The Quest for Commodity Price Stability: Australian Economists and 'buffer stocks'

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Abstract

The purpose of this paper is to explore the interaction of Australian economists with various 'buffer stock' schemes propagated immediately before, during and after the Second World War. Though at heart the very simple and ancient idea of maintaining commodity prices by accumulating stocks when prices are falling, and selling stocks when prices are threatening to rise too high, the idea of buffer stocks was extended in the interwar period by a number of prominent economists into a device for achieving macroeconomic stability more generally. Australian economists were sympathetic to these broad interpretations, consistent as they were with their own emerging advocacy of Keynesian demand management in an international context. In the end these schemes never went anywhere much, however, cast aside in favour of institutions deemed by the major powers to be more important. Buffer stocks survived in various schemes for individual commodities, and the broader conception lived on in the advocacy of a core group of economists, but this paper offers an account of their impact during a time and in a place in which they seemed to promise much.

JEL Classification: A11

Thanks to Linda McFarlane at the National Archives of Australia for her help, someway beyond the call of mere duty, and to Leanne Ussher for prompting the idea in the first place.

Introduction

The re-issuing in 1998 of Benjamin Graham's 1937 book, *Storage and Stability,* has focussed attention once more upon the various efforts in the first half of this century to achieve commodity price stability via 'buffer stocks'. A device whose use in numerous simple forms extends back into antiquity, buffer stocks were favoured by a number of inter-war economists and policy-advisers as a possible solution to the catastrophic collapse in commodity prices during those tumultuous decades. The most prominent exponent of buffer stocks, especially in the United States, Graham was joined in his advocacy in 1938 by John Maynard Keynes, the most eminent economist of this time and after, who also extended the idea as a centrepiece to his plans for the reconstruction of the world economy in the wake of the Second World War.

As one of the world's greatest commodity exporting countries, and one whose national income greatly depended on a very narrow range of a few of them, Australia had a keen interest in any plans which promised stability in its export income. Along with other primarily commodity exporting nations, Australia was greatly affected by the collapse in commodity prices which both preceded, and was greatly exacerbated by, the Great Depression, an event which also gave rise to countless schemes designed to alleviate the same. Notwithstanding that buffer stocks had a long history in this country, they were not a prominent feature of the various devices applied by Australia during the depression years. In 1942, however, and with the adoption by the British Government of Keynes' buffer stocks plans as a component of its post-war economic diplomacy, Australia had to confront the implications of international buffer stocks for its own expectations of the post-war world. In the event, buffer stocks were welcomed by Australia as a device consistent, though not sufficient, with its own advocacy of international Keynesian 'demand management' through the war years and beyond.

It is the purpose of this paper to examine certain of the international plans for buffer stocks in the years immediately before, during and after the Second World War and to explore the reaction of Australian economists and policy-makers to them. After briefly discussing the ideas of Benjamin Graham, the paper will examine Keynes 1938 buffer stocks 'prototype' before moving on to examine his wartime schemes - the schemes presented to the Australian and other governments for negotiation through the course of the war. These negotiations will be examined in detail, leading up until the point when the issue of buffer stocks was absorbed into the broader negotiations for the proposed International Trade Organisation (ITO). The failure of the ITO to be ratified by the United States Congress in 1950 brought to an end the very broad buffer stock schemes of the variety envisaged by Keynes and others and provides, therefore, the logical conclusion to the paper.

International ‘buffer stocks’

A policy device dating at least as far back as the Biblical story of Joseph in Egypt, the use of buffer stocks for *macroeconomic* stability enjoyed its greatest public advocacy in the work of Benjamin Graham in the late 1930s. A leading American financier and financial theorist whose work in security analysis continues to be employed in financial markets, Graham’s advocacy had two aspects. Firstly, he proposed the storage of basic commodities (an ‘ever-normal granary’) for use in balancing demand and supply and, as a consequence, achieving commodity price stability. Secondly, and more radically, he proposed a commodity reserve currency (CRC) backed by a composite bundle of these same stored commodities. Together with the maintenance of commodity producer incomes through buffer stocks, the monetisation of commodities through a CRC promised the maintenance of effective demand precisely at the moment when it threatened to diverge from aggregate production through the injection or subtraction of money.[1] In this Graham’s ideas recalled something of a long tradition in monetary economics, not least that originating in the United States, where Irving Fisher’s ‘compensated dollar’ had enjoyed widespread (but not sufficiently-influential) support in the 1920s.[2]

