ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON

March 7, 1946

(Pamphlets)
Armed

Dear Win:

I have just received your letter of March 4 enclosing the information about Miss Mosse. In addition to whatever official action we can take, I shall try to give this matter my personal attention and will take it up with one of my colleagues in Berlin.

I do hope that you get down soon and please arrange your schedule so we can at least have lunch together.

As ever,

Jimmie

Winfield W. Riefler, Esquire,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

Riddleberger
Panofsky

March 4, 1946

Dear Jimmy:

My friend, neighbor, and colleague, Professor Erwin Panofsky, came to me in great distress last night. He had learned that his sister-in-law, a German citizen in Berlin, had been accused of Nazi collaboration. I suggested that he write directly to the Secretary of State and I am enclosing a copy of the letter which he has written.

I appreciate that everything in Germany is very tangled and do not know the specific situation or where the responsibilities lie, but I should imagine that it might be possible for the Department to find out something about this situation and to help see that justice is done. If there is anything you can do properly and you have any way of seeing that this is not lost in the files, I would greatly appreciate it.

I am very anxious to see you and hear all the latest dope. I have not been down to Washington since our last visit.

As ever,

Sincerely,

Winfield W. Riefler

Mr. James W. Riddleberger
Chief, Central European Affairs
Department of State
Washington, D. C.

C O P Y

March 4, 1946

The Honourable James F. Byrnes,
Secretary of State,
State Department,
Washington, D.C.

My dear Mr. Secretary,

I am a professor of the history of art in the Institute for Advanced Study at Princeton, N.J. After having served as Visiting Professor at New York University in 1931, 1932 and 1933, and at New York and Princeton Universities in 1934, I and my wife immigrated into the United States on August 1, 1934 and were naturalized on June 7, 1940. During the war I worked for the Office of Strategic Services (control of foreign language newspapers) and the Commission for the Preservation of Cultural Monuments (preparation of maps and negative target lists for our Armed Forces).

I take the liberty of writing to you because I have been informed that the sister of my wife, residing in Berlin (Germany), finds herself in serious trouble. Her name is Miss Martha Mosse, Dr. of Law, her address: Berlin-Charlottenburg, Cicerostrasse 61.

Before the establishment of the Nazi regime Miss Mosse had been employed as a Polizeirat (approximately: Director of Police) in the Department for the protection of juveniles. In 1933 she was dismissed from office on account of being Jewish but decided, in spite of my repeated offers to secure her immigration into this country, to stay in Berlin because she felt it her duty to assist, so far as she could, the then still relatively numerous members of the Jewish community. She therefore worked for several years for the Jewish welfare organization headed by the Chief Rabbi of Berlin, Dr. L. Baeck.

When the persecution of the Jews became more drastic both she and Dr. Baeck were brought to the concentration camp of Teresin (Theresienstadt), where they remained until the survivors -- about 10,000 out of about 150,000 -- were liberated by the Russians in 1945. Dr. Baeck was brought to England, where he still is, while Miss Mosse was returned to her home in Berlin. After having undergone surgical treatment because of the effects of malnutrition, she was appointed Justizrätin in the Kammergericht (approximately equivalent of the Supreme Court of a State in the United States) in Berlin, which position she now holds.

It has come to my attention that some members of the Jewish community in Berlin have now charged her with having collaborated with the Nazis and even having been instrumental in sending other Jews to concentration camps: and that, on her own initiative, a hearing in this matter was held before the Jewish Chaplain of the American Forces, one Rabbi Shubow. Apparently this hearing was an informal and inconclusive one, ending, according to the reports received, with Chaplain Shubow's suggestion that an official trial be held so that Miss Mosse may be either convicted or definitely and unequivocally cleared.

To the best of my knowledge, and in the opinion of several Americans (all but one personally unknown to myself) who have had occasion to see Miss Mosse, the accusations made against her are entirely unfounded. All she wants, and all I wish, is that the facts be objectively ascertained. Therefore I lay before you, my dear Mr. Secretary, the urgent and respectful request that steps may be taken to assure my sister-in-law of a fair and impartial trial with adequate representation of her interests.

Respectfully yours,

Erwin Panofsky,
Professor in the Institute
for Advanced Study

Sunday Ohlin

HOTEL NEW WESTON
MADISON AVENUE AT 50TH STREET
NEW YORK 22, N.Y.

Dear Winfried,

Lots of thanks for your kind letter. Mrs Ohlin and I should love to come to Princeton for some days this week, if you can find accomodation. I have to do some work on my lectures and should, therefore, be grateful if I could have a desk somewhere either in the Institute or in our bed room.

It would suit us best to come on ~~Tuesday~~ Wednesday and to stay until ~~Saturday~~ Sunday. Will you kindly telegraph if this can be arranged. We could also come on Wednesday.

I am looking forward to

meeting Mrs Riefler and your-
self and other friends. The
same is true of my wife, who
is arriving Monday evening by
boat.

Warm greetings
Sincerely,
Bertil Ohlin

MR. BERTIL OHLIN
HOTEL NEW WESTON
NEW YORK CITY

DELIGHTED. ARRANGEMENTS ALL MADE AT PRINCETON INN. EXPECT YOU WEDNESDAY.

WINFIELD RIEFLER

A Proposal
for an International Buffer Stock Agency

In Part II of its final report, issued in 1945, entitled "Stability in the Post War World", the League of Nations Delegation on Economic Depressions definitely advocated the inauguration of buffer stock operations on an international basis to create more stable conditions in the production of storable raw materials, in the incomes of their producers, and in their costs to fabricators or final consumers. This recommendation was adopted after long consideration beginning in 1938 and was based on a diagnosis of the problems that are created by the extreme instability which typically characterizes world markets for the great raw materials. The Delegation did not have technical commodity specialists on its staff and did not, consequently, recommend any particular scheme for the conduct of such buffer stock operations, but confined itself to pointing out the magnitude of the area of instability and the general principles by which the merits of any particular scheme could be appraised. It was the hope of the Delegation that its recommendations would stimulate more effective technical work on the problem.

It is now over a year since the publication of the report. In the interval the Delegation's various recommendations have been well received but it cannot be said that their specific recommendation with respect to buffer stock operations has been advanced. Meanwhile, the war has ended and the period is drawing appreciably nearer when we may again expect to experience the repercussions of chronic instability in the organization of the markets for raw materials.

These are the circumstances under which the following specific proposal for the creation of an International Buffer Stock Agency is advanced. It is presented with considerable diffidence because it has not been formulated in collaboration with specialists in the various commodity fields. It is hoped that it is sufficiently concrete to draw criticism. The basic economic case for a buffer stock type of approach to the problem of economic stability is compelling. The objections to such an approach are to a large extent political and administrative in nature. Given this condition, it is important at the present time that discussion be concentrated on specific concrete proposals rather than on further general formulations of the problem.

What are Buffer Stocks

In this memorandum the term "buffer stock institutions" will refer to publicly directed agencies organized and equipped to purchase, store and sell durable, storable commodities in recurrent demand in such a way as to mitigate fluctuations in their prices, in the employment and income of their producers, and in their costs to fabricators, dealers, and distributors.

The Economic Case for a Buffer Stock Approach to Stability

Fundamentally, the economic case for a buffer stock approach, as one of the devices for the mitigation of business fluctuations, rests on the fact that there is nothing in the physical nature of storable prime commodities or of durable raw materials to require that their production fluctuate from year to year concurrently with fluctuations in the market demand for the final products into which they become incorporated. The demand for final products is bound to fluctuate not only cyclically, but also in accordance with changes in style and taste. Final products are subject to obsolescence. None of these considerations apply to many of the durable raw materials from which they are fabricated. Provided only that storage costs are not too high, the production of durable prime commodities could be regularized without diverting productive resources from their optimum use and without waste. The successful accomplishment of this objective would remove certain elements which tend to magnify strongly the repercussions of fluctuations in final market demands. Thus it would introduce a strong factor tending to stabilize employment in raw material industries. This greater degree of stability would affect large areas, frequently remote areas, where raw materials and prime commodities are produced.

The economic case for a buffer stock approach can also be expressed in terms of prices, incomes, and fabricating costs. Prices of raw materials are particularly volatile, moving over a range several times larger than the range of variation of the prices of finished commodities. They do this customarily in response to small and purely ephemeral changes in market conditions of supply and demand. These wide, recurrent, short-run price fluctuations move over a much wider range than is necessary to adjust production to changes in demand and, because of their small impact on the prices of finished goods, do not result when they are temporarily low in an adequate expansion of sales. Important economic adjustments between sales and output do take place but they are primarily in response to long-run changes in the prices of prime commodities and not to short-run fluctuations. In short, these fluctuations act mainly to destabilize the incomes of producers of prime commodities, and consequently, to destabilize employment devoted to their production. This destabilization frequently extends to the whole area in which they are produced. The effect is to accentuate instability in the demand for final products.

Such short-run fluctuations in raw materials increase the risks of production and therefore its real costs; they increase the risks and therefore the costs of the fabricator of finished products; they frequently force fabricators into the position of speculators in inventories; and they impair his ability to make and execute long-range plans. They constitute in short a major element of instability throughout the economic system.

