of solving, or at least aiding in the solution of this very important range of problems is regarded as a legitimate adjunct to a cartel program.

3. Discouragement of Cartelization as a Remedy for Balance of Payments Difficulties

Countries are frequently confronted with a difficult problem in the form of serious unbalance in their international payments position. It is sometimes alleged in support of cartels that they provide a useful and effective device to assist in the solution of this problem. As a general proposition, this suggestion is not persuasive because in most cases there is little reason to believe that cartels have contributed much to the solution of such problems. Even with regard to a single commodity, a cartel arrangement beneficial to the payments position of one country is likely to be detrimental to that of another. Hence, the more generally the cartel system is applied to commodities moving in international trade, the less likely it is that any single country will derive important benefits from it. What is gained in the way of higher prices for exports is likely to be offset, at least in part, and perhaps more than offset, by higher prices for imports. Furthermore, it seems clear that cartels inhibit the over-all expansion of trade and employment which alone can provide the necessary background for a general solution of the complicated and interdependent balance of payments problems of all the countries which make the international economy. Nevertheless, where a country's balance of payments is largely dependent upon a single commodity, and through cartelization the existing export market for this commodity has been protected, the disappearance of the cartel may involve difficulties in the international payment position of the country. Under such circumstances it may be desirable for other governments to provide temporary aid in financing imports and to assist in the development of alternative national undertakings.

C. Intergovernmental Agreements

Prohibition of restrictive private agreements in international trade will doubtless call forth increased business pressure upon governments to enter into restrictive agreements similar in their effects to those which would otherwise have been privately negotiated. It

should

should be recognized that under certain prescribed conditions still to be formulated intergovernmental agreements involving the regulation of trade or production in respect of certain commodities may be warranted.

III. RECOMMENDATIONS CONCERNING A CARTEL PROGRAM

The foregoing discussion suggests that, in the absence of a constructive program, various types of industrial maladjustment may generate strong pressure for international cartels either with or without governmental supervision. In some circles there is a tendency to believe that, under governmental supervision, international cartels might be converted into useful instruments of public policy capable of dealing effectively with the industrial maladjustments under consideration. This belief must be rejected. The European experience of cartel regulation has been both extensive and unhappy. Attempts in various countries at governmental control of business policies with respect to production and price have revealed a strong tendency for the principles and aims of the regulated group to become those of the regulating authority. In the international field, where the added possibility exists of playing governments off against each other, there can be little doubt that government regulation would be even less effective. It does not, therefore, appear practicable to set up a cartel program in terms of regulating certain practices while encouraging cartels to proceed along constructive lines.

It is, in fact, necessary to attack the problem from another angle. The most promising approach is believed to include the following steps: (a) a series of measures designed to eliminate restrictive cartel practices in international trade; (b) provision for research on a basis which will make a larger portion of new technology widely available for business use; and (c) provision for governmentally originated and controlled agreements in certain cases in which the public interest requires limitation or regulation of world trade.

These three suggested steps are considered below, and appropriate machinery for action is briefly suggested.

This

This memorandum also points out the relationship of the proposed program to measures for correcting industrial maladjustments and difficulties in the international balance of payments, and to broader measures for providing full employment. The success of those measures would, of course, reduce the pressures toward cartelization.

A. Elimination of Undesirable Cartel Effects

Nothing in the proposed program toward cartels is designed to prohibit agreements between business enterprises when the agreements do not involve restrictive measures. Restrictive practices, however, should be prohibited, and patent and trade-mark laws should be modified.

1. Prohibition of Restrictive Practices

Price fixing, division of fields, quota allocations, division of markets, and similar cartel practices should be prohibited by governments. The prohibition should be international in scope. Each country participating in the program should undertake to enforce these prohibitory provisions on business firms which operate under its jurisdiction but which are engaged in international trade, and should undertake also to assist other countries in their effort to do so.

Supplements to this memorandum will set forth more explicitly the types of agreements between business enterprises to be prohibited. Provision will be made, moreover, for amendment to these detailed statements in the light of experience. Any private agreement not thus explicitly prohibited will be presumed to be permissible in so far as it is consistent with the national laws of the various governments which have jurisdiction over it.

Consideration also should be given to the possibility that registration of enduring international agreements between private firms might be required. Such a requirement would necessitate caution in determining the scope of the registration requirement, in order that pertinent documents might be procured without excessive registration of trivia.

Such

Such registration might be with the governments of the various participating countries or with an international agency such as that suggested in Section IV of this memorandum.

Measures to prevent or limit similar practices by international trusts or combines, and to register such enterprises may also be desirable.

2. Modification of Patent and Trade-mark Laws

Alteration should be made of national patent and trade-mark laws and international conventions so that licensing contracts may no longer provide legal cover for what would otherwise be prohibited agreements and so that technological improvements may be more accessible.

B. Promotion of Research

There is difficulty in establishing new enterprises in some industries throughout the world and in developing the industries of non-industrial nations because so much of modern technological development is concentrated in a few enterprises, exchanged with others on a restrictive basis, and surrounded with secrecy. Mere termination of restrictive covenants based upon patents will not be sufficient to overcome this handicap. It is neither feasible nor desirable to prevent the continued private enjoyment of the results of research in the great industrial research laboratories. But it is possible to increase the portion of technology which is open to large and small concerns alike by strengthening and extending the research and development activities which have already been undertaken by non-commercial agencies in various countries throughout the world. Hence, a program to prevent restrictive cartel practices properly includes establishment in each major producing area of an institution for scientific and technical research and development, such as is proposed in a bill now under consideration by the Kilgore Committee, or adaptation of existing institutions to the purpose; and establishment of international machinery for cooperation among such institutions to the end that new technology may become available for use by business enterprises as widely and speedily as possible.

C. Intergovernmental

C. Intergovernmental Agreements

The subject of international organization and procedure for dealing with intergovernmental commodity agreements is under consideration by the Committee on Commodity Agreements which is expected to submit a report at an early date.

IV. MACHINERY FOR IMPLEMENTING A CARTEL CONTROL PROGRAM

The program outlined in the preceding section is submitted as a possible basis for discussions with other governments. It is therefore desirable to indicate briefly the machinery to implement the various proposals.

A. International Conventions on Practices

The first proposal, elimination of restrictive cartel practices, would be achieved by international conventions in which each government would agree to prohibit specified cartel practices and would undertake to provide adequate national measures of enforcement. Necessary modifications of patent and trade-mark laws would also be developed by international agreement in the form of amendments to international conventions for the protection of industrial property and drafts of uniform clauses to be included in national laws.

B. International Conventions on Research

Similar conventions should be devised to implement the proposal for the interchange of industrial technology and for research. These would provide for the establishment or designation of domestic research institutions to carry out the program of research and international cooperation described above.

C. International Office for Business Practices

To facilitate intergovernmental agreements in the matters outlined above, and for other purposes, an International Office for Business Practices should be established.

This

This Office might assist in the prevention of undesirable cartel practices by serving as a registration agency for international agreements, by studying the activities of international business organizations, and by investigating alleged cases of restrictive cartel activity and recommending corrective measures to the participating governments. It might act as an agency for the exchange of pertinent technological information, including results of governmentally-sponsored research, among the participating member governments. It might develop proposals for more effective prevention of private restrictive agreements and for modification of international patent and trade-mark arrangements. Plans for the organization and functions of the Office are being given further study.

V. RELATION OF A CARTEL POLICY TO OTHER ECONOMIC POLICIES

The cartel policy proposed above should be viewed as an integral part of a broader policy of international action to promote fuller production and employment and to facilitate the flow of international commerce and trade. The function of a cartel program, like that of a program concerned with governmental trade barriers, is to remove specific obstacles to the accomplishment of these broad purposes.

The various policies and programs in the economic field should be complementary. The drag of cartel restrictions would be a handicap to the maintenance of high levels of income and employment, to the elimination of trade barriers, and to the development of useful ways of dealing with industrial maladjustments and with unbalance in national payments. Similarly, the failure of programs concerned with these matters would intensify the pressures which evoke cartels.

Affirmative steps to bring about high levels of income and employment and to remove trade barriers are obviously appropriate objectives of programs for international action. Though their success is highly important for the cartel program, they require no further discussion here.

It seems

It seems desirable, however, to point out that there are possibilities of using governmental policies toward industry to contribute to the solution of industrial maladjustments and unbalance in international payments by methods other than restrictive action. When there is a persistent difficulty in maintaining the balance of payments such as cannot be handled through an international monetary and banking system, the remedy might appropriately include a shift of resources from one export industry to another, so as to make possible the acquisition of exchange on the required scale, and the development of appropriate domestic industries which can produce commodities to take the place of imports. Similarly, the problem of persistent and substantial excess capacity may necessitate the shifting of resources, particularly labor, into fields of greater usefulness. Such a shifting of resources calls for technical ability and financing which some countries may not possess on a scale commensurate with their problems. Therefore technical and financial assistance on an international scale can sometimes facilitate desirable readjustment. Measures of this kind--essentially based upon technical missions, development commissions, and international loans--furnish a constructive alternative to the characteristic cartel efforts to keep dying industries alive and to maintain trade balances by restrictive measures.

Unused excess capacity in industry finds its counterpart in agricultural production in the form of recurrent surplus production of commodities. This problem may also be dealt with by measures which include reallocation of resources and the relocation of producers and workers. To effect these shifts, technical and financial measures may be needed, the latter in the form of long-term loans at low interest rates. These measures may serve to assist poorer countries to establish new industries or expand old ones, to resettle and re-equip agricultural producers for the cultivation of commodities promising better incomes, and to expand water, transportation, electricity, and other basic resources for the development of industry and agriculture. International agreements to limit tariff protection, subsidies, and other measures that bolster the position of high-cost producers may also be needed. In order

to effect

Sept.-Dec. 1944
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to effect a reallocation of resources, high-cost producers should be exposed to world competition. And to induce nations to accept such exposure in respect of a commodity they produce at a disadvantage, there must be at hand the prospect of increased opportunities for commodities which they produce at an advantage.

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Hull folder 2-44

DECLASSIFIED
State Dept. Letter, 1-17-72
By J. Schauble Date MAR 3 1972

Personal &
[redacted]

September 29, 1944

MEMORANDUM FOR
THE SECRETARY OF STATE

I hope much that in making your plans, you will arrange to go on the air about twice between now and election day. The country needs some of your clear thinking and needs to have it kept up to date.

It is my thought that I would make one speech between now and election day on foreign policy and I would be eternally grateful if you would have prepared for me a draft showing:

(1) What we have done in the past to promote peace in the world.

(2) What we have done to promote international trade.

(3) How we tried to keep our own peace after Poland was attacked, and before Pearl Harbor.

(4) Some of the specific steps taken by the Republican leaders to block our efforts in all these things.

(5) The steps we have taken for the future peace of the world in the past two years.

(6) The prospects of a permanent international peace in the future.

It is my thought that if you could outline what you would say in your two speeches and what you suggest I should say, the three of them will not conflict. It seems to me that this is a practical way of going about it, and I need not tell you that what you say will have very great weight both in the later peace proceedings and in our own election.

F. D. R.

THE WHITE HOUSE

WASHINGTON

September 23, 1944

MEMORANDUM FOR THE PRESIDENT.

Some day before election it is possible that you will want to deliver a full-dress speech on foreign policy, etc.

Against such possibility, I think it will be a good idea if you will send the attached memo to Secretary Hull suggesting that they get a draft up for possible use.

S. I. R.

THE WHITE HOUSE
WASHINGTON

Personal and [redacted]

September 23, 1944

MEMORANDUM FOR

THE SECRETARY OF STATE

I may wish to make a full-dress speech on foreign policy some time in the campaign.

I wish you would have prepared, therefore, a draft showing:

(1) What we have done in the past to promote peace in the world.

(2) What we have done to promote international trade.

(3) How we tried to keep our own peace after Poland was attacked.

(4) Some of the specific steps taken by the Republican leaders to block our efforts in international trade and international peace.

(5) The steps we have taken for the future peace of the world, including (a) all the international conferences and what they accomplished, and (b) what is being accomplished at Dumbarton Oaks.

(6) The prospects of permanent international peace in the future.

F. D. R.

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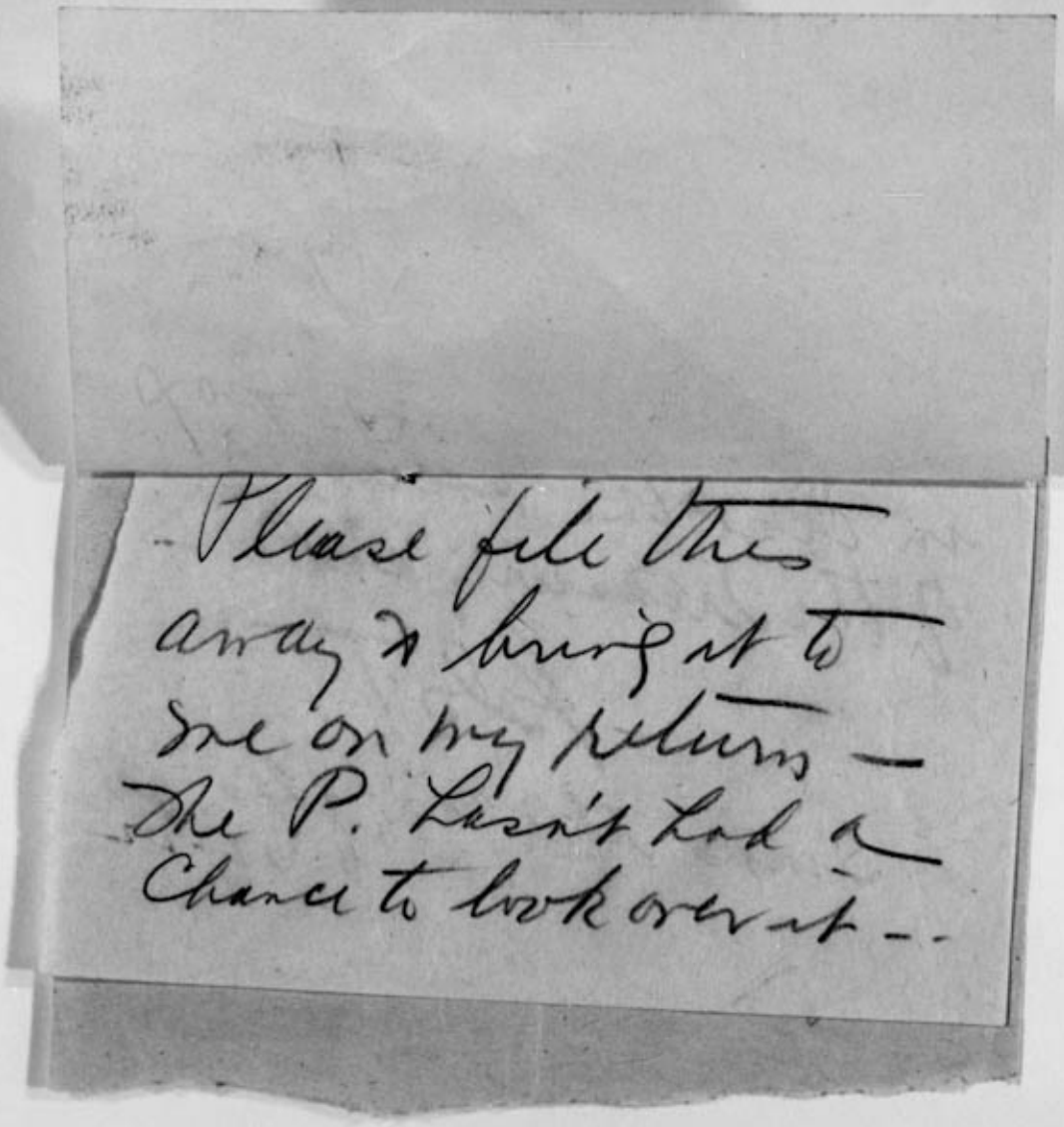
By Deputy Archivist of the U.S.
By W. J. Stewart Date MAR 3 19[redacted]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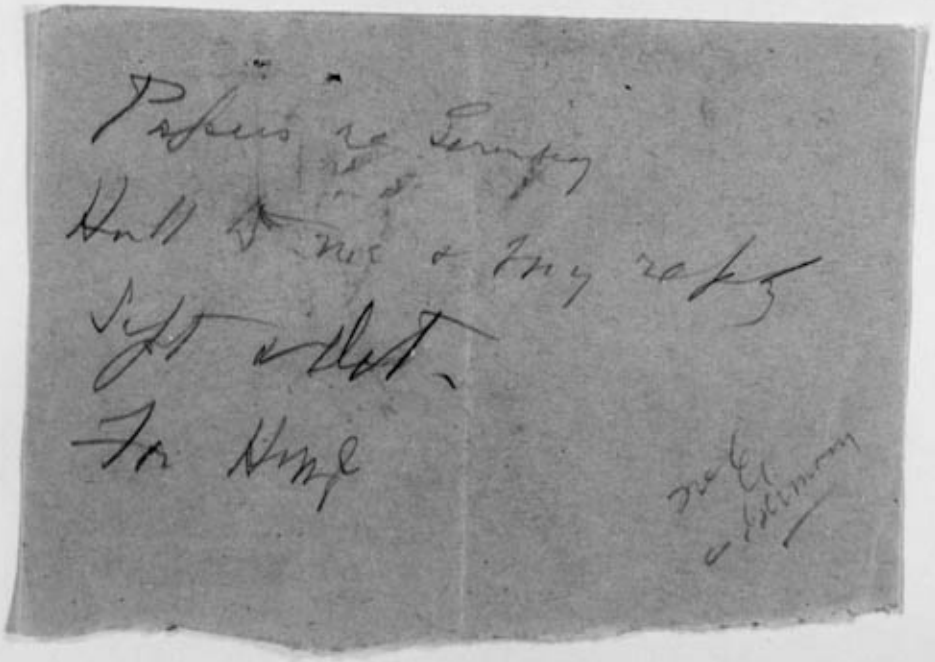

Hull folder 2-44

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Private

September 29, 1944

MEMORANDUM FOR

THE SECRETARY OF STATE

I do not think that on the present stage any good purpose would be served by having the State Department or any other department sound out the British and Russian views on the treatment of German industry. Most certainly it should not be taken up with the European Advisory Commission which, in a case like this, is on a tertiary and not even a secondary level.