Notwithstanding its intellectual pedigree, however, in the end Graham’s ideas on stored commodities and their use in achieving macroeconomic equilibrium likewise did not influence policy nearly as much as its author would have liked. Graham achieved more than he realised at the time and after in influencing Roosevelt’s Agriculture Secretary (and subsequently Vice President) Henry A. Wallace, in advocating his own version of an ‘ever-normal granary’, but the broader programme (and the CRC in particular) was never taken up in a serious way.[3] Graham’s ideas persisted, however, and even while they were failing to be implemented at home, influenced in disparate ways the writings of others around the world.[4]

One economist who was impressed by the storage aspects of Graham’s work, and who used Graham’s statistical analysis in his own work, was Keynes.[5] Fresh from the widespread acclaim that had greeted the publication of the *General Theory* two years earlier, in 1938 Keynes had turned his attention to the question of commodity price stability in a paper titled *The Policy of Government Storage of Foodstuffs and Raw*

[1] Graham’s ideas on buffer stocks can be found in two books - *Storage and Stability*, first published in 1937, and *World Commodities and World Currencies* published in 1944. Both of these books have now been re-issued.
[2] Fisher’s ideas formed the basis of the Goldsborough Bill introduced into the United States Congress in 1922 and 1924, on both occasions being defeated (Graham 1937, p.217).
[3] The influence of Graham on Wallace’s ideas is readily apparent in Wallace (1973). This is in some contrast to Graham’s own pessimistic account of his influence on events in Graham (1996).
[4] A persistence apparent not least in the re-issuing of his books after a period of sixty years.
[5] See Keynes (1982), p.466 and Keynes (1980a), p.132. Keynes was not a fan, however, of commodity-backed currency proposals, a number of which emerged during the Second World War including one proposed by Frederick Hayek that Keynes had selected for publication in *The Economic Journal* in June-September 1943. For more on Keynes’ reaction to these, see Keynes (1980a).

Materials.[6] His interest prompted by the tabling in the British Parliament of the *Essential Commodities Reserves Bill* (designed to ensure supplies at a time when the chances of war were becoming more and more certain) and by, it is said, his own less than successful speculations in lard, Keynes became convinced both that commodity prices were more volatile than was good for society, and that the private sector had insufficient incentive for storage of basic commodities so as 'to maintain continuity of output and to average, as far as possible, periods of high and low demand' (Keynes 1982, p.456).[7] This lack of incentive for the private sector to hold stocks sufficient to alleviate excessive price fluctuation was due, according to Keynes, to the risk premium by which futures prices were discounted against spot prices as well as the storage and interest costs such a strategy would entail.[8] Keynes' own estimation of the *average* annual fluctuation for a selected group of commodities that he held as especially important in world trade (rubber, cotton, wheat and lead) was an extraordinary 67 per cent over the preceding ten years.[9]

Though he was to expand upon the greater macroeconomic implications of commodity price instability in later work, in the 1938 paper Keynes was concerned to point out that the issue was not confined merely to commodity producers, but was an essential driver of the trade cycle. The insufficient provision of fluctuation-absorbing storage led to a situation in which:

> The ill effect of these truly frightful fluctuations on trade stability is great...In spite of the fact that the difficulty of rapidly altering the scale of output, especially where seasonal crops are concerned, leads to what appear to be very large stocks at the bottom of the market, nevertheless when the turn of the tide comes, stocks nearly always turn out to be insufficient, precisely for the reason that it is just as difficult to rapidly to increase the scale of delivered output as it had been to diminish it. Prices rush up, uneconomic and excessive output is stimulated and the seeds are sown of a subsequent collapse (Keynes 1982, pp.459-460).

According to Keynes, the only 'radical remedy' for commodity price instability in general was 'through measures to stabilise the aggregate of effective demand', but buffer stocks were likely to bring about price stability by their own account for the 'great staple raw materials, most of which can be readily stored' (Keynes 1982, p.460).

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[6] This paper was first read to Section F of the British Association for the Advancement of Science in August 1938. Keynes could not be there, and the reading was given by Gerald Shove, with Roy Harrod in attendance. The paper was subsequently published in the September 1938 issue of *The Economic Journal.* For more details, see Keynes (1982), pp.454-456.

[7] This possible motivation was ascribed by Dimand (1990, p.114), who noted that Keynes' losses by going 'long' in lard in 1937 amounted to £27,000, an outcome that 'might well have suggested to him that commodity price fluctuations were excessive for the welfare of Keynes as well as that of society'.

[8] The high discount on futures prices stemmed from the fact that neither speculators nor consumers had any incentive to purchase in advance - convinced that in the end agricultural producers were not in a position to 'wait' for higher prices for output already produced.