The Political Case against the Buffer Stock Approach to Stability

The considerations that militate heavily against the adoption of a buffer stock approach to economic stability are primarily political. Even when they take economic form, the objections can usually be traced back to political considerations. In fact they can almost all be summed up in the dicta that buffer stocks are bound to be mismanaged as a result of political pressures and that such mismanagement will result in disastrous economic consequences. The political objections are impressive; they run somewhat as follows:

Buffer stock schemes are more important to producers than to consumers who are less highly organized politically and who have other ways of protecting themselves, at least against the direct consequences of excessive fluctuations in raw material prices. As a result, buffer stock schemes tend to be established primarily as a result of the political agitation of producers and in their operations are subject to continuous criticism, pressure, and outright political interference from producer interests. This creates a situation in which the managers of the buffer stock operation tend inevitably to endeavor to stabilize commodities at price levels that are higher than would be justified on purely economic grounds. This logic leads to the conclusion that buffer stocks are bound to be mismanaged, that consumers will be forced to pay higher prices than are economically necessary that uneconomic high-cost production will be supported and not eliminated; and that overwhelming surpluses will finally be developed. These surpluses will hang over the markets, will accumulate unreasonable storage costs, and will finally give rise to a crisis when the whole arrangement breaks down. The experience of the American Farm Board in its wheat stabilization operations, and, in fact, the history of most attempts to stabilize prices of prime commodities, constitute impressive evidence in support of this view.

Administrative Objections to Buffer Stock Operations

In addition to these basic political objections to Buffer Stock operations, there are a number of other objections which arise out of the conviction that the problems posed for the management of such operations are administratively impossible.

1. It is stated that price stabilization is impossible without control of production.

a. This is obviously true of operations such as those conducted in wheat by the United States Farm Board, where the attempt was made to stabilize, within the United States, the price of a world commodity. Such a stabilization, in periods of depression, has the effect of transferring the whole exportable supply into the hands of the stabilizing agency. This criticism would not necessarily apply to an international buffer stock scheme organized to operate on a world-wide basis. In that case the prices on which it operated would be world-wide and would apply to world production.

b. The proposition that world-wide price stabilization is administratively impossible without world-wide control of production may, however, be true in the case of commodities where the volume of output is not particularly responsive to change in price. It is alleged that rubber and tin constitute examples of this condition.

2. It is affirmed that administrative success in operating a buffer stock scheme depends on correct forecasting of long-run average supply and demand conditions and that our ability to make such forecasts is not sufficiently precise to permit the adoption of successful operating policies.

3. It is pointed out that many durable, storable raw materials are not completely homogeneous; cotton, for example, exists in many grades. Buffer stock operations in any one grade would disturb price relationships between grades and

lead to unexpected results. It is also pointed out that substitutes exist for many commodities, such as rayon and nylon for silk and cotton, and that buffer stock operations in any single one of these commodities could be rendered ineffective by substitution of the others.

4. It is pointed out, finally, that most raw materials are now subject to subsidy or control in some country or other with the consequence that any attempt to establish international buffer stock operations would be hampered or rendered completely ineffective by the operation of existing subsidies, interferences, or controls.

Specific Proposal for a Buffer Stock Agency

The following specific proposals for an international buffer stock agency are put forward with these objections in mind. Some of these objections definitely do not apply to the institutions here proposed. It has been designed specifically to avoid them. The relevance of the other objections can only be determined by commodity experts. They would not be in a position to make these determinations without a specific plan to evaluate. It should be noted that the specific proposals apply only to internationally traded raw materials or prime commodities. They would not affect directly a suitable commodity whose production and consumption were confined to one country. Fortunately, the economic importance of such commodities is not large. The reason for this exclusion is purely administrative. The safeguards against political mismanagement, here proposed, are based primarily on the international nature of the operations.

The general idea underlying these proposals is that the agency should be set up initially in such a way that it would not be subject to the types of political or economic pressures that have caused mismanagement in the past. Because it would be international, it would be forced to give more attention to the needs of consumers. Because of the proposed capital set up, it would be freed from certain political pressures. Because it would be instructed to operate at a profit, or rather to cover costs, it would be under internal pressure to avoid the attempt to stabilize industrial commodities at too high levels. Because of the various operating restrictions proposed, it would not be in a position to continue very long on policies that have misjudged basic economic trends. Throughout the proposals an attempt has been made to create safeguards through operating directives and restrictions. It may be that these have been carried so far that the agency would not be in a position to function at all.

A. Form of Organization

It is proposed that an International Buffer Stock Agency be organized along lines similar to those of the International Monetary Fund and the International Bank for Reconstruction and Development. The relative participation of the various member countries would be different, however, and would take into account their direct interest in raw materials either as consumers or producers. It might be weighted, for example, by their relative prewar position as importers or exporters of prime storable commodities. In any case, consumer interest should be balanced against producer interest.

B. Capital Funds

The International Buffer Stock Agency should be provided originally with large capital funds by subscription from the member nations and with power to raise additional funds, up to a certain limit, by the issue of its own obligations in world markets. The total financial resources, capital plus borrowing power, would have to be determined on the basis of a specific analysis of conditions that might be faced. The Agency would probably need financial resources of a somewhat larger order of magnitude than those of the International Bank for Reconstruction and Development. In 1929 and in 1937, the two prewar years of maximum world trade, the total annual value of raw materials moving in international trade was around 15 billion dollars. At current price levels, the value would probably lie between 20 and 25 billions of dollars. This trade included, of course, non-storable raw materials and also prime commodities not suitable for or not requiring stabilization operations.

It is important both from a political and economic standpoint that an agency of this kind start with adequate capital funds under its own control and adequate power to borrow in the open international money markets. A buffer stock agency will need financing in large volume mainly in periods of depression, which are characterized by collapsing prices for raw materials. These are the periods when it will need to buy net in large quantities. At other periods either its purchases and sales will tend to offset each other, or (as in periods of boom) it will be selling net and absorbing cash. It would be fatal to sound economic management if the administrators of the agency were forced to apply to governments for new financial appropriations during a period of depression and collapsing commodity prices. Such a period would be one of national government deficits, and the political instinct of national legislatures would be either to reduce appropriations in line with the falling off of national revenues, or to concentrate deficit expenditures on internal public works or internal relief. If appropriations for an international agency were actually forthcoming at such a time, it would only be at the insistence of interested pressure groups which would then be in a position to bring pressure on the administrators of the agency to try to stabilize prices of specific commodities at too high levels.

These difficulties will be avoided if the international buffer stock agency is established initially with sufficient capital funds to maintain itself permanently. It will then never have to go back to national governments for new appropriations and will escape the pressures toward mismanagement that can be exerted on such occasions. During depressions when it has need for funds, it will then be in a position to borrow in the big international money markets partly on the basis of its capital assets and partly on the basis of its commodity assets. Loanable funds are abundantly in supply in the international money markets at such periods, so the Agency should be able to borrow in ample volume at advantageous rates, providing the loans are well secured. Since the loans will be floated in the markets of greatest ease, i.e., those with the most favorable balances of payments, and since the funds thus raised will be expended in the purchase of prime commodities, thus helping to relieve the strain that impinges on the balances of payments of raw material producing countries in periods of depression, the operations of the Agency will contribute to restoration of equilibrium in international balances of payments.

C. Borrowing Power

It is essential that the borrowings of the Agency be secured in such a way as to make them prime securities in the market. In this way they will be able to take advantage of the lowest prevailing interest rates. It is suggested that any obligations issued by the Agency up to maximum amounts set forth in its charter be guaranteed unconditionally by the various governments which join. This would give maximum market protection to the buyers of the Agency's securities.

D. Procedural Safeguards against Mismanagement

The basic premise underlying this memorandum is that procedural safeguards can be written that will prevent economic or political mismanagement that is serious enough to prevent the agency from accomplishing its purposes. The following procedural safeguards are suggested:

1. The Agency would be directed to make its operations self-supporting, i.e., it should expect to cover out of profits on the sale of stored commodities its administrative costs including expenses of staff, quarters, service on loans, and storage costs. It would not distribute profits on capital invested by the various member countries, but would expect to increase its own capital gradually out of surplus earnings.

This procedural safeguard is crucial. It would tend to prevent the Agency from seeking to stabilize the price of any commodity at too high a level or indeed at any single level. It would force the Agency, on the contrary, to take full advantage of the existing commodity markets, to work with these markets and to allow private traders full scope in the innumerable current transactions by which commodities are moved in fact from producers into the channels of trade. The Agency would have to aim at doing its buying at prices sufficiently below expected long-term values to permit the costs of storage, interest, etc. to be recouped from later sales at higher prices. To use an example, suppose that the Agency concluded as a basis for operations that a price for copper of around 12 cents a pound would maintain average production in general equilibrium with average demand over the succeeding cycle, say five years. If a depression should occur resulting in temporary over-production, the Agency would then expect to stand ready to buy copper and thus maintain employment, not at 12 cents a pound, but at a price somewhat below that level. When demand revived to a point where it was in excess of current rates of production, it would expect to sell from the buffer stocks thus accumulated, not at 12 cents, but at a price somewhat higher than that level. This margin between buying and selling prices would be necessary to cover the operating costs of the transaction. It would also permit sufficient fluctuation in price to help the adjustment of current supply and demand.