The real nub of the situation is to keep Britain from going into complete bankruptcy at the end of the war.

Somebody has been talking not only out of turn to the papers or on facts which are not fundamentally true.

No one wants to make Germany a wholly agricultural nation again, and yet somebody down the line has handed this out to the press. I wish we could catch and chastise him.

You know that before the war Germany was not only building up war manufacture, but was also building up enough of a foreign trade to finance re-arming sufficiently and still maintain enough international credit to keep out of international bankruptcy.

I just can not go along with the idea of seeing the British empire collapse financially, and Germany at the same time building up a potential re-armament machine to make another war possible in twenty years. Mere inspection of plants will not prevent that.

But no one wants "complete eradication of German industrial productive capacity in the Ruhr and Saar".

It is possible, however, in those two particular areas to enforce rather complete controls. Also, it must not be forgotten that outside of the Ruhr and Saar, Germany has many other areas and facilities for turning out large exports.

In regard to the Soviet government, it is true that we have no idea as yet what they have in mind, but we have to remember that in their occupied territory they will do more or less what they wish. We cannot afford to get into a position of merely recording protests on our part unless there is some chance of some of the protests being heeded.

I do not intend by this to break off or delay negotiations with the Soviet government over lend-lease either on the contract basis or on the proposed Fourth Protocol basis. This, however, does not immediately concern the German industrial future.

F. D. R.

PSF - Germany

DEPARTMENT OF STATE
WASHINGTON

October 10, 1944

[redacted]

MEMORANDUM FOR THE PRESIDENT

Referring to the memorandum on the treatment of Germany which I left with you on October 1, 1944, I enclose a copy of a telegram of October 7, 1944, which has been received from Ambassador Winant in London, in which he emphasizes the absolute necessity for him to receive policy guidance from this Government if his negotiations in the European Advisory Commission are to be effective, and the very embarrassing situation in which he is now placed by reason of the delays in receiving instructions on the position of this Government on important pending matters.

It will be possible for the State Department and other agencies concerned to give him this guidance in the detailed manner he needs if we could know whether you are in agreement with the general policy statements set forth in the memorandum which I left with you on October 1, a copy of which is attached for your convenience.

Enclosures:
1. Copy of memorandum, September 29, 1944;
2. Copy of London's 8485, October 7, 1944.

CH

DECLASSIFIED
State Dept. letter, 1-11-72

THE WHITE HOUSE
WASHINGTON

~~TOP SECRET~~ October 20, 1944.

MEMORANDUM FOR

MAJOR JOHN BOETTIGER:

TO READ AND RETURN.

F.D.R.

DECLASSIFIED
By Deputy Archivist of the U.S.

Printed in Foreign Relations of the United States, 1944, Vol. 1, General, pp. 344-346.

PSF - Germany

filed 11/2/44

DEPARTMENT OF STATE
WASHINGTON

~~SECRET~~

MEMORANDUM FOR THE PRESIDENT

The Cabinet Committee has not been able to agree upon a statement of American policy for the post-war treatment of Germany. The memorandum presented by the Secretary of the Treasury is decidedly at variance with the views developed in the State Department. In the meantime, I have received your memorandum of September 15, ? with the statements of views respecting the Ruhr, Saar, etc., and the conversion of Germany into an agricultural and pastoral country, which was formulated at Quebec. This memorandum seems to reflect largely the opinions of the Secretary of the Treasury in the treatment to be accorded Germany. I feel that I should therefore submit to you the line of thought that has been developing in the State Department on this matter.

1. Status of Negotiations with the British and Russians

The instrument of unconditional surrender of Germany has been recommended by the European Advisory Commission and has been formally approved by this Government. It is anticipated that British and Russian approval will be forthcoming. The question of the American and British zones of occupation was, according to your memorandum, worked out at Quebec and there will presumably be no more difficulty over this matter. In the meantime, the European Advisory Commission is going ahead on plans for a tripartite control machinery and military government for Germany during the occupation period. All three governments have submitted proposals which are similar in their general outline. The American proposal contemplates a Supreme Authority consisting of the three Commanding Generals of the U.S., the U.K. and the U.S.S.R., which would coordinate Allied control of Germany and supervise such centralized governmental functions and economic activities as the

three

REGRADED UNCLASSIFIED

three powers deem essential. A Control Council, composed of representatives in equal numbers from each of the three Allied Governments, would be established by the Supreme Allied Authority and will coordinate the administration of military government throughout Germany, including detailed planning for the execution of directives received from the three governments. We expect to have a recommended plan on this from the European Advisory Commission in the near future.

2. Important Problems For Which High Policy Decisions Must Be Worked Out by the Three Governments

The fundamental question to be decided is what kind of a Germany we want and what policy should be put into effect during occupation to attain our objectives. The most important of these problems are set forth below with an explanation of the State Department's views. It should be emphasized, however, that these objectives will have to be worked out with our principal Allies if they are to be applied throughout the German Reich.

(a) Demilitarization of Germany. The complete dissolution of all German armed forces and all Nazi military, paramilitary and police organizations, and the destruction or scrapping of all arms, ammunition and implements of war should be effected. Further manufacture in Germany of arms, ammunition and implements of war should be prohibited.

(b) Dissolution of the Nazi Party and all affiliated organizations. The Nazi Party should be immediately dissolved. Large groups of particularly objectionable elements, especially the SS and the Gestapo, should be arrested and interned and war criminals should be tried and, if found guilty, executed. Active party members should be exluded from political or civil activity and subject to a number of restrictions. All laws discriminating against persons on grounds of race, color, creed or political opinion should be annulled.

(c) Extensive controls should be maintained over communications, press and propaganda for the purpose of eliminating Nazi doctrines or similar teachings.

(d) Extensive controls over German educational system should be established for the purpose of eliminating all Nazi influence and propaganda.

(e) No

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(e) No decision should be taken on the possible partition of Germany (as distinguished from territorial amputations) until we see what the internal situation is and what is the attitude of our principal Allies on this question. We should encourage a decentralization of the German governmental structure and if any tendencies toward spontaneous partition of Germany arise they should not be discouraged.

(f) Economic Objectives. The primary and continuing objectives of our economic policy are: (1) to render Germany incapable of waging war, and (2) to eliminate permanently German economic domination of Europe. A shorter term objective is to require the performance by Germany of acts of restitution and reparation for injuries done to the United Nations.

To achieve the first two objectives, it will be essential (1) to destroy all factories incapable of conversion to peaceful purposes and to prevent their reconstruction, (2) to enforce the conversion of all other plants, (3) to eliminate self-sufficiency by imposing reforms that will make Germany dependent upon world markets, (4) to establish controls over foreign trade and key industries for the purpose of preventing German rearmament, and (5) to eliminate the position of power of large industrialists and land-owners.

This Government has little direct interest in obtaining reparations from Germany and no interest in building up German economy in order to collect continuing reparations. However, the U.S.S.R. and a number of other states which have been victims of German destruction and exploitation may press claims for German production and labor service for rehabilitation and construction.

Extensive controls over industry and foreign trade will be essential during the immediate period of demilitarization and dismantlement, as well as during the period of reparations. After this phase, a system of control and supervision of German industry and trade will have to be worked out in the light of world security developments. This system should be of such a character that the victor powers will be able and willing to enforce it over a considerable period.

It is of the highest importance that the standard of living of the German people in the early years be such as to bring home to them that they have lost the war and to impress on them that they must abandon all their pretentious theories that they are a superior race created to govern the world. Through lack of luxuries we may teach them that war does not pay.

CH

BSF Hull folder 2-44

File

DEPARTMENT OF STATE
WASHINGTON

September 30, 1944.

MEMORANDUM FOR THE PRESIDENT

You will recall my memorandum of September 2, 1944, suggesting that you urge upon Mr. Churchill the early resumption of conversations on economic policy, and my memorandum of September 8th stressing the fundamental importance of predicating the extension of financial assistance, whether through lend-lease or otherwise to Great Britain during phase two, upon the adoption by the British Government of sound economic policies designed to revive the flow of international trade.

Your memorandum of September 15th indicated that you had substantially agreed to Mr. Churchill's request for some six-and-a-half billion dollars of lend-lease aid during the first year of phase two but it did not mention any discussion of economic policy or any policy commitments on the part of the British Government.

On September 17th I accordingly urged you to make clear to Mr. Churchill that one of the primary factors in connection with phase two of lend-lease, in excess of the strategic needs of the Pacific war, would be the soundness of the economic policy adopted by Great Britain.

I have just learned that Lord Keynes is now en route to this country to be available to discuss the financial situation of the United Kingdom Government.

As the Committee specified in your memorandum of September 15th has already begun discussions with the British and in view of Lord Keynes' impending arrival in this country, it is important that we know what you said to Mr. Churchill, either at Quebec or Hyde Park, along the lines I suggested. It is also important to know whether you consider your agreement with the Prime Minister to cover the extension of lend-lease aid to the specific figure of $6,500,000,000 or whether you intended that lend-lease aid should be based upon specific gross needs rather than upon the proportion, as Mr. Churchill had suggested,

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of British industry which might be converted to peace-time production.

Perhaps it would be useful if I summarized briefly at this point the lend-lease problem as I see it and what my associates and I in the Department of State have been trying to do. Soon after we began to furnish lend-lease assistance to Great Britain under the Act of March 11, 1941, it became apparent that the volume of such assistance would have to be on such a large scale that there could be no question of the British Government's repaying us in full either in money or in goods. We had fresh in our minds the world war debts problem. We knew that even if the British could produce the goods to repay us it would not be possible for the United States to accept them. On February 23, 1942 we therefore concluded an agreement with the British Government on the principles applying to mutual aid. That agreement was necessarily a preliminary one since as was recognized the final determination of the terms and conditions under which the United Kingdom received such aid and of the benefits to be received by the United States in return therefor "should be deferred until the extent of the defense aid is known and the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests" of the two countries and will promote the establishment and maintenance of world peace.

The heart of the agreement was of course Article VII which I quote in full for ready reference:

> "In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all

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the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

"At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments."

By the time we undertook the negotiation of this agreement it was clear to me that the principal benefits which we might expect to obtain lay in the field described in Article VII. The United States does not need nor desire any cession of territory from the United Kingdom. The program set forth in Article VII impressed me as being one indispensable to conditions in which world peace could survive. I felt then and I feel now that no collective system of security can be expected to work unless adequate measures are taken in the field of world economics to hold out hope of a tolerable standard of living to all peoples.

You will recall the difficulties which we had in getting the British Government to agree to Article VII. It was your intercession with Mr. Churchill at the last moment which finally persuaded him to take the British Cabinet along with him in assuming this commitment. Unfortunately the commitment was necessarily indefinite. It would perhaps be better to describe it as a statement of an agreement on objective without a binding commitment as to the ways and means by which the objective would be realized.

I attached very real importance to this whole question because of a number of disturbing trends which were visible throughout the world under war-time conditions. One of these was an emotional tendency, which I fear may be capable of being translated into governmental action toward the extension, rather than the curtailment, of Imperial preference. This was doubtless due to an appreciation in the United Kingdom of the extent and degree to which the Dominions and the Colonial Possessions supported the home country in the war effort. Another thing which disturbed me was the frank advocacy in Great Britain, even on the part of some British officials that Britain's post-war commercial policy should be based on discriminatory bilateral agreements. This was the method of

Hitler

Hitler and the totalitarians. It didn't work for Germany and we know that it won't work for Britain or any other country.

You will recall that in September and October of last year we had confidential conversations at the expert level with representatives of the British Government on the objective set forth in Article VII. We made considerable progress in our discussion with the British experts. It was hoped that we would be able to resume these conversations in February 1944. This was not possible, however, because the British experts ran into difficulties at the Cabinet level. In other words the British Cabinet as recently as April of this year was reluctant to go forward even with expert discussions on the program set forth in Article VII since they were not able to reach agreement among themselves as to whether they wanted to proceed in the direction laid down in Article VII.

Naturally we don't know at this time the extent to which public opinion and Congress will support a program for the reduction of trade barriers, which in my opinion is indispensable to world peace. What is important, however, is that the British Government agree <u>now</u> that they will not be the obstacle if we are prepared to move along in that direction. In other words they should be prepared to go along with us to the extent that we find it possible to proceed, and they should make it easier, not harder, for us politically.

My associates and I have endeavored at all times to keep before the British Government not only their obligation under Article VII to proceed with us in the formulation of a program but to impress upon them the desirability from the standpoint of the British Commonwealth itself and general world conditions in doing so. Richard Law informed me about six weeks ago that his Government would be prepared to resume the Article VII discussions in London "in the autumn". In the meantime our experts have been hard at work on the formulation of definitive proposals. In a few weeks I hope that it will be possible for me to lay these proposals before you and to discuss them with you. My suggestion would be that we not proceed too rapidly with the implementation of plans for lend-lease aid in phase two beyond the direct strategic needs of the Pacific war until we are able to ascertain a little more clearly the attitude of the British on these commercial policy questions above referred to. As I pointed out in my memorandum to you of September 8th

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it seems to me that it is in the interests of the people of the United States that we extend such credits and other financial assistance to the United Kingdom that may be necessary to reconstitute and restore what has been traditionally the largest market for American goods. We must, however, bear in mind that the United Kingdom cannot again become either a good credit risk or the largest market for American goods unless she follows a sound commercial policy designed to increase the flow of international trade.

Another advantage of proceeding cautiously with the implementation of the plans for the non-military part of phase two of lend-lease is the Argentine situation where, as you know, we are not receiving that measure of British cooperation which is essential.

C H

Department of State

BUREAU / DIVISION: BC

ENCLOSURE

TO

Letter drafted 9/30

ADDRESSED TO

The President

PSF: Hull Feder 2-44

DEPARTMENT OF STATE
WASHINGTON

[redacted]

October 2, 1944.

MEMORANDUM FOR THE PRESIDENT

I refer to our conversation yesterday and to the memorandum which I handed you in which I put on paper some thoughts in connection with the recent discussions with Mr. Churchill and other British officials in regard to lend-lease assistance to be extended to Great Britain after the defeat of Germany and before the defeat of Japan. For reference purposes I enclose a copy of that memorandum.

Our guiding thought has been that the problem of provision of financial assistance to Great Britain beyond direct military requirements is an integral part of our most basic foreign policy. Hence I believe that the negotiations now under way on this subject should not be divorced from the discussion of other extremely important matters, some of which are set forth in the accompanying memorandum, and that no final decisions should be reached in connection with this aspect of lend-lease assistance independently of an adequate clarification of these other matters.

I am afraid, therefore, that we are courting disaster unless the whole subject is handled as a matter of foreign policy rather than solely or predominantly a matter of finance.

The operations agency in lend-lease matters is the Foreign Economic Administration. Naturally there are important financial considerations on which the Treasury Department should be consulted and concerning which their advice and assistance is of great importance. Since this question is of fundamental importance in our foreign policy it seems to me, as I pointed out to you yesterday, that it should be actually

handled

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date MAR 3 1972

handled by the Department of State, with the advice and assistance of Foreign Economic Administration, the Treasury Department and other agencies of the Government that are concerned, in accordance with our customary procedure in dealing with such questions. I should be glad if you would let me know whether this meets with your approval.

Enclosure:
Memorandum for the
President, dated
September 30, 1944.

CH

Department of State

BUREAU / DIVISION: BC

ENCLOSURE

TO

Letter drafted 10/2/44

ADDRESSED TO

The President

COPY

September 30, 1944.

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Another advantage of proceeding cautiously with the implementation of the plans for the non-military part of phase two of lend-lease is the Argentine situation where, as you know, we are not receiving that measure of British cooperation which is essential.

