Chapter I

THE ORIGIN AND GROWTH OF CONTROL SCHEMES

THIS Jubilee Year has naturally given rise to retrospective stocktaking of the changes during the last quarter of a century in every aspect of the national life of Great Britain. Any comparison of the past and present conditions under which we produce or purchase our supplies of foodstuffs and raw materials, must however extend the process of reflection to international or world developments, and all nations will indeed profit if they use the occasion of the British Jubilee to reflect upon the many great and significant changes which have overtaken the world's primary industries during the last twenty-five years. These include radical changes in the main sources of supply, the mechanisation of production in innumerable forms and the application of science in innumerable ways, and the effects on demand of rising and falling standards of living and altered social habits and customs. But there has been one truly revolutionary change, namely the evolution of collective conscious control of supplies by the producers in a very large number of these industries; or to put it in more everyday language, the appearance of restriction and valorisation schemes, not only of national, but also of international or even world-wide extent. Here is no mere extension, or quickening of

previous development such as are the other changes: here is something which is so fundamental and so novel as genuinely to merit the adjective revolutionary, and so vigorous in its growth as to command our utmost attention.

Twenty-five years ago anyone who prophesied that the world supply of most of the important primary products would be subject to artificial control as the result of agreements between the producers or their governments, would not have commanded one minute's attention from economists or business men, politicians or statesmen. It is true that there had been a few such attempts with aluminium and zinc, and with agricultural commodities of relatively minor importance such as Greek currants; and though the great Brazilian coffee valorisation scheme of 1907 was still in operation, most observers considered it a final object lesson in the economic absurdity of all attempts to "interfere with the laws of supply and demand". It is true, also, that international agreements to control the supply of manufactured goods were by no means unknown, e.g. the International Steel Rails Agreement, and that monopolistic combinations of national extent in manufacturing industries were common, and increasing in number and efficiency every day. But to argue from this that similar attempts at collective control would shortly appear in the primary industries, would have been met with the scornful rejoinder that industrial organisation and the general conditions of production in the primary industries were entirely different, at any

rate in agricultural industries. How could the million or so growers of American cotton, or the innumerable growers of wheat or sugar all over the world be organised to operate any common policy? And even if collective organisation were possible, and the attempt were made to dispense with the services of the middleman as the Brazilians had done, how could the producer gain? The middlemen knew their part of the business far better than any producers' organisation could, and competition ensured that producers got the highest possible price and consumers the lowest possible. Producers who tampered with the laws of supply and demand would get exactly what their stupidity and pig-headedness deserved, while if governments stepped in, the penalty would be doubled.

There are to-day certain economists, some business men and a few politicians who still hold essentially these views. Secondly there are a few economists, a great many business men, and probably a majority of politicians who are unreservedly in favour of artificial control, as compared with a purely individualist system of production and distribution, and in whose eyes "restriction for all and everything" is a panacea for the world's present troubles. But there is also a third party, larger than either of these, consisting of those who recognise the short-comings of individualist *laissez-faire* under present economic conditions, but cannot persuade themselves that schemes for the artificial control of the production or accumulated stocks of primary products are always economically sound and

desirable, or always practicable, especially if the long-run as well as the short-run results are taken into account. And finally all these three parties are heavily outnumbered by those who do not feel that they can be bothered to take an intelligent and independent interest in these problems, either because they think that whatever happens can make little or no difference to themselves, or because they think that these problems are too complicated for the mere "man in the street". But the attitude of this great majority in so far as it is based on the former ground—that they themselves are little affected by the revolutionary change in the organisation of the supplies of primary products—is based on a delusion. Every one of us is interested as a consumer. The price of wheat, sugar, coffee or tea is what it is to-day, largely because of the measures of artificial control over supplies which have been taken in the recent past or are still in operation. These foodstuffs are consumed more or less in the state in which they are produced, but the price of raw materials like cotton, rubber, copper and tin are equally reflected, though perhaps less directly, in the price of clothes and cotton goods of all kinds, in the price of motor cars and motor transportation, in the price of supplies of electricity, in the price of tinned foods, and in the prices of the innumerable other things which require these raw materials for their manufacture. Of course, if the cost of one of these raw materials forms only a very small part of the final price of a commodity or service to the consumer, the effect on that final price

may be small or for a time even indistinguishable, but that does not alter the fact that many little changes may make a very appreciable total difference to our standard of life and general well-being. Moreover, our interest as consumers is only one side of our interest. We may be also considerably interested as distributors of these foodstuffs, or as manufacturers of these raw materials, or we may be interested as investors in the business of producing them here in England or in other countries. Again, our individual fortunes may be vitally affected by the results of artificial control schemes on the incomes of the producers here or abroad, who buy goods by the making and selling of which we in turn obtain our incomes. I need not dilate further on the fallacy that we as individuals are not affected by the organised policies and operations of the producers of foodstuffs and raw materials, and that it is no concern of ours whether Brazil destroys its coffee crops, or whether the price of tin or rubber is doubled, or whether Great Britain and the United States grow their own sugar and thereby bring ruin on countries, like Cuba, which previously supplied them. And it is precisely because we are all so much affected in one way or another by the conditions which are governing the supply of foodstuffs and raw materials, that the excuse of the "man in the street" is not sufficient. These problems are complicated—there is no denying that—but so are many other of the problems of our daily lives on which we all have to make decisions, however incapable or unworthy we may feel ourselves

to be. And we all have to make decisions concerning the organisation of the world's supplies of primary products—it is not merely the business men directly concerned who must do so—for since governments now play so large a part in these matters, all of us must decide as voters and tax-payers.