This fundamental requirement that the Agency be self-sustaining, without current recourse to new government appropriations, taken together with the fact that its Board would be international and composed of representatives of consuming as well as producing interests, should go far to produce cautious and conservative management policies. To the extent that the administrators were moved by enlightened self-interest, they would adopt operating policies designed to establish a permanent institution to which they could dedicate their personal careers. They would, consequently, have every incentive not to adopt support prices that were too high and that would lead ultimately to serious over-production or the over-accumulation of surpluses. In point of fact, such an international agency, unlike a national buffer stock agency set up at the political instigation of internal producer pressure groups, would be aware of the difficulty or impossibility of an attempt to get emergency appropriations simultaneously during a depression from a large number of governments. They would know that they could not count on being "bailed out" of a bad situation. They would know that the directions of the charter to be self-supporting and to work within the financial limitations originally established constituted practical political limitations as well as legal directives. In fact the danger of such a set-up in an international agency might be just the reverse of what would be expected in a national buffer stock agency. The danger of mismanagement would not lie in over-optimism or the establishment of support prices for commodities of too high levels. It might well be the reverse. The Agency might not operate vigorously enough and might find itself out of commodity reserves during a boom with no power to control the speculation and soaring prices that would then ensue. This could be quite destabilizing. In such a situation, for example, that portion of current demand which had been supplied from buffer stocks would become effective in the market and could only be met by an expansion of current production. This might result in very sharp price increases which would be more destabilizing than if the effect of the enlarged demand had been spread over a longer period.

2. The Agency would be directed to evaluate each commodity separately in determining the possibility of stabilization operations. This evaluation should be based both on the importance of the commodity in world trade and on its specific economic situation.

About sixty percent of international trade before the war consisted of prime commodities and raw materials. In addition, there was a certain volume of trade in products which are defined technically as semi-finished, e.g. wood pulp. These are essentially prime commodities and ought to be included within the scope of the agency's operations. The first task of the agency staff would be to analyze the actual volume of world trade (prewar) commodity by commodity with a view to seledting those commodities which might potentially be considered eligible for buffer stock operations. This would eliminate non-storable raw materials, materials whose storage costs were very high (e.g., certain refrigerated products) and all commodities, the demand for which is subject to obsolescence or changes in style, etc. The resulting list after this first screening would then be ranked for consideration in order of, say, the money value of the commodity in prewar international trade.

3. The Agency would be directed to appoint a special committee of experts for each commodity under consideration for buffer stock operations. The expert committees would be appointed as far as practicable in the order

of the priority given the commodity. It would be the duty of the expert committee for each commodity to submit an economic report conerning such matters as the conditions, costs, etc. of demand and supply of the commodity, the extent to which it was homogeneous or differentiated in grades, the degree to which it was substitutable for other commodities, possible changes in the structure of supply and demand, storage problems and estimates of storage costs, its marketing machinery and any other special conditions, including government controls, to which it was subject. It would also be the duty of the expert committee to submit an estimate of that world price for the commodity which in its judgment would bring supply roughly into equilibrium with demand over the succeeding period (say five years). It should buttress this estimate with supporting data.

4. The Agency would be directed to publish this report and to hold public hearings on the technical validity of its contents.

5. The Agency would be directed to schedule buffer stock operations in each specific commodity after receiving the above report of the special committee of experts and after holding hearings thereon, if, in its judgment, such operations could be soundly executed.

6. The Agency would be directed to enter into such commitments and agreements with specific countries before the inauguration of operations in a scheduled commodity, as would be necessary to carry out the purposes of the agency. It would be unrealistic, for example, to expect an international agency such as is here proposed to have the power to prevent individual countries from subsidizing politically powerful domestic producer interests under certain conditions. It would be politically feasible, however, to

require affected countries to agree (1) not to dump internally subsidized commodities on world markets, directly or indirectly; (2) to refrain directly or indirectly from export subsidies; and (3) in certain instances when necessary to establish export quotas on commodities selected for buffer stock operations. Such requirements would be essential in the case of important export commodities which benefited from internal subsidy or preferential treatment. It would be necessary similarly to require import countries to agree to cooperate in preventing export countries from sabotaging the operations of the plan.

7. The Agency would be directed to refrain from buffer stock operations in any commodity where such operations would expand uneconomic high cost production at the expense of lower cost producers. It would also be directed to refrain from conducting buffer stock operations when the effect would be to maintain existing high cost production at the expense of potential lower cost production unless such operations had been safeguarded by definite agreements, acceptable to the participating countries, for the gradual elimination of the high cost production and the transfer of the resources involved to more productive uses.

8. The Agency would be empowered to enter into quota agreements or production control agreements only when the commodities involved were not susceptible to stabilization through successful buffer stock operations alone. In the case of such commodities, it would be directed to refrain from actual buffer stock operations until satisfactory agreements had been affectuated.

9. The Agency would be empowered to enter into long term contracts with producing or consuming countries when such contracts were part of a general plan consistent with the purposes of the Agency.

10. The Agency would be directed, in the case of any commodity meeting all of the above procedural stipulations, to conduct buffer stock operations designed to mitigate price fluctuations. It would be directed to buy such commodities below the estimated long-term values necessary to bring equilibrium between production and use and to sell such commodities above such estimated long-term values. It would be empowered to rent, operate, arrange, and own storage facilities, etc.

11. The Agency would be directed to publish in detail the economic analyses on the basis of which its operations were initiated and conducted.

12. The Agency would be directed to review each year: (1) its past economic analysis of each commodity; (2) the mistakes in forecasting or evaluation which it had made; and (3) its current appraisal based on this experience. It would also be directed to review its actual operations.

13. The Social and Economic Council of UN would be directed to inaugurate a special inquiry into the organization, operations and functioning of the Agency in the event: (1) that a commodity selected for buffer stock operations became so scarce as to result in a skyrocketing of prices and hardship to consumers; or (2) that the stockpiles of any commodity in the hands of the Agency grew in volume to represent an amount equal, say, to two years' movement of that commodity in international trade.

14. The basic charter of the Agency, including its right to operate, would be suspended, and current operations would become subject to new negotiations between the member countries, if there should develop a surplus in any one commodity equal to, say, three years' average movement of that commodity in international trade; or to an abnormal percent (say 25 percent) of the

total assets of the Agency.

15. Disputes over the legality of the operations of the Agency would be subject to the jurisdiction of the International Court.

Conclusion

It should be noted that the directives proposed above would be in the form of legal stipulations, embedded in the Charter of the Agency. They would be binding on its operations. It could not, for example, operate at all in any commodity unless it had a finding by its law officers that the effect of such operation would not be to expand high cost production at the expense of the low cost producer.

It is an open question whether these stipulations are not so stringent as to prevent the proposed agency from entering into worthwhile operations. This can only be determined by specific analysis by specialists of the operations proposed.

W. W. Riefler

4/4/46
Rev. 7/25/46

September 3, 1946

Dear Joe:

I am very grateful to you for sending me your manuscript on buffer stocks. It is the first honest and thorough assessment of our buffer stock proposals which I have seen. It is the sort of criticism which I had hoped we ~~had~~ would stimulate~~d~~.

Like you, I have long awaited a concrete specific plan that could be evaluated. Since none appeared, I have taken a crack at one myself. It will be published in the late fall issue of the Journal of Political Economy.

I do not dare to hope that it will convert you to support of the proposal, but I do think you will agree that if faces honestly the issues that you raise in your criticism and it has constructive suggestions to offer in each case. I do not have an extra copy of the paper at present, but will try to dig one out by the time you are here for the meeting of the Social Science Research Council.

Sincerely,

Winfield W. Riefler

Dr. Joseph S. Davis
Food Research Institute
Stanford University
Stanford, California

FOOD RESEARCH INSTITUTE
STANFORD UNIVERSITY
STANFORD UNIVERSITY, CALIFORNIA

August 26, 1946

Dr. W. W. Riefler
Institute for Advanced Study
Princeton, New Jersey

Dear Win:

I hope I shall have an opportunity to see you at Princeton during the week of September 9, when I shall be there on Social Science Research Council business.

Meantime, it occurs to me that you might be interested in turning your critical eye upon the enclosed manuscript on "buffer stocks." It is part of a manuscript that I have written with the tentative title, "International Commodity Agreements: Hope, Illusion, or Menace?"

With cordial regards, I am

Sincerely yours,

Joe

J. S. Davis
Director

JSD:k
Enclosure

III. The Buffer-Stock Scheme

Discussions at the Hot Springs Conference on Food and Agriculture, in the spring of 1943, brought into the open the sharp divergence of opinion on commodity-control ICAs, and in particular the fundamental criticism that they would fail to promote economic expansion and readjustment, which that Conference rightly deemed desirable. A few suggestions toward overcoming these basic defects in ICAs of the past were made -- most of which, indeed, are included in the newer patterns already outlined. The British delegation, under the lead of R. K. Law and the economist Lionel Robbins, urged an alternative buffer-stock scheme.[1] Various forms of this had been suggested since the early 1930's, and J. M. Keynes (later Lord Keynes) had developed a keen interest in it, but none has yet been worked out in detail or adopted. Though put forward at Hot Springs solely with respect to "the more important agricultural products which can be stored," the plan is logically applicable to other raw materials and even to foodstuffs that can be stored only in processed forms. It might involve relatively simple ICAs, or one covering several commodities.