PSF: Hull folder 2-44

THE WHITE HOUSE
WASHINGTON

File Secret

October 13, 1944.

MEMORANDUM FOR

THE SECRETARY OF STATE

I agree with the views of the Joint Chiefs of Staff in regard to the complete destruction of the German fleet.

I have one amendment to make. Destruction in the past has meant taking the ships to sea and sinking them. I think that in some cases surrendered ships have been destroyed by converting them into scrap metal. I do not like the idea of the complete destruction by sinking of thousands of tons of steel.

Recently a new use for such ships has been discovered. We have used sunken ships as breakwaters for the formation of new harbors. This has been done in Italy and has been done on the coast of Normandy. It is a relatively cheap way to build

a breakwater. I think that the United Nations should be in a position to pass on applications by the Allied nations for these ships for the definite and specific purpose of sinking them as breakwaters to improve or create safe anchorages. It is rather a nice thought to use them for such peaceful purposes.

In any such cases, the ships should be sunk at a designated place as quickly as possible and under the eyes of a United Nations' Committee. Once sunk it would be practically impossible to raise them and restore them to war purposes.

F. D. R.

DEPARTMENT OF STATE
WASHINGTON

[redacted]

October 11, 1944

MEMORANDUM FOR THE PRESIDENT

Referring to my memorandum of September 9, 1944, a copy of which is attached, submitting for your consideration a copy of a letter from the Joint Chiefs of Staff, which sets forth their views with respect to the ultimate disposition of the German fleet, I should be grateful for your views thereon.

This matter has arisen again in connection with the general question of the disposal of enemy equipment acquired as a result of the collapse or surrender of Germany and the Joint Chiefs of Staff have requested that their views be transmitted to Ambassador Winant in London for his guidance in negotiations with the British and Soviet representatives in the European Advisory Commission.

Enclosure:

Memorandum as stated with enclosure.

DECLASSIFIED
State Dept. Letter, 1-11-72
By J, Schauble Date MAR 8 1972

[redacted]

September 9, 1944

MEMORANDUM FOR THE PRESIDENT

I attach a copy of a letter from the Joint Chiefs of Staff communicating their views respecting the ultimate disposition of the German fleet. So far as I am aware, this matter has not as yet been discussed in the European Advisory Commission.

Before communicating the contents of the Joint Chiefs of Staff's letter to Ambassador Winant in London for eventual consideration by the European Advisory Commission, I should like to know if you approve of these views which may lead to considerable discussion. Although there has been no indication of the Russian position in this matter, the British Government has already indicated that in its opinion all materials taken after cessation of hostilities, including the German fleet, should be regarded as the property of the United Nations as a whole. The British propose the creation of a special board which, operating under broad policies laid down by the European Advisory Commission, shall determine the allocation of war materials so acquired. This plan does not conform, at least initially, to the alternative preferred by the Joint Chiefs of Staff, namely, that the German fleet be destroyed.

I should also point out, however, that if the first alternative of the Joint Chiefs of Staff is adopted it would exclude the necessity of having to consider claims for units of the German fleet by the other United Nations or the French.

Enclosure:

From Joint Chiefs of Staff,
September 4, 1944.

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date MAR 8 1972

THE JOINT CHIEFS OF STAFF
Washington 25, D. C.

[redacted]

4 September 1944

The Honorable
Cordell Hull,
Secretary of State,
Washington, D.C.

My dear Mr. Secretary:

It is understood that the immediate disposition of units of the German fleet in connection with the imposition of surrender terms upon the defeat of Germany is presently under advisement in the European Advisory Commission, and that it has been tentatively agreed that the ultimate disposition of the units of the German fleet will be a matter for decision by the governments of the United Nations concerned.

It is the view of the Joint Chiefs of Staff that, except for the retention of a limited number of ships for experimental and test purposes, the German fleet should be completely destroyed.

In the event that agreement cannot be reached with the Russians and the British on this basis, the United States should press for either:

a. A one-third share of each category of ships in the German fleet; or,

b. Agreement that all capital ships, such as battleships, pocket battleships and heavy cruisers, and submarines be destroyed, while smaller craft and more lightly armed vessels be shared equally by the United States, Russia, and Great Britain.

Sincerely yours,

For the Joint Chiefs of Staff:

WILLIAM D. LEAHY
Admiral, U. S. Navy,
Chief of Staff to the
Commander in Chief of the Army and Navy

DECLASSIFIED
JCS memo, 1-4-74
By RHP, NLR, Date FEB 19 1974

PSF. Hull folder 2-44

THE WHITE HOUSE
WASHINGTON

October 13, 1944

MEMORANDUM FOR THE PRESIDENT.

If Secretary Hull's condition will not permit him to speak, wouldn't it be possible to announce a speech by him and have him write it, and then have Stettinius or Dean Acheson deliver it, on the ground that the Secretary is sick.

S. I. R.

3609

A carbon of this memorandum, approved by the President, together with copies of reports as attached, returned to the Secretary of State 10/24/44.

[redacted]

DEPARTMENT OF STATE
WASHINGTON
October 19, 1944

MEMORANDUM FOR THE PRESIDENT

Proposal on International Commodity Arrangements

There is transmitted herewith a report on international commodity arrangements which has been approved by the Executive Committee on Economic Foreign Policy. As indicated in the covering summary, the report recommends the establishment of an international commodity organization for facilitating cooperation among governments in dealing with commodity problems of world scope, such as those presented by cotton, sugar, and wheat. It also recommends the establishment of an international code of principles for governing, under the supervision of that organization, the negotiation, provisions, and operation of inter-governmental agreements in respect of particular commodities.

With reference to the question of the place of an international commodity organization in the framework of world economic organization, the Executive Committee decided to defer consideration until a later date at which time the subject will be considered as part of the general problem of world economic organization.

I am favorably disposed to the report as a whole especially as a basis for further discussions, if you concur, with the Governments of the United Kingdom and Canada, and also with the governments of other countries.

Enclosure:

Secret document
number D-55/44 (with
attachment D-24/44)

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schaubie Date MAR 3 1972

A carbon of this memorandum, approved by the President, together with copies of reports as attached, returned to the Secretary of State 10/24/44.

SECRET

October 19, 1944

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DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schauble Date MAR 3 1972

Enclosure:

Secret document number D-55/44 (with attachment D-24/44)

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ECEFP D-55/44

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

Committee on Commodity Agreements

REPORT ON INTERNATIONAL COMMODITY ARRANGEMENTS

(As approved by the Executive Committee on Economic Foreign Policy at its meeting on October 6, 1944.)

DECLASSIFIED
State Dept. Letter, 1-11-72
By J. Schaubie Date MAR 3 1972

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ECEFP D-55/44
September 19, 1944

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EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

Committee on Commodity Agreements

SUMMARY OF THE REPORT ON INTERNATIONAL COMMODITY ARRANGEMENTS

The introduction of the report briefly reviews the principal recommendations on international commodity organization contained in the resolutions of the Hot Springs Conference on Food and Agriculture and the Second Report of the Interim Food Commission, and calls attention to the informal exchange of views on international commodity policy which took place last fall and winter between representatives of the United States and the United Kingdom and Canada, respectively. The case for a jointly agreed international commodity policy is held to rest upon four sets of conditions, namely, (a) the effects of the present war in promoting a lopsided development of raw material production, and the subsequent likelihood of serious maladjustment in the conditions of supply and demand of a number of primary commodities during the post-war period; (b) the failure of the price mechanism in certain cases to adjust production readily to peace-time changes in the basic conditions of supply and demand; (c) the demonstrated instability of raw material prices and incomes in recent decades; and (d) the need for reconciling existing unilateral national policies in support of internationally-traded commodities with international policies for the promotion of world trade.

The Committee believes that a number of special problems of economic maladjustment in primary commodities are likely to exist in the post-war period, even if it be assumed that a high degree of success will be achieved in the program for the relaxation of international trade barriers and other programs for international economic expansion. It believes, furthermore,

that

DECLASSIFIED
State Dept. Letter, 1-11-72

By J. Schaubie Date MAR 3 1972

that a properly conceived and executed, selective program for international commodity agreements can be harmonized with a broad program of international economic expansion, and may actually enhance, rather than impair, the prospects of attaining the objectives of a policy of removing international trade barriers. The report recognizes, however, that it will be necessary to provide adequate safeguards against possible abuses of international commodity agreements. These safeguards include provisions for the protection of the interests of consumers, minority groups of producers, and other interests concerned in international commodity agreements, and further provisions that such international commodity arrangements shall promote as their ultimate objective the expansion of efficient production in place of inefficient production.

The Committee recommends the establishment, along lines to be discussed below, of an international commodity organization for the following purposes:

1. To investigate and study international primary commodity problems with a view to making recommendations to governments;

2. To facilitate discussion and cooperation among governments in dealing with international primary commodity problems; and

3. To participate in, and to supervise, the formulation and operation of such international commodity arrangements as may be deemed desirable, in order to insure that they shall be in accord with an agreed code of principles.

As an essential part of such an international commodity organization the Committee recommends acceptance of a code of principles for international commodity policy. These principles relate to the rights and obligations of governments as members of the international commodity organization, and the methods to be observed in formulating and operating international commodity agreements.

With respect to the various proposals for international buffer stocks in primary commodities, particularly the proposal for a program of buffer stocks

operations

operations with broad commodity coverage as a means of promoting general international economic stability, the Committee recommends that the problem be referred to the proposed international commodity organization for further study. Although the Committee has considered the subject at length and has had the benefit of a special study on buffer stocks prepared by one of its subcommittees (see attached memorandum on International Buffer Stocks), it believes that the problems and difficulties of a program of international buffer stocks are of such a character as to make it unwise to go beyond this recommendation at the present time.

In the final section of the report dealing with the structure of the international organization, the Committee recommends the establishment of an international commodity commission as part of such world economic organization as may be set up. It will be essential that the policies and operations of the commodity organization be fully coordinated with the policies of other specialized agencies which have been, or may be, set up in the fields of trade and production, finance, food and agriculture, and labor.

The majority of the Committee feels that if an international organization for trade and production is formed, this integration of policies could best be achieved through having the commodity commission as a branch of such an agency. The representatives of the Department of Agriculture on the Committee hold that the commodity organization should not be part of a general trade and production body. Whatever the machinery, the Committee is unanimously of the opinion that the coordination of commodity and other economic policies is essential.

SECRET

ECEFP D-55/44
September 19, 1944

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

Committee on Commodity Agreements

REPORT ON INTERNATIONAL COMMODITY ARRANGEMENTS

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REPORT ON INTERNATIONAL COMMODITY ARRANGEMENTS

I. INTRODUCTION

At the United Nations Conference on Food and Agriculture in the spring of 1943, a prominent place was given to the discussion of the functions of international commodity arrangements in improving the system of international commodity distribution. The Final Act of the Conference contained a resolution which stated in part that international commodity arrangements might play a useful part in furthering the broad purposes of a policy of economic expansion, by mitigating extreme fluctuations in the prices of foods and agricultural products, and by promoting readjustment in the scale and character of production of internationally-traded commodities. The resolution declared, however, that further study would be necessary to determine the precise forms which these arrangements should take and the extent to which regulation of production might be needed. The Conference recommended that international commodity arrangements should be so designed as to promote the expansion of an orderly world economy, that a body of broad principles should be developed regarding the formulation and administration of such international commodity arrangements and that an international organization should be created at an early date to study the feasibility and desirability of such arrangements with reference to individual commodities. The international organization would, in appropriate cases, initiate or review such arrangements and guide and coordinate their operation in accordance with the agreed principles and in close harmony with programs in other fields of international economic activity to the end that the objective of raising the consumption levels of all peoples might be most effectively served.

In conformity with the recommendations of the Hot Springs Conference, the Second Report of the Interim Food Commission in January 1944 stated the following with respect to international agricultural commodity arrangements:

> "The Commission has recognized the important role which such arrangements can play in (a) coordinating

internationally

internationally diverse or conflicting national price and marketing policies and programs; (b) eliminating excessive fluctuations in prices; (c) mitigating some of the effects of trade cycles; (d) maintaining adequate supplies for consumers; and (e) insuring markets for producers while promoting desirable adjustments in agricultural production. Commodity arrangements for non-agricultural products have a similar role to perform, and to secure fairness of treatment, avoid confusion, and establish consistent policies, the Commission recommends to its constituent governments that international commodity arrangements for both agricultural and non-agricultural products be coordinated under the supervision and direction of a single international authority. The Commission further recommends that principles governing international commodity arrangements for all classes of products should be formulated by a special international conference and that thereafter there should be established an international authority to review in the light of experience the application of the principles so formulated and to coordinate and supervise the administration of individual commodity arrangements."

The subject of post-war international commodity policy was also taken up in the course of the informal economic conversations last fall and winter between representatives of the United States and the United Kingdom and Canada, respectively. These meetings were entirely exploratory in character, but they provided an occasion for the exchange of preliminary documents which served in some respects to reduce the broad language of the Hot Springs resolution on international commodity arrangements to more specific issues. While these conversations revealed a substantial similarity of views on many problems, there was no clear-cut agreement on the possible scope of post-war international commodity policy or the relative merits of international commodity arrangements of the buffer stock type and those involving the quantitative regulation of exports or production. Nevertheless, these discussions did leave the impression that there is a greater willingness on the part of governments to go forward with a positive program of international commodity organization at this time than previously has been the case.

II. STATEMENT

II. STATEMENT OF THE PROBLEM

The case for a jointly agreed international commodity policy rests upon four sets of conditions, namely, (a) the effects of the present war in promoting a lopsided development of raw material production, and the subsequent likelihood of serious maladjustment in the conditions of supply and demand of a number of primary commodities during the post-war period; (b) the failure of the price mechanism in certain cases to adjust production readily to peace-time changes in the basic conditions of supply and demand; (c) the demonstrated instability of raw material prices and incomes in recent decades; (d) the need for reconciling existing unilateral national policies in support of internationally-traded commodities with international policies for the promotion of world trade.

With respect to these four conditions the following explanation may be made:

(a) The first world war was responsible in part for a number of cases of dislocation in market relationships which proved difficult to adjust in the ensuing period of peace. Wheat, sugar, and tin may be cited as examples. The dislocations of production and international trade in staple primary commodities are likely to be even greater following this war than after the last, because the scope of the conflict is broader and the agricultural and mineral resources and markets of Southeastern Asia, as well as Europe, have been cut off from the rest of the world. Once normal trade channels are reopened on a world-wide basis, the problems of excess world supplies are likely to be severe in those cases in which new sources of supply or substitute products have been developed during the war.

In some instances the problems of adjustment may not be serious enough to require special action, and in other cases, temporary arrangements of a bilateral or multilateral character to taper off purchase programs may suffice to bring about the necessary readjustment and liquidation without disorganizing international commodity markets and without too sudden and painful impacts upon the producing areas. It is probable, however, that there

will

will remain a number of cases in which, beginning either in the transition period following the armistice, or at some point in time thereafter, the discrepancy between available productive capacity or supplies and prospective demand is likely to be greater than can be readily adjusted by reliance upon the ordinary processes of the free market. Unless the problems of such branches of primary production are dealt with by agreed international programs of adjustment, the plight of these industries might call forth various national measures of government protection, to the possible detriment of the program for the relaxation of trade barriers on a world-wide basis. Among possible examples of commodities which may present surplus problems of this type, once world trade is reestablished on a peace-time basis, are rubber, wool, fats and oils, aluminum, magnesium, copper, tin and nitrates.

(b) In conjunction with the foregoing it should be borne in mind that even under peace-time conditions it has in the past proved exceedingly difficult to maintain adjustment between the rate of production and the rate of consumption in a number of commodities whose basic conditions of supply and demand were undergoing rapid change. The usual characteristics of such cases have been extremely low commodity prices, low incomes to producers, and the accumulation of abnormal stocks, particularly in connection with various government programs to support domestic producers. The difficulties of such industries may be attributed to a number of causes, such as the opening up of new low-cost sources of supply, technological progress in the production and marketing of the product, the development of substitutes, changes in consumption habits, increased import restrictions in available foreign markets and the dislocations associated with the first world war. Experience has shown that, in spite of consistently low incomes, it is very difficult to induce agricultural and other raw material producers to leave their industries. In part this is due to the fact that such producers may not have the capital or the knowledge to try alternative products, or are restrained by social ties and habit, and in part to the fact that adequate means of alternative employment may not be readily available, particularly in times of general economic depression. Thus, structural maladjustments in the form of over-capacity

in particular

in particular fields of primary production may persist for many years. Wheat, coffee, sugar, and cotton may be cited as typical examples of commodities which suffered from persistent maladjustment in the period prior to the outbreak of the second world war. It is altogether reasonable to expect that a certain number of commodities will be faced with similar problems after the present world war, though it may well prove to be possible to devise more effective means for the solution of the problems of such industries than was actually the case in the inter-war period.

