

Action by Governments to Stabilise Primary Commodity Prices

An article published some time ago in the International Labour Review drew attention to the adverse effects of fluctuations in basic commodity prices on the economies of producing countries.¹ This problem may be tackled through price stabilisation measures taken either internally by individual producing countries or, on an international basis, through agreements between producer and consumer countries. The following article deals only with measures taken at the national level, including both their social and economic objectives and the practical methods for achieving them. Throughout the study, long-term and short-term aspects are kept separate. The article concludes by describing as examples the measures taken to stabilise cocoa and coffee prices in Cameroun, and cotton prices in Chad.

ATTENTION has frequently been drawn to the adverse effects of fluctuations in the prices of agricultural and mineral raw materials. Price fluctuations in these commodities cause violent rises or falls in the standard of living of the people dependent on their production, and these ups and downs prevent orderly economic and social development, especially as they usually affect economies characterised by a chronically low standard of living. Countries whose economy is mainly dependent on the production of primary products are in fact often the underdeveloped countries, and the instability of world markets involves them in cycles of inflation and deflation which threaten the stability of their currency as well as their public finances and their balance of payments. This makes it extremely difficult for them to carry out their development programmes, however conservatively planned, since capital investment projects can be jeopardised by a fall of revenue, especially in foreign currency. The facts of the matter are well known. It will suffice to recall, as an example, that the fall in the prices of primary products between mid-1957 and mid-1958 caused the export income of underdeveloped countries to drop by 7 to 8 per cent.—a drop which, combined with a small but continuous rise in the

¹ See "Repercussions of Commodity Price Fluctuations on Primary Producing Countries", in *International Labour Review*, Vol. LXXIX, No. 6, June 1959, pp. 567-596.

prices of industrial commodities, resulted in a decline in these countries' import capacity totalling six times the amount of the loans extended to them by the International Bank for Reconstruction and Development in the year 1956/57.¹

Naturally, in these circumstances great efforts have been made to try to ensure greater stability in commodity prices, both by governments and at the international level. The purpose of this article is limited to studying some of the steps which can be taken at the national level. First of all, an attempt will be made to define more precisely the objectives at which such measures might aim.

AIMS OF NATIONAL PRICE STABILISATION POLICIES

Since greater price stability is the fundamental aim in dealing with the problem of primary commodities, it would appear that it is essentially a short-term objective, to be achieved by "ironing out" sharp fluctuations in the market for primary products, without taking into account long-term trends in the expansion or contraction of demand for specific commodities. In other words, without interfering with "natural" long-term developments, the aim is merely to prevent violent and harmful fluctuations which could only disorganise production and deprive the producers of the fruits of their labour. But, even while recognising the short-term character of this objective, we shall show in due course that long-term factors cannot be ignored altogether in formulating stabilisation policies.

The Short-Term Aspect

The Prime Importance of Social Factors.

It seems clear that, on a short-term basis, social factors can be put in the forefront of those which affect the making of national stabilisation policies. The social objectives of these policies are obvious²: in view of the fluctuations in world prices for primary products, action by the State becomes "an act of social justice"³ aimed at guaranteeing the small producer a minimum reward for his work and, similarly, in the case of wage earners, continuity of employment so as to provide job security for those most directly threatened.

¹ United Nations: *World Economic Survey, 1958* (New York, 1959), p. 7.

² See in particular L. BOURCIER DE CARBON: "Les données d'une politique de soutien des cours des produits d'outre-mer dans les territoires producteurs", in *Marchés coloniaux du monde* (Paris), Nos. 527 and 528, 17 and 24 Dec. 1955.

³ *Ibid.*, p. 3409.

This social aspect is much more important in the production of agricultural raw materials than in the exploitation of mineral resources. While the former is generally carried out by many small producers whose income and standard of living depend entirely on the price level and who have no means of countering its fluctuations, the production of minerals is usually concentrated in the hands of large companies which are often themselves in a position to devise an adequate policy to iron out fluctuations in advance. The problem is especially acute for agricultural producers in underdeveloped countries "who have only just reached the stage of a market economy and who, unable to understand the peculiar structure of markets and the reasons for their ups and downs, may weary of an effort which does not give them a sufficiently regular or rising income".¹

Viewed in this light, it is indeed the income of the producer which it is important to stabilise, rather than the price of the product. This implies taking account not only of changes in the prices of the commodities concerned, but also of yields, as well as of fortuitous circumstances, such as climatic conditions or epidemics which may affect the amount produced; this naturally applies especially to agricultural commodities, which are directly affected by natural hazards. It would indeed be necessary to take internal commodity price changes into account in trying to stabilise real income. How difficult it would be to devise a policy of price support which would do full justice to all of these factors—and, even more so, to put such a policy into effect—can be seen readily.

This is undoubtedly why, even when social objectives remain paramount, the less ambitious goal of simply stabilising prices is usually preferred. In a rough and ready way, and provided yields do not themselves vary widely, the comparative stability in the price of a commodity can be regarded at least as a significant factor reducing the ups and downs in the producers' income. Thus the stabilisation of prices and that of income are often considered synonymous.

It must, however, be admitted that this is an approximation which is far from being necessarily borne out by the facts. It has in fact been argued that price variation caused by changes in supply actually helps to stabilise the income of primary producers, and that its elimination would make their income less stable. When the harvest is bad generally, the fall in supply can be expected to cause a realignment of prices which will, to some extent, offset the loss of income which farmers will suffer from the

¹ "Considérations sur la régularisation des prix agricoles", in *Bulletin de la Banque centrale du Congo belge et du Ruanda-Urundi* (Brussels and Leopoldville), No. 2, Feb. 1956, p. 56.

smaller crop sold.¹ The opposite occurs when there is an abundant harvest. Therefore, on these assumptions, stabilisation of prices ends up by defeating the ordinary mechanism which regulates income. This is not a mere figment of the imagination : it has been pointed out that a few years ago, in the Gold Coast, the price policy pursued by the Cocoa Marketing Board actually led to a "de-stabilisation" of the primary producers' incomes : it not only kept these at a much lower level than they would have reached in a free market, but between 1947 and 1951 it caused them to fluctuate much more sharply than would have occurred if the product had simply been marketed at world prices.²

Economic Factors.

In the case just mentioned, it may be assumed that, apart from short-term social considerations, the authorities concerned were influenced by economic factors, and in particular by a desire to accumulate a surplus in the hands of the Marketing Board.³ Thus social objectives gave way, for the time being at least, to economic considerations.

It has of course been argued⁴ that the elimination of short-term fluctuations ought logically to be the sole aim of stabilisation policies, and that every step intended to accumulate surpluses for the purpose of investment, which really means compelling the primary producers to save, springs from an entirely different perspective. Therefore—so the argument runs—this goal should be sought by policies and means of a different kind and should not be confused with the limited objective of merely ironing out the cycle.

While such an argument may, at first sight, seem logical and well founded, it has to be recognised that even the least ambitious stabilisation scheme has to take economic factors into account. The social and economic spheres are, in substance, closely related both in their objectives and in the ways and means used to attain

¹ P. T. BAUER : *West African Trade* (Cambridge, University Press, 1954), p. 272.

² *Ibid.*, pp. 300 ff. It should be noted that this can only happen if the demand is stable and changes in national and world supply follow the same pattern : in that event the rise in world prices and the falling-off in a country's supply will take place simultaneously. This assumes either that the country concerned plays a major part in potential world production, or that production is largely confined to areas subject to the same meteorological and other hazards.

³ *Ibid.*, p. 300.

⁴ P. T. BAUER and F. W. PAISH : "Trade Fluctuations and Buffer Policies of Low-Income Countries : Comments", in *Kyklos* (Basle), Vol. XI, 1958, fascicle 2, p. 169.

them. It is clear that social welfare can only be achieved and maintained on solid and stable economic foundations which ensure some permanent degree of prosperity; and it is equally obvious that any system aiming at the stabilisation of prices can be a valuable instrument of economic policy, if only because it presupposes efficient machinery for regulating the market, and that the authorities will hesitate to give up such an instrument if it can help them to direct national development.

Thus, in the very nature of things, it becomes necessary to move on from short-term problems and consider those which arise in the medium and long term.

Medium- and Long-Term Aspects

The Prime Importance of Economic Factors.

From a long-term point of view it would seem that, in essence, the economic aspects are the more important. The problem, in effect, is twofold—on the one hand, to secure smooth development without alternating spells of inflation and deflation due to fluctuations in the income derived from the export of primary products; and, on the other, to shape the pattern of production in accordance with the long-term trends of world or international demand.