The Hot Springs Conference felt unprepared to endorse any ICA scheme and declared the whole subject in need of further study. The Interim Commission which paved the way for the Food and Agriculture Organization contributed little more on this point, and up to mid-1946 the same was true of the FAO itself.

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[1] New York Times, May 24, 1943, p. 7, quoted in ILO, ICCAs, 155-56.

Principal Features

The British delegation proposal was that, under some "international coordinating body," "internationally held balancing or buffer stocks" of commodities should be built up and maintained. In order to keep within moderate limits the prices of specified agricultural products (and others) important in international trade, stocks of each would be freely acquired by the international holding agency when the price fell to specified levels, and freely sold when the price rose to specified higher levels. It was argued that effective operation of an international buffer-stock scheme would obviate the need for all but exceptional resort to ICAs of the commodity-control pattern, and that, properly administered, it would eliminate violent swings around long-term equilibrium prices, be conducive to expansion by the more efficient producers, and encourage shifts in production among producers and among commodities.

The League of Nations Delegation on Economic Depressions, in its 1945 report, put the buffer-stock scheme first among the "international anti-depression measures" which it recommended "with special reference to raw material and food producing countries." Without attempting to present a detailed plan, the League Delegation urged the following features: (i) operation by an international buffer-stock agency, (ii) formed by governments of producer and consumer countries, (iii) amply financed to obviate speculation on its breakdown, (iv) by capital provided by governments supplemented by funds borrowed in financial markets, (v) operated primarily to limit the range of fluctuations in commodity prices but to be self-supporting, (vi) initially operating only in the more important storable crude products but gradually expanding it, with experience, to exert wider influence and diminish the risks of disturbing shifts in production, (vii) acquiring stocks ample "to preclude speculation on their exhaustion," (viii) fixing buying and selling prices varying with the commodity, e.g., 20 per cent above and below a "standard price" taken as the moving average of prices in the preceding 8-10 years, (ix) varying these prices when excessive accumulations or depletions of stocks occurred, and (x) functioning as nearly automatically as possible under principles laid down in articles of agreement.

To the advocates of the buffer-stock scheme the central evils are the wide range through which prices of foodstuffs and raw materials fluctuate within a year and over periods of a few years, and the national and international measures to which these fluctuations give rise. It is recognised that the causes may be unpredictable changes in supply, demand, or both; and it is realized, though seldom publicly stated, that ill-judged national or international controls (e.g., Brazil with coffee, the United States with cotton, the International Tin Committee with tin) have made and may make such fluctuations especially violent. Extremely low prices of ~~these~~ primary commodities play such havoc with the economies of producing countries, especially those heavily dependent upon exports of specific commodities, as to harm the world economy and to give rise to conflicting national measures. Extremely high prices tend to overstimulate production, and often new investment as well, and thus can bring about overproduction and depressed prices later. To prevent these wide variations is held to be in the interest of orderly production and disposition, of continuous adjustment in production, and of checking deflationary and inflationary movements before they have gone too far to be corrected.

Other Commodity-Reserve Ideas

The buffer-stock scheme thus presented must be distinguished from several others which also involve special commodity reserves.

(1) Under the tin-control ICA, and once before it was instituted, resort was had to acquisition and later liquidation of buffer stocks of tin on several occasions. These, however, were used as a means of supporting prices, and of reaping special profits, rather than as effective guarantees against excessive prices of tin. The volumes acquired were too small, and the liquidations too ill-managed, to serve the purpose of keeping tin prices within moderate limits. In 1937 a sub-committee of the League of Nations Committee on....Raw Materials explored the problem of utilizing such buffer stocks more extensively in close conjunction with ICAs of the commodity-control type, but reached no clear-cut recommendations. The rubber-control committee considered this plan, but decided against adopting it. The tea-control committee opposed it for tea. The late Mr. Hart, as we have seen, considered buffer stocks a useful ancillary device for ICAs under certain circumstances. Yates, writing before the Hot Springs Conference, found reason to support more extensive use of buffer stocks on an individual commodity basis, but did not envisage elevating them into a system independent of ICAs. American offical and semi-official spokesmen have expressed views similar to those of Hart or Yates.[1]

[1]See also ILO, ICCAs, pp. xxi-xxix, 146-56.

(2) While Secretary of Agriculture, Henry A. Wallace successfully urged grafting onto the complex American agricultural program an "ever-normal granary" scheme, whereby carryovers of staple farm products were to be built up in good years as a safeguard against shortages and high prices in poor years. As actually carried out under changing Congressional mandates, this system was used instead as a means of raising prices, and began to give rise to troublesome, persistent surpluses, even though accompanied by various forms of acreage and output restriction. When stocks of cotton, wheat, and corn reached extreme levels, they were not drawn upon to reduce prices; instead, prices were forced still higher and other ways of reducing the excessive stocks were sought -- successfully for wheat and corn, unsuccessfully for cotton. The 1942 Draft Convention for wheat provided for large minimum and maximum stocks in each of the chief exporting countries, somewhat after the ever-normal granary plan. In this case also the stocks would not be owned by an international agency or subject, within wide limits, to international control; and there was no national or international commitment to employ them as buffer stocks proper, beyond the commitment of exporting countries (not yet in force) not to permit exports below agreed minimum prices and to sell for export at all times at not more than agreed maximum prices.

(3) Before and during World War II, several nations acquired "security reserves" of several foodstuffs and raw materials, without particular reference to price stabilization.[1] Various proposals have been made for carrying on this system in peacetime. If adopted, it might be operated either in or out of harmony with a buffer-stock scheme, but it would presumably be on a national basis and with a totally different major objective.

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[1] See J. M. Keynes, "The Policy of Government Storage of Food-stuffs and Raw Materials," Economic Journal (London), September 1938, XLVIII, 449-60. In this article Keynes elaborated the idea with special reference to Great Britain, as offering the combined virtues of security stocks and buffer stocks, which he thought would help to mitigate economic fluctuations.

(4) The ambitious Graham scheme for utilizing primary foodstuffs and materials as monetary reserves contemplates an international agency to buy and sell a number of commodities with a view to materially lessening the instability of commodity prices. Its immediate objective, however, is to stabilize the price index of a group of commodities, by buying and selling "composite units" of these, letting ~~the~~ prices of the individual commodity move freely under the influence of market forces.[1] This might be viewed as an alternative form of the buffer-stock scheme, but it diverges in such major respects that discussion of it would take us too far afield.

Critical Observations

Numerous variants of the buffer-stock scheme proper could be suggested, but no concrete proposal ripe for serious consideration has yet been put forward if, indeed, any has been sketched out but not published. This may seem surprising, in view of the obvious appeal of the scheme and the fact that elements in it have been under discussion for more than a decade. Three explanations may be suggested. (1) In many fields, it is common to keep threshing over broad ideas while avoiding the very difficult chore of developing them into a blueprint that can be subjected to critical tests. (2) Apparently no government or private organization has yet felt strongly impelled to have a genuine blueprint of an international buffer-stock scheme drawn up by really competent persons. (3) The more one knows about individual commodities, such as those suggested for inclusion, the more difficult it is to outline a specific scheme that has any prospect of being advantageously workable. For the time being, therefore, observations on the buffer-stock proposals must be provisional.

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[1] See especially Benjamin Graham, World Commodities and World Currency (McGraw-Hill, ~~(~~New York and London, 1944).

A number of essentially technical questions arise. Some of these are relatively easy to answer, while others are very difficult. In addition, there are various quasi-political matters of importance, about which one may reason with no assurance of arriving at a sound conclusion.

Where should the international buffer-stock authority fit into the evolving system of international organizations? It has been suggested that one and the same agency supervise ICAs and handle buffer stocks, but surely these functions are too diverse to be vested in the same body. The buffer-stock agency might conceivably be a separate sub-commission of the proposed International Trade Organization, but a commission could hardly serve well as an operating agency of this sort. It might be a corporation subsidiary to the International Monetary Fund, as Benjamin Graham indeed proposes for the operating agency under his different commodity-reserve system. From the standpoints of financing and anti-depression influence, this looks promising; but both the FAO and the proposed ITO would presumably have strong claims to exercise some degree of control over it. The right answer to such questions may become clearer as these institutions develop.

How should buffer-stock operations be financed? The best answer might be to have governments subscribe the capital, under quotas arrived at as in the cases of the Fund and Bank, and to have additional funds borrowed in financial markets, as the League Delegation suggested. But the potential volume of financing is really huge; the possibilities of loss would be far from negligible; and it is by no means clear that the United States would be willing, as in these other cases, to subscribe a large share of the total.