(c) The relative instability of the prices of primary products, particularly as compared with the prices of manufactured goods has been a frequent source of difficulty in the maintenance and development of international trade. A recent League of Nations report states that:

> "During the last twenty years, the price of wheat and of jute has been halved three times within about twelve months, the price of cotton three times in periods of under eighteen months. The price of copper and of lead was halved four times within periods of two years and doubled three times even more rapidly. The price of zinc was halved twice in eighteen months, of tin twice in twenty-four months; zinc and lead doubled in price three times in two years or less; copper three times in eighteen months. On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933, the price of crude rubber fluctuated between four cents a pound and twenty-five times that amount, and was on several occasions doubled or halved in the space of a few months."

With reference to the above quotation it should be noted parenthetically that the operation of ill-designed and monopolistic control schemes has in some instances increased rather than diminished the extremes of price fluctuations in particular commodities. But apart from that special factor of instability, the tendency for primary commodity prices to fluctuate more widely than the prices of manufactured goods is well established. The most serious discrepancy in the general price behavior of primary commodities and manufactured products shows itself in the course of cyclical business fluctuations. In the course of the economic depression following 1929 the general

index of raw material prices (in sterling) dropped from 100 in 1929 to 59 in 1933, while the price index of manufactured goods dropped from 100 to 81. The wide fluctuations to which the prices of primary commodities have been subject have caused periodic balance of payments problems for countries which are heavily dependent upon the proceeds of their sales of primary products in world markets, and this, in turn, has given them an added incentive to rely upon special measures for controlling or checking their imports as a means of correcting their international financial position. Such nationalistic measures have shown a tendency to persist after the emergency has passed, and thus have produced a more or less permanent alteration in the structure of international economic organization along nationalistic lines. While the solution of this problem will not be easy, it would seem desirable to focus attention upon it, with a view to developing measures of international control--such as possibly international buffer stock operations--which would serve to mitigate the severity of price fluctuations in primary commodities.

(d) In default of a jointly agreed international policy in the field of primary production designed to give reasonable stability of prices and incomes to the producers of such commodities, and thus to foster greater general economic stability, national governments have shown an increasing tendency to come to the aid of their domestic producers by various measures to support prices and incomes, such as crop loans, guaranteed prices, benefit payments to producers, export subsidies, import restrictions, and trade preferences. This tendency was apparent in the inter-war period, and the circumstances of the war itself have committed many governments to a continuation, and possibly extension, of such assistance. These war-time commitments are in part the result of a recognition that the changes in pre-war agricultural production patterns have been urged, and in some cases forced, by governmental action as a war-time necessity. As a matter of practical politics it may not be feasible for governments to withdraw their support from producers immediately, as some of them did at the close of the last world war. Regardless of the extent to which such government support policies have grown out of war-time exigencies, or express a policy which would have prevailed in any case, their economic consequences are likely to be unfortunate from the international point of view, because

they

they may perpetuate or enhance fundamental maladjustments by stimulating production and tend to shift the burden of readjustment upon the producers of other nations. Furthermore, the pursuit of such unilateral national policies in support of domestic producers of internationally-traded commodities is a constant threat to the harmonious functioning of the international economy, because it fosters the prospect of destructive competition for world markets between groups of producers who are backed by the power and financial strength of their respective governments.

III. RELATIONSHIP OF COMMODITY POLICY TO GENERAL POLICIES OF INTERNATIONAL ECONOMIC EXPANSION

In considering what measures will be necessary and desirable for coping with the problems referred to in the preceding pages, the Committee has sought to follow a line which would be in harmony with the broad purposes of post-war international economic reconstruction, as laid down in Article 7 of the Master Lend-Lease Agreement, and the specific measures for the relaxation of trade barriers under discussion at the present time.

Practical experience with past international commodity agreements of either a public or private nature has been such as would naturally cast doubt upon the possibilities of reconciling the characteristic methods of international commodity agreements with the requirements of a general program for the all around reduction of trade barriers or, indeed, of any broad program for expansion of the world economy. Such experience tends to show that the constructive economic purposes which commodity agreements might have served in correcting the basic causes of maladjustment in the industry were often lost sight of in the urgency of providing immediate relief for the producers of the commodities. Generally speaking, international regulation agreements in the past have been largely concerned with developing effective means for restricting international trade and production in order to provide, at a minimum, a tolerable basis for survival for all the national producer groups concerned, pending a change for the better in the industry's economic fortunes. In some cases, the control schemes went far beyond this minimum objective and--whether by original design or by a gradual process of yielding to the temptation to exact higher prices--turned into instruments of monopolistic abuse. In

either

either case, however, the emphasis in past regulation schemes has been on the restrictive aspects of such agreements.

It should be recognized, however, that most of the commodity agreements in the past have been producers' agreements, either between private producers or between governments of producing countries. Consuming interests have seldom, if ever, been adequately represented. Full acceptance of the safeguards suggested in this report should eliminate the most serious abuses of the commodity agreements of the inter-war period. If international commodities agreements are used as part of post-war policy, they should be positive and constructive in character with primary emphasis upon stimulation of demand, and they should be conditional upon programs for removing any basic maladjustments which may exist in the industry, including, if necessary, plans for the transfer of labor and resources out of the industry to other fields of economic activity.

The question arises whether there would be any need for developing a system of international commodity arrangements on the pattern laid down in the resolution of the Hot Springs Conference and the reports of the Interim Food Commission, if a broad program for the relaxation of trade barriers and other affirmative steps to bring about high levels of income and employment were successful. It is undoubtedly true that substantial achievements along the lines of reducing or eliminating trade barriers by multilateral action would remove some of the outstanding obstacles in the way of a rational organization of international commodity trade, as for example, in the cases of wheat, sugar, or wool. Furthermore, if it be assumed that there will be, in addition to the program for the relaxation of trade barriers, other effective programs for the maintenance of high levels of production in the great industrial areas of the world, it may be taken for granted that the indirect benefits of such programs in stimulating the demand for raw materials would make a powerful contribution towards easing the problems of primary producers.

The Committee recognizes, however, that it may be an oversimplification to suppose that governments which have made and are making, commitments to protect the economic status of domestic primary producers in the post-war period will find it easy to reconcile such commitments with the requirements of a comprehensive program for the

reduction

reduction of trade barriers. Even if, for the sake of preserving the program of multilateral trade barrier reductions, a satisfactory formula is found whereby such reductions would apply to all commodities including those in which governments have made commitments to producers, it may be that an escape clause will operate to enable governments to subsidize the producers of such commodities. This, of course, would cancel out the anticipated benefits of trade barrier reductions in enlarging the market opportunities of the world's most efficient producers. In such an eventuality, and assuming the existence of excess capacity in the particular industry, no progress would have been made towards securing a better balance between world output and consumption by reliance upon general measures for the relaxation of trade barriers. This suggests that, in particular cases of economic imbalance in primary production, more effective progress in solving the problems of the industry might be made by special international commodity agreements which would be supplementary to the broad program of trade barrier reductions and more precisely directed to removing the elements of disequilibrium in such specific cases. In saying this the Committee recognizes that the single commodity approach to specific international commodity problems is in itself a method which might easily fail of its intended purpose, if the participating governments take a limited view of their responsibilities under such commodity agreements and confine themselves to the immediate task of protecting the short-run interests of their domestic producers or consumers.

In cases of other commodities with surplus problems, programs for the general reduction of trade barriers or for the maintenance of high levels of industrial output might not in themselves be sufficient to restore conditions of equilibrium in the industry. This is because for some commodities the roots of the problem cannot be said to lie in any failure of world demand resulting from trade barriers or low levels of industrial activity, but rather in an abnormally rapid increase of productive capacity, attributable to technological change or the circumstances of war, or in a permanent decline of demand associated with a change in consumption habits and the development of substitutes. In short, it must be concluded that even successful general programs of economic expansion are likely to leave a residual of special commodity problems which would have to be dealt with by other methods.

As long as these special problems of economic maladjustment in primary commodities are not satisfactorily covered by international commodity agreements, the persistence of such problems may undermine the willingness of governments to participate wholeheartedly in a broad policy for the reduction of trade barriers, and may thus limit the effectiveness of such a program. It may well be, therefore, that properly conceived and executed international commodity agreements would enhance, rather than impair, the chances for success of the general program for the relaxation of trade barriers, aside from the direct contribution which they might make to the solution of specific commodity problems.

Where maladjustment problems cannot be handled through the ordinary procedures of multilateral trade policy, the emphasis in making corrective adjustments should be first upon the maximum possible stimulation of demand and only last upon a curtailment of production and trade. Concerted action to find new uses or to stimulate demand in existing uses for a commodity in surplus supply may frequently be a less painful solution to a surplus problem than the drastic readjustment of resources which would be called for if the problem is attacked primarily from the supply side. If the attempt to stimulate demand proves inadequate and the development of burdensome surpluses threatens to lead to economic distress and possibly to unilateral action by the producing countries, the drastic readjustment of resources referred to above must take place. An intergovernmental arrangement participated in by consuming and producing countries, and encompassing financial and other aids to facilitate the readjustment, may induce the affected countries to liquidate the extra-marginal capacity which has become superfluous. In such cases, measures temporarily setting production or export quotas or allocating markets, may be a necessary means of making the transition possible for the countries most affected.

In addition to commodity agreements of the type referred to in the preceding paragraphs, namely, transitional commodity agreements to adjust serious problems of maladjustment in world production and consumption, it may be found necessary to conclude international agreements of a more permanent and continuing character in cases where considerations of true conservation or international security would appear to make the conclusion of such agreements essential. The political and social conditions which

agreements of this character would be designed to meet are of such an overriding public character as to take precedence, generally speaking, over commercial policy considerations of the type referred to in this section of the report. It is felt, however, that the character and number of such agreements is not likely to be such as to involve major implications for the principles and methods of an expansionist international commercial policy in the post-war world.

IV. GENERAL RECOMMENDATION OF THE COMMITTEE

In the light of the foregoing considerations and of the information assembled and analyzed by it, the Subcommittee on Commodity Agreements submits the following recommendation:

There should be set up as soon as feasible, in a form to be discussed below, an international commodity organization to deal with various types of maladjustments in respect of the supply, demand, or distribution of primary commodities and such other factors restricting the international flow of commodities as may be referred to it by the participating nations. More specifically, the functions of the organization would be as follows:

1. To investigate and study international primary commodity problems with a view to making recommendations to governments with regard to possible means of dealing with them in the interest of all concerned, including also international buffer stocks operations.

2. To facilitate discussion and cooperation among governments in dealing with international primary commodity problems.

3. To participate in, and to supervise, the formulation and operation of such international commodity arrangements as may be deemed desirable, in order to insure that they shall be in accord with an agreed code of principles.

In the remaining four sections of this report, this general recommendation on international commodity organization is more fully elaborated.

V. THE OBJECTIVES

V. THE OBJECTIVES OF INTERNATIONAL ACTION IN THE COMMODITY FIELD

It is possible to envisage the operation of at least two types of international commodity arrangements under the auspices and general supervision of the international commodity organization. The first would consist of an agreement between governments of exporting and importing countries to participate in joint discussion and study of the international problems of a particular commodity. Under this loose type of arrangement it would be found possible to reach a clear understanding on the line of action which should be followed in order to aid in the development of new markets and new uses for the product and the stimulation of production and to forestall, in particular cases, the development of maladjustments in the industry. It would be possible to organize systematic research with respect to these ends. Broadly speaking, the primary function of international commodity arrangements of this type would be to canvass the possibilities of promoting greater stability and expansion in the conditions of production, trade and consumption, without involving the quantitative regulation of international trade, and to make appropriate recommendations to the participating governments and the general commodity organization.

In other cases, however, for reasons which have been examined in preceding sections of this report, it may be necessary to have recourse to the regulation of international trade or production under an inter-governmental commodity agreement. Specifically, the basic objectives to be sought in international commodity agreements of this type would be as follows:

(a) To enable countries to find solutions to particular commodity problems without resorting to unilateral action that tends to shift the burden of their problems to other countries and thus provokes retaliatory measures and international trade warfare.

(b) To prevent or to alleviate the serious economic and political problems which may arise when, owing to the difficulties of finding alternative employment, production adjustments cannot be effected by the free play of market forces as rapidly as the circumstances require.

(c) To provide

(c) To provide a period of transition which, with the assistance of such national or international measures as may be appropriate, will afford opportunities for the orderly solution of particular commodity problems by agreement between the participating governments and other interested parties upon a program of over-all economic expansion and adjustment designed to promote a shift of regional resources and manpower out of over-expanded industries into new and productive occupations.

A proper function of international commodity agreements of this type should be to provide governments with facilities for reconciling their economic policies in respect of seriously depressed branches of primary production with the broad requirements of an over-all program of international economic expansion. Their purpose would be to deal with cases of actual or imminent international economic maladjustment of a serious nature. It is not intended that this form of international economic cooperation should be deliberately fostered as a permanent method of organizing international production. This, however, is not necessarily to say that there will be no need for maintaining a permanent international organization to deal with such commodity problems; even under the most favorable conditions of expanding economy that may be reasonably presupposed, there would presumably still be individual cases of maladjustment serious enough to call for specific action in this field.

VI. CODE OF PRINCIPLES AND OBLIGATIONS OF GOVERNMENTS

Past experience with individual commodity agreements clearly indicates, however, that such agreements are susceptible of serious abuses at the expense of the world community as a whole and, more especially, of particular countries or social groups. It follows, therefore, that the establishment of an international commodity organization under whose general guidance such agreements would be sponsored, carries with it the responsibility of providing that adequate safeguards shall be set up to insure against such abuses. To that end there should be established a code of principles to govern the formulation and operation of such agreements involving the regulation of trade or production. The basic purposes of such a code of principles would be twofold, namely, (a) to assure to consumers, minority groups of producers, and other interests concerned, such participation in commodity arrangements and such additional

safeguards

safeguards as will protect their interests, and (b) to provide that such arrangements shall promote as their ultimate objective the expansion of efficient production in place of inefficient production.

There follows a detailed formulation of principles in accordance with which the international commodity organization and the governments participating in the work of the organization might seek to develop international commodity policy:

1. Any member government shall have the right to propose and obtain consideration for an international commodity arrangement.

2. Any member government which asserts an interest in the production or consumption of any commodity in respect of which an international commodity arrangement is proposed, shall have the right to participate in the consideration of the proposed arrangement; and any non-member government which has a substantial interest in such production or consumption shall be invited to participate in such consideration.

3. No international commodity arrangement shall bind a government which does not assent thereto, notwithstanding that such government is a member of the international commodity organization.

4. Any government participating in an international commodity arrangement shall agree to abstain from adopting measures with respect to that commodity tending to impair the attainment of the objectives of the agreement, except with the consent of the international commodity council for that commodity and the international commodity commission.

5. No international commodity arrangement involving an agreement to limit production or exports or allocate markets shall be entered into except after:

a. Investigation of the root causes of the problem which gave rise to the proposal;

b. Determination that a burdensome commodity surplus has developed, or is developing in international trade and is accompanied by,

or threatens

or threatens to result in, widespread distress, and that these conditions cannot be corrected by the operation of normal market forces and cannot be effectively dealt with without such limiting measures as rapidly as the circumstances require;

c. Formulation and adoption of a program of economic adjustment by the participating governments which is believed to be adequate to insure substantial progress towards solution of the problem within the time limits of the arrangement.

6. Any international commodity arrangement which is adopted shall operate in accordance with the following principles:

a. Any such arrangement shall be open to accession by any interested country upon terms no less favorable than those accorded to other countries parties thereto;

b. In any such arrangement the countries adhering thereto which are largely dependent for consumption on imports of the commodity involved shall, in the determinations made thereunder relating to the regulation of prices, trade, stocks, or production, have together a voice equal to those largely interested in obtaining export markets for their production;

c. Under any such arrangement, the treatment with respect to the exports or imports of the commodity which is accorded to any country member of the international commodity organization by any participating country shall not, unless otherwise agreed by the international commodity commission, be less favorable than that accorded to any other country, whether or not such other country is a member of that organization;

d. In any such arrangement, provision shall be made whenever necessary, whether through the maintenance of reserve stocks or otherwise, for assuring the availability of supplies adequate at all times for world consumption requirements at reasonable prices.

e. In connection with any such arrangement specific provision shall be made, with due regard to such transitional adjustments in production as

may be

may be required to prevent serious economic and social dislocation, for insuring that there are increasing opportunities (which shall be applied as far as possible during the period of the arrangement) for supplying world requirements from countries able to supply such requirements most effectively. In so far as the arrangement provides for regulation of prices, these prices should be periodically revised so as to promote proper adjustment of prospective supply to prospective demand.

7. No international commodity arrangement may remain in effect for a period of more than 5 years. Renewal of any such arrangement shall be conditioned upon a prior study and public report by the international commodity organization as to the manner in which it has conformed to all the principles herein set forth, and as to progress in eliminating the underlying problem. No such arrangement shall be renewed except in the manner provided for in the general agreement establishing the international commodity organization, and with the additional condition that it shall be established that substantial progress has been made toward eliminating the underlying problem, or that with appropriate revisions the program could be effective for this purpose.