[9] Keynes (1982), p.459. Keynes used these same commodities and their fluctuating prices in all of his work on buffer stocks.

To compensate for the failure of the private sector to accumulate stocks sufficient for price stability, Keynes proposed that the government play the primary role in commodity storage. Given the political context, however, as well as the United Kingdom's need to conserve foreign exchange, his 1938 paper envisaged a scheme which, though international, was confined to commodity producers in (what was then) the British Empire. Specifically, Keynes proposed that the British Government invite Empire producers to store particular commodities (above that which could not be immediately sold) in the United Kingdom - 'free of warehouse charges and interest or for a minimal charge' (Keynes 1982, p.465). Ownership of the commodities would be retained by its depositors, but Keynes envisaged further that the British Government advance where necessary 90 percent of the current market price for the commodity in question (free of interest or at a rate equal to that prevailing for British Treasury bills) - the remaining 10 percent being recoverable by the producers upon the sale of commodities or, when they could not be sold, the cost of receiving at least a modicum of price stability if they simply pocketed the advance. Overall, Keynes proposal provided for the essential commodities required by the United Kingdom while saving both foreign exchange and scarce shipping if and when war broke out, while producers (domestic and Empire) achieved some income security together with a margin of demand sufficient for 'a more continuous scale of output' (Keynes 1982, p.466).[10]

Keynes' Wartime Schemes

Keynes 1938 proposals were well publicised (the paper was reviewed in Australia in the June 1939 issue of *The Economic Record*) but, though stocks of particular commodities were certainly stored as war preparations, no steps were taken towards the broader programme he envisaged. In 1942, however, Keynes returned to the idea of buffer stocks with a proposal for a General Council for Commodity Controls - an institution which would exist alongside the International Clearing Union and the other bodies which made up his ambitious plans for the wholesale reconstruction of the international economy after the war. The Council would be the controlling body for a family of buffer stock schemes, each designed for a particular commodity. Shorn now of their defence purposes, no longer necessarily based in the United Kingdom and determinedly global in scope, these schemes were unambiguously devoted to limiting price fluctuations in key commodities. In order to bring this about, Keynes proposal was for each buffer stock authority to buy the relevant commodity whenever its price fell 10 percent below its 'base price', and to sell its stocks whenever the price of the commodity exceeded 10 percent of the base. The base price itself would be calculated by the General Council according to the prices prevailing in 'one or more of the principal centres of consumption...to be modified from time to time thereafter...by a process of trial and error based on the observed tendency of stocks to increase or decrease' (Keynes 1980b, pp.141-142).

[10] Long an ideal of commodity producers, and one whose virtues were expounded in McDougall (1925) below.

Keynes' new proposal for international buffer stocks was concerned with stabilising the price of commodities to the extent that they were traded internationally, and his schemes were not directly concerned with the domestic prices or the production of a particular commodity within individual countries. In response to criticism of his proposals from the Bank of England and various British officials, however, Keynes enlarged his proposals to include the *possibility* for the quota regulation of exports - 'not as part of a restriction scheme designed to maintain an economic price, but as a normal aid and safeguard to buffer stock regulation in cases where the response of supply and demand to price changes [was] inadequate or tardy' (Keynes 1980b, p.153). He was confident himself that such regulation would not be needed and that, assuming that governments now would be concerned to maintain and even expand purchasing power (an outcome aided by the buffer stocks themselves):

> It might be that we shall find ourselves more concerned to stimulate new sources of supply than to restrict those which exist (Keynes 1980b, p.150).

Explicit in Keynes 1938 proposal was the belief that finding the necessary finance was an impediment to the establishment of buffer stocks on this scale. In the case of the new proposal finance did not present so much of a problem, and certainly not one requiring the intervention of the Government of the United Kingdom, since now there was a ready source for international finance in the form of the Clearing Union. Keynes proposed that each of the buffer stocks schemes, and the Control Council itself, keep their accounts with the Clearing Union, denominated in the Union's new international reserve currency, 'Bancor'. Bancor would be credited to the buffer stocks schemes in amounts necessary to finance the relevant volume of accumulated stocks - the latter 'backing' the advanced credit. In an assurance reminiscent of Benjamin Graham's proposals, Keynes noted that this aspect would act to enhance confidence in the credit of the Clearing Union itself, 'since the fact that its balances are partly covered by stocks of a number of the most universally useful commodities must increase, not diminish, their security' (Keynes 1980b, p.146). Of course, the advances of the Clearing Union were also an addition to international liquidity, and a further device through which the maintenance of aggregate demand could be vouchsafed.