When should the scheme begin to operate, and with what commodities? The essence of the plan is to build up huge reserves when prices are low or declining, so as to be able to restrain subsequent tendencies to excessive prices. The present transition period, with its characteristic pressure of demand on supply of commodities, is far from opportune for launching the scheme. It would be obviously futile to start with relatively scarce commodities, as wheat, sugar, tin, and rubber are in mid-1946. Conceivably it might begin soon with a few commodities that are clearly in surplus, as wool and cotton are. But for wool, as we shall see, a simpler scheme has already been adopted; and cotton prices have been driven, mainly by American policies, far above any long-time equilibrium level which the buffer-stock scheme could hope to maintain. Indeed, the postwar price structure in the United States is notoriously artificial with respect to agricultural products that might be considered for inclusion.

The most auspicious time for inaugurating a buffer-stock scheme would clearly be in the early stages of what threatened to be a major depression -- which is not on the horizon and may be difficult to recognize as such when it comes -- and after a new structure of world markets and prices has replaced the near-chaos that prevails in the aftermath of World War II. If the scheme is ever to be tried, it should be provisionally worked out in great detail, and international agreement reached on essential elements, well in advance of this future but as yet ~~indefinite~~ uncertain date. The definite choice of commodities and their specific prices might then be left for determination shortly before actual operations begin.

At the outset or later, how shall the basic or standard prices be determined? This is a baffling question. The League Delegation's suggestion of using a moving average of prices in the preceding 8-10 years is unworkable, and seems likely to remain so for some years at least. Since 1929, and especially since 1939, there has been no world structure of prices on the basis of which specific prices in specific markets could be selected as representative and averaged for so long a period to serve this purpose. For many reasons, the war wrought greater price distortions than the preceding depression, and the distortions are even greater in the first postwar year. Moreover, so uneven are the courses of technological progress, ocean freight rates, and national commodity policies that such price averages for 1922-29 would have been unsafe to apply in the 1930's. Adjustments in standard prices by a moving-average method would be too slow. What is needed is a reliable estimate of the long-term equilibrium price in the initial year, and later; but there is little basis for expecting the most competent experts to agree on such an estimate, and no basis for expecting it to be accepted if they did. Changing the standard price to correct for unfortunate errors and to adjust for changes wrought by new discoveries, developing technology, intercommodity competition, depletion of natural resources, etc., would be a delicate and difficult process; and failure to reach any decision would have serious consequences in terms of costs and threat of breakdown.

How determine the percentage spreads between buying and selling prices, and appropriate equivalents for different types and qualities of the several commodities in different locations? The International Wheat Council vainly wrestled with this problem, for wheat alone, for nearly two years before V-J Day. If its experts ever drafted a schedule, it was not accepted. The experience of the Canadian Wheat Board and the Federal Farm Board and ~~the~~ Commodity Credit Corporation in the United States have shown that price differentials for type, quality, and location normally vary considerably, and that fixed differentials often lead to unexpected and undesirable results. To an extent that few realize, what we call simply wheat, coffee, tea, wool, or cotton is not a homogeneous commodity but a complex of commodities differing greatly in value; what is called the "world price" is "not a point but a range"; and the "geographical structure" of prices is fluid, not static, even in the absence of important governmental interventions.

Most discussions of buffer stocks give the impression that the objective is price stability within rather narrow limits, say, ~~15-20~~ 90-110 per cent of a base price. Actually, the normal range of many prices of most commodities is even wider than the League Delegation's illustration of 80-120 per cent of a base price. This is especially true of commodities with two or more uses, only one of which commands a relatively high price -- as wheat for food. Under some conditions the natural outlet for excessive supplies is in a low-price use, e.g., wheat for livestock feed or industrial purposes. Considerable interregional variation in prices, which would occur even if prices in a representative world market were absolutely stable, facilitates flow from areas of abundance to areas of scarcity. Considerable variation in prices over time stimulates appropriate economizing in times of scarcity and storage in times of abundance. Considerable variation in price spreads for various types and grades promotes changing substitution of those relatively abundant for those relatively scarce, and also rational variations in absorption in low-price uses and in low-income areas. Even extremely low prices stimulate intensive search for low-price outlets and extremely high prices the search for and use of ~~for~~ substitutes. While extreme variations doubtless do more harm than good, ~~yet~~ there is an unfortunate disposition to regard normal fluctuations as excessive. The appropriate objective, it should be emphasized, is not "stabilizing prices" but moderating the degree of price instability.

Changes in standard prices, to avoid excessive accumulation or exhaustion of buffer stocks, would call for judgments based on ample evidence, not all of which could be accumulated. So would the size of a buffer stock that would be considered excessive, and therefore warranting reduction in basic and selling prices. Storage costs are far from negligible; many storable commodities are subject to more or less deterioration; and proper care of stored commodities would entail heavy responsibilities. So also would the location of stocks, considering not merely costs but also storage conditions, competing demands upon storage space, and eventual disposition from stocks.

Such technical problems as these might not be beyond solution, with experience, provided business management of the highest quality, free from political and other pressures, could be assured. But There is no present prospect that an international agency of such character and with such freedom can be set up and maintained. Especially difficult complications would arise where national policies concurrently involved domestic price maintenance and open or camouflaged export subsidies, such as have been common in the United States and several British Dominions. As the late Lord Keynes emphasized some years ago, any buffer-stock scheme would face impossible tasks if the policies of several nations were tending to perpetuate surplus conditions by any such variety of measures as were used in the prewar period.

One important assumption underlying the buffer-stock scheme seems unwarranted. Producers generally are not satisfied with "equilibrium prices." Typically they seek, by political means, to get higher prices; if successful, then still higher prices. By multifarious national problems, including elements which they dislike, farmers in many countries have succeeded in such efforts. That is, indeed, the principal cause of persistent or "chronic" surpluses, of which sugar presents the worst interwar example. The very phrase "price stabilization" has come to mean price raising whenever opportunity affords, and price supporting when declines threaten or occur. "Fair prices" typically mean levels well above prices that would keep supplies and consumption in equilibrium. "Parity prices," computed on politically determined formulas, are typically far above equilibrium levels, highly remunerative to producers of the great bulk of the output. Measures to restrict production are adopted in order to hold up prices and keep surpluses from rising to extremes. Dumping of surpluses abroad or into low-price uses, usually at government expense, is resorted to in order to get rid of the consequences of supporting domestic prices above equilibrium levels. "Stabilization purchases" are welcome, but sales are resented and resisted. The resistance is especially powerful where technological improvements (e.g., hybrid corn, mechanization of wheat production, new varieties of wheat and sugarcane) make for lower real costs of producing the commodity, at least in some important producing areas. There is a widespread disposition to maintain prices at former levels despite such cost reductions, and parity prices and price formulas are typically adjusted upwards.

Another basic weakness of the buffer-stock scheme is that it overstresses price and understresses income stability. By and large, producers as a group gain in year-to-year stability of income if prices are high when production is low, and vice versa. Though such compensatory action in their gross and net returns is imperfect, it is by no means negligible, especially in food crops. Statistics of a recent decade, for example, show that the annual values of Brazilian coffee exports have fluctuated within a comparatively narrow range, except in the years 1940 and 1944, despite very marked changes in coffee prices. Recently, the Brazilian government ~~has~~ met vigorous demands for higher returns in a short-crop period, in the face of the United States' unwillingness to raise coffee-price ceilings here, by giving growers a bonus in kind out of Brazilian government coffee stocks, which were still large.

At best, moreover, the buffer-stock plan does not promise enough to win strong support among politically powerful producers. Under the present circumstances, with many prices raised by wartime conditions and postwar demands to exceptionally high levels, peacetime equilibrium prices can easily appear "ruinously low." The scheme cannot assure unmistakable increase in net returns of producer groups from recent levels, and is unlikely to convince them that it would yield higher returns than they would otherwise get.[1]

It must be added that price support of certain primary products in a major depression, when the general price level is exceptionally depressed, introduces a special element of rigidity into the world economy, tending to hinder adaptations when they are most needed. The net results may be that such aid to some groups of producers indirectly injures large groups of other industries and workers, by delaying readjustment and recovery. If a buffer-stock plan were in operation under such conditions, irresistible pressures might be exerted to include many more commodities and to relax provisions relating to maximum stocks and minimum prices, with current disadvantages to other sectors of the economy, extreme accumulations in the buffer stock, and eventual collapse of the scheme.

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[1]Black and Tsou believe "that commodity agreements are not likely to be found acceptable and workable unless they unmistakably increase the net returns of producer groups in the contracting countries, and do this without long waiting." J. D. Black and S. S. Tsou, "International Commodity Arrangements," Quarterly Journal of Economics, August 1944, LVIII, 545-46.

Furthermore, a buffer-stock scheme of the scope and magnitude contemplated would be extremely difficult, if not impossible, to terminate without severe shock to the world economy. Experience under several national commodity controls has shown that the most depressed prices have followed eventual abandonment of a policy involving heavy accumulations of commodity stocks. Unsatisfactory trial of the broader scheme might likewise force its liquidation, and this alone might be sufficient to cause a major depression. Other ways out would of course be sought, but none of wide appeal has yet been found.

If applied to a considerable number of basic commodities, it must be emphasized, the buffer-stock plan would involve not only enormous investments in commodities but also correspondingly tremendous concentration of power. If there were a world superstate, such an agency can be imagined part of its normal organization. In the present and prospective stage of international organization, it is hard to conceive that nations will be willing to go this far.