In order to promote the effectiveness of the work of the organization, it would probably be necessary for member governments of the international commodity organization to assume the following additional obligations:

1. Any contracting government which is participating in any international commodity arrangement relating to the regulation of trade or production at the time it enters into this agreement shall submit the same to the international commodity commission for review.

2. Any contracting government, before entering into any international commodity arrangement or proposed arrangement, shall submit the same to the international commodity commission for review.

3. Any contracting government which is participating, or proposes to participate, in any international commodity arrangement relating to the regulation of trade or production shall submit to the international commodity commission such information as it may request regarding the formulation, provisions, and operation of the arrangement.

4. Contracting

4. Contracting governments shall prohibit their nationals from participating in private international commodity arrangements relating to the regulation of prices, trade, stocks, or production, which are inconsistent with the provisions of the international agreement concerning private practices hindering international trade.

Without entering upon a detailed examination of each of the principles cited above, attention may be called especially to those provisions which place a joint responsibility upon the parties to an international commodity agreement for developing, in conjunction with the trade regulation features of the agreement, an acceptable program for removing the basic maladjustments in the industry in so far as the causes for such maladjustments can be said to lie within the industry itself. It is possible to envisage certain types of action that can be taken with respect to such industries which would be additional to measures in other fields for the expansion of the economy as a whole. The character of such action is briefly indicated in the following paragraphs.

In some cases the readjustment of the industry might require the reallocation of resources and the relocation of producers and workers in particular producing areas. To effect these shifts, special measures of technological and financial assistance may be needed to enable countries to establish new industries or expand old ones, to resettle and reequip agricultural producers for the cultivation of commodities promising better incomes, and to expand basic resources, such as transportation and electricity for the development of industry and agriculture. The preparation and negotiation of the details of such programs would unquestionably be a matter of considerable complexity, in which national and international agencies, such as the proposed Organization for Food and Agriculture and the proposed International Bank for Reconstruction and Development, might be expected to participate.

In other cases it might be found that the requirement of a program to remove the basic causes of maladjustment in the industry could be substantially satisfied by agreement to limit or eliminate various national measures to support the prices and incomes of primary producers, such as crop loans, guaranteed prices, export subsidies, benefit payments to producers, import restrictions, and preferential trade arrangements. Such policies frequently

protect

protect high-cost production and thus limit world markets for the products of more efficient producers. In this connection it should be pointed out that production or income subsidies to producers in deficit areas tend in the same manner as export subsidies to increase production relative to demand and thus to depress world markets. Importing countries must, therefore, share with exporting countries the responsibility of bringing about a better balance of world production and consumption. It is quite possible that in some instances, particularly where world demand for the commodity shows a normal secular rate of growth, international agreements to limit or reduce subsidies, import restrictions and preferences, would suffice to ease the problem satisfactorily and thus make other steps unnecessary.

VII. INTERNATIONAL BUFFER STOCKS

The Committee has given careful consideration to the desirability and feasibility of developing a system of international buffer stocks in primary commodities along the lines proposed at the United Nations Conference on Food and Agriculture and on subsequent occasions. A special memorandum on the subject, prepared by a subcommittee of the Committee on Commodity Agreements, is attached to this report. In defining the position of the Committee on the issues presented by plans for international buffer stocks, it is necessary to distinguish between at least three different methods of using international buffer stocks.

The first of these is the use of buffer stocks in an auxiliary capacity in conjunction with the operation of an international commodity agreement involving the quantitative regulation of trade. The purpose of such a buffer stock would be to provide against sudden price fluctuations which might occur as a result of an unexpected discrepancy between demand and supply as fixed by export or production quotas. In other words, the buffer stock would be subsidiary to the system of quantitative trade control provided for by the terms of an international commodity agreement, and its primary function would be to give to the management of the regulation scheme an additional means for keeping the price of the commodity within the price ranges contemplated by the plan. There is general agreement in the Committee that the use of buffer stocks for such purposes and under such conditions would be a desirable means for improving the operation of international commodity agreements.

Secondly,

Secondly, an international buffer stock might be operated in particular commodities which are not otherwise subject to any kind of international regulation. It has been suggested that a bold policy of buying and selling primary commodities, at least such commodities as do not normally present surplus problems, would counteract the tendency to sharp price movements in such commodities, and would prevent, or at least render less severe, the periodic development of depressed conditions among producers of such commodities. This, in turn, might lessen the pressure from such producers for governmental assistance in the form of subsidies or import duties. A successfully operated buffer stocks program in particular commodities might in this way tend to prevent the development of conflicting national commodity policies with their untoward consequences both for the industry involved and for the conditions of international trade as such. By stabilizing receipts from foreign sales of countries exporting chiefly such primary products, buffer stocks operations might help to prevent the growth of emergency measures of import control of a general character, measures which might outlast the emergency conditions themselves and thus contribute to the difficulties of expanding international trade along constructive lines.

In accordance with the recommendations for an international commodity organization contained in this report (see section VIII of this report), it would be entirely possible for particular commodity committees, operating in conjunction with the international commodity commission, to decide that international buffer stocks operations in their commodity would be a valuable and workable technique of international control, and to recommend to the governments concerned the establishment of the necessary machinery for such operations, subject also to the approval of the international commodity commission.

The third approach to the use of international buffer stocks focuses upon the possibilities of applying this technique of control simultaneously to a wide range of internationally-traded primary commodities for the purpose of counteracting or mitigating general business cycle fluctuations. It is contended that general buffer stocks operations on a broad front might, in conjunction with other programs for counteracting business cycle forces, make a valuable contribution to general international

economic

economic stabilization, including also the maintenance of stable international monetary and exchange relationships. As compared with other countercyclical devices, the peculiar merit of international buffer stocks operations would lie in the ready means which they would provide for rapidly expanding or reducing the volume of the international purchasing power, as the occasion demanded. Confidence in the price policy of the buffer stocks management would tend to check extreme bearish or bullish market activities which frequently accentuate cyclical price movements.

For a fuller exposition and analysis of the entire problem of buffer stocks reference may be made to the memorandum on international buffer stocks which is attached to this report. The Committee does not endorse all the views expressed in this memorandum, but believes it provides a useful introduction to the issues involved. In the course of the Committee's discussions it has become apparent, however, that there are a number of major problems to be worked out before an international buffer stocks program with broad commodity coverage can or should be undertaken. Some of these may be briefly mentioned at this point.

One of these major problems relates to the principles of price policy which would serve as a guide to the management in conducting its buffer stocks operations. The broad objective of such operations can be stated simply as the maintenance of a price level which would reflect the long-run changes in the basic conditions of production and consumption of individual commodities, but the appropriate price policies whereby this end would be achieved under the varying stresses of shifting market forces cannot be laid down in a simple and precise fashion.

Other questions pertain to the special problems which would arise in connection with international buffer stocks operations in commodities suffering to a greater or lesser degree from excess productive capacity and buffer stocks operations in commodities whose production is controlled by large corporations, such as mineral products. In the latter case buffer stocks purchases in the course of a business depression might merely enable such corporations to unload large accumulated private stocks upon the international agency and thus to improve their cash balances, while the alleged benefits of such operations in maintaining the purchasing power of the workers employed in

the industry

the industry might fail to be forthcoming. Another problem requiring further study would be the possibly adverse effect of buffer stocks operations in reducing consumption during a period of decline in general business activity. Finally, there are a number of questions relating to the financing of international buffer stocks which cannot be usefully settled at this time, except in the context of post-war international economic collaboration generally, and, more especially, in the light of further information with respect to the extent to which there is to be effective joint action for dealing with world-wide business fluctuations.

In connection with some of the problems alluded to above, the Committee has been acutely aware of the discrepancy which may exist between the theories upon which a broad-gauged program of international buffer stocks operations should be operated and what may actually come to pass under the political pressures of organized interests, operating through their governments. It is generally recognized, on the one hand, that the management of an international buffer stocks corporation should have considerable discretion in reaching and carrying through its decisions to buy or sell, however unpopular such decisions might be from the point of view of the immediate interests of the parties directly concerned. On the other hand, it has been regarded as highly improbable that governments would be willing to grant to an international board broad discretionary powers over the international prices of primary commodities in which their constituents have a direct and vital interest. Pending a further clarification of the disposition of governments, the United States included, to grant to an international agency sufficient power to operate effectively without crippling interference and in accordance with the theory of its functions, it would seem desirable to exercise restraint in recommending the establishment of such an agency.

The Committee has concluded, therefore, that it would be premature in the present state of our knowledge concerning international buffer stocks, to recommend the establishment of the international machinery, such as an international buffer stocks corporation, which would be necessary for the accomplishment of the broader objectives of international buffer stocks operations. Instead, the Committee

recommends

recommends that the problem of an international buffer stocks organization be referred to the proposed international commodity organization for further study.

VIII. INTERNATIONAL ORGANIZATION

Supervision of, and direct responsibility for, the activities herein described with respect to international commodity arrangements might be vested in an international commodity commission, which would be part of such world economic organization as may be set up. It is essential that the policies and operations of the commodity organization should be fully coordinated with the policies of other specialized agencies which have been, or may be, set up in the fields of trade and production, finance, food and agriculture, and labor. The majority of the committee feels that if an international organization for trade and production is formed, this integration of policies could best be achieved through having the commodity commission as a branch of the broader group. The representatives of the Department of Agriculture in the committee hold that the commodity organization should not be part of a general trade and production body. Whatever the machinery, the Committee is unanimously of the opinion that the coordination of commodity and other economic policies is essential.

If the majority view is adopted with respect to the relations between the commodity commission and the international organization for trade and production, the governing body of the latter would: (a) appoint the members of the commodity commission, (b) receive and review reports from the commodity commission, (c) exercise general jurisdiction over its program, and (d) promote the effective coordination of the separate but closely related and interdependent functions of the coordinate branches of the international organization for trade and production, including possibly commercial, commodity and cartel policies.

Within the broad framework of general authority thus exercised by the governing body of the international organization for trade and production, it should be the purpose to create a commodity commission which, although in general responsible to the higher representative body of the international organization for trade and production, would function with a large degree of independence and with as much freedom as possible in specific instances from the political pressures characteristic of a larger representative body.

body. Within practicable limits it would be important, for instance, to safeguard the right of the international commodity commission to decide whether or not, in each particular case, an international commodity agreement is in accordance with the code of principles; but some means would still have to be found for resolving cases of possible conflict with the policies and programs of other parts of the organization. This latter could perhaps be accomplished by limiting the power of critical review and possible reversal, by the governing body, of the commodity commission's action to cases in which other branches of the organization shall have lodged formal protest against the decisions of the commission. The members of the commodity commission should be selected, not with reference to their nationalities, but on the basis of personal qualifications for exercising their functions in the broad interests of the international economy as a whole. In order to promote close and effective collaboration between the activities of the commodity commission and the proposed International Organization for Food and Agriculture it might be provided that one (or possibly more than one) member of the commodity commission shall be appointed by the governing body of the international organization for trade and production on direct nomination by the International Organization for Food and Agriculture.

If the minority view is adopted, the commodity commission would report directly to the world economic council and, except for a broad supervision from the latter body, would be relatively independent. Coordination with other international economic agencies, for example, in the fields of commercial policy, labor, food and agriculture, and finance, would be achieved through having representatives of these bodies serve as members of the commission.

Whatever the particular relationship between the commodity commission and some higher body, the former should be authorized to establish on its own initiative separate commodity committees, such as a rubber committee or a wool committee, whose membership should include representatives of interested countries as well as of the commodity commission. The functions of such committees would be to analyze the international problems regarding the particular commodities involved, to facilitate international discussion in dealing with those problems, and to make

recommendations

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recommendations to the commodity commission.

Any individual commodity council, such as the International Sugar Council or the Inter-American Coffee Board, established pursuant to individual commodity agreements approved by the commodity commission should include in its membership a representative of the commodity commission and should submit periodic reports of its administration of the agreement to the commodity commission for review.

There should also be established under the direction of the commodity commission an international commodity secretariat which would supply the commission, the individual commodity councils and the separate commodity committees with such secretarial, technical and professional services as they might require.

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Attachment: D-24/44
(Commodity Memo No. 16
April 6, 1944)

INTERNATIONAL BUFFER STOCKS

I

Introduction

International buffer stocks are stocks of commodities owned or otherwise controlled by an international organization. Purchase and sale or other controls of such commodities would be designed to exert a stabilizing influence on prices and incomes to producers, make for a more even flow of commodities to consumers, and contribute to stability in the world economy in general. In presenting this report, the subcommittee which has been assigned the task of studying the possibilities and limitations of buffer stocks desires to make a few preliminary observations about the manner in which it has attempted to carry out its assignment.

In September 1943 a detailed plan for international commodity policy, including buffer-stock operations, was presented informally by representatives of the United Kingdom for purposes of discussion. This British proposal has been analyzed in Commodity Memorandum No. 8. This has been followed by a series of studies on particular phases of the problem of international buffer stocks, including a study on the appropriateness of buffer-stock operations as a means of controlling the business cycle, Memorandum No. 10. In considering this memorandum the necessity of coordinating such a program with other national and international measures designed to moderate fluctuations in general business activity must be kept in view. It is not assumed that a buffer-stock program should necessarily take precedence over such other measures but rather that a broad program of international buffer-stock operations might--apart from its contribution to the economic security of primary producers--have considerable significance in maintaining and stabilizing the general level of economic activity. Furthermore, in this analysis but little consideration is given to the political problems of organization and operations. The first task would be to estimate what could be accomplished under such a program, assuming that the management could make maximum use of its economic knowledge and wisdom without interference from political pressures. To some extent, however, the economic and political are so intertwined that it is impracticable to consider one without some reference to the other. Therefore, some mention has been made of the relationship between international buffer-stock operations and national economic policies, and political aspects have been recognized in connection with the discussion of general problems of finance.

The

The ramifications and interrelationships of the economic phases of a broadly conceived international buffer-stock program are such that this report is tentative in character and designed primarily to foster the continued study of the problem rather than as a definitive statement on all the relevant questions which may be raised about such a program. More precise answers to many questions on buffer stocks must await fuller analysis. Any international commodity program which may be set up for the post-war period to give effect to a joint international commodity policy should be given the responsibility of investigating in greater detail possible methods of operation, prospective results and applicability to particular commodities, and subsequently be permitted to initiate and supervise such operations, if they are found to be practicable and useful.

II
Buffer-Stock Operations Should Aim at Eliminating Excessive Price Fluctuations

All economic goods which are exchanged in the market place are continually subject to the price-making forces. Some price changes are small, short-lived, and erratic, occurring in response to minor speculative influences which spend themselves in a few days or even a few hours. Others are seasonal changes which take place with some regularity and are related to time of harvest, costs of storage, etc. Others occur from season to season or from year to year, mainly due to the effect of the weather upon crop yields and may be on either a large or small scale. Still others which are usually large and extend over several years result from those rises and falls in general prices, incomes, and economic activity which are known as the business cycle. Finally, some price changes are of a secular nature. These are usually thought of as slow, long-continued changes in one direction resulting perhaps from shifting demand due to increasing population, trends in taste and preference, the growth of substitutes, and the like. Or they may be the result of factors on the supply side, such as improvements in the technique of production, the development of new or the exhaustion of old resources. Price changes resulting from such factors, however, may be relatively rapid. Techniques which lower production costs or result in increased competition from substitutes occasionally take place swiftly. This is more apt to be the case with manufactured goods, however, than with raw materials.

Prices for primary products fluctuate much more than do prices in general. To quote a recent

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Prices for primary products fluctuate much more than do prices in general. To quote a recent

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report:* "During the last twenty years, the price of wheat and of jute has been halved three times within about twelve months, the price of cotton three times in periods of under eighteen months. The price of copper and of lead was halved four times within periods of two years and doubled three times even more rapidly. The price of zinc was halved twice in eighteen months, of tin twice in twenty-four months; zinc and lead doubled in price three times in two years or less; copper three times in eighteen months. On one occasion the price of coffee was halved in eight months, on another the price of sugar trebled in four months. Between 1920 and 1933, the price of crude rubber fluctuated between four cents a pound and twenty-five times that amount, and was on several occasions doubled or halved in the space of a few months."

It is not the purpose of this report to analyze the reasons for the differential behavior of prices of individual commodities and groups of commodities in the price system. Unquestionably, however, some of the price changes in the raw material industries are excessive and injurious in that such price changes lead to the idleness, misdirection and waste of resources.

Primary products of agricultural origin--and these make up about 80 percent of the value of total world production of all primary products--are subject to large uncontrollable variations in production from year to year due to fluctuations in yields. Some of the resulting changes in prices are necessary and desirable, but some are excessive. Anything which could be done to hold price fluctuations to a minimum would have very beneficial stabilizing results because instability feeds upon instability. One of the salient characteristics of the functioning of the price system in the raw material industries, particularly its agricultural branches, is a tendency to overcompensation with respect to price-induced adjustments. Similarities in cost, habit, information and attitude of numerous small producers tend to result in their acting together in expansion or contraction. The action of each individual producer takes place largely without allowance for the simultaneous responses being made to the same price forces by other producers.