Keynes' 1942 proposal was also much more explicit in spelling out the way in which buffer stocks schemes could be used as a device for alleviating the trade cycle. Noting again the obvious way in which they helped maintain the incomes of commodity producers, he was at pains in the 1942 version to emphasise that these producers were equally an important source of effective demand in the 'industrial consuming centres' (Keynes 1980b, p.155). Highlighting that they operated countercyclically, were on a vast scale and were quick in application, he concluded that, in internationally organised buffer stocks (and relative to public works) the world had

> a weapon capable of producing large effects by rapid action, and of operating in the negative as well as in the positive direction, so that it can function as a stabilising factor both ways. By taking up or releasing stocks, the complex of Commodity Controls can operate in both directions on a scale and with an immediacy which is

> *quite impossible for projects of public works*. Organised public works, at home and abroad, may be the right cure for a chronic tendency to a deficiency of effective demand. But they are not capable of sufficiently rapid organisation (and, above all, they cannot be reversed or undone at a later date), to be the most serviceable instrument for the prevention of the trade cycle. Buffer stock controls to deal with the epidemic of intermittent effective demand are therefore the perfect complement of development organisations...to offset a deficiency of effective demand which seems to be endemic (Keynes 1980b, pp.155-156, emphasis added).

Australia

Commodity price stabilisation had been an important element - Lewis (1967, p.300) maintained that it had been a 'costly obsession' - of Australian agricultural policy since time immemorial. Production quotas, subsidies, the licensing of processors, 'home' price schemes, government and industry control of marketing - all and more had been applied in the attempt to achieve stable incomes for agricultural producers. Buffer stocks too had always been around. Indeed Plimsoll (1939, pp.108-110) maintained that Keynes' own scheme had been anticipated by an obscure Governor of New South Wales in the nineteenth century, but they tended to take a back seat to some of the more direct monopoly-extending measures. The operations of the British - Australian Wool Realisation Association (BAWRA) to dispose of the wool surplus remaining after World War One *resembled* the operation of a buffer stocks scheme (and was quoted approvingly so by Graham in his 1937 book), as did the British Empire-wide 'purchasing board' proposals of McDougall (1925) but, these apart, Australian initiation of international buffer stocks schemes had likewise been limited in favour of domestic protection.[11]

London Talks, 1942

Keynes' wartime buffer stocks proposals came as a package with a host of other issues confronting the newly empowered Curtin Government in early 1942.[12] Commercial policy, the Clearing Union, Keynes' buffer stocks proposals and post-war reconstruction of the international economy generally were all on the agenda to be sometime considered - a time which was dramatically truncated by an invitation from the British Government in May 1942 to discuss all of these matters in London later that year. As the traditional (and, at that time, current) cipher for almost all of Australia's dealings with the rest of the world, these talks would provide Australia's first opportunity for having a voice in international post-war reconstruction and, in addition, the opportunity to influence the United Kingdom's own approach.

The task of coming up with a response to all of these issues, and with advising the delegation which would be sent to London, was given to an Inter-Departmental

[11] For more on BAWRA, see Tsokhas (1990). The purchasing board proposals of F.L. McDougall are comprehensively examined in Turnell (1996).
[12] The Curtin Labor Government had come to power in October 1941 following the collapse of the United Australia /Country Party coaltion under R.G. Menzies and A.W. Fadden.

Committee on External Relations (ICER). Established by the Government in late 1941, the ICER consisted of representatives of the Department's of Treasury, External Affairs, Trade and Customs, Commerce and Agriculture and Labour and National Service. Importantly, the membership of the ICER also included the economists of the Financial and Economic Committee (F&E), to which in these early days all matters with economic implications were referred.[13] Itself established in 1938 with the brief to advise the Government on economic policy generally, the F&E included in its membership most of the leading lights of the Australian economics profession in what has been described by Groenewegen and McFarlane (1990) as the 'golden age of Australian economics' - with L.F. Giblin as its Chair and including L.G. Melville, D.B. Copland, J.B. Brigden, Roland Wilson and H.C. Coombs.