The following chapters attempt to give a general account of the recent history of six of the more important primary industries which have adopted artificial control schemes, special attention being paid to the causes which led to the establishment of these schemes, their general character, the changing policies adopted, the nature of the results achieved, and the reasons for their success or failure. But before we embark on these studies of individual separate industries, it seems desirable to consider briefly some of the broad general forces which have been in operation to produce this relatively sudden and widespread substitution of conscious artificial control for the unconscious control of a *laissez-faire* system, and to indicate certain general aspects of this revolutionary development in industrial organisation; these should be kept in mind when studying the stories of particular industries, and their particular control schemes, or else we may run the risk of missing the wood for the trees. There are, for instance, a good many people who think that, with the isolated exception of the British rubber restriction scheme of 1922, artificial control schemes in the primary industries are a product of the present world depression which began in 1930, and that this

whole development in industrial organisation should be looked upon primarily as a means of combating acute general world trade depressions. This view is based on sheer ignorance of facts, and naturally the deduction is likely to be equally fallacious and misleading. Even before 1929 there had been experiments in artificial control, on a sufficiently large scale to affect world supplies and world prices, in wheat, sugar, coffee, rubber, petroleum, copper, lead and zinc: and by the middle of 1929 control schemes were being generally discussed in connection with cotton and tin. This is an important proportion of the world's primary products, though we must not forget the existence of wool, silk, flax and jute, tea, meat and dairy products, hides, and many other products of less importance, in which artificial control was not being seriously considered. But there is no room for misunderstanding as to the widespread existence of artificial control schemes before the world depression began, and of these schemes, that for rubber dates back to 1922, those for sugar and copper to 1926, while coffee was really almost continuously controlled from 1917, and there had been partial control of copper and tin during the post-war slump of 1920–21.

We shall therefore have to look farther back than 1929 for the general causes of the development of artificial control schemes in the primary industries. I mentioned above that, even before the war, the movement towards combines in manufacturing industry had developed to a stage where the mono-

polistic control of the output of national industries had become fairly widespread in the form either of trusts or cartels, and international agreements for the same purpose were by no means unknown. The combination of previously independent concerns, whether by complete amalgamation or agreement, had also proceeded some way in the mineral industries, especially perhaps in the great copper industry of the United States; while there had actually been partial control schemes in aluminium and zinc. But as I also said, the small-scale unit of most agricultural industries, and the consequent multiplicity of independent producers, made the prospects of effective combination to control output, prices or stocks remote, even on a national basis, while in such cases as wheat or sugar, there are many nations all over the world which make a substantial contribution to the volume of world trade in these products, quite apart from those which produce primarily for home consumption. Thus the possibility of achieving monopolistic control of even a part of the world market was insignificant in agricultural industries. But that is not to say that agriculturalists were wholly indifferent and completely unimpressed by the developments towards monopolistic combination in manufacturing. On the contrary it was rather that they regarded these developments with wistful and longing eyes, as do those who see a paradise beyond their reach: while mineral producers were equally desirous and much more hopeful, for their reach was considerably longer. Thus the developments of industrial organisation in

manufacturing may be said to have pointed a course towards the same goal for the producers of primary products. The movement towards conscious control has been common throughout industry as a whole for the last fifty years or more, and the significance of this should not be missed.

But artificial control in the primary industries might have been delayed almost indefinitely if it had not been for the Great War. The Great War had two very different effects; it made artificial control appear more necessary and desirable, and, secondly, it made it appear far more practicable than previously. Artificial control became more necessary and desirable because of the tremendous dislocations of all kinds which the Great War brought about. In the first place, production was greatly diminished in some countries and enormously stimulated in others: for example, Russia and the Danubian countries ceased to export wheat, and Canada and some other countries greatly increased their production in order to make good the deficiency: the best sugar lands of Europe were sown with shells instead of beet-roots, and consequently Cuba planted vast tracts of virgin land with sugar cane to try to compensate matters. Secondly, some raw material industries found their pre-war markets closed to them. Brazil lost her large pre-war market for coffee in Germany: Lancashire was left with an insufficient labour force to utilise the same volume of American cotton, while rubber producers and tin miners in Malaya suffered through inability to get their pro-

duction to the chief markets owing to the shortage of shipping. To a large extent these difficulties disappeared fairly rapidly after 1918, but in some cases they left their mark in the form of permanent changes in taste or customary expenditure, and in general they added to the war-time commotion. Again, these difficulties drove home to countries like Brazil and Malaya, whose national economic prosperity depends upon the export of one or two commodities, a lesson on the disadvantages of having all their eggs in one basket, a lesson which was repeated in these and other cases, such as Cuba and the West Indian Islands, during the post-war slump. Thirdly, the war taught several of the belligerent and some neutral countries the disadvantages of depending on distant lands for supplies of essential foodstuffs and raw materials in time of war, and made them determine to try and reduce this dependence by increased home or imperial production: in other words, it increased the tendency towards economic nationalism, and this of course created new difficulties for the exporting countries. Thus both importing and exporting countries increased each other's difficulties, the former striving to reduce their dependence on the latter for foodstuffs and raw materials, and the latter their dependence on the former for manufactured goods. And where exporting countries could do little, owing to the nature of their resources, either in the direction of developing other export industries or home manufacturing industries, their governments were driven to watch more closely the fortunes of the one or two