Furthermore, the cyclical forces act upon primary products with great severity. The influence of the business

*The Transition from War to Peace Economy, Report of the Delegation on Economic Depressions, Part I (Geneva, League of Nations, 1943), pp 23-24.

business cycle was responsible for a large part of the extreme instability in prices indicated by the above quotation. Primary products are first to feel the effects of gathering deflationary or inflationary forces. In a depression their prices fall faster and farther than prices of intermediate and finished products. This is partly due to a sharper decrease in demand. Some feel the effect of the heavier decline which takes place in activity in the capital goods industries than in the consumer goods industries. The deflationary effects of the tendency of processors and traders to use up accumulated stocks during a period of falling prices and to defer purchases of raw materials in anticipation of even lower prices fall with full weight upon primary producers. In practically all cases the distance of primary products from the final consumer means that a large part of the retail price is made up of marketing, transportation, and manufacturing costs which tend to be rigid or to change very slowly. Consequently any drop in consumer incomes and resulting decline in demand at retail tends to be fully reflected to primary producers, which means a much greater proportionate reduction in prices to producers than in prices paid by consumers. Between 1929 and 1932 the cost of living in most industrial countries decreased by from 10 to 25 percent while average world prices of seven primary products (cotton, wheat, tin, sugar, rubber, tea, and silk) decreased around 60 percent in terms of dollars, and by more than 40 percent in terms of pound sterling. In the United States, between 1929 and 1932, wholesale prices of 40 basic commodities decreased by 47 percent, the B.L.S. index of general prices at wholesale by 32 percent, and the B.L.S. index of the cost of living by 20 percent. In the United Kingdom the decline in the index numbers of prices of 40 basic commodities, general prices at wholesale and the cost of living was 31, 25, and 12 percent, respectively.*

In the face of drastically reduced demand, the production of primary products changes but little. The League of Nations index of world production of primary commodities (1929 = 100) was 99 in 1930, 96 in 1931, and 92 in 1932. The limited decrease in output which did occur was almost

entirely

*For additional data and explanation of the above indices see Annual Supplements to Survey of Current Business, United States Department of Commerce; "World Prices and the Building Industry" by Warren and Pearson; the various reports of the League of Nations entitled "World Production and Prices"; reports of the United States Bureau of Labor Statistics, and the British Board of Trade and Ministry of Labor.

entirely due to reduced production of nonagricultural primary products. The output of agricultural goods was 101 in 1930, 100 in 1931, and 99 in 1932. World manufacturing production (excluding U.S.S.R.), on the other hand, in 1932 was 64 percent of the 1929 level, the index for consumption goods being 80, and for capital goods 43.*

The violent swings in prices of primary products have had disastrous consequences not only for the producers directly concerned but for the economic system as a whole. Sharply falling prices have "meant that farmers in many areas were unable to purchase clothes or boots, were unable to send their children to school for lack of them, were unable to obtain food other than that produced on the farm; that debts were unpaid and banks forced to close their doors on their depositors; that savings large and small were lost; and the plight of the paid labourer on the farm or in the mine was often such as to make the incomeless farmer seem fortunate.**

Since deflationary tendencies appear first in the markets for primary products, and since prices of raw materials decline most severely in depression, measures to eliminate excessive price variations would have most beneficial effects upon producers. In addition, any maintenance of the buying power of primary producers would tend to maintain their effective demand for manufactured goods and hence would contribute to averting a further decline in the demand of the industrial sector of the world economy for primary products. While the preceding discussion has been mainly in terms of price declines, it is also true, of course, that excessive price increases for primary products should be avoided. These occur under a set of circumstances which are the reverse of those outlined above and their elimination would contribute to the reducing of excessive price declines and vice versa.

The unfavorable direct effects and indirect repercussions of the extremely violent fluctuations in prices of primary

commodities

*For additional data and explanation of the above indices see Annual Supplements to Survey of Current Business, United States Department of Commerce; "World Prices and the Building Industry" by Warren and Pearson; the various reports of the League of Nations entitled "World Production and Prices"; reports of the United States Bureau of Labor Statistics, and the British Board of Trade and Ministry of Labor.

**Op.cit. Transition from War to Peace Economy.

commodities are not inconsistent with the fact that price changes are necessary to economic equilibrium and the general social interest. This is true not only of changes associated with times of harvest, high and low yields, and secular influences, but also of some price variations associated with the trade cycle. Prices may become too high or too low relative to efficiency. This is particularly true of raw materials. That is, prices may be out of line with the costs of production, costs and profit margins of manufacturers and middlemen, and the wants and buying power of ultimate consumers. When such a situation exists, interferences should not be placed in the way of desirable price adjustments.

This distinction between desirable and undesirable price changes, how to permit and facilitate the one and prevent or arrest the other, would be the problem to be dealt with in buffer-stock operations. Success could not be achieved through the application of mechanical or rule-of-thumb methods. On the contrary, the technique of price operations would have to be based upon the widest possible knowledge of economic processes as a whole, the most complete understanding possible of the business cycle and a thorough acquaintance with the production, prices, consumption, stocks, and related series in all their interrelations for individual commodities. This comprehensive knowledge and action based thereon would be absolutely essential in order to give the flexibility which would have to characterize price policy if buffer-stock operations were not to break down and in the process probably produce worse maladjustments than they were designed to correct.

The Foci of Buffer-Stock Operations

Since price variations may be the result of factors which are very different in their nature, what should be the main focus of buffer stocks policy? Should it be concerned primarily with adjustments to secular forces, with smoothing out short-time fluctuations in prices resulting from speculative influences or good and bad crops, or should the main attention be given to cyclical fluctuations? The broad answer would seem to be that in the social interest, a buffer-stock authority must interest itself in all important variations and prices, whatever their underlying cause, and be prepared to deal with them within the limits of its powers. That is, at any given time and with respect to any particular commodity, the buffer-stock authority in deciding whether prices were normal or were excessively high or low would need to appraise carefully the complex of secular, cyclical, seasonal, and unusual factors affecting prices at that particular time. However, cyclical fluctuations bulk so large in the complex of price changes that a buffer-stock

authority,

authority, whose chief objective by definition is stabilization, would of necessity have to devote primary attention to such fluctuations. A discussion of some aspects of buffer-stock price policy in relation to cyclical, short-time, and secular price forces follows:

Mitigation of Inflationary and Deflationary Tendencies

A wisely conceived and vigorously administered program to reduce cyclical swings in commodity prices could make a substantial contribution to world economic stability and progress and this aspect of a buffer-stock program contains the greatest possibilities.

The beginning might be on a modest scale with operations designed primarily to cushion the impact of the ups and downs of the trade cycle on some particular commodities. Perhaps operations should commence with one or a few important commodities which are best adapted to storage, for which economic information is the most complete, for which the outlook is most clearly defined, and which are in position to benefit to a high degree from stabilization operations. In the course of time it should be possible to extend operations to a wider and wider range of primary products and to look to an increasing degree upon buffer-stock activities as a means of mitigating cyclical swings in commodity prices and economic activity in general.

Whether the initial operations were designed primarily to mitigate the effect of the cycle on a particular commodity or were a part of a comprehensive program to control the trade cycle probably would have an important bearing in most cases on the line of demarcation between desirable and excessive price adjustments. In the former situation the range of price fluctuations to be expected, and considered as necessary, probably would be greater than in the latter case. That is, in the first case the price of a particular commodity would necessarily have to bend considerably before cyclical pressures, and, therefore, purchases and sales might have to be directed chiefly toward the setting of floors and ceilings for prices. The special study made of buffer-stock operations as they might have been applied to cotton in the period 1926-40 shows that under the conditions which actually prevailed only very limited smoothing operations would have been possible without significantly increasing production, reducing consumption, and adding materially to the carry-over. On the other hand, if buffer-stock operations on a broad scale and other countercyclical measures were being applied, the force of the cycle upon the particular commodity would be reduced and smaller price changes would be sufficient to readjust it to its proper

position

position in the price system.

Regardless, however, of whether operations were confined to a few commodities and designed primarily to benefit producers and consumers of these, or were intended to play an important part in the smoothing out of the trade cycle as a whole, certain principles of price policy would be common to both. The checking of deflationary and inflationary price movements would require a planned program of operations for a few years ahead which would look toward accumulating no more stocks in a deflationary phase of the cycle than could be disposed of in the inflationary phase. In large part this is another way of saying that operations must not be run counter to secular forces. Buying against a deflationary movement should cease whenever it appeared that there was danger of curtailing consumption to a significant extent, and also when it appeared that there was sufficient strength in the free market to check an excessive decline in prices. After the turn in the depression, when it appeared that purchases are no longer required to stabilize the market, a plan for disposal of the accumulated stocks should be announced. The sales plan for a period of recovery or a period characterized by inflationary tendencies should be constructed with due regard to the length of the period over which the sales may be distributed so as to dispose of the accumulated stocks in advance of the development of another period of declining prices. The largest distribution, of course, should be made in the years of strongest purchasing power, both for the sake of earning profits or of reducing losses to the minimum, and for the sake of reducing the swings in prices that are customarily experienced between the bottom and the top of the cycle.

The results of the hypothetical program applied to cotton between 1925 and 1940 illustrate the dangers of using a quasi-mechanical guide to price policy which would allow for insufficient adjustment to ever changing economic conditions. Considerable decreases in consumption, increases in production, and extremely burdensome stocks resulted when purchases and sales were based upon the degree of departure of current prices from the moving average of prices during the preceding 10 months. Even after the formula was modified by an allowance for other factors, including the level of current consumption and stocks in relation to normal, purchases and sales were not distributed in such a way as to achieve maximum stabilizing influences at minimum costs. Operations with respect to a commodity should be made in the light of supply and demand conditions a year or more ahead rather than be controlled automatically by trends during the past period as modified by the immediate situation.

The

The long-time trend in the price of a commodity whether due to demand and supply conditions peculiar to it or to the movement of the general price level will influence to an important degree the opportunity to balance the cost of purchases and carrying charges with proceeds from sales. In a period in which the long-time trend of prices is downward, so that the cyclical advances do not bring the general price level back to the level of the high point of the previous cycle, the operations for most commodities are likely to show a loww, even in the face of the best possible management. This would have characterized operations in most commodities during the inter-war period. But the losses can be minimized by good management. Operations simultaneously carried on with reference to several different commodities will tend not only to lessen the swings for each, but may even provide some insurance through balancing losses on some commodities with gains from others. In any case in which the secular trend of the price of the particular commodity is downward, stocks are likely to accumulate, and other measures will be required to minimize them. (See section discussing long-time or secular forces.) This was the case with respect to cotton in the years 1925-40. Buffer-stock operations could have reduced fluctuations in prices and incomes of producers. But the stocks authority would have had to adjust prices continually in a general downward direction and losses would have been sustained under the best of management. These losses, however, could have been minimized by an intelligent attack upon the forces which made for the deepening and prolonging of the world depression and by appropriate national and international measures to reduce cotton surpluses. The reverse is true with an upward trend. Profits may be realized from holdings, and stocks may be sold out frequently because of short crops or increasing demand.

Buffer stocks can be expected to make a progressively greater contribution to reducing economic fluctuations in general as such measures are extended to a wider range of commodities. The extent to which cyclical variations would be mitigated would vary, depending upon whether the number of commodities involved was large or small, but the general nature of the process by which it is envisaged that the countercyclical effects would be achieved would be the same. In the descending phase of the cycle the buffer-stock authority would buy commodities in such amounts as to prevent the price to producers from falling as rapidly and as far as otherwise would be the case. This would prevent producers' incomes from falling, or at least would prevent them from falling as fast and as far as would be the case in the absence of buffer-stock operations. Hence, producers would be better able to continue to buy the products of other

parts

parts of the economy. These other industries in turn would be under less pressure to curtail employment and payments to their factors of production. As a result, purchasing power for all commodities, including those for which the price was being supported, would be better maintained. Furthermore, since processors and manufacturers could be certain that the prices of their raw material were not going to decline sharply they would not have the same incentive to use up existing inventories and buy on a hand-to-mouth basis as is usually the case in deflationary periods. As a result of these processes, the deflationary spiral would be arrested and the whole economy maintained on a higher level of activity than otherwise would be the case. It is probable that these indirect consequences of preventing or arresting the decline in the purchasing power of primary producers would be more important than the direct effect of taking commodity surpluses off the market. It cannot be assumed, of course, that buffer-stock operations for one or a few commodities or even for a wide range of staple storable products would alone be able to achieve economic stability. But they could effectively supplement other counterdeflationary measures that would also presumably be put into operation.

In the inflationary or expanding phase of the cycle the effect of buffer-stock operations would be the reverse of that in the deflationary phase. As prices rose stocks would be released into commercial channels. This would dampen down the rising prices and incomes to producers, and would tend to prevent the overextension of productive facilities. Middlemen and processors would be largely free from the incentive to accumulate large inventories in anticipation of higher prices, and consumers would be assured continued adequate supplies at reasonable prices with resulting favorable effects on competition with substitutes and on consumption and expenditure patterns in general.

Some doubt might be entertained as to the possibility of moderating the business cycle through a program which might be expected to affect directly commodities representing only a fraction of the total value of world trade. However, in order to affect the whole range of primary products it would be neither necessary nor desirable for operations to be conducted for every single basic commodity. Because of complementary, supplementary and competitive relationships between commodities with respect both to their calls upon the factors of production and their use as producers and consumers goods, operations in the major products would tend to swing prices and incomes for many other commodities. For instance, buffer-stock activities in wheat, corn, and rice, and perhaps rye, probably would

exert

exert a sufficient effect upon the structure of world grain prices without undertaking the additional expense and administrative burden of operating in barley, oats and grain sorghums and millets.* Furthermore, as has been emphasized above, any tendency to maintain incomes with respect to the important primary raw materials would have far-reaching repercussion upon the demand for other raw materials and manufactured goods. Such benefits might extend to trade policy. Importing countries would have less incentive to raise import barriers to protect domestic producers, while exporters of raw materials would be under less pressure to curtail imports of industrial products and force exports as means of correcting a disequilibrium in the balance of payments.

Excessive Short-Term Price Movements

Excessive short-term fluctuations in prices may be due to marked changes in either supplies or market conditions. There are two types of movements to be considered: (1) random deviations from the annual seasonal movements, and (2) deviations from the annual average responses to changes in size of crop or variations in total supplies. In considering what is excessive it must be recognized that the orderly movement of supplies requires seasonal adjustments sufficient to cover the charges involved in carrying and distributing supplies through the marketing season. In the case of some commodities having producing areas widely distributed in the world, the international seasonal price movements are normally very moderate. But in the several producing areas, prices may decline rather sharply with the harvesting of the new crops. When the price adjustments to the marketing of a new crop are greater than required for the existing supply conditions, or when prices advance within the season more rapidly than supply conditions seem to warrant, buffer-stock operations may be justified. Although it is doubtful whether extensive buffer-stock operations would be either necessary or appropriate in

connection

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* Needless to say, operations in major commodities with minor competitors excluded should always proceed with due regard for the effects of changes in the production and consumption of such minor products upon market outlets for the commodities subject to buffer-stock operations.

connection with most cases of extensive intraseasonal price changes, the need would occasionally arise.* For instance, the bumper crop of cotton in 1926 caused a sharper decline in the first few months of the marketing year than was warranted by the demand and supply outlook or by costs of storage. Prices recovered late in the season but by that time farmers had sold their cotton. The excessive decline of 2 to 3 cents in cotton prices during the months of heaviest marketing cost producers millions of dollars. If a buffer-stock authority had begun to purchase cotton at an announced price in the summer of 1926, private traders would have bought more freely and the authority probably would have actually had to buy very little cotton.

Since the annual variations in production of most farm products are greater than the variations in consumption, prices are likely to fluctuate annually more than production. Some degree of fluctuation is economically justifiable. When producers have high yields they can afford to market their products at lower prices per unit, and consumers may be encouraged to use more of the product currently and thus avoid an excessive accumulation of stocks. It is desirable, however, that some stocks of durable commodities be accumulated in years of large crops, to be distributed in years of small crops. This is commonly recognized by the trade, and as a rule, with normal market conditions, the price adjustments are such as to result in some increase in consumption--but not as much as the increase in the crop. Consequently stocks are built up from large crop years, to be consumed in the short crop years. However, in the case of some commodities and under certain conditions, the annual price movements associated with variations in size of crop are greater than necessary to distribute the supplies in accordance with consumption needs and carrying charges. The sharp decline in cotton prices in 1926 has been mentioned above as an illustration of an excessive intraseasonal price change. It might also be considered to be an excessive interseasonal movement since the average price for the season as a whole was lower than warranted by demand and supply conditions. Buffer-stock operations may be used to eliminate such excessive price changes.