The F&E considered Keynes' buffer stocks proposals (the fifth draft, circulated as a memorandum of the British Treasury) from June 1942. They were generally enthusiastically welcomed, a final report for the ICER prior to the London talks declaring that '[s]uccess in stabilising the prices of primary products would be a great achievement and would be an outstanding contribution to international stability'.[14] Likewise, the use of buffer stocks to bring this about was approvingly greeted, though the ICER report was somewhat sceptical that these could be administered by a single body and, as such, were disposed towards many buffer stocks schemes running more or less independently. Like Keynes, the ICER report did not see the private sector managing the buffer stocks schemes, noting that it was important that the schemes 'be controlled by the Governments concerned [producer *and consumer*], and not primarily by private enterprise engaged in the production and use of the commodities'.[15]

This early consideration of the buffer stocks proposals identified two major difficulties from an Australian point of view, both of which were to recur throughout the war years. The first of these was scope. Concerned that the collapse in commodity prices in the inter-war years had been caused by inappropriate *domestic* agricultural policies - especially the protection of high cost producers in the industrial countries - the ICER report concluded that price stabilisation schemes should be imposed upon *national* production as well as that produced for export. Secondly, and closely related to this, was that buffer stocks schemes had to be accompanied by instruments for regulating production (national and international). As we have seen, Keynes had reluctantly included this in the fifth draft of his proposal after pressure from the Bank of England and from the British Department of Agriculture, but the Australian approach on regulation was that it should more or less be in place all the time, rather than being merely available in a crisis or in the transition period after the war. A final difference, of emphasis rather than a departure from the British approach (much less Keynes'), was the Australian insistence that commodity schemes could only work in

[13] For more details of the F&E itself, see Maddock and Penny (1983).
[14] 'Australia's Position in Relation to Article VII of the Anglo-American Mutual Aid Agreement', 20 August 1942, National Archives of Australia (NAA), CP43/1/1, Bundle 5/1943/444/Pt.1.
[15] 'Mutual Aid-Article VII', 23 June 1942, NAA CP184/1, Bundle 4. A large producer of primary commodities, Australia was also, of course, a consumer and had borne with other countries the costs of a number of producer-designed restriction schemes in the inter-war period.

conditions of expanding economies and rising consumption - an early expression of what would evolve as the 'employment approach' that Australia would take to all issues of international post-war reconstruction.[16]

The London talks between the United Kingdom and the representatives of the 'Dominions' in November 1942 were conducted at the 'official' level only, with no participation of government ministers. Formally chaired by Sir Richard Hopkins (head of the British Treasury), in practice 'the actual conduct and initiative of the meetings was largely in the hands of Keynes'.[17] This gave the Australian delegation, headed by Roland Wilson (a member of the F&E), a chance to discuss buffer stocks (amongst other things) with their author. The results, however, were pretty much as had emerged in the ICER report before the talks. The Australian delegation agreed with the importance of buffer stocks, highlighted the administrative problems they saw with a single organisation, but spent most of their time and energy advocating restriction schemes to apply to subsidised agricultural production. Clearly targeting the United Kingdom itself as well as much of Europe, Australia's theme was taken up by the other Dominions and by India. In the end Australia made clear to Keynes that they supported his scheme in principle, but that agricultural protectionism in the industrial world was likely to be a sticking point. The divisions within the United Kingdom on the issue of buffer stocks was quite apparent to the Australian delegation, who reported afterwards that the buffer stocks draft discussed in London (Keynes sixth - but which carried caveats of dissent from the Department of Agriculture and from Sir Frederick Leith-Ross, officially the Chief Economic Adviser to the British Government) was less assured and more obviously the product of compromise and dispute than other documents (the Clearing Union proposal especially). The Australian delegation also reported that Keynes was to work on minor technical changes to his buffer stocks scheme before it was forwarded to the United States.[18]

Discussion of buffer stocks occupied but a small portion of the London talks, a pattern of priorities which was to be repeated in the years ahead as governments sought to come to terms on a new monetary system and other matters of more interest to the agenda-setters in London and Washington. Following the 1942 London talks the question of buffer stocks lay fallow for a while, so much so that in 1943 it was

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[16] Given a number of titles through the years (Coombs called it Australia's 'international Keynesian crusade'), the employment approach was simply the idea that the solution to the type of 'beggar thy neighbour' deflation which swept the world in the 1930s was for each country to commit to each other that they would pursue 'full employment' policies at home. Adopted by the Curtin (and subsequentlly the Chifley) Government, Australian delegations sought to have this commitment incorporated into the charters of all the international economic institutions being established for the post-war world. An advocacy demonstrating both the extent to which Keynesian economics had been taken up by the leading economists in Australia, and their application of it for the solution of Australia's traditional external/internal balance dilemma, the aggressive propagation of the employment approach by Australian delegates overseas led it to be identified thereafter as an essentially Australian slant on the 'new macroeconomics'. Accounts of the employment approach are not particularly plentiful, but for three of the best see Butlin and Schedvin (1977), Coombs (1981) and Tange (1996).