The smooth execution of a development programme is directly dependent on the stabilisation of markets and, in particular, on the regular availability over a long enough period of the foreign exchange needed for imports of capital equipment and goods essential to economic growth. If the resources at the economy's disposal are unstable, the plans being put into effect may be abruptly stopped and the efforts already made either come to nought or, at best, produce delayed results. Thus, for instance, in 1955 the Government of Malaya had to recast the development plan adopted in 1950, and, in particular, to curtail certain of its objectives. In such cases investments are likely to fall off both in the sphere of primary production, i.e. that most directly affected by price fluctuations, and in other spheres of business because of investors' fears that their plans will be frustrated by rapid and unpredictable changes in circumstances. Long-range economic projections become impossible, and the sense of continuity which is fundamental to all development plans can be destroyed.¹ Another factor, quite distinct from the need for resources to finance imports, is the extent to which manufacturing industry, as soon as it becomes a significant element in a country's economy, finds its prosperity linked with

¹ R. NURSKE: "Trade Fluctuations and Buffer Policies of Low-Income Countries", in *Kyklos*, op. cit., p. 143.

that of the agricultural sector. This is an additional reason why the income of the producers of primary agricultural products should not be subject to ups and downs : unless they can count on stable internal outlets, the national industries will often be unable to make sound long-term development plans. Thus the stabilisation of prices emerges as one of the " keys " to economic equilibrium on two grounds : first, the need for a dependable supply of foreign exchange and, secondly, the need for a stable domestic market.¹

Stabilisation of the markets for primary products thus helps to provide favourable conditions for the implementation of economic development programmes ; but it also affects the pattern of production and enables it to be adapted to foreseeable long-term trends. First of all, it can influence the production of the commodities themselves. Stabilisation means the elimination of erratic variations in the average price ; it does not necessarily imply that the average price should remain stationary, nor does it aim at the elimination of a long-term trend, upwards or downwards, which may have been overshadowed by uncontrolled fluctuations in demand. Therefore, to the extent to which stabilisation is in harmony with long-term price trends, it can provide a concealed incentive to producers to diversify their activities or to intensify them in any given sphere.

Moreover, when prevailing market prices are particularly high, the difference between these and the stabilised prices obtained by the producers can be usefully reinvested in the national economy, not only in the sector directly concerned—e.g. for the improvement of the product, or of marketing methods—but in the economy as a whole, e.g. capital construction projects or the development of technical training. Admittedly, such policies should not go to the extent of robbing the producers of their just gains, or of concentrating investments in fields where they would be of no benefit to those who, after all, made them possible.² The line, however, is rather difficult to draw in practice, especially as it can often be argued that any kind of aid to development ultimately benefits all producers, even if only in an indirect way.

Social Factors.

While the problem of healthy development of a nation's productive capacity is a primarily economic one, its social implications cannot be ignored.

¹ See L. BOURCIER DE CARBON, *op. cit.*, p. 3410.

² *Idem* : " Financement interne et financement externe des pays en voie de développement ", in *Revue de science financière* (Paris), No. 1, Jan. 1961, p. 89.

The future standard of living of the population depends on the success of economic development efforts ; and this is all the more so as the growth in population makes it necessary to provide for an increase, often on a considerable scale, in the amount of employment available. Policies for the stabilisation of commodity prices can, from this standpoint, play a dual role over the medium and long term.

First of all—and this is the most obvious and striking fact—they can, by making for a more stable internal economy, enable entrepreneurs to plan farther ahead and thus encourage the establishment of new enterprises in new fields ; individual initiative will be more likely to develop if the danger of accidental upsets is eliminated or greatly reduced, and if estimates of profitability and probable outlets are not proved wrong by sharp and sudden fluctuations in the value of the products on which the national income depends.

Further, and this is a very important factor in the case of a majority of developing countries, they can prevent the flight from the land—a movement far too prone, as it is, to occur spontaneously—from assuming catastrophic proportions, by guaranteeing a minimum livelihood to agricultural workers and giving them some grounds for faith in the future. They can thus help to slow down a movement towards urban concentration which, in many regions and notably in Africa, today causes anxiety¹ and results too often in the growth of miserable shanty towns afflicted by every conceivable social scourge.

In short, the various objectives of policies for stabilising the markets for primary products are complex, and their social and economic aspects are intertwined. Having reviewed these objectives briefly, some attention must now be given to the machinery for attaining them, and the problems which its operation involves. This will be done under two headings : firstly, some of the theoretical aspects of measures taken on the national level to stabilise the prices of primary products ; and secondly, some of the experience acquired in this sphere, which will be briefly described.

THEORETICAL ASPECTS OF STABILISATION MEASURES

The general principle is very simple. Stabilisation of prices or of income has to be achieved by setting off successive seasons against one another ; the surpluses of good years are set aside and redistributed to the producers when conditions are unfavourable. Thus, over the long term, the prices received by the producers would

¹ See L. BOURCIER DE CARBON : " Les données d'une politique de soutien des cours des produits d'outre-mer dans les territoires producteurs ", op. cit., p. 3410.

normally be the same as the world price and only differ from it through greater stability, being higher when the world price was low, and lower when it was high.

There are many different ways of achieving this in practice.¹ The different methods may, broadly speaking, be divided into three principal types, depending on whether they rely on commercial methods, fiscal methods, or adjusting the rate of exchange.

(a) A central trading organisation can be set up to guarantee a fixed price to national producers and be responsible for marketing of commodities abroad at the world price, either immediately or, if it has been empowered to hold stocks, later. The price paid to the producers must, of course, be fixed so that good and bad years offset each other. This is the system adopted by the marketing boards of the former British African territories and by some of the stabilisation funds of former French colonies in Africa.

(b) The same result can be achieved through taxes and subsidies. Usually this is done by means of levies on exports, or payments to exporters, established on the basis of the world price in such a way as to offset fluctuations in the latter. A system of this kind with a sliding scale of export duties has been successfully operated in the Federation of Malaya. Similar machinery is also used in Cameroun for the stabilisation of the price of cocoa.²

(c) A third method consists of setting up an exchange control organisation which varies the rate at which it buys foreign currency derived from exports. If the rate at which foreign currency is sold remains constant, and if the buying rate is set below that rate in a favourable period and raised above it in a period of depression, the organisation is able to make a profit in the first case which will be compensated by a redistribution to the producers in the other event. This method has been adopted in a certain number of Latin American countries, and in particular by Brazil, but also by other countries such as Turkey, Thailand and Indonesia.

These systems, where successful, all lead in the end to the same result ; they make internal prices or the income of the producers largely independent of fluctuations in international prices. But they also have another feature in common—the need for having funds in reserve to bring the income of the producers up to a “ normal ” level when world prices fall ; this presupposes either that reserves have been accumulated when prices are high or that the necessary resources can be found in the general budget of the State or through

¹ See, in particular, General Agreement on Tariffs and Trade : *Trends in International Trade* (Geneva, October 1958), p. 67, para. 197 ; and R. NURSKE : “ Trade Fluctuations and Buffer Policies of Low-Income Countries ”, *op. cit.*

² See below, pp. 228 ff., for a detailed description of this system.

foreign loans. However, the budget is often at that very time strained by the fall in export income and may not be able to carry new burdens ; and foreign loans necessarily remain problematical because they are dependent on the good will of foreign authorities or governments.

For this reason it is usually held that " the till must be filled before it is emptied " ¹, i.e. surplus revenue must be accumulated during favourable periods so that the necessary resources are available when prices fall. This, of course, represents a great weakness in systems based on an equalisation fund, since stabilisation measures must be initiated in a period of high prices, i.e. by a levy on producers' income at a time when they do not feel an immediate need for government action.

On the other hand, it is often argued that, for obvious political and psychological reasons, stockpiling for stabilisation purposes should start preferably while prices are low. It is true, of course, that the setting up of buffer stocks presupposes the existence of a commodity surplus, which usually has very low export prices as a concomitant. But even here, due preparation must be made during times of prosperity, when adequate resources can be set aside both to meet the costs of storage, which can be quite high, and to finance the actual setting up of the stockpile. Here again, it is necessary to begin by " filling the till ".

By and large, it may be said that commodity stocks, monetary equalisation funds or stabilisation funds are largely interchangeable. It should be noted, moreover, that they are often complementary ² ; stockpiling, for example, supplements the purely financial action of monetary or stabilisation funds whenever these are not immediately able to re-sell the commodities which they have purchased.

Stockpiling offers advantages from both the economic and the social point of view. Two arguments can be put forward in this connection :

(a) It is often said that stocks are useful in themselves as long as they do not exceed reasonable expectations as regards future sales. They have the effect of carrying forward surplus production against the day when current supply becomes insufficient to meet demand. It can, of course, be argued that this carry-forward would have taken place in any case, that the setting up of buffer stocks by producing countries does not necessarily increase the amount of stocks in the world, and that the amount produced would in

¹ L. BOURCIER DE CARBON : " Les données d'une politique de soutien des cours des produits d'outre-mer dans les territoires producteurs ", op. cit., p. 3411.