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* In case of an area or areas in which such seasonal price movements seem to be greater than should be required, and the reason appears to be the lack of proper facilities for handling new crops, aid should be in the form of assistance and direction in the development of more adequate marketing facilities rather than the application of the ordinary buffer-stock operations.

In determining the extent to which the annual price movements associated with the harvesting of a large crop or a short crop are excessive, due allowance must be made for the normal relationship of market prices to the total volume of supplies available for the current season, the normal consumption requirements, and the probable accumulation of stocks at the end of the season in relation to a normal or expected production in succeeding seasons. To avoid the excessive accumulation of stocks in periods when buying power is approximately normal, purchases from the large crops should be disposed of in the years of average or less than average size crops immediately following the large crops.

If excessive short-term price movements are due to what is obviously a temporary depression or short-lived spurt in demand, the appropriate operations by the stocks authority may be similar to those in case of variations in yields. But the carrying of surplus stocks from large crops into a deflationary period and thus contributing to the difficulties of dealing with such movements must be avoided. In an inflationary period, on the other hand, accumulated stocks may be disposed of in advance of the greatest need for them unless sales are distributed very carefully. Purchases, holdings, and sales should be planned at all times with due regard to effects upon the supply available for consumption and stocks, as well as with reference to price movements.

Long-Time or Secular Price Changes

The general interest requires that the most efficient use be made of the resources available for the production of various commodities and that prices be maintained as nearly as possible in line with a long-run free market equilibrium of supply and demand conditions. Consequently, it would not only be impossible but also undesirable for a buffer-stock authority operating alone to maintain the price of a commodity over a long period of time at a higher or lower level than the basic conditions of demand and supply would justify. Such operations obviously should be conducted, therefore, within the framework of these basic conditions. The stocks authority may conclude in the light of the outlook with respect to general prices and the special factors affecting the demand for and supply of a particular commodity that the price for several years in the future will be about stationary, gradually rising, or declining. The farther into the future price trends are predicted, the less accurate such predictions are, but the concept of the trend price would be fundamental to buffer-stock operations and the authority would have to be continually concerned with its revision and reprojection.

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The secular trend in prices is of peculiar importance in connection with commodities in a chronic surplus position. Cotton, coffee, sugar, tin, rubber, and various other primary commodities were in chronic surplus before the present war. In the post-war period, difficult situations are apt to prevail not only for these typically surplus commodities but also for other commodities which were not in surplus in earlier years but whose production and consumption have been distorted during the war. Under such conditions, the basic price required to move a surplus into consumption may be so low as to create economic distress.

This is a commodity problem of a more basic character, the solution of which necessarily runs in terms of fundamental adjustments in the supplies produced or effective steps to foster increased consumption. It cannot be met by buffer-stock operations. But there would be the same benefits to be derived from buffer stocks regardless of whether the commodity was in a chronic surplus position. Buffer stocks would still be appropriate to eliminate excessive price variations in the commodity, thus smoothing out fluctuations in prices, incomes, production and consumption, and exerting desirable countercyclical influences. However, great care would need to be exercised in operating buffer stocks for typically surplus commodities. Since producers would be in distress, the stocks authority could expect to be under heavy pressure to maintain prices at a higher level than basic demand and supply conditions warranted. If this occurred production would be encouraged, consumption discouraged and the incentive to shift factors of production to other industries would be reduced. Successful operations over an extended period not only would require courageous action on price policy but also measures to reorient production and/or expand consumption.

Dealing with Various Commodities Would Present Different Problems

It is scarcely possible to overemphasize the diversity of the conditions with which a buffer-stock authority would have to cope in connection with the different commodities. Intra and interseasonal price changes vary greatly between commodities. The various products are affected differently as to timing and amplitude of change by the business cycle. For some the long time trend in demand and consumption is upward. Others are feeling to an increasing degree the competition of substitutes. For some, costs of production are decreasing, for others increasing. Trade barriers are very important for a wide range of products, for others very much less important.

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The matter of stabilizing prices and incomes to producers of foodstuffs will present distinctly different problems than will stabilizing operations for industrial raw materials. In the case of foodstuffs, production and consumption continue without great variations through a cyclical depression, whereas both the production and the consumption of nonagricultural industrial raw materials are greatly reduced. In the case of foodstuffs the cyclical adjustments are taken primarily in prices, but in the case of raw materials of industry, adjustments are reflected in marked changes in production, consumption, prices and employment. The variations in production and consumption of nonagricultural raw materials, of course, are due primarily to the fact that their use can be deferred for a considerable period and the production of them is subject to order. Industrial raw materials of agricultural origin such as cotton and rubber tend to stand somewhere in between nonagricultural raw materials and foodstuffs with respect to their behavior during depression. Their production tends to continue, but consumption and prices decline severely.

It is obvious that products whose consumption declines greatly during a depression present a more serious problem for countercyclical operations than do foodstuffs. For such commodities, stabilizing prices and taking what producers offer probably would mean that in a business depression a large part of production would be for sale to the buffer-stock authority. In order to avoid the quick accumulation of large stocks with a resulting tie-up of funds for a long period of time, the support prices of the stocks authority should be at very conservative levels, should give full weight to secular factors, and the industry should understand that production for sale to the stocks authority would mean lower prices and less production in the ensuing prosperity period. For such products, buffer-stock operations would be more successful in the degree to which they were combined with other countercyclical measures.

Buffer-Stocks and National Economic Policies

While it is hoped that buffer-stock operations would be associated with and would encourage freer trade and increased economic interdependence and goodwill among nations, it would not be necessary for all countries to abandon their own policies of production control and price support. For instance, it is possible that the United States will desire to continue to support prices of basic commodities in the United States above the world price level and it may be necessary, in order to avoid the accumulation of surpluses, to export some of these agricultural commodities

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through the use of export bounties or other forms of two-price arrangements. Under these circumstances it would be necessary for a country such as the United States to enter into an agreement with other interested countries which would provide for a definite commitment as to the size and scope of nationalistic programs for some period in the future. For instance, it would be possible for a buffer-stock authority to operate on an international scale if it knew that export subsidies were to have certain definite limits. Importing countries pursuing protectionist policies would have to agree to upper limits to tariff rates and import quotas. So long as the buffer-stock authority knew what national policies were to be it could operate within their framework.

It does appear probable, however, that extensive measures of economic nationalism would tend to add to the difficulties of an international buffer-stock authority. If such measures were sufficiently widespread they might reduce the portion of total production and consumption subject to the influence of the buffer stocks to such a degree that the operation of the authority would not be worth while. In the second place, the more widespread and severe the deliberate controls of national governments over a commodity, and the longer such controls are continued, the more difficult it is to measure and appraise the factors underlying the behavior of production, consumption and prices. Therefore, it is probably fair to conclude that while complete free trade is in no way essential to the operation of an international buffer-stock plan, there must be an agreement as to the extent of nationalistic regulations, and it is to the interest of successful buffer-stock operations that measures of economic nationalism be minimized.

Type of Organization and Amount of Funds Required

Machinery for the operation of buffer stocks should be developed as one of the instruments for dealing with the international trade in commodities and be associated with the international organization having responsibilities for the development of policies and programs relating to the international exchange of agricultural and other raw material commodities. One possible means for accomplishing this would be to set up a corporation for the specific purpose of dealing in such commodities as may be included in a program of international buffer-stock operations.

The corporation should have discretion to establish separate commodity pools and subcorporations to deal with the several commodities. It should be empowered to issue

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and sell securities, to purchase, hold and dispose of commodities, to enter into contracts with individuals, corporations, and States with reference to purchases, storage, processing, transportation, and sale of commodities, to buy and sell futures, and to issue debentures upon stocks, which debentures would be liquidated with the sale of such stocks.

The Commodity Credit Corporation of the United States has shown how a large volume of commodity business can be financed. The CCC probably could be rather readily transformed into an international organization to buy and sell and make loans upon commodities. It is now engaged in such operations in many countries as a war measure and it has handled large volumes of business.

The amount of funds necessary to carry on an international buffer-stock program will vary with several conditions: (1) With the number of commodities included in the programs, (2) with the extent to which it is intended to bolster cyclical declines as well as to moderate short-time fluctuations, (3) with the share of weight it is to carry in the general program of controls of cyclical fluctuations, and (4) with the degree of economic uncertainty which exists at the time at which it operates and the amplitude of price fluctuations in response to the usual market forces.

The short-run elasticity of supply of most commodities at any price above that which would be fixed by normal market operations is very high, and even if the buffer-stock program is expected to be only a part of a comprehensive scheme of business cycle control, there is a likelihood that a large part of the early program of price control will be carried by the buffer-stock corporation. Therefore, the resources available to the stocks authority should be generous, and must vary in direct proportion to the share of the antideflation program it is to carry.

The volume of funds will depend, of course, to a considerable extent, on whether other controls designed to stimulate investment, encourage enterprise, and increase consumption on a national and international basis are to be pressed vigorously and quickly. The danger of delay in the application of these other corrective measures must be obvious, for to the extent that they are delayed, we will be driven to a dependence upon deflationary correction of economic disequilibria. It seems impossible to avoid the pessimistic conclusion that some dependence will be placed on deflation, and that, to some indeterminate extent, the buffer-stock fund will be called upon to regularize a falling market.

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But if there is to be merely a regularization of a necessary deflation or if other measures are to lag in effectiveness, the buffer-stock program will demand more funds, for in such a decline there will be a much greater degree of uncertainty and much wider natural fluctuations of commodity prices. There appears to be no avoidance of the fact that the buffer-stock program must be prepared for just such an emergency as this. In any case, those who are given responsibility for the control of unnecessary fluctuations in raw material prices may excusably express deep concern over (a) extent of the general price control program, (b) the promptness with which other measures are expected to be applied, (c) the availability of emergency funds for the buffer-stock program.

Sources of Funds

(1) Some should be appropriated by legislation. Lacking a world government, such appropriation must come from the contracting States. The primary advantage of this source of funds is the opportunity for a continuing expression of interest by all affected economic groups. It is to be expected that there would be some sort of corporation or other organization financed by subscription by each participating nation, preferably on the basis of national income. There would probably be initial contribution with provisions for additional legislation, or, perhaps, with a provision for the issuance of some type of debenture guaranteed both by the commodity collateral and the credit of the Government.

(2) To use a security-issuing power as a method of freeing the corporation from the necessity for continuous reapplication for funds would have both an advantage and a disadvantage. The advantage will lie in the greater autonomy of the corporation to carry out the policies desired by its directors. The disadvantage will lie in the failure of this method to attract the interest and the continuous criticism of the world's producers and consumers.

(3) Some of the funds would come from banks. If an international bank should be established it would be an appropriate source of funds for a buffer-stock organization. The primary advantage of this source is the fact that banks may, by such loans, expand and contract the volume of credit in partial compensation of cyclical changes in production. A second advantage lies in the fact that credit expansion may operate more quickly than government appropriation. A third advantage is that such credit will constitute an entirely new supply of purchasing power and not,

as in the case of public or private loans, merely a credit transference.

The disadvantages appear to lie primarily in the old conflict between the public desire to avoid credit deflation and the normal bank policy of extending credit only on secured loans. Concern with this problem grows partly from present intimations that the purpose of the bank will be to extend loans on long-term capital development rather than on commodities. The basic difference between a capital loan and a commodity loan is that the former is secured by potential earning power and the latter by the fact that the pledged commodity is likely to be standardized and to have a current market value. The conflict between the cyclical program of the buffer-stock corporation and bank policy might be partially resolved by the use of the voted funds of the corporation for margin purposes and the securing of bank credit by the pledge of the commodities themselves.

It might be concluded, tentatively, that the basic principles could best be correlated by (a) a permanent endowment, raised by the issuance of securities and guaranteed by the member States, which would provide ground, plant, furniture and equipment as well as an insurance or underwriting pool to serve as a margin for operations; (b) periodic appropriation to employ personnel and to cover costs of short-term market activities; (c) funds for cyclical investments to be furnished by appropriation, by bank borrowing, and the sale of debentures, preferably to banks. Financing cyclical investments in this manner not only would make full use of the banks' ability to expand credit but would allow the development of a correlated attack on deflation. The use of the corporation's funds for margin purposes, on the other hand, would endow it with some policy-making influence of its own.

The matter of providing for a proper balancing of producer and consumer interests and a commensurate sharing of direct gains and losses presents a series of particularly knotty problems. If operations were confined to a relatively few products and if such operations were independent of overhead agencies with power to enforce the social interest, definite provisions would have to be made for recognition of consumer interest. However, producers might well object to bearing the entire brunt of losses if such losses were incurred out of consideration for consumers. On the other hand it would be difficult under these conditions to induce the governments of nonproducing countries to appropriate funds which would directly benefit only producers in other

countries.

countries. If operations were applied to a wide range of commodities and the various programs coordinated through a supervisory council of some kind, the protection of consumer interest would be readily provided for and the use of buffer stocks to effect overall economic conditions would make it feasible to allocate profits and losses on the basis of national production or income.

Some General Political Considerations

A buffer-stock program should have the certainty and continuity that spring from a sound political organization. It should neither be subject to the whims of various pressure groups nor completely insulated from public opinion. Its policy must be related to general concepts of the public interest, and yet it must be sufficiently aware of political forces to be able to protect itself from possible reactionary legislation against the entire plan.

The corporation must be in a position to carry out a coherent program. While its principal policies should be continually open to criticism, and while the corporation itself must feel under the necessity for constant public education with regard to its intentions and its methods of operation, it cannot operate successfully in an extremely technical field without considerable autonomy.

In general, the organization must maintain a neat balance between a consciousness of public opinion and a consciousness of the technical problems involved in its operations. If international buffer-stock operations can contribute to the channelizing of the political and economic forces of the world into world policy-making bodies, they will serve an additional purpose perhaps equal in importance to their purely economic effects.

III

Some Problems Requiring Further Study

1. It has already been pointed out that this report was to concern itself almost entirely with the economic possibilities and limitations of buffer-stock operations and was to leave to one side the numerous political problems which would have to be dealt with. To some extent, however, the economic and political are so intertwined that it is impracticable to consider one without some reference to the other. Therefore, some mention has been made of the relationship between international buffer-stock operations and

national

national economic policies, and political aspects have been recognized in connection with the discussion of general problems of finance.

However, existing political realities will affect not merely special phases of buffer-stock activities but will cover almost their entire scope and will go to the very core of operations. For instance, it has been repeatedly emphasized that a considerable degree of latitude will have to be left with the management of the stocks authority to decide price policy in actual operation. If the buffer-stock authority is to have this large measure of autonomy, however, it will mean that national governments will have to be willing to grant large and broad powers over prices received by their producers to the management of an international organization. Such governments will have to refrain from making their support of the international program conditional upon the pursuit of price policies which conform closely to the immediate interests of their domestic producing groups. This means that governments must neither attempt to force the management to maintain a higher level of prices for a commodity than is justified by basic demand and supply conditions, nor interfere with the liquidation of accumulated stocks of particular commodities in accordance with price stabilization objectives. Furthermore, governments of importing countries will need to be willing to leave discretion with the management in determining the course of prices of imported primary products even though this might represent some transfer of international purchasing power from the importing country to the inhabitants of the exporting countries.

Under conditions as they existed during the period between World War I and World War II, there would have been relatively little chance of the above conditions being met. The world in the interwar period was to a considerable extent characterized by economic and political anarchy. During much of the period, especially in the 1930's, the disruption of international trade, exchange problems, and more or less business depression made it difficult for countries to adopt either national or international programs which made sense from the standpoint of economic well-being of the world as a whole. Under such conditions, governments tended to look at economic policy from a short-run and nationalistic point of view. If similar conditions prevail after the present war, international buffer-stock operations will have no better chance of success than will other measures for international economic and political action. All proposals for such action, however, including international buffer-stock activities, presuppose that ways will

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be found in the post-war period to provide a greater degree of political security and a higher level of general business activity and trade, and that governments, having failed to find either political security or economic stability in economic nationalism, will be willing to engage in more international cooperation than was the case in the past. The favorable effects of the various measures of economic reform, including stabilization of exchanges, the reduction of trade barriers, positive measures to readjust production, and buffer-stock operations would tend to aid each other mutually in adoption and operation.

A careful study should be made of those phases of buffer-stock organization and operation which would be most directly affected by political considerations. These should include analyses of the probable attitude of the various national governments and special producer and consumer groups toward price policy under varying circumstances, lessons to be learned from previous attempts at international commodity control and the degree to which the attitude of the different governments might be influenced by some of their nationals having special interests in some commodities as producers and in others as consumers.

2. Extensive study needs to be made of the relationship between prices, production and consumption for the different commodities. This problem needs to be investigated not only commodity by commodity, but under different assumptions as to the number of commodities to which buffer-stock operations would be simultaneously applied, and the scope of other countercyclical measures. It is recognized that holding prices for a particular commodity above the level of products which compete for the factors of production and above the level of prices for commodities which are substitutes in consumption, will tend to increase supplies and reduce consumption. Furthermore, consumers' incomes shrink during a depression and demand curves shift with the result that a given supply will enter into consumption only at lower prices than those which prevailed before the depression began. However, the elasticity of demand and supply, and the degree to which demand and supply curves shift under the impact of changes in business activity, incomes, and other factors will vary greatly between commodities and under different conditions, and these matters require careful and extensive additional study.