[17] 'Notes on Roland Wilson's Account of his Travels', Minutes of F&E meeting of 22 January 1943, F.H. Wheeler and G.G. Firth, NAA A9816/3, 1943/444 Part 1.

[18] 'Dr.Roland Wilson to Prime Minister Curtin, "Post-War Economic Talks, London, October-November 1942"', 18 January 1943, NAA A989, 43/735/56/1.

Australia that was urging progress on the issue. Simultaneously, however, there also emerged during this period another area for doubt in Australian assessments of buffer stocks. This doubt concerned the transition period after the war in which most commodities were likely to be in short supply and, as a result, for which the prices were likely to be high. High prices were not in themselves a problem, of course, but what worried the Australian economists was a repeat of the experience in the immediate aftermath of World War One - when high commodity prices stimulated uneconomic production in all corners of the industrialised and non-industrialised world and which, once the shortage subsided, thereafter had to be protected. This issue was of particular concern to H.C. Coombs, a member of the F&E but, more importantly in 1943, the new Director of the Department of Post-War Reconstruction, to which responsibility for buffer stocks and other issues subject to international negotiation had now largely passed.[19] Coombs came to believe that nothing could be done on buffer stocks schemes in the immediate aftermath of war and that to act otherwise was even potentially dangerous. Commenting upon upcoming Anglo-American talks which would likely broach the subject, he ventured, in a memorandum included in a package of documents for the Minister for External Affairs, H.V. Evatt:

> The more urgent task would appear to plan the regulation of distribution and prices during a period of shortage...It is in the long-term interests of Australia and other exporting countries that prices should be prevented from rising to levels where high cost production in Europe is again encouraged.[20]

Cabinet Submission, 1944

Coombs' doubts with regard to the transition period was reflected in a submission to the Cabinet by Evatt in 1944 (covering all the post-war international economic issues) which essentially summarised the approach taken by Australia to buffer stocks thus far.[21] The Submission declared in more enthusiastic terms than hitherto Australia's interest in such schemes in principle, even noting that the successful operation of buffer stocks could leave imperial preference arrangements as obsolete, and speculating that they could reverse the balance of power in commodity markets to such an extent that the major industrial powers would not allow them to go ahead![22] The Submission parleyed all the issues of doubt - from the problems of the transition period to the difficulties of organisation and affirmed that in any upcoming negotiations, Australia should 'press for some agreement regarding the restriction of

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[19] A most extraordinary and influential figure in the history of Australian economic thought, Coombs was perhaps the most enthusiastic convert to Keynesian economics, and its most effective proselytiser within the Government. For his own account of his dramatic rise to influence, see Coombs (1981).
[20] 'Comment on the U.S.-U.K. Agenda for International Discussions', H.C. Coombs, 6 December 1943, NAA A989/1, 43/735/58/1.
[21] The submission was largely the product of Coombs and of Dr John Burton, the fast rising young graduate in the Department of External Affairs who at this time was seconded onto Evatt's personal staff. Burton shared Coomb's conviction with regard to the 'employment approach', and was enormously influential with his minister. For more on the influence of Burton, see Crockett (1993).
[22] A conclusion heavily bearing the imprint of the mercurial Evatt.

assisted production in importing countries'.[23] With the 'employment approach' now the centrepiece of Australian international economic diplomacy, the Submission reiterated that buffer stocks could only work in the context of an expansive world economy. Whether this would occur or not would depend upon the success of the other devices for international co-operation, but buffer stocks continued to be regarded as generally complementary to these and with an emerging idea for the 'subsidising of consumption in impoverished countries'.[24]

Argument with Keynes

More revealing perhaps of the approach by Australian economists late in the war to buffer stocks was a lively discussion which opened up in March 1944 between Keynes and Leslie Melville.[25] Melville was by this time Australia's chief monetary negotiator and, as such, in contact with Keynes on various occasions during the war with regard to the struggle over the adoption of the Clearing Union or the 'Stabilisation Fund' proposal of United States Treasury Official, Harry White, as the basis for the reconstruction of the international monetary system. The Stablisation Fund was a much more orthodox institution than Keynes', with a primary concern for exchange stability rather than the provision of international liquidity, but as the proposal adopted by the United States its priority over the Clearing Union was a *fait accompli*. Keynes' task thereafter was to attempt to graft as many features of the Clearing Union as possible onto the basic structure of what would become the International Monetary Fund.[26]