² R. NURSKE : " Trade Fluctuations and Buffer Policies of Low-Income Countries ", op. cit., p. 147.

any event have remained as stocks, whether in the hands of producers, national or foreign middlemen, or consumers. There are two answers to this objection. In the first place, stocks which accumulate with the middlemen and the consumers usually have an unsettling effect on the market.¹ They are largely speculative, and speculation tends to discount market trends in an exaggerated degree, both upwards and downwards. Secondly, if, owing to the absence of buffer stocks, prices tend to fall substantially, particularly at the production stage, it is probable that the amounts of the commodity which are carried forward will not be as large as they would otherwise have been. There are two reasons for this: first, storage costs, which are not related to the value of the product, will amount to a higher percentage of the latter; it will therefore be less profitable to hold stocks than would have been the case when the price of the commodity was higher. Secondly, if the price of the commodity is very low the producers will not take the trouble to harvest all that could have been produced; the point of diminishing returns is soon reached.²

(b) However, national buffer stocks serve another purpose: by maximising the proportion of the product which is carried over, they permit an increase in the national income. If the country concerned is such a major producer that withholding part of its supply can influence prices, it is clearly in a position to prevent a fall in the latter and to adjust the amounts of the commodity which it puts on the market from time to time, so as to obtain the maximum return over a long period. However, cases of this kind are no doubt exceptional. But even if the country is not in a position to influence prices by reducing its supply, the buffer stocks which it maintains will enable it to sell little when prices are low and to sell much more when they are high, thereby obtaining a better price for its total output, reckoned over a sufficiently long period.³ The one prerequisite for making a profit is easily defined: the positive difference between the price at the time when the commodity was stocked and the time when it is sold need only be greater than the costs of storage, plus the interest which the frozen capital represented by the stockpile could otherwise have earned.⁴

¹ R. NURSKE: "Trade Fluctuations and Buffer Policies of Low-Income Countries", loc. cit.

² See below, p. 221, for the effect of stabilisation measures on the behaviour of producers.

³ See G.A.T.T.: *Trends in International Trade*, op. cit., p. 70, para. 204.

⁴ If, however, interest rates are high, and reflect the actual return which could have been obtained on the capital through alternative uses, it is not certain that the setting up of stocks is the most "remunerative" way, from an economic standpoint, of using the capital available.

Thus, stabilisation machinery can provide effective support for the prices (or the return on exports) of primary commodities, and the setting up of buffer stocks can even increase the return to a higher level than would otherwise have been obtained. But even if this result is technically feasible, the actual operation of such schemes raises many difficult problems, both in the short term and over a longer period.

Short-Term Problems

The immediate object of stabilisation policies is above all a social one, as already indicated. Such policies, and the machinery for implementing them, must aim at maintaining the producers' income. The first problem, and a fundamental one, is therefore to ensure that it is in fact the producers and not the middlemen who benefit from price supports. This social aspect will be discussed first, before approaching the economic problems involved in short-term stabilisation policies.

The Social Problem : Assisting the Producer.

The effect of mere price-fixing measures, either at the export stage or at any of the later stages of commercial transactions on the national level, is bound to vary greatly in accordance with the social pattern in the country concerned. In many of the less developed countries, and especially in tropical Africa, the agricultural economy is based on a very large number of small enterprises.¹ The trade pattern in these countries, which reflects the dispersion of their population and inadequate means of communication and information, is such that the producer is in many ways exposed to the dominating influence of middlemen.² Thus the small native producers, who are at the mercy of a defective and monopolistic system of trade, may get no benefit at all from price supports in periods of depression because subsidies and bonuses are swallowed by the middlemen. On the other hand, a rise in prices can work to their disadvantage, since for them the resultant prosperity means essentially an inflationary rise in the price of consumers' goods.³ This is further aggravated by the fact that small producers, through lack of resources, are often obliged to get

¹ See M. Byé : " Trade Fluctuations and Buffer Policies of Low-Income Countries : Comments ", in *Kyklos*, op. cit., p. 182.

² L. BOURCIER DE CARBON : " Obstacles à la croissance et organisation des marchés en pays sous-développés ", in *Revue de science financière* (Paris), No. 3, July-Sep. 1958, p. 477.

³ M. Byé, op. cit.

deep into debt before the harvests: the only collateral they are in a position to offer is the harvest itself, and the result is the emergence of the highly undesirable system of the "merchant-lender", whereby the producers are compelled to sell their products through the lender at prices considerably below the official level.¹

The foregoing shows how difficult it is to bring the benefit of price supports to the primary producer. In pursuing this aim, a wide variety of methods can be used, all of them involving intervention by the authorities on a fairly considerable scale. It may be convenient to distinguish between five such methods.

(a) The least far-reaching is for the administration merely to publish the normal prices. However, this method is often inadequate because it does not provide the producers with any real means of marketing their commodities at the prices announced.

(b) Another method consists in the opening of pilot buying centres or pilot markets, aimed at ensuring that the published prices do not remain a dead letter. These pilot centres or markets, according to the theory, provide the producers with a reliable frame of reference, thus enabling them to resist the excessive demands of middlemen. It must, however, be admitted that they can have little real effect unless there are enough of them, located at a convenient distance from the producers. This is a very important condition, especially when the population is scattered and the means of communication and transport are primitive or uncertain. Moreover, there are psychological obstacles to be reckoned with; for instance, it was reported a few years ago in Gabon that pilot markets held at regular intervals were often empty: "No merchants, no motorised street traders and few producers. The latter expected buyers to come to them, rather than that they themselves should bring their produce to market."²

(c) Supervised markets represent a much more far-reaching step. Transactions, in principle, are only allowed at fixed places and on fixed days, and the markets have to be held under the eye of representatives of the authorities, who often check quality and weight and decide between the conflicting claims of suppliers and buyers. Such systems tend to require cumbersome machinery and are often criticised by both the buyers and the producers³, who

¹ See in particular J. C. ABBOTT: "The Role of Marketing in the Growth of Agricultural Production and Trade in Less Developed Countries", in *Monthly Bulletin of Agricultural Economics and Statistics* (Rome, F.A.O.), Vol. IX, No. 9, Sep. 1960.

² L. BOURCIER DE CARBON: "Obstacles à la croissance et organisation des marchés en pays sous-développés", *op. cit.*, p. 481.

³ *Ibid.*; see also P. T. BAUER: *West African Trade*, *op. cit.*, pp. 356-358.

complain of administrative interference, of lack of freedom in choosing the place and date of sales, or again of the quality controls to which the produce is subjected.

(d) Professional organisation of the middlemen themselves is often advocated; it can assume several forms. It has been suggested, for instance, that a system of tenders should be established, whereby merchants would from time to time state the amount of the commodities which they were willing to buy at a specified basic price and the bonus which they expected to receive in addition; the tenders would be given to the buyers who asked for the lowest bonuses. Under this system measures to protect the producers, such as public announcement of guaranteed prices, and audit of the middlemen's books, would, of course, have to be taken and enforced. Quite apart from this aspect, it has been argued that such a system would favour the big firms and would not prevent collusion among them.¹ It is also sometimes suggested that organisation of the profession should take the form of a compulsory reduction in the number of middlemen, the idea being that this would result in less wastage and lower marketing costs.² In actual fact, it seems doubtful that such favourable consequences would follow automatically from a decrease in the number of middlemen; indeed, such a reduction might well result in giving those merchants who were licensed a sort of privileged status, protecting them from competition and making it easier for them to reach price agreements or divide markets among themselves at the expense of the primary producers.³

(e) The setting up of buyers' monopolies can often be considered as a special form of compulsory organisation of middlemen on a professional basis. Its usual purpose is to avoid the disadvantages of a mere limitation in the number of merchants, by setting up monopolies which are comparatively easy to supervise, and by controlling their costs and limiting their profits. Under this system a single buyer, or a small group of buyers, has the task of buying up the entire crop in a given area. But even here it is generally very hard to assess the actual costs and profits of the middlemen. The enterprise concerned may be engaged in several lines of business, among which it may be very difficult to allocate costs and profits; or it may itself process the raw materials pur-

¹ See L. BOURCIER DE CARBON: "Les données d'une politique de soutien des cours des produits d'outre-mer dans les territoires producteurs", op. cit., p. 3473.

² See, for example, *Report of Nigerian Livestock Mission*, pp. 87-99, quoted by P. T. BAUER in *West African Trade*, op. cit., p. 350.