3. Studies should be made of the effect of buffer-stock operations in both the deflationary and inflationary phases of the cycle, upon the size and distribution of incomes and resulting effects upon the pattern of spending,

saving,

saving, and investment. It has been pointed out that higher prices due to buffer-stock activities would put more money into the hands of producers but would reduce the real incomes of consumers. However, in so far as new money was injected into the income stream and producers tended to maintain their customary expenditures, there would be favorable repercussions upon the economy in general, and people in general would have more to spend than otherwise would be the case. It is true, however, that some groups would benefit more than others and any change in the size and distribution of income, shifts demand as between the various commodities, and influences saving and investment in relation to expenditures for consumption.

4. Further research is needed on the behavior of various commodities in response to cyclical forces and random influences. This would involve an analysis of the effect of exchange rates, activity of the particular branches of industry, marketing margins, the role of speculative buying and selling, the effect of unusually low and high prices for raw materials on business recovery and depression, and related matters. An analysis should also be included of the relationship between changes in prices of primary products and balance of payments disequilibria, and the relation of this situation in turn to the erection of trade barriers.

5. Particular attention should be given to commodities which are in a chronic surplus position. Buffer stocks can exercise the same countercyclical effects, and have the same desirable influence toward smoothing out returns to particular producers as in the case of commodities which are not in serious surplus situation. However, it would be necessary to devise special safeguards to avoid contributing to long-run disequilibrium. Also, plans for buffer-stock operations should be made with the idea of integrating them with schemes for reorienting production or expanding consumption so as to remove the chronic surplus position. It does not appear practicable to attempt to draw a dividing line between commodities which are, and those which are not, in surplus. In the first place, such a division would exclude a number of the most important internationally traded primary products from the benefits of buffer-stock action. Secondly, in the ever-changing world economy, commodities now in the chronic surplus category may be replaced by others and international commodity control organizations must be prepared to deal with such situations as they arise.

6. Further study should be made of the probable position of the various internationally traded primary products in the period immediately following the war. Buffer-stock

operations

operations would begin under a handicap if they were started during a period when commodity prices were at inflated war-time levels. There would also be considerable hazard in beginning buffer-stock operations in an initial post-war deflationary period because of the abnormal character of wartime price relationships and the fact that pre-war economic data would not reflect the profound structural changes in world economy which have taken place during the war. On the other hand, perhaps buffer-stock activities could contribute to minimizing the nature and extent of post-war economic disturbances. If an integrated international commodity program, including perhaps buffer stocks, could be set up at the close, or even before the close, of the war, probably the unhealthy advance and subsequent collapse of prices which followed World War I could be avoided or greatly reduced.

IV

Summary and Conclusions

I. Buffer-stock operations should aim at eliminating excessive price fluctuations. Price fluctuations which are excessive are those which are injurious in that they lead to idleness, misdirection and waste of resources. Excessive price fluctuations are characteristic of primary products due to the particular nature of the factors affecting the demand for and supply of such products. The nature of the price fluctuations which could be dealt with through buffer-stock operations and the benefits which would flow from such operations are as follows:

1. If buffer stocks were applied to a wide range of primary commodities entering into international trade, there would be a resulting tendency to mitigate the ups and downs of the business cycle. This would result from the tendency of buffer-stock purchases during a deflationary period to maintain the incomes of primary producers. This would react favorably upon the demand for industrial products, and this in turn would operate to avert any further decrease in the demands of manufacturers and middlemen for foodstuffs and raw materials. The net effect would be to maintain the whole economic system at a higher level of activity than otherwise would be the case. In the inflationary phase of the cycle the sale of buffer stocks into trade channels would dampen down excessive price increases and make for an even flow of commodities to consumers.

2. Buffer-stock operations would tend directly to maintain the income of producers of particular commodities with a corresponding reduction in economic hardships of such producers. The fewer the number of commodities to which buffer stocks were applied, the smaller the extent of their general countercyclical effects and the more nearly their benefits would be limited to producers and consumers of specific commodities.

3. Buffer stocks should deal when necessary with excessive price variations due to fluctuations in yields and other price changes due to random influences. However, their role in stabilizing the economy would be less important in connection with such price changes than in connection with cyclical forces.

II. In order to distinguish between price changes which were necessary and desirable and those which were excessive, the price policy of the stocks authority would have to be flexible, not rule-of-thumb, or mechanical. It would be necessary to adjust prices downward to allow for changes in the technique of production, the opening of new producing areas, increased competition from substitutes, and the like. With respect to cyclical fluctuations, buying and selling would have to be based on a planned program for several years ahead, with the idea of accumulating no larger stocks in the deflationary phase of the cycle than could be disposed of in the inflationary phase. In dealing with price variations due to fluctuations in yields, during seasons of bumper crops prices should be allowed to fall far enough to permit larger quantities of the commodity to move into consumption channels and private stocks, but prices should not be allowed to fall as a result of improper appraisal of or inadequate response by the trade to basic demand and supply conditions.

The line of demarcation between desirable and undesirable price changes, especially with respect to cyclical fluctuations, would vary depending upon whether buffer-stock activities were part of a broad program of countercyclical action or, on the other hand, were designed primarily to aid particular commodities. In the latter case, the range of price fluctuations considered to be necessary probably would be much wider than in the former. That is, if the general trade cycle continued with very wide swings, the extent to which prices of particular products could be protected from its effects would be relatively limited.

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Needless to say, to distinguish between necessary and excessive price changes, especially those connected with a cycle would require the widest possible knowledge of all phases of the cycle, extensive knowledge of particular commodities, and considerable wisdom and courage. In this connection it is significant to note that recent periods of both recession and expansion have been clearly foreseen by many economists and statisticians. Of course, their exact length and amplitude as well as many of their secondary characteristics have not been foreseen, and this would apply, to at least some extent, to future variations in business activity. It does not follow, however, that economic fluctuations and the factors responsible for them cannot be appraised with sufficient accuracy to permit the drafting and execution of measures of amelioration.

III. An international buffer-stock program should be coordinated with other national and international measures designed to moderate fluctuations in general business activity.

IV. Buffer-stock operations could be applied to commodities in a chronic surplus position, although some special problems would be involved. Since a chronic surplus is the result of a fundamental maladjustment between demand and supply, buffer-stock activities could not correct such a surplus situation. Furthermore, since buffer-stock authorities would be under particularly heavy pressure to maintain higher prices for surplus commodities than supply and demand conditions warranted, operations for such commodities probably should be combined with other programs to readjust production and/or consumption.

V. Dealing with various commodities would present different problems. Intra and interseasonal price changes vary greatly between commodities. The various products are affected differently as to timing and amplitude of change by the business cycle. For some the long-time trend of demand and consumption is upward. For others it is downward. The matter of stabilizing prices and incomes to producers of foodstuffs will present distinctly different problems than will stabilizing operations for industrial raw materials.

VI. International buffer-stock operations would not be dependent upon the abolition of all national policies of production control and price support. It would be necessary, however, for the buffer-stock authority to have agreements with the various national governments as to the size and scope of their particular programs. Once these were known,

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the stocks authority could operate within their framework; but it does appear probable that extensive measures of economic nationalism would add to the difficulties of an international buffer-stock authority and would reduce the scope of its operations. It would be to the interest of successful buffer-stock operations that measures of economic nationalism be minimized, and international measures should reduce the need for national programs.

VII. Machinery for the operation of buffer stocks should be associated with the international organization having responsibility for the development of policies and programs relating to the international exchange of agricultural and other raw material commodities. It would be possible to establish a corporation for the specific purpose of dealing in primary commodities, which corporation should have discretion to establish separate commodity pools and subcorporations to deal with the several commodities; should be empowered to issue and sell securities; to purchase, hold and dispose of commodities; to enter into contracts with individuals, corporations and States; to buy and sell futures, and to issue debentures.

VIII. Buffer-stock operations would present a problem of financing. It might be concluded tentatively that there should be, first, a permanent endowment raised by the issuance of securities to provide plant and equipment and a necessary minimum of funds for operation. Second, periodic appropriation by governments to employ personnel and to cover costs of short-term market activities; third, funds for cyclical investments should be furnished in part by appropriation and in part by bank borrowing and the sale of debentures, preferably to banks. Financing cyclical investments in this manner not only would make full use of the banks' ability to expand credit but would allow the development of a correlated attack on deflation. The use of the Corporation's funds for margin purposes, on the other hand, would endow it with some policy-making influence of its own.

IX. The proposal for international buffer stocks should be given additional study. Extensive analyses should be made not only of the price-making forces affecting the various commodities and the extent to which buffer-stock operations with respect to them will have favorable direct and indirect effects upon economic activity in general, but also of the realities of the probable political situation in the post-war period. Particular attention should be given to the probable attitude of the various national

governments

governments and special producer-consumer groups toward international price policy, ways and means of securing adequate consumer as well as producer representation, and the proper sharing of costs of operation between national governments and between producers and consumers.

T-418

PSF: Hull folder 2-44

November 11, 1944

Dear Mr. Secretary:

There is enclosed a copy of a letter from the Director of the Office of War Information, dated October 4, 1944, which I referred to the Joint Chiefs of Staff for study and recommendation. The Joint Chiefs of Staff have replied as follows:

> "The Joint Chiefs of Staff believe that, although there is no objection from the military point of view to the release to Mr. Davis of the documents requested in his letter of October 4, 1944, with appropriate security restrictions as to their use, it is advisable for the Secretary of State to give consideration to both the desirability and timing of the release before it is accomplished, because of the political nature of the documents in question."

Mr. Davis has been advised of this action and the nature of this reply.

Very truly,

Franklin D. Roosevelt

The Honorable
The Secretary of State
Washington, D. C.

(copies of this corres. filed - Elmer Davis folder, 2-44.)

COPY

OFFICE OF WAR INFORMATION
Washington

Office of the Director

October 4, 1944

The President
The White House

Dear Mr. President:

As I suggested in our conversation yesterday, the Office of War Information could more effectively plan the propaganda that will have to be conducted in occupied Germany if we were kept more fully informed of the general objectives of the occupation. The information you gave me in our brief discussion will be very useful in the long-term plans which we are making, but we could also function more usefully if we had more information bearing on the immediate future.

So far we have seen only a draft directive to the commander of our forces on control of public information in Germany, which was submitted to us for comment. This contains reference to two other documents--"Unconditional Surrender of Germany" and "General Order No. 2." It is plain from the brief citations of these documents that this Office could do its job better if a very few of our top executives were familiar with their entire content. I do not know whether either or both of these is identical with the directive issued to General Eisenhower for the "military period" of occupation; but that document also, if it is something different, would be of great value to us in planning our operations during that period.

Accordingly, I respectfully request that, if it seems advisable, you direct the State Department, War Department, and the Joint Chiefs of Staff to communicate to us any directives that may have been issued regarding either the long-term or the short-term conditions of the occupation of Germany; and that any proposed directives bearing on information, censorship or re-education during that period be submitted to us for comment and suggestion before their adoption. I believe that such action would enable the government at large to get more valuable service from this Office.

Very respectfully,

/S/ Elmer Davis

Elmer Davis
Director

November 11, 1944

Dear Mr. Davis:

Reference is made to your letter of October 4 in which you request information as to the general objectives of Allied Occupation of Germany in order to plan more effectively propaganda related thereto.

Your letter was referred to the Joint Chiefs of Staff for study and recommendation, and their reply is as follows:

> "The Joint Chiefs of Staff believe that, although there is no objection from the military point of view to the release to Mr. Davis of the documents requested in his letter of October 4, 1944, with appropriate security restrictions as to their use, it is advisable for the Secretary of State to give consideration to both the desirability and timing of the release before it is accomplished, because of the political nature of the documents in question."

" as a loan"

A copy of your letter and this reply have been forwarded to the State Department.

Very truly,

"Franklin D. Roosevelt"

Mr. Elmer Davis
Director
Office of War Information
Washington, D. C.

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November 21, 1944.

My dear Cordell:-

Your letter of this afternoon has hit me between wind and water. It has been very sad for me even to contemplate the ending of our close relationship during all these twelve years. It is not merely that our personal relations have been so uniformly and invariably agreeable, or that our joint work has borne true success in so many fields, as it is the personal feeling of not being able to lean on you for aid and intimate interchange of thought.

This is especially true because we have come so far along the road of friendly relations among nations that I have counted so much on your help in carrying this work through the final stage of complex and difficult conditions which still face us.

Your health is honestly my first thought, and I am really confident that you will be on your feet again in a relatively short time, even though you are limited to special tasks and avoid the daily routine of Department work. As of today, therefore, you must devote all your thought to getting back on your feet and on this all your friends will join in helping.

I will, of course, accept your resignation as Secretary of State if you want me to do so. But I wish you would, as an alternative, allow me to accept it as of January twentieth, which is the end of our Third Term. Perhaps sentiment enters into this suggestion a little bit, but it would give me great satisfaction if we should round out the three terms. That means two months more, and during that time I could see you from time to time and get your advice on some of the things that will come before us.

Incidentally, when the organization of the United Nations is set up, I shall continue to pray that you as the Father of the United Nations may preside over its first session. That has nothing to do with whether you are Secretary of State or not at the time, but should go to you as the one person in all the world who has done the most to make this great plan for peace an effective fact. In so many different ways you have contributed to friendly relations among nations that even though you may not remain in a position of executive administration, you will continue to help the world with your moral guidance.

With my affectionate regards,

As ever yours,

The Honorable
The Secretary of State,
U. S. National Navy Medical Center,
Bethesda,
Maryland.

THE SECRETARY OF STATE
WASHINGTON

November 21, 1944.

My dear Mr. President:

It is with inexpressible disappointment that I find it necessary, for considerations of health, to retire from public service. I, therefore, with utmost regret, tender herewith my resignation as Secretary of State.

It is a matter of special satisfaction to me that throughout my almost twelve years at the Department of State, our personal relations have been uniformly and invariably agreeable and that, by our joint efforts, many difficult tasks growing out of the foreign relations of this country before and during this war have been brought to partial or full completion; many great questions have been faced successfully; and many forward movements of surpassing importance to friendly relations among nations have been instituted.

As the war draws to a close there remains a vast area of complex and difficult conditions and problems which must be dealt with in the months and years immediately ahead. It is a supreme tragedy to me personally that I am unable to continue making my full contribution to such great international undertakings as the creation of the post-war peace organization, the

solution

The President,
The White House.

solution of the many other problems involved in the promotion of international cooperation, and the final development of a full and complete structure of a world order under law.

When I recover my strength, I shall individually be always at your service in every possible way.

Sincerely yours,

Cordell Hull

IMMEDIATE RELEASE NOVEMBER 27, 1944

The text of Mr. Hull's letter of resignation follows:

"November 21, 1944

"My dear Mr. President:

"....quote letter.....

"Sincerely yours,

"CORDELL HULL"

- -

The President replied as follows:

"November 21, 1944

"My dear Cordell:

".....quote letter.

"As ever yours,

"FRANKLIN D. ROOSEVELT"

- -

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"Sincerely yours,

"CORDELL HULL"

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"With my affectionate regards,

"As ever yours,

"FRANKLIN D. ROOSEVELT"

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Title personal

THE WHITE HOUSE

WASHINGTON

December 8, 1944.

After receipt of this letter I went to the hospital to see Mr. Hull and told him I would accept his resignation immediately because of his health and his feeling that he should abandon the responsibilities.

At the same time I talked with him about Stettinius and arranged for the release of the news. He seemed no better than he was two weeks previously.

F. D. R.

THE SECRETARY OF STATE
WASHINGTON

November 23, 1944.

Dear Mr. President:

I was deeply moved by your letter of November 21, and I am eternally grateful to you for your kind solicitude about my health and for your generous references to our close personal and official relationship of the past twelve years. As I said in my letter of resignation, it is a personal tragedy to me that the state of my health makes it impossible for me to continue in the public service. I shall always cherish the ties between us of friendship and affection.

With all my heart I wish that I could meet your desire that my resignation as Secretary of State become effective on January 20 rather than now. I have consulted again with my physicians. The speed of my recovery is definitely connected with the extent to which I can be free from all worry and responsibility. You can well understand that, at a time like this, it is impossible for me to lay aside the heavy responsibilities of the Secretaryship of State so long as I remain in that office. In fairness to the cause for which you and I have worked so long together, to the country, to you, and to myself, I feel that my resignation must become effective now.

May

The President,
The White House.

May I say again, Mr. President, that as soon as I recover my health, I shall be entirely at your service with whatever contribution I can make individually to the solution of the tremendous and crucial problems that lie ahead.

With all good wishes, I am

Sincerely yours,

Cordell Hull

DEPARTMENT OF STATE
WASHINGTON

The President

The White House