In short, whatever technical advantages an ideally operated buffer-stock scheme might have, there is no early prospect that it would be permitted a fair trial.[1] It seems particularly unpromising with agricultural products, such as wheat, cotton, and sugar, whose producers wield powerful political influence. In the near future, the time is not ripe to inaugurate a plan so huge and untested; and limited experimentation with the buffer-stock idea, under especially favorable conditions, is the most that can reasonably be expected.

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[1]Cf. Herbert Feis, The Sinews of Peace (New York, 1944), Chap. 31, esp. pp. 233-34. Oscar Zaglits, in a recent article ("International Price Control through Buffer Stocks," Journal of Farm Economics, June 1946, XXVIII, 413-33), disputes Feis' position; but his own lengthy argument does not impress me as supporting his own conclusions favorable to buffer-stock operations.

October 9, 1946

The Editor
New York Times
New York, N. Y.

Dear Sir:

Your editorial entitled "World Trade Expansion" (October 7, 1946) endorses all, except one, of the proposals for foreign economic policy prepared and recommended by the Twentieth Century Fund Committee on Foreign Economic Policy. The single exception is the recommendation that plans be developed for an International Buffer Stock Agency to operate in the world markets for raw materials. As Chairman of the Committee which formulated the recommendations, I have the impression that the Committee failed possibly to make its position clear with respect to buffer stocks, and that, had we done so, the Times might have endorsed its recommendation or, at the least, have reserved judgment.

The considerations underlying your adverse reaction are (1) that experience has shown that buffer stock agencies find it easy to buy commodities in redundant supply but difficult to sell these commodities when the economic situation turns, and (2) that in consequence commodity surpluses are accumulated which act as a threat to orderly markets. Had the Committee recommended a national agency to conduct buffer stock operations, or an international committee to coordinate the buffer stock operations of a series of national agencies, I for one would have agreed with your position. I believe that experience has demonstrated that purely national agencies, particularly those of democratic states, are particularly subject to influence by producer groups. I doubt personally whether the same conclusions hold for an international agency, such as the Committee recommends. If one analyses the balance of political forces that would play on an international agency, the danger would appear to be the reverse. Because of the composition of its management and also of the tenuous nature of its financing, an international agency would, if anything, be too hesitant in its

The Editor
"The New York Times"

October 9, 1946

operations. If it failed to perform as hoped by its sponsors, that failure would be registered, not in the accumulation of unwieldy surpluses over-hanging the markets, but in too small reserves, insufficient to dampen a boom. I doubt, consequently, that you are warranted in jumping to the conclusion that international buffer stock operations in commodities would lead inevitably to centrally administered control of production. That development is much more apt to be promoted by the commodity agreements now under discussion.

Obviously the manner in which the proposed agency would operate would depend on its specific powers and duties rather than on theoretical considerations. It is for this reason that the Committee endorsed the principle of an international buffer stock agency, and recommended that specific proposals for such an agency, capable of evaluation and criticism, be worked out.

The direction of international commodity policy in the post-war world has tremendous implications, direct and indirect. According to present indications that direction, because of the absence of more constructive proposals, will be the further development of international commodity agreements, despite their known dangers. Surely the *Times* will agree that the alternatives should be canvassed with care before the die is cast.

Very sincerely yours,

Winfield W. Riefler

operations. If it failed to perform as hoped by its sponsors, that failure would be registered, not in the accumulation of unwieldy surpluses over-hanging the markets, but in too small reserves, insufficient to dampen a boom. I doubt, consequently, that you are warranted in jumping to the conclusion that international buffer stock operations in commodities would lead inevitably to centrally administered control of production. That development is much more apt to be promoted by the commodity agreements now under discussion.

Obviously the manner in which the proposed agency would operate

In summary, your reaction appears to be adverse, not so much to ~~the principles~~ involved in the Committee's proposal, as to ~~possible operations~~ of the proposed agency which you feel would deviate ~~in fact~~ from those principles. The Committee also would have reacted ~~against~~ such deviations, but did not regard them either as inevitable or probable. ~~Obviously, whether they are so or not will~~ depend on ~~the~~ specific powers and duties conferred on the proposed agency rather than on theoretical considerations. It is for this reason that the Committee endorsed the principle of an international buffer stock agency, ~~in contrast to the conclusion of international commodity agreements~~, and recommended "that specific proposals for such an agency, capable of evaluation and criticism, be worked out."

The direction of international commodity policy in the post-war world has tremendous implications, direct and indirect. According to present indications that direction, because of the absence of more constructive proposals, will be the further development of international commodity agreements, despite their known dangers. Surely the Times will agree that the alternatives should be canvassed with care before the die is cast.

Very sincerely yours,

Winfield W. Riefler

Winfield W. Riefler

THE UNDER SECRETARY OF STATE
for Economic Affairs
WASHINGTON

October 24, 1946

Dear Win:

Thank you for your note of October 17 enclosing a copy of the Report of your Committee on Foreign Economic Relations. I am reading it carefully and with much interest. I appreciate your bringing it to my attention.

Sincerely yours,

Will.

W. L. Clayton
Under Secretary of State
for Economic Affairs

Mr. Winfield Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

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COPY

War Department
Plans & Operations Division
Washington 25, D. C.

5 December 1946

Mr. Winfield W. Riefler
The Institute for Advanced Study
School of Economics and Politics
Princeton, New Jersey

My dear Mr. Riefler:

I deeply appreciate the opportunity to read your preliminary draft of "The Problem of Reducing the Vulnerability to Atomic Bombs". Business has been quite pressing for the past few weeks so it was not until last night that I found the hours to sit down and read through the paper. My personal view is that it is sound, and that the thought contained therein can be very useful not only to professional people like myself who have planning to do in connection with the atomic bomb, but also to the thinking reading public. I am particularly interested in the paper from the standpoint of what we call "civil defense planning", for lack of a better term. This problem is now of great concern to us, although the War Department is not specifically charged with the responsibility for this phase of the national welfare.

As I read hurriedly through your paper, I made pencilled notes on the margin. On the chance that they may be of some interest to you, I have had them extracted simply as notes, which I have enclosed. If you read them, you will quickly see that certain of the questions raised in my mind in the early part of the work are in reality answered in the latter pages. The notes are not in the nature of suggested changes, but are offered as my quick personal reactions on reading particular paragraphs.

Colonel Parker, a member of my group, and I think that the following points might be worthy of your particular consideration:

a. There might be more emphasis in the early part of the paper on the time period you are considering. It was not quickly apparent to us that you were looking forward over a period of several decades, which is quite a different matter from the next five to fifteen years.

b. It is almost always true that these very broad problems turn out in the end to be "not black or white, but gray". Your first full paragraph on page 4 might be deserving of expansion to emphasize that the ineffective agreement, or the gradual deterioration of an agreement thought initially to be effective, are perhaps the most likely conditions under which hostilities might be initiated and are the most difficult conditions to handle. Also, in certain instances the text may create in the mind of the uninitiated reader an impression of certainty concerning the nature of atomic war and the tempo of destruction in such a war, a certainty which is not quite justified at this time. For instance, there is some question in my mind about the clear distinction drawn between munitions production and other types of production, and also the unqualified conclusions as to the total productive effort required in a non-atomic war as opposed to an atomic war.

c. As you note, the actual figures on atomic production capabilities of the U.S. and throughout the world are a secret of utmost importance. On the basis of pure reasoning, you can see that serious errors could be introduced into our thinking, particularly over the next five to fifteen years, if assumption is made that bombs on the order of several thousand will be available to any atomic belligerent. It might be worth-while to consider presenting Case A and Case B, Case A being your present treatment and Case B being on a basis of a more conservative published estimate, such as that which seems to have been evolved by a chap named Pincher in London the other day. That would give something of a bracket on the problem.

Neither Parker nor I have any constructive suggestion as to treatment of the problem. Your statement of the aims of national atomic policy seems fundamentally sound and the paper follows logically from the introduction thereof. I believe it should be attractive reading to a great many Americans. I am taking the liberty of circulating the paper among several of my people concerned with atomic energy matters. They may bring up some other points which might interest you. I would like, if possible, another copy of the manuscript for the specific purpose of passing it to our people studying civil defense. They have a tremendous problem, and your clear, compact treatment of the subject should be helpful.

My sincere thanks for giving us an opportunity to look at your work. I hope you don't mind the informality of the comment.

Sincerely,

(signed)

G. A. Lincoln
Brigadier General, GSC

This is written as an individual.

File Copy #1
Winfield W. Riefler
Princeton, N. J.

Men are Interdependent: The Urgency of World Wide Human Welfare

The Need for Stability of Employment

The general propositions before us this afternoon are four: (1) that men are interdependent; (2) that human welfare is the goal of social organization; (3) that this is a universal rather than a national goal; and (4) that the problems of human welfare are urgent. The occasion is a period appropriate for stocktaking on the part of a great institution of learning, and it is intended that we focus on the contribution which knowledge, understanding, and analysis can make to those social and economic problems that tend to bar the achievement of higher standards of welfare, world-wide. The time is the Spring of 1946.