³ P. T. BAUER, op. cit., p. 350.

chased ¹, in which case it is difficult to separate commercial profits, normally subject to limitation, from manufacturing profits. One possible way out of the difficulties resulting from the conflict of interest between primary producers and buyers' monopolies might be to put government officials, or even representatives of the producers themselves, in charge of the monopolies. However, it seems more probable, on psychological grounds, that the administrators of monopolies, whoever their constituents might be, would end up by regarding the organisation which they were managing as an end in itself ², so that again there would be a need for supervisory machinery, with all the difficulties which such machinery involves.

Thus there are many possible approaches to the problem of bringing the advantages of price support to the primary producer, and it seems clear that the effectiveness of the various methods, at any rate in the short run, depends directly on the extent of state intervention in market operations which they entail. The first three methods described, which involve the least amount of interference, cannot succeed unless there is already some degree of market organisation, as reflected, for instance, in the existence of co-operatives, which enable producers to defend their interests collectively; of credit facilities, which free the peasants from the dominance of moneylenders and merchant-lenders; and of an efficient transport system. The development of such facilities will obviously take time in the less developed economies; moreover, it presupposes among the producers themselves an awareness of their own problems and a desire to take an active part towards ensuring the success of the assistance given them.

There is, of course, one method which is often applied in combination with price supports, and which provides a solution for most of these practical difficulties—namely, subsidies for producers based on the area of scheduled crops cultivated.³ This method cannot, however, be regarded as a factor in price stabilisation policy with respect to any given crop, since it consists of supplementing the producer's income by an amount unrelated to yield. In other words, it rewards him for his efforts, regardless of results. Moreover, it involves problems of supervision, albeit comparatively minor ones.

However essential it is that price support measures should actually benefit the producers themselves, care must be taken to

¹ For example, in the case of undertakings which have a monopoly on the buying of cotton, by ginning it and manufacturing oil and oil cake.

² See P. T. BAUER, *op. cit.*, p. 354.

³ For example, the subsidies for the sowing of cotton in African countries formerly under French administration. See below, pp. 230 and 232.

ensure that the methods used do not encourage economically unsound behaviour on the part of their beneficiaries ; at the very least, such negative results should be carefully weighed and taken into reckoning in any over-all assessment of the value of the contemplated measures.

The Economic Problem : Repercussions on the Behaviour of Producers.

At first sight it would seem that, from the point of view of incentives for producers, strong arguments could be made against the very principle of price stabilisation. Why levy taxes on primary producers at the very time when their goods can be profitably sold on the international market, thereby encouraging them to produce less and to export smaller quantities, while on the other hand subsidising them when conditions are bad, and thus encouraging them to produce more and increase the supply when the market is unfavourable ?¹

This argument, of course, is valid only under certain conditions. It depends on the elasticity of the supply of commodities in relation to their price. If the supply is inelastic, i.e. the amounts on the market remain the same regardless of price, it is quite clear that the argument is unsound. If, on the other hand, there is some elasticity, i.e. the amounts on the market depend on the price the producers obtain, a tax on commodities when prices are high will naturally tend to reduce the country's foreign currency earnings by comparison with what they might have been. In this case, the effect of stabilisation measures will be an unfavourable one.

But, conversely, when world prices fall, the maintenance of a high internal price level will provide an artificial stimulus for demand, thereby maintaining production and exports at a higher level than that which would have been achieved if the producers had been discouraged by a fall in their return : the gain in foreign exchange will thus be larger than if there had been no measures of stabilisation.

It is impossible to say *a priori* which of these two effects outweighs the other, and whether the advantages which the system offers during a slump justify the loss sustained when prices are high. The answer will depend essentially on the elasticity of supply at different price levels.

Thus, there is no set answer to the question whether stabilisation methods are likely to induce the kind of behaviour on the part of producers which can adversely affect foreign exchange earnings

¹ See R. NURSKE : " Trade Fluctuations and Buffer Policies of Low-Income Countries ", op. cit., pp. 148 ff.

over the short term. The answer will vary with the country or commodity concerned. However, it is often admitted that the supply of most primary products is comparatively inelastic¹, especially over the short term, and that in some cases elasticity may actually be nil. If this is so, it is obvious that stabilisation measures cannot be held responsible for any adverse effects on foreign currency earnings.

However that may be, such measures influence the producers' attitude favourably in at least one way. By forestalling price fluctuations, they help to maintain a steady flow of production, thereby contributing to reduce costs. This reduction can come about in many ways²: in the case of annual crops, for instance, it can result from the use of more suitable equipment, or better preparation of the soil, since the farmer knows that his work will pay off; in perennial cultivation, it can be achieved by more prompt replacement of old trees with a falling yield, or by the introduction of new strains. In short, the stabilisation of domestic prices, with the guaranteed return which it ensures, enables the producer to organise his daily activities on a long-term basis.

Problems over the Medium and Long Term

From a long-range point of view, price stabilisation often involves an intrinsic and unintended risk, namely that normal evolutionary trends may be slowed down by an unduly rigid price structure. It can thus interfere with the normal mechanism by which prices govern the production pattern, and tend to perpetuate artificial situations bearing no relation to actual supply and demand.³

This disadvantage can, however, be overcome. It has already been pointed out⁴ that the stabilisation of prices does not necessarily mean that the rate of production remains constant. It is certainly desirable to eliminate erratic changes in world market prices, but long-term trends which reflect permanent changes in the pattern of world supply and demand should not be interfered with. It is, of course, difficult at any given moment to distinguish purely cyclical fluctuations, which can and should be eliminated, from genuine long-term trends.⁵ Fortunately, a number of sub-

¹ See J. H. ADLER: "Comments on Professor Nurkse's Paper", in *Kyklos*, op. cit., pp. 155-168.

² Ibid., pp. 158-159.

³ See P. T. BAUER: *West African Trade*, op. cit., p. 274, and L. BOURCIER DE CARBON: "Obstacles à la croissance et organisation des marchés en pays sous-développés", op. cit., p. 479.

⁴ See above, p. 212.

⁵ See P. T. BAUER and F. W. PAISH: "The Reduction of Fluctuations in the Income of Primary Producers Further Reconsidered", in *The Economic Journal* (London), Dec. 1954, pp. 704 ff.

sidiary measures can be taken to strengthen, supplement or correct the activities of the stabilisation machinery. These can be combined with measures of stabilisation proper, so as to promote the necessary adjustments to changes in the pattern of demand and costs. Such measures are of three principal kinds.

(1) In the first place producers can be encouraged to improve the quality of their goods in order to strengthen their position in an increasingly competitive world market. This, indeed, is often indispensable, since a producer who knows that in any case he will be guaranteed a minimum price for his crop, so long as it is just saleable, may feel disinclined to make any effort to improve the quality of his product. One form of incentive consists in the payment of price differentials or quality premiums in addition to the basic price, whenever the commodities offered meet certain standards. Such schemes have been adopted in many countries, e.g. Nigeria (for cocoa and palm oil) and Cameroun (for cocoa). Abuses, however, can occur, e.g. in the grading of commodities, when the inspectors assigned to the job are not sufficiently honest.¹

(2) Quite apart from incentives such as premiums or price differentials, the resources derived from levies or taxes can be used to finance activities aimed directly at improving production methods. These include, for example, scientific research aimed at improving crop quality and yields, and the promotion of modern techniques through the distribution of tools and equipment, seeds, better strains and suitable fertilisers direct to the producer. These methods are fairly widely used: scientific research, for instance, has been subsidised on a considerable scale by the marketing boards of the former British territories, and another example is the price stabilisation scheme for groundnuts in Chad, under which producers have received, among other things, free tools, selected seeds and equipment for shelling the nuts. These examples could be multiplied. One feature common to all of them, and indeed to every case in which expenditure for the benefit of the producers has been financed by levies on their sales², is that the operation can be considered as a forced saving, which imposes on the producers a compulsory investment which they themselves finance. It may be added that the funds are not necessarily reinvested within the sector from which they originally came (even though that sector does benefit from the investment); they may be invested outside it, and even outside the country, e.g. for the development of outlets.

¹ The danger of fraud may exist even where the honesty of the inspection department is above suspicion (see below, p. 227).

² In some cases, the agencies concerned can manage to finance these operations through foreign loans.

Thus expenditure on publicity, with a view to stimulating consumption, is frequently incurred abroad by the coffee-producing countries and is financed by their stabilisation boards or funds. Again, in Nigeria some years ago the marketing boards for cocoa and cotton decided to finance a local sack-making factory, a project in which they both had a direct interest. This, of course, was an investment in the strictest sense.

(3) Going a step further, if there are grounds for believing that the prospects of a particular sector are unfavourable, or less favourable than those of other sectors, part of the duties levied can be used for reconversion of the economy or development of the more promising sectors. This again amounts to a form of compulsory saving, imposed on producers in the general interest rather than in their own specific long-term interest. The question remains, of course, to what extent, assuming the comparative viability of investment in the different sectors of the economy has been assessed, this method is fair and whether it does not place too heavy a burden on those who provide the funds. It is obvious that each case must be considered on its merits and judged by moral rather than economic criteria. Generally speaking, it seems to have been a fairly common practice in a number of countries for stabilisation agencies to devote at least part of their income to general development purposes; for instance, in Ghana in 1957 the Government announced that the resources of the Cocoa Board would be used, according to need, for the development of the economy.¹

* * *

This brief theoretical study has brought out some of the problems which schemes for stabilising basic commodity prices at the national level may raise, and the wide choice of methods available for solving them. How effective are these methods in practice? What are the concrete difficulties involved, and how can they be overcome?

No general answer can be given to these questions, because there are too many unique factors at work in each case. Nevertheless, a detailed description of a few actual stabilisation schemes may serve a useful purpose, if not by suggesting any general conclusions, at least by providing a concrete background for the theoretical considerations outlined above.

SOME EXAMPLES

The few examples given here are all drawn from the parts of Equatorial Africa which were formerly French territories; in

¹ See United Nations: *World Economic Survey*, 1958, op. cit., p. 103.

two cases the work of the stabilisation machinery is assisted by another country. These examples were chosen chiefly because detailed data were available concerning them. At the same time, they happen to cover a varied range of commodities, with differing problems and world market prospects, and of price stabilisation methods. All are therefore of some interest in their own right.

Stabilisation of Cocoa Prices in Cameroun

In Cameroun a Cocoa Price Stabilisation Fund was set up by decree on 18 December 1955 and began its operations on 1 October 1956. Its objects, as defined in the decree, are, firstly, to standardise the price at which cocoa is bought from the producers, and, secondly, to devise and put into practice measures to improve its quality and help to market it in foreign countries.

The resources of the Fund come from a special export tax (at present 3 CFA francs¹ per kilo), from interest on moneys deposited with the Treasury or the National Overseas Products Price Equalisation Fund (a French body), and finally (and this is where the principle of price equalisation over time enters the picture) from a levy consisting of a variable percentage of the difference between the actual selling price and the (lower) guaranteed price. The principle is that the percentage, fixed by ministerial decree for each season, rises proportionately with any rise in world prices. It has fluctuated as follows in the last few years :

Season	Levy
1956/57	50 per cent.
1957/58	75 „
1958/59	50 „
1959/60	30 „

Further, the Fund can if need be obtain additional resources by borrowing, in particular from the National Overseas Products Price Equalisation Fund, mentioned above.

In using its resources the Fund is required by its rules to form a reserve by setting aside 50 per cent. of its annual revenue until these reserves have reached the value of half an average harvest.

The procedure of the Fund is as follows : a support price is fixed every year at the beginning of the season by the Fund's managing board.² The exporters, who must be licensed by the Government (but do not enjoy a monopoly), buy cocoa in the plantations at the support price, and are required to inform the

¹ The CFA franc is equal to two old French francs.

² This is a mixed body which includes representatives of the Government, the Legislative Assembly and the public, and an equal number of representatives of the producers and the exporters.

Fund of their purchases immediately. The Fund records the purchases and, when the cocoa is exported, levies the fixed percentage or, as the case may be, pays the exporter the difference. Of course it may happen that, even within a single season, depending on price fluctuations, the Fund alternately makes payments and collects levies. Thus, during the last season (1960/61), when 68,000 tons of cocoa were marketed, the Fund had to pay out 691 million CFA francs; during the same period it collected 42 million in levies.

The Fund can be compelled in this way, depending on circumstances, to make extremely large payments. For example, at the end of the 1956/57 harvest, when it had been in existence for only one year, it had a debt of about 1,000 million CFA francs. The rise in the cocoa price during the next season enabled the debt to be paid off, and at the beginning of 1961 the Fund had reserves of about 3,500 million francs. However, heavy outlays during the first months of 1961 had reduced them to 2,428 million by 31 July 1961, and there is a danger that losses will continue.

These outlays, it may be added, are not confined to those arising out of the support of guaranteed prices. Other expenses which the Fund has to meet are—

(a) payment of quality premiums. These were introduced in view of the producers' evident lack of interest in the quality of their produce. Originally fixed at 5 CFA francs per kilo of higher-grade cocoa, the premium was increased to 10 francs in 1958/59, and to 20 francs in 1959/60. In the latter season, 233 million CFA francs, corresponding to 11,000 tons of higher-grade cocoa, were paid out in premiums to producers. The task of certifying higher quality was originally entrusted to inspectors at the markets; it is now entrusted to planters' co-operatives, which grade their produce themselves. The drawbacks of this system will be discussed further;

(b) the cost of the campaign against brown rot, for which the Fund provides loans out of its own assets. To date, 50 million CFA francs have been advanced to a co-operative (*L'action paysanne*) set up to manage this operation. The loans are to be reimbursed out of future quality premiums collected by the co-operative;

(c) the financing of the campaign against capsid bugs, which is done through outright grants. The Government has decided that 1,200 million are to be provided from the reserves of the Fund, or 400 million per year for a three-year programme.

How successful has the operation of this Fund actually been? As far as one can see, it would seem not to have raised any prob-

lems : the stabilising of prices takes place satisfactorily, and the expenditure incurred is all in the direct interest of the producer.

However, the successful implementation of even the best principles calls for elaborate precautions. This applies particularly to quality premiums for which, at the present time, no sound commercial basis appears to exist and which can give rise to serious abuses.

It is, of course, normal that the amount of the quality premium should be greater than the difference between the market price for higher-grade cocoa and that of the ordinary product, since the long-term objective, i.e. to encourage higher-quality production, is certainly more likely to be achieved in this way than by relying solely on the small differential shown in the short term by world market prices. But the present scale of the premium (20 CFA francs per kilo) greatly exceeds the existing difference in price (1 CFA franc per kilo) between the two grades of cocoa on the world market. It follows that it is to the producer's advantage to divide his crop in two lots—"standard" quality, to be sold at the normal guaranteed price, and "better" quality, for which he will receive the premium. This, of course, does not affect production as such one way or the other. But once the cocoa has been sorted in this way, and in view of the very small premium which the world market places on the higher-quality product, unscrupulous exporters may be tempted to mix the latter with lower-grade, unexportable cocoa so as to obtain a "standard" blend which is just exportable. This explains how, in a country where cocoa consumption is practically nil, it was possible for only 9,000 tons of higher-grade cocoa to be exported, even though 11,500 tons had been given the quality premium.

The fact that only the planters' co-operatives are empowered to award the quality premium has given rise to other anomalies. For instance, fake planters' co-operatives have sprung up : knowledgeable merchants buy cocoa in bulk from the planters and set themselves up as a "planters' co-operative", although their production is negligible ; after grading the cocoa, they obtain the premium for the higher-grade product they have acquired and graded. It is obvious that, in such a case, all that the premium for quality does is to reward—and very handsomely at that—a blending process which has no economic justification since the price differential on the world market is, as already pointed out, only about 1 CFA franc per kilo and since, moreover, it often enables sub-standard cocoa to be exported.

This example shows how very difficult it is to devise administrative methods capable of ensuring the success of the stabilisation scheme.

Stabilisation of Coffee Prices in Cameroun

The methods used to stabilise the coffee market in Cameroun are rather different. Here measures designed to influence prices directly are of lesser importance within the over-all scheme, since they are buttressed by the favoured treatment given to Cameroun coffee on the French market. Nevertheless, a description of the machinery set up to control the quantities put on the market, which has several original features, may be of some interest. As regards the system as a whole, a common Stabilisation Fund was first established for robusta and arabica coffees by a decree of 16 December 1955. The purposes and resources of this Fund were similar to those of the Cocoa Price Stabilisation Fund described above. Its objects were to standardise the price at which coffee was bought from the producer, and to devise and put into effect measures to improve the commodity's quality and marketing. The scheme was financed in the same way as the Cocoa Fund, namely through a duty on exports, interest on moneys deposited with the Treasury and the National Overseas Products Price Equalisation Fund, and loans when necessary from the latter organisation.

In 1959 it was decided by decree to set up separate funds for robusta and arabica coffee. The marketing of arabica coffee in fact raises no problem at present, since the entire production is absorbed by the French market, and it is, moreover, not subject to a quota under the Washington agreement.¹ The Stabilisation Fund, which at present is financed only by a special export duty of 2.25 CFA francs per kilo, has accumulated a reserve of 50 million CFA francs, and as the market situation is satisfactory it does not currently have to make any support payments.