Of great concern to Australia with regard to the Fund was precisely the rigidity which it attached to exchange rates. An issue taken up with the United States directly, Melville took it up with Keynes personally in March 1944 (shortly before the conference at Bretton Woods, where details of the Fund would be finalised), complaining that for a country like Australia, whose exports were largely primary commodities and subject to large price swings, rigidly fixed exchange rates were most inappropriate.[27] Keynes himself was opposed to the emphasis in the Fund on the stabilising of exchange rates, but he took the opportunity to criticise countries like Australia for what he perceived to be their lack of support for buffer stocks. Buffer stocks, he told Melville, had been 'precisely designed to protect primary producers' such as Australia, and a 'far superior' cure to commodity price instability than changes in the exchange rate.[28] Keynes added that this was true even if international

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[23] 'United Nations Economic Proposals', Cabinet submission by Evatt, 18 January 1944, NAA CP184/1, Bundle 4.
[24] *ibid.*
[25] The first economist appointed to the Commonwealth Bank (then Australia's central bank), Melville was a self-described 'sound finance' advocate until his conversion to Keynes approach in the *General Theory.* The importance of the monetary proposals in the overall scheme for post-war reconstruction meant that it was Melville who was to bear much of the burden for advancing the 'employment approach' overseas. For more of a background on Melville, see Groenewegen and McFarlane (1990), pp.142-146.
[26] For details on the monetary plans and their fate, see Horsefield (1969).
[27] 'Melville to Keynes', 24 March 1944, NAA M2271/1, II.
[28] 'Keynes to Melville', 14 March 1944, *ibid.*

buffer stocks schemes broke down and were replaced with purely domestic arrangements.

To Keynes admonitions Melville replied shortly after that buffer stocks were as yet untried and that, although 'not lacking in enthusiasm for the idea' and being keen to experiment, countries like Australia could not 'trust ourselves entirely to buffer stocks until we have found by experience that they provide us with firm ground'.[29] In a speech somewhat later to the Australian Institute for Political Science he exposed the crucial difference though - which rested on the lack of confidence felt by the Australians (relative to Keynes) that the post-war institutions being currently designed would maintain international effective demand after the war, and thereby avoid a repetition of the 1930s.[30] To this extent then, Keynes criticisms of Australia's approach to his buffer stocks proposal were unfair. In the form first presented to Australia in 1942, buffer stocks were to exist alongside the Clearing Union, which would both finance the schemes as well as act to ensure that the deficiencies in demand which Keynes believed drove commodity prices down was removed to the extent possible. With the increasing likelihood, however, that the Clearing Union would not be the framework around which the post-war monetary mechanism would be built, it was not surprising the Australian economists were no longer confident that the scheme would achieve what had been promised. Like Keynes, the Australians believed that fluctuations in international aggregate demand was the prime determinant of fluctuating commodity prices, and that buffer stocks on their own would achieve but little in addressing this.

The International Trade Organisation

The Cabinet submission on buffer stocks had been prepared with the expectation that, as with the monetary proposals, the issue would be brought before an international conference for final negotiation sometime in 1944. In fact, conversations on buffer stocks were held between the United Kingdom and the United States that year (resolving little, but suggesting that the United States would not favour anything that would restrict trade) but these were non-committal and technical in nature.[31] In early 1945, however, it became apparent that the issue of buffer stocks would be subsumed into the negotiations over a proposal from the United States to call an international conference on trade and employment, - out of which was expected to emerge an 'International Trade Organisation' (ITO) and a 'General Agreement on Tariffs and Trade (GATT). Preliminary talks before this conference were held throughout 1945 and 1946, and in October 1946 the United States released a 'Suggested Draft Charter for an International Trade Organisation' which contained within it provisions for

[29] 'Melville to Keynes', 24 March 1944, *ibid.*
[30] 'The Post-War World Economy', paper read to the Summer School of the Australian Institute of Political Science, Sydney, 26 January 1945, L.G. Melville, NAA A1066/1, ER45/2/3/1/1.
[31] 'Notes on the Proposal for the International Regulation of Primary Products', Department of Commerce and Agriculture (individual author unknown), 8 December 1943, NAA A571/61, 44/643/Pt.3.

international commodity agreements.[32] The provision was non-committal on the use of buffer stocks as the appropriate instrument, however, and was characteristically 'anti-restrictionist in tone'.[33]