In this year 1946, it is a task of no little difficulty to choose among the many urgencies of human need, all more or less interdependent, one theme for special emphasis. For such a theme must be sufficiently basic to merit detailed consideration in this gathering and the analysis which we bring to it must be sufficiently concrete to make that consideration profitable. Had this discussion taken place a decade earlier, in 1936, there would have been no comparable alternative to the specific theme to which this paper is in fact devoted. In 1936 there was general agreement on the overriding necessity of achieving those economic conditions, internally and internationally, that would promote a high and stable level of employment. Today this primacy is no longer so evident. The experience of the intervening years gives us a new awareness of broader, more basic patterns of human need, patterns which we had tended to forget. We now appreciate that no discussion of social and economic aspirations has relevance if it is divorced from political realities. The discussion this afternoon could, therefore, with equal justification have been directed to the social and economic conditions of peace. During the past few months a third and even more basic issue has risen to claim primacy among urgent problems of human need. I refer to the emerging spectre of famine over large areas of the world. For the immediate future this problem is the most pressing of all. It comes in two forms -- in Europe as an aftermath of the destruction of the war, and in Asia as a result of a drought. Let us hope that we now rise to the emergency and do all that we can to avert the catastrophe that impends. We must acknowledge that we have been guilty of over-otpimism in our management of our food resources, that we were over-impressed with the size of our surpluses. In the case of Europe, a successful program of economic reconstruction will go far to assure that this problem does not recur. In overpopulated India and China, in fact in all those parts of the world that are overpopulated in relation to their resources, the recurrent appearance of famine may long continue the most urgent problem of human need.

We carry a heavy responsibility in the United States in the case of all of these problems. After much hesitation and bitter experience, we now acknowledge that our active participation is essential to the maintenance of peace. We know also that our contribution is crucial to the alleviation of famine. In a very unique sense, however, the achievement of stability of employment is our special responsibility. It is for this reason that I propose to concentrate this afternoon on international aspects of the problem of employment, not because the problem overshadows in urgency the problem of peace, or the alleviation of famine, but because its solution lies more completely in our hands. The United States, more than any other country, has been responsible, to a considerable extent unwittingly, for instability of employment in large portions of the world. This is due first to the magnitude of our economy and second to the sudden spurts that have always typified our economic behavior. The sheer volume of American industrial production comprises over half of world production. It constitutes an even larger component of the aggregate production of the highly industrialized countries of the world, particularly of those countries whose economic relationships are intimately interdependent. A tradition of instability is coupled with this size. The American economy is highly dynamic. The world has just witnessed, in the level of war output that we achieved, its astounding capacity for expansion. Unfortunately, it has recurrently demonstrated an almost equal ability to contract. There is considerable evidence to indicate that all of the recent depressions -- 1921, 1924, 1929 and 1937 -- originated within the United States. There is no question whatever that they received their great impetus here.

Given this situation, the effects of booms and depressions originating within the United States are not confined to this country. They exert a disproportionate impact upon the level of employment abroad. To a very considerable degree the economic well-being of many countries depends, not primarily on conditions within their own control, but upon the state of economic activity within the United States. To a very considerable degree the economic policies of the United States, particularly those policies that impinge upon our foreign economic relationships, determine the economic health of many foreign peoples. They also affect, in consequence, their internal social structure, and their ability to contribute to the maintenance of a durable peace.

We cannot afford to ignore the implications of this situation. We, in the United States, will be responsible in a very peculiar sense for the state of economic activity of many important areas of the world during the postwar years. The maintenance of a high and stable level of employment within this country, together with the establishment of fair and open relationships in our trade with other countries, will go far to assure an expanding world economy with rising standards of consumption. It will facilitate a successful reconstruction after the ravages of war and will help re-create abroad an atmosphere of room, of hope, and of progress. All of these goals, however, will be jeopardized by a recurrence of the pattern of boom and depression that has been typical of this country throughout its history. The economy of the world, currently and in its immediate prospects, is encumbered too heavily by the losses incurred in the war to withstand easily the shock of another serious depression. It is for this reason that so many observers both here and abroad have come to the conclusion that the maintenance of economic stability at a high level of activity within the United States is one of the major contributions which we can make to a durable peace.

The desirability of this goal is not open to question. It is one to which we give full allegiance, in our own self-interest, without reference to its international implications. Our problem is not that we fail to appreciate the blessings of prosperity, but that we fail to agree on the means by which it can be achieved and maintained. The debate on that issue has dominated much of our political life for the past generation. It is a debate that has not yet been concluded.

It would not be relevant on this occasion to enter into the merits of that controversy. It is relevant, on the other hand, to inquire into its practical outcome. What, in fact, are the current prospects for stability of employment at a high level within the United States? As we survey the prospect for human welfare, world-wide, are we in a position to assume a progressive healing in the economic position abroad, or should we take into account the possibility of sudden reversals in that position? What are the current prospects for continued instability here, instability which no one wills, but which eventuates against our will? It is the thesis of this paper that we must admit the possibility of the latter outcome and that we must prepare now, concretely and specifically, to mitigate its international repercussions. In our interdependent world, such preparations will, of course, contribute also to our own stability.

Up to very recently, it was the opinion of many competent observers that this country had learned enough from the experience of the Great Depression, and from the trials and errors of the many expedients that were then adopted, to justify a considerable degree of optimism. It was hoped that the succeeding crises of boom and depression would not continue to characterize the American economy or at least would be very considerably diminished in their effects. Today that confidence is weakening. The events of the past year, as we have struggled one by one with the problems of reconversion, have made it quite plain that the underlying structure of the American economy, in all its diversity, with its strong group and sectional motivations, is still conducive to instability. The record of our public authorities in Washington, as they have tried to guide reconversion, has made it quite clear that our political system, with its accentuated response to varied pressures, is not sufficiently integrated to permit a firm formulation and a smooth execution of contracyclical economic policies so conceived and timed as to guarantee stability in fact. In the light of the present outlook, consequently, we must be prepared to face an economic future still characterized to some extent at least by continuing crises and by a certain degree of instability. This does not mean that we must expect a repetition of collapse such as occurred in the Great Depression. It does indicate that we have not solved the problem of avoiding more typical crises such as those that preceded the collapse of 1929.

What does this prospect imply for future world stability? Will our allies and customers have recovered sufficiently in the reconstruction of their societies to withstand the impact of a typical American contraction without dangerous repercussions socially, economically, politically? While it is impossible to answer this question, most responsible observers would greatly prefer to avoid the test. It is incumbent upon us, consequently, to examine the situation to see what may yet be done to lessen the foreign the succeeding crises of boom and depression would not continue to characterize the American economy or at least would be very considerably diminished in their effects. Today that confidence is weakening. The events of the past year, as we have struggled one by one with the problems of reconversion, have made it quite plain that the underlying structure of the American economy, in all its diversity, with its strong group and sectional motivations, is still conducive to instability. The record of our public authorities in Washington, as they have tried to guide reconversion, has made it quite clear that our political system, with its accentuated response to varied pressures, is not sufficiently integrated to permit a firm formulation and a smooth execution of contracyclical economic policies so conceived and timed as to guarantee stability in fact. In the light of the present outlook, consequently, we must be prepared to face an economic future still characterized to some extent at least by continuing crises and by a certain degree of instability. This does not mean that we must expect a repetition of collapse such as occurred in the Great Depression. It does indicate that we have not solved the problem of avoiding more typical crises such as those that preceded the collapse of 1929.

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It would be idle in this examination to concentrate attention upon the specific issues of current policy within the United States which give us severally our occasion for apprehension. It is the essence of the problem that these varied issues will probably not be settled in accordance with any comprehensive pattern adequate to achieve stability and that the motivations of the various segments of our economic and political structure tend to prevent such an outcome. In view of this situation, which will not be quickly changed, it is the path of wisdom to examine the practical problem that is posed. From the point of view of world economic reconstruction, can we isolate individual sectors in our economy through which the forces of economic instability, originating within the United States, impinge upon foreign countries? Can we devise international institutions, consistent with our economic and social structure, that will operate constructively at those points of impact to mitigate their effects?

There is a considerable volume of knowledge that we can bring to the analysis of this problem. The magnitude of the various forces through which instability is transmitted abroad can be measured in data covering the balance of payments, a field of economic inquiry in which this country is well advanced. We are in a position, consequently, through reliance on these data, to isolate the major factors that have hitherto been dominant in the transmission of instability abroad. They are three in number: first, the sudden, large and frequently overwhelming strains that have been imposed on the international mechanism of the foreign exchanges by the phenomenon known as capital flight; second, the great variability that has characterized our exports of productive capital; and third, the sharp fluctuations which have typically characterized our imports of prime commodities and raw materials. An examination of the balance of payments data uncovers other factors of instability that were also present, but they were far overshadowed in importance by the three here noted. If it is our purpose, consequently, by means of forethought and anticipation, to take measures to mitigate the impact of our fluctuations upon the world's economy; we would do well to concentrate upon these three.