The position with regard to robusta coffee, the Stabilisation Fund for which was reorganised by a decree of 25 July 1959, is quite different. The problem, as already pointed out, has a twofold aspect: firstly, price and, secondly, amount exported.

(a) World prices at present do not seem sufficiently remunerative. Further, the Stabilisation Fund, with the support of the French Government (through the National Overseas Products Price Equalisation Fund) is able to sell robusta coffee on the French market above the world price; part of the additional receipts obtained are given to exporters to other markets in order to bring their export earnings up to the minimum or guaranteed price level.

¹ See United Nations: *Commodity Survey, 1960* (New York, 1961). This agreement, to which countries accounting for 93 per cent. of the exportable world supply of coffee are now parties, provides for the fixing on an annual basis, and according to the changing pattern of production, of the quantities which each of the participating countries shall be authorised to export.

This is done within the framework of the decree of 19 January 1961. After the French Government has fixed the guaranteed price on the French market, the managing board of the Fund decides the amount of the levy to be made on exports to France (25 CFA francs per kilo in July 1961), on the basis of the French guaranteed price and after allowing for freight and marketing costs. This levy serves to subsidise exports to the rest of the world. Each week the Fund prescribes the minimum price at which sales may be made to foreign countries; exporters must conform to this price and are forbidden, under penalties provided by law, to contract at a lower price. Thus the purpose of the Fund's operations is really to ensure that the exporters' earnings conform to an official standard.

(b) As regards the amounts exported, the difficulties encountered stem from the flooding of world markets. From the beginning, steps were taken to prevent crops being thrown pell-mell on to the market and thus upsetting prices. Exports were therefore governed by quotas assigned to the different exporting firms in proportion to the previous business which they had done. Ten per cent. of the quota was reserved for direct sales by the producers. The quotas were released at three-monthly intervals in order that sales should be spread out over the whole year.

Nevertheless, with increased production these measures have proved inadequate. For the current season, for example, the robusta coffee crop is estimated at 31,000 tons; but by virtue of the Washington agreements, to which Cameroun is a party, the national export quotas are 19,100 tons to France and 8,700 tons (since reduced to 6,870 tons) to the rest of the world. It follows that supply will probably exceed demand by a substantial amount.

In these circumstances the Cameroun Government, by a decree of 30 May 1961, provided for the stockpiling of robusta coffee. The object was to enable the producer to sell the whole of his crop. The procedure is as follows: the exporting firms can sign a stockpiling contract with the Stabilisation Fund, which guarantees them a lump-sum payment of 1 CFA franc per month for each kilogramme of coffee stored. Sixty million francs have already been earmarked for this purpose. At the end of three months the stockpilers have the option of selling the stocks held back to the Fund; in that event the Fund is free to decide, according to circumstances, whether it wishes to stockpile the coffee itself or to export it at the world price. But, in order to give firms an additional incentive to stockpile and warehouse their stocks, it has been decided that their export quotas shall henceforth be proportionate to the amount of their stocks. To facilitate stockpiling, and help solve the credit problems to which it gives rise, the Cameroun Government has

arranged to assist in financing stockpiling to the extent of 600 million CFA francs.

It is too early as yet to form a judgment concerning the effectiveness of this system. It seems clear, however, that it can succeed in the long run only if the stocks can be disposed of through increased international co-operation between the producers, on the one hand, and between producers and consumers on the other.

Stabilisation of Cotton Prices in Chad

Neither of the two schemes described above involve the setting up of genuine marketing and export monopolies. In the case of cocoa in Cameroun, middlemen need only obtain a government licence in order to export their products, and the quotas fixed for robusta coffee leave plenty of room for competition between exporters—particularly since an increasing share of the quotas is given directly to the producer. On the other hand, a cotton monopoly, in the strict sense of the term, exists in Chad.

In 1925 the Chad Government put into effect a scheme of "cotton agreements" between the African producer, the Government and private concerns engaged in the purchase, processing and sale of cotton. At the present time, moreover, there is only one licensed company (the *Société Cotonfran*) which has 25 factories throughout the country. Further, to encourage the producers to sow at the right time, they receive a subsidy according to the acreage which they have sown by a certain date. Finally, a Fund to support the cotton industry and iron out price fluctuations, thereby ensuring both security for processing plants and a stable income for the producer, was set up in 1946. It may be noted, as a matter of interest, that the world price of cotton fibre declined from 510 French francs per kilo in 1951 to 230 in 1953. This Fund was replaced in 1955 by a Stabilisation Fund which since 1959 has been operated jointly by the Government of Chad and that of the Central African Republic. An attempt will now be made to describe this complicated machinery and to assess its achievements.

Every year the average f.o.b. price of cotton fibre during the previous season is calculated. Export duties levied by the customs authorities are deducted from this price, and a so-called "standard" price is thus arrived at. This "standard price" is presumed adequate to enable the cotton company to meet the sum total of its own expenses, including marketing, transport and processing, and also to pay the producer a certain price for cotton seed (known as the "contract price") which is arrived at by applying a coefficient to the "standard price" calculated as described above. Under the agreement signed on 1 November 1960 between the Government

of Chad and the *Société Cotonfran*, the "contract price" is fixed at 17 per cent. of the average f.o.b. price for the season minus export levies, i.e. at 17 per cent. of the "standard" price.

The "contract price" may thus be regarded as a "technical price" which the cotton organisation can afford to pay and at the same time make a reasonable profit. However, it is not the price which the producer actually receives when his crop passes into the hands of the company's representatives. Every year, using a variety of criteria—economic, political and social—the Government sets a "guaranteed price", which the producer is paid automatically when he sells his harvest. The difference between this price and the "contract price" is met by the Stabilisation Fund. A comparison between the annual average "guaranteed" and "contract" prices over the last few years is given below. It will be seen that the difference can be considerable.

Season	Average "guaranteed price" ¹	Average "contract price" ¹
1955/56	23.50	18.47
1956/57	23.50	16.95
1957/58	25.40	19.21
1958/59	25.40	22.86
1959/60	25.40	17.50

¹ CFA francs per kilogramme of cotton seed.

It will also be clear that in actual fact the cotton company's production costs will depend on the amount processed by its factories and cannot be estimated in advance.

In particular, overheads per ton of cotton over time will be less if the amounts processed are large than if they are small. It follows that the coefficient of 17 per cent., which is designed to take account of all processing, transport and marketing costs, is only an approximation: depending on the size of the crop, the processing organisation can make a larger profit than the notional "normal" profit implied by the 17 per cent. coefficient, or it can make a lower profit, or indeed it can suffer a loss. This, of course, implies that the Stabilisation Fund is contractually bound to take its share of losses or excess profits resulting from the cotton company's operations. The existing agreement provides that the Fund is to receive at least 65 per cent. of any excess profits from processing and marketing; conversely, it has to share in the same proportion any amounts by which profits fall short of the average corresponding to the 17 per cent. coefficient. Thus the Stabilisation Fund either makes up part of the sellers' deficits, or, on the contrary,

collects part of the profits from sales. These payments or receipts, moreover, will depend not only on the quantities processed but also on the price at which the finished products are marketed. The average used for calculating the "standard price" is based on figures for the whole of the preceding season, as has been said, and it is therefore necessary to make adjustments to take into account the effects of current price levels on the company's actual earnings. Further, during each season world prices are subject to seasonal fluctuations which have the effect of making the actual selling price sometimes higher and sometimes lower than the average selling price for the current year. Depending on the time of year when the sales were made, there can be further excess profits or losses, in which the Stabilisation Fund also has to share.

The Stabilisation Fund, moreover, is responsible for paying premiums on acreage sown, but in fact it only acts as paymaster, by allocating among planters who have done their sowing by the prescribed date a subsidy granted by the Fund for the Support of Overseas Textiles, a French official body, at the rate of 900 CFA francs for every hectare sown.

This complex machinery appears, by and large, to have given fairly satisfactory results. Between 1952 and 1960 fluctuations in the price paid to producers were kept within a narrow margin—i.e. between 23 and 25 CFA francs per kilogramme of cotton seed—despite a substantial fall in world cotton prices. It should be noted, however, that as a result of this fall the resources of the Stabilisation Fund very soon proved inadequate to meet contractual obligations to the cotton company and it became necessary to draw on the Fund for the Support of Overseas Textiles, which has already been mentioned.

CONCLUSION

There seems little doubt that the different types of machinery set up to stabilise the prices of primary products in producing countries can in certain circumstances play quite a useful role. However, they remain effective only so long as fluctuations in world prices are neither too sharp nor too extended, particularly in the case of small countries whose capacity to accumulate reserves is necessarily limited. In the case of violent and prolonged upsets, only international collaboration, whether bilateral or multilateral, can provide a solution.

International collaboration towards achieving greater stability in commodity prices is therefore desirable in the interest of each producing country individually. But it is also desirable, particularly if it is multilateral, in the interests of all, because it gives the

countries concerned, producers and consumers alike, the chance of comparing points of view and of ensuring that steps taken to achieve internal stability in some do not aggravate instability in others.¹

Such meetings also serve to develop an awareness among industrialised countries of the extent to which even minor fluctuations in their own economies can affect those of primary producing countries.² By providing a basis for better international co-ordination of national economic policies, they can help to promote healthy growth of the world economy.

¹ See G.A.T.T. : *Trends in International Trade*, op. cit., pp. 72 ff. The co-ordination of national measures is ensured, to some extent, by international stabilisation agreements dealing with certain commodities. Further, a certain amount of co-ordination (or at least consultations or contacts between the governments concerned) takes place within the framework of the F.A.O. Committee on Commodity Problems and the specialised commodity groups set up by that Committee whenever the position with regard to one or several related commodities deteriorates or threatens to deteriorate. The work of these bodies is, of course, limited to agricultural commodities. Other intergovernmental discussions, however take place in various organisations, such as the United Nations Commission on International Commodity Trade, and G.A.T.T.

² See in particular A. J. BROWN : *Impact of Fluctuations in Economic Activity in Industrial Countries on International Commodity Trade*, United Nations, Economic and Social Council, document E/CN.13/L.68 (mimeographed).

Social Targets of the Czechoslovak Third Five-Year Plan

by Evžen ERBAN

The fixing of social objectives within the framework of economic planning raises complex policy issues. How these problems are approached in countries with fully planned economies is exemplified in the following article by reference to the Czechoslovak Third Five-Year Plan. The author, Evžen Erban, President of the National Social Security Office, discusses the various social targets established under the Plan, explaining how they were arrived at, how they fit in with the longer-term social aims pursued by the Government, and what improvement they are to represent by comparison with present standards in such specific fields as employment, education, wages and hours of work, housing, consumption of goods and services, rural living standards, and the various branches of social security.

ON 17 November 1960 the National Assembly of the Czechoslovak Socialist Republic passed the law on the Third Five-Year Plan of economic development for the period 1961 to 1965 (Law No. 165 of 1960). This plan is not limited to production targets but includes, as an integral part, directives for further improvement of the material conditions and cultural level of the population.

It is anticipated under the plan that, by 1965, the national income will have risen by 42 per cent. and total industrial production by 56 per cent.¹ as compared with 1960. During the same period agricultural production is expected to rise by one-fourth. The prescribed total of investments, amounting to 322,000 million crowns, exceeds that of the Second Five-Year Plan (1956-60) by 59 per cent. and is 5,000 million crowns higher than total investment during the 1951-60 decade. These increases in industrial and agricultural production provide a basis for a substantial increase in the standard of living of the people. In part, this is to be achieved directly (through a further increase in employment with a consequential rise in the number of families with more than one income,

¹ This represents a sixfold increase in industrial production compared with the figures for 1937.

through increases in nominal wages, etc.), and in part indirectly, through special economic and social measures which represent important aspects of the Plan.

PLANNING PROCEDURE

The State Planning Commission, which is directly responsible to the Government, prepares draft long-term and short-term target figures for the various ministries, which are responsible for transmitting them to establishments and the local government authorities. The factories and local bodies discuss the proposed targets with large numbers of trade unionists and citizens, and report their requirements and capacities. On the basis of their amendments a final plan is worked out and submitted to the Government and National Assembly for approval. If necessary, modifications to the plan can, of course, be effected while it is already in operation.

A similar procedure is prescribed for health, education and other social measures, with the difference that the plan contains not only targets but also general directives as to how the resources allocated to the ministries concerned are to be utilised. For this purpose the Government has appointed a committee for questions concerning the standard of living to advise the Planning Commission. This committee examines the requirements indicated by the ministries, co-ordinates them and adjusts them to the general plan of development.

Even in these fields it is customary for the Government to seek advice from the public before making final decisions. For example, amendments to the Health Insurance and Social Security Acts were submitted for public discussion in 1956. After another discussion in 1959 family allowances were increased and differentiated according to the income of the breadwinner. Public discussion also suggested that pensions awarded up to 1956 should not be adjusted mechanically but gradually, according to priorities.

Responsibility for the execution of social policy is shared between public authorities, establishments and trade union bodies. Social investments to be carried out by establishments are on the one hand part of their plan, and on the other the subject of collective agreements signed by the management and trade union branch. In addition, unions appoint representatives to all the public authorities for social matters and are entitled to check on their work.

AIM OF SOCIAL PLANNING

The Third Five-Year Plan harmonises economic tasks with that of increasing the standard of living of the people. Based on experience in a planned economy with nationalised means of production, it indicates the desirable proportionate development of the

various branches of the economy, the part of the national income to be allocated to investments for expanding production, and finally the share of the people in the fruit of their collective efforts. Thus the plan determines the measure of work and the measure of consumption, not only of society as a whole but also of the different components.

It should be borne in mind that Czechoslovakia is aiming at establishing a new social order and not merely at improving the existing one. Since nationalisation of the means of production in 1945, a system has been built up based on the principle "from each according to his ability ; to each according to his work ". This system is characterised by full employment for all men and, to an ever-larger extent, also for women. Various social measures have been adopted to facilitate the employment of working women and mothers. The standard of living has been improved substantially by increasing working incomes and by price reductions. An essential element in the standard of living is the high level of "social consumption" in the form of medical care, education, and sickness, maternity, incapacity, old-age and survivors' benefits. Nearly the whole population is eligible for free provision of these services.

The Third Five-Year Plan provides for a further improvement in the above directions, but has at the same time great significance in bringing about more substantial social transformations. The long-term forecasts for the period up to 1980 are based on the aim of Czechoslovakia's transition to a Communist society characterised by highly developed production and distribution of the fruits of joint labour according to needs, i.e. no longer according to the individual's share in this work. This transition will be achieved partly by supplementing the principle of distribution according to work (which will still remain in force) to an ever-larger extent by the principle of distribution according to needs. To attain this result it will be necessary, among other things, to move in the following four directions :

- (1) Improvement of remuneration according to work in such a way as to avoid disproportion in the income of the various sections of the population.

- (2) Reduction of differences in standards of living between town and village.

- (3) Raising the incomes of persons incapable of work parallel with income increases among the working sections of the population.

- (4) Shifting emphasis gradually to other elements in the standard of living than those which are dependent on individual merit in increasing social production.

At the same time it will be necessary to solve the remaining social problems inherited from the past and to meet other problems connected in particular with the rising number of persons reaching an advanced age.

BACKGROUND OF THE SOCIAL TARGETS

It is obvious that these aims will not be achieved automatically but can only be the result of co-ordinated planning as regards all aspects of the standard of living. Before describing the measures taken towards this end, it will be necessary to analyse the present situation so as to get a better understanding of the social targets of the Third Five-Year Plan.

As regards point (1) above, differences in nominal incomes are not, on the whole, disproportionate, so that it will not be necessary to regulate their trends. However, more serious differences exist as regards the number of dependants to be supported on the total family income. The birth of a child forces the mother to stay away from work. The resulting loss of income is in part covered by maternity benefits, but it is usual for the mother to stay away for some time even after this. In consequence, the total income of the family drops on an average by one-third. The income per head of the family also falls despite the effect of family allowances.

In view of this situation, it was laid down at the beginning of the Second Five-Year Plan (1956-60) that further increases in the standard of living should be marked by a more rapid increase in the consumption of families with a lower income per head, especially of families with several children. To meet this requirement, family allowances were increased in 1959, and in 1960 school books and materials were for the first time distributed free of charge to all children of compulsory school attendance age. These and similar measures are capable of reducing the differences in family incomes per head, but cannot abolish them entirely. To do so will require a transfer of the whole cost of bringing up children to the State,¹ and the organisation of school attendance in such a way that women eager to work will not be hampered in their employment.

As regards point (2), concerning differences in standards of living between town and village, these are no longer caused by disproportions in income since small and middle-scale farmers have joined in co-operatives. The differences between the two classes are the result of differences in the mode of production, in

¹ Today the state family allowances and tax reliefs represent on average 17.5 per cent. of the cost for one child, 28.6 per cent. for two, 41.3 per cent. for three, and 48.6 per cent. for four children.

the accessibility of cultural and recreational facilities, and to a certain extent also in the level of housing and social security. The improvement of cultural facilities, housing and social security hand in hand with increasing production is therefore an important prerequisite for bringing the standard of living of the farmers up to that of employed persons. The rate of improvement achieved so far justifies the expectation that this will be accomplished by 1970.

As regards point (3), concerning the raising of incomes of persons incapable of work parallel with those of the working sections of the population, the main questions relate to the present social security scheme for farmers and the fact that rises in nominal earnings are not accompanied by automatic adjustments in pensions. Pensions awarded up to the end of 1956 did not even at the time of their commencement represent a satisfactory percentage of salaries and wages. This shortcoming was abolished by an amendment in 1956. Nevertheless, rising wages will again widen the gap between current average income and average pension rates.

Progress in the fourth direction mentioned earlier, i.e. towards improvements in living standards not exclusively linked with individual work performance, cannot, of course, be pursued separately, since it is essentially a criterion to be followed in achieving the three aims previously mentioned. In this connection, it will be important to determine the speed at which the principle of remuneration according to work is to be modified by that of distribution according to need. Some theoreticians were at first of the opinion that it would be sufficient to effect improvements in the standard of living through price reductions, while keeping a more or less rigid check on nominal incomes. However, it has been proved that the time is not yet ripe for this solution, which overlooks the necessity for a more rapid improvement in the situation of the lower-income groups. Price reductions very often bring greater advantages to the higher-income groups. Apart from this, wage checks would not maintain interest in increasing labour productivity and would thus result in a slowing down of the general process of raising living standards. It was therefore decided that, while continuing to reduce prices, priority should be given to wage increases and the introduction of Communist elements of distribution, first of all through measures to cover the maintenance of non-working members (such as children and pensioners) of families.

Having described the main features of the present situation, it is now possible to list and explain the social targets envisaged in the Third Five-Year Plan.

GENERAL STANDARD OF LIVING INDICATORS

The production figures laid down in the Five-Year Plan are to be implemented mainly through increases in the productivity of labour, above all through the development and application of new technology. The number of non-agricultural employees is to increase by 440,000, bringing the total number of employed persons up to more than 5 million, or 35 per cent. of the total population. This increase in non-agricultural employment is to be achieved through the release of a large group of persons previously engaged in agriculture (which will be rapidly mechanised) and through additional recruitments from the ranks of women, whose share in the total number of employed persons will rise from 38.7 to 40 per cent. This will mean a further rise of the number of families drawing more than one income. Employment increases are also anticipated as a result of the longer working life of employees, who today terminate their jobs on an average at the age of 62 (men) or 57 (women), i.e. two years after becoming eligible for old-age pensions.

Technological progress will require an increased number of workers with university or higher technical education. The Plan provides for an increase of 29 per cent. by 1965, bringing the number of technicians with a university education per 1,000 industrial workers from 20 up to 25, and the number of technicians with medium-level education per 1,000 industrial workers from 70 to 88. A general rise in the standard of technical and general education is to be promoted also by prolonging compulsory school attendance from eight to nine years.

This basic nine-year school course will be adapted to the demands which technological development is expected to make on the educational attainments and knowledge of future workers and technicians. Classroom instruction will be linked to practical training, from the first to fifth form on the basis of handicrafts, and from the sixth to the ninth form by instruction in the common elements of modern production work ("polytechnic education").

It is expected that 96 per cent. of young persons terminating the basic school course will thereafter receive training or further education. The totals laid down in the Third Five-Year Plan for the period covered are as follows: 850,000 apprenticeships (boys and girls), 246,000 young persons attending trade schools and 148,000 attending medium-level schools providing general education. The medium-level schools of all types facilitate transfers to universities and technical colleges, which during the Third Five-

Year Plan are to enroll 73,000 new students, including 24,000 studying during their employment.¹

During the period covered by the Third Five-Year Plan personal consumption is to increase by 30 per cent. The main element in the increase in personal income is assigned to rises in wages and other remuneration, but part of it will be effected by price reductions. The planned increase of nominal incomes is even more marked than during the Second Five-Year Plan, when the index of nominal wages rose by 12 per cent. and that of real wages by 24.7 per cent.

An important aspect of the further development of living standards is the provision for a more substantial reduction of working hours (by nearly 9 per cent., from today's 46 to 42 hours per week, spread over five working days). Working hours in underground mines are to be reduced to 40 hours. The working time of young persons up to the age of 16 has already been cut to 36 hours per week. The reduction of working hours will be introduced without a reduction in wages or in holiday-with-pay rights.²

The interruption in housing construction lasting for more than 15 years (1929-45), the low standard of old houses, and drops in the age of marriage are responsible for the fact that improved housing is one of the most important aspects of the planned raising of the standard of living in Czechoslovakia today. It is for this reason that the Third Five-Year Plan provides for accelerated housing construction. During the period covered, the total number of housing units to be built is 500,000, as compared with 710,000 during the 15 years from 1945 to 1960, and by 1965 the housing backlog will have been overcome in the regions of Prague, Karlovy Vary and Ostrava. Of the new construction, 40.4 per cent. is to consist of apartments built by the State, 30.9 per cent. built by establishments and housing co-operatives, and 22.8 per cent. in the form of private houses built by families.

¹ In the 1960/61 school year the medium-level schools providing general education were attended by 84,580 students, the trade schools by 237,850 and the universities and technical colleges by 96,950.

² Law No. 81/1959 lays down the following durations for holidays with pay:

Young workers up to 18 years of age	three weeks
Mining apprentices	four weeks
Teachers and professors	eight weeks
Employees working underground or under unfavourable conditions	three weeks, increased to four after five years and to five after 15 years of employment.
Employees over 50 years of age	three weeks, increased to four weeks after 15 years of employment.
All other employees	two weeks, increased to three weeks after five years, and to four weeks after 15 years of employment.

In addition, all working people are eligible for seven to nine paid state holidays.

Co-operative housing was introduced in 1960 with the aim of speeding up construction by recruiting the aid of the citizens and their financial resources. But even here the financial assistance of the State is very substantial. The financing of co-operative housing construction is organised in such a way that 30 per cent. of the cost is covered by the State, 40 per cent. by the members' shares, and the remainder by long-term credits at 3 per cent. interest repayable over a period of 30 years in monthly payments. The members of the co-operative need not deposit the full cash value of their shares but can apply for loans of up to one-third of the value, carrying 4 per cent. interest and repayable over a period of up to five years. In addition, members may contribute their shares in the form of work at the house or its surroundings. Costs can further be reduced through participation by the establishments at which the co-operative members are employed; for example, the factory may provide materials at lower cost and lend craftsmen or machines.

Like the social security questions mentioned earlier, housing has been the subject of public discussion. In the autumn of 1960 meetings were held at the larger factories and in the local government districts, at which the citizens put forward their suggestions as to the design and equipment of the flats to be built. In larger towns models of the new types of flats were displayed to facilitate study. In particular, the citizens had definite opinions on the size of the flat. Although Czechoslovakia ranks fifth in Europe as regards the number of flats per 1,000 inhabitants, 76 per cent. of them comprise up to two rooms and kitchen only. The public demanded that the new flats should provide one room per person. To accomplish this, 35 per cent. of all new flats under the Plan comprise three or more rooms, making up a total area of at least 53 square metres. Beginning with 1963, 60 per cent. of the new flats are to be constructed with three or more rooms, the minimum area being increased to 58 square metres. Movable walls will be installed to facilitate adjusting the flats to changes in the life of the family.

A certain number of units will be built in the form of boarding houses for unmarried persons or childless couples. These will be suitable also for pensioners, particularly if equipped with the necessary social and medical services.

In connection with the rising number of employed women and the need to free them from the burdens of domestic work, it will be necessary to extend at the same time communal dining, cleaning and washing services. Teams are now being set up even in old houses to clean the stairways and, on request, also flats. Blocks of old houses lacking modern laundry equipment will be fitted with washing machines, with or without laundering service. The exten-

sion of these and similar services will also facilitate the work of women who cannot or do not wish to work in the factories.

CONSUMPTION

A clearer picture of the standard-of-living trends underlying the figures given in relation to income increases can be gained by translating them into terms of consumption.

When evaluating consumption in Czechoslovakia it is necessary to bear in mind that a not inconsiderable proportion of goods and services are already provided free or at reduced charges. Ninety per cent. of the population are eligible for free medical treatment, including free medicaments, and (as mentioned earlier) all children subject to compulsory education are given free school books and supplies. Rents range from 3 to 8 per cent. of average workers' earnings, and the prices of clothing and shoes for children are subsidised by the State.

Food consumption on the whole is sufficient as regards quantity, but there will be a change in its composition, with an increase in the consumption of animal products, fruit and vegetables, permitting a reduction in the consumption of flour products. The pattern