The United Nations Conference on Trade and Employment finally took place in Havana, Cuba, in March 1948. Prior to the Conference Australian and British officials met, however, in order to determine a common strategy. These talks were mostly concerned with commercial policies more generally and with Australia's continuing attempts to have an international employment agreement incorporated in the ITO Charter, but the issue of buffer stocks formed part of the deliberations. The Australian delegation (led by Coombs) successfully talked the British around on most of the issues that had been of concern to Australia, and a common strategy between the two agreed.[34]

This common strategy yielded results at the Conference itself, and in the end the provisions relating to buffer stocks in the final Charter of the ITO was pleasing to the Australian and British delegations alike. The principle dispute with the United States in Havana was over the extent to which commodity agreements (including buffer stocks) should be authorised by the ITO for general use, or whether they should be a provision available only in exceptional circumstances. The United States delegation favoured the latter, but Australia, the United Kingdom and a majority of the other countries represented at the Conference managed to have included in the ITO Charter the recognition that 'the trade in some primary products was subject to special difficulties such as the tendency towards *persistent* disequilibrium between production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices, to such a degree as to necessitate special treatment of the international trade in such commodities by means of agreements between Governments' (sic).[35] Most pleasing to Australia too was that quite a number of its concerns about buffer stocks schemes which had persisted from the beginning were explicitly recognised in the provisions of the Charter. Thus, for example, Article 55 of the Charter specified that the ITO's brief in the authorisation of buffer stock schemes was 'to provide a framework for the consideration and development of measures which have as their purpose economic adjustments designed to promote the expansion of production...'.[36] Regulation of production under certain conditions could also be authorised alongside a buffer stocks scheme and, again, the Australians were most pleased to see that these would take into account, before deciding upon production quotas for any particular country, the extent to which that production was the result of

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[32] 'Suggested Draft Charter for an International Trade Organization of the United Nations', NAA A1976/34/1, Box 1.
[33] 'Trade and Employment Conference. Report by Representative of Department of External Affairs on First Meeting of the Preparatory Committee of the Economic and Social Council', London, 15 October 1946, NAA AA1976/34/1, Box 2.
[34] *ibid.*
[35] 'Charter for an International Trade Organisation. Preliminary Summary Prepared by Members of the Australian Delegation to the United Nations Conference on Trade and Development' Havana, 24 March 1948, NAA AA1976/34/1, Box 1.
[36] *ibid.*

subsidies (*domestic* as well as export bounties) which gave that country a 'more than equitable share of world trade in the commodity affected'.[37] Consuming *and* producing countries would be included in consultations on buffer stocks schemes, but the issue of the transition period remained unresolved, and the expected subject of subsequent negotiations.[38]

Whatever the victories of the proponents of buffer stocks via the ITO, all was undone in 1950 when, in a decision which had more to do with internal politics than the merits of the institution, the bill ratifying the ITO was held up in United States Congress and subsequently withdrawn by the Truman Administration.[39] The Australian Parliament had ratified the Charter of the ITO in 1949, but on the proviso that it was similarly ratified by the United States and the United Kingdom. The decision by the United States to reject the ITO rendered it stillborn. Many of its features subsequently made their way into the GATT, but many others simply disappeared, including the most important provisions (as far as Australia was concerned) relating to buffer stocks.

Conclusion

The loss of the ITO brought with it an end to official advocacy of the comprehensive and centralised buffer stock arrangements envisaged by Keynes and others. Buffer stock schemes for individual commodities eventually emerged from the post-war period, and Australia found its place as a member (as producer or consumer) in most of them, but the impetus for the formation of anything more than these was, thankfully, not in place. The buffer stocks schemes of Keynes, Graham and other writers were responses ultimately to the catastrophic collapse of aggregate demand which took place between the world wars and for which conventional economic theory, for a while at least, appeared to have no answer. After the Second World War enlightened policy makers in the fortunate parts of the world (but especially the United States) maintained their economy's more or less at full employment, therein ensuring their own prosperity and also that of a great many of the world's commodity producers.

Unfortunately for commodity producers, the golden age which seemed to prevail in the three decades after the Second World War was replaced from the early 1970s by the familiar uncertainties and, in response, all sorts of old ideas re-emerged in the attempt to offer some guarantee to those whose incomes are determined by the caprice of commodity markets. Buffer stock schemes have been an historical constant in the face of these uncertainties, whether as derived on the supply or the demand side. Australian economists welcomed buffer stocks proposals during the period examined in this paper as a device for alleviating deficiencies in demand. Welcome to this extent, they were nevertheless seldom seen by the Australians as anything other than a second best option to a more fundamental solution.

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[37] *ibid.*
[38] *ibid.*
[39] For details of the travails of the ITO Bill and Truman, see Bennett Woods (1990).

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