Let us take them up in turn, sketch briefly the nature of the problem each presents, and indicate the prospect for relieving the danger which each holds for world stability. The problem of capital flight was particularly acute during the interwar period. The delicate organism of the foreign exchanges was recurrently subject to sudden movements of capital from country to country, movements that were frequently larger in volume than the balance of trade. They were not made to finance productive investment, but found their motivation in a speculative opportunity or in the desire to avoid loss, or in the fear of confiscation.

It is good to know that adequate forethought has been devoted to the future mitigation or elimination of this cause of instability. Full consideration was given to this problem when the organic charter of the new International Monetary Fund was developed at Bretton Woods. The Monetary Fund is specially charged with powers to arrest the flight of capital and to offset some of its effects. It is also responsible for operating to prevent the recurrence of international monetary crises. Whether it succeeds or not will depend, of course, on the wisdom which it brings to the management of its affairs. Full and adequate forethought has, however, been applied to this major factor of international economic instability and a new specialized international institution has been established to deal with it.

A second major factor in the international spread of depression from the United States has been the wide fluctuations from year to year that have occurred in the outflow of productive capital from this country. The crucial importance of investment to the level of employment, and of stability in the flow of investment to stability of employment is now generally recognized. Most of the proposals for the achievement of a more stable economic system for this country, e.g., the concentration of public works in periods of unemployment, are designed to offset the instability that is characteristic of our internal investment. This typical instability is accentuated in the case of our productive investment activities abroad. It is mainly in periods of expanding business and active employment that potential foreign borrowers find an occasion to come to this country for productive investment funds to supplement their own, say, in the enlargement of their port facilities, or in the expansion of their transportation. When the current rate of operations abroad falls off, these potential borrowers have less immediate occasion for expansion and are better able to meet such needs as they do have out of their internal capital. It is the nature of foreign capital investment, consequently, to fluctuate directly with changes in business prospects and thus to accentuate those changes. We can all recall the story of our enormous foreign lending in the period preceding 1929, and the sharp contraction in that lending at the very outset of the depression.

Unless we take appropriate measures, the current prospect is that these sharp fluctuations in the rate of our foreign lending will continue to recur on much the same pattern as in the past. Because of our great industrial capacity and our huge volume of savings, the United States is now looked to as the normal source of new capital by foreign countries. It is in fact the only source with the capacity to provide capital in magnitude. The achievement, in fact, of an expanding dynamic postwar world, with high levels of employment and rising standards of consumption, will depend in no small part on the availability of capital and industrial "know how" in this country. There is now the expectation that this capital will be forthcoming. There is little in the prospect to indicate that it will not again, as in the past, tend to be concentrated in years of expanding activity, and that it will not again tend to dry up in periods of depression.

As far as this particular factor of instability is concerned, it would not be difficult to initiate new measures that might mitigate its effects. It has been suggested, for example, that the new International Bank for Reconstruction and Development should consciously adopt contracyclical policies in its operations. The International Bank will control the timing of vast loans. Because it will raise most of its funds in this country, it will also affect the rate at which American capital will flow abroad. Many of its operations will be designed to introduce or supplement long-term developmental programs in under-developed countries. Given these conditions, the new Bank will be in a position to assume the same responsibility for the timing of these long-term foreign developmental programs as public works administrators are urged to assume in the case of domestic public works. The new Bank, for example, could operate at a reduced rate during periods of high economic activity and could subsequently accelerate its operations sharply during periods of slump.

It is important to note that the new Bank for Reconstruction and Development was not established with this mandate clearly in mind. It was instituted to participate actively in the process of postwar reconstruction as well as in that of international development. It would require, consequently, a specific directive before it could undertake to fit these activities into a more comprehensive program designed to stabilize the total volume of capital outflow from this country. If such a new directive is not forthcoming, there is some danger that it may expand its early operations too rapidly and thus tend to accentate rather than alleviate instability.

Finally we come to the problem of fluctuations in American imports of raw materials with their devastating repercussions upon world markets. The American economy has evolved, behind its tariff structure, to the point where a preponderance of our imports consists of crude foodstuffs and raw materials, of which few are importantly competitive with our internal production. When our economy is active, that is, in periods of high employment, we import these materials in great volume to supply the needs of our productive mechanism. Because American demand is such a large component in world demand, these imports are not only large in volume but are also valued at prices that are favorable to the producer. When economic activity turns downward in the United States, imports of raw materials are among the first to feel the cut. The money value of these imports, the dollar exchange which they make available to our customers drops even more drastically. There are many separate forces that converge to produce this result. First of all there is a decline in our basic industrial requirements for raw materials. Second, the impact of this decline on the producer is accentuated by the inventory structure of our economy which at the onset of depression permits both consumer and industrial demand to be met out of accumulated stocks. Finally, the effect on the producer of fluctuations in these two elements is further accentuated by a drastic fall in prices.

Such declines in the volume of demand and in prices, frequently simultaneous in their occurrence, produce major crises for raw material producing countries that are highly specialized in the export of prime commodities. They are faced with a complete reversal in their export position. Instead of selling their produce to the world in large volume at high prices, they must adjust suddenly to a position of low demand at very low prices. They enter a period of serious maladjustment in their balance of payments, and are forced to cut their imports drastically, thereby spreading unemployment and depression to other countries.

We ourselves produce many raw materials in this country, and our own producers of wheat, of corn, of cotton, of metals are painfully aware of the operation of the forces that underly this sequence of events. It has frequently brought our producers to the verge of ruin. We are not nearly so aware of how much more drastically these forces operate in the area of international trade. The trade of the world is not as diversified as is usually imagined. Fully sixty percent of its total volume consists of prime commodities or raw materials. The prices of these commodities are made in world markets. They typically fluctuate over a very wide range from prosperity to depression. Foreign countries that have specialized in the production of raw materials, furthermore do not have the buffers that we posses. They lack comparable reserves of purchasing power, they are more heavily indebted and have large recurrent fixed charges to meet in their balance of payments. They are much less diversified. Imagine what it meant to Australia when the physical volume of our imports of wool fell by one-third from 1923 to 1924, by two-fifths from 1929 to 1930 (and much more by 1933), by two-thirds from 1936 to 1937. The value, of course, fell much more. Imagine what it meant to Brazil to have the price of coffee fall by one-half between June 1937 and April 1938 or to Indonesia when the price of rubber fell by three-fifths in the year beginning March 1937.

The impact of instability in the international markets for raw materials upon world stability merits the closest analysis. Unless we initiate prompt steps to intervene in order to mitigate its effects, there is every prospect that this major factor in the international spread of depression will continue to operate in the future much as it has in the past. The capacity of the American productive mechanism has expanded greatly during the war so that its high level requirements for foreign supplies of raw materials will be increased as compared with prewar. There has been no particular change in the basic relationships covering the marketing of these materials, and, once war controls are relaxed, there is every prospect that they will behave in much the same fashion as before. In the absence of appropriate counter measures, we must expect the world commodity markets again to act to magnify and accentuate internationally the impact of fluctuations in economic activity originating in the United States.

This completes the review of the three major sectors where we in the United States might operate most effectively to mitigate the repercussions abroad of the instability that has long characterized our internal economy.

Let us recapitulate to see how the argument stands. In the case of one major factor of international economic instability, namely the devastating consequences of capital flight, a new and adequate international institution has been established, charged specifically with responsibility to prevent a recurrence of the problem. In the case of the second, a new international institution, the International Bank for Reconstruction and Development, fully adequate to deal with the problem, has been organized. It will be technically in a position to mitigate fluctuations in the rate of investment outflow from the United States. The new institution has not, however, been charged with specific responsibility to deal with this problem, and, in view of its other responsibilities, it is not likely to deal with it adequately unless it is so charged. Finally, little or no preparation has been made to design an international institution capable of operating in the most urgent sector of the defences against international economic instability. Nothing has been done to mitigate the effect of economic fluctuations in the United States on the world export markets for prime commodities and raw materials.

Were our public and that of other members of the United Nations sufficiently aware of the urgency represented by the latter two of these three interrelated economic problems of stability, first to incorporate adequate amendments into the instructions of the new International Bank, and second, to institute at once a search for a third international institution comparable to the Fund and the Bank to mitigate the effect of instability in export markets for raw materials, we could have more confidence in the economic prospect abroad, and in the support which that prospect would provide for world recovery.

The greatest danger in the situation is the complete absence of any definite program for the establishment of an international institution to operate as a stabilizing force in the export markets for raw materials. The program is missing because no one is in a position to speak authoritatively on the subject today. This critical sector in the transmission of instability has tended to be neglected by our scholars, by our specialists, and by our public administrators. There have been suggestions at various times and from various quarters that an international agency be instituted to conduct buffer stock operations in raw materials. There have been more concrete suggestions for the reintroduction of international commodity control arrangements. In the case of neither of these suggestions has the specific analysis been carried to the point where we can judge authoritatively whether they are truly relevant and whether they are adequate in fact to mitigate this major basic factor of instability. In view of the importance of the problem, it is difficult to account for this neglect. We saw once, prior to 1933, how a collapse in the economy of the United States initiated a sequence of events that culminated in the ascendancy of Adolf Hitler. Surely, measures adequate to prevent such repercussions are among the most urgent problems of human welfare of our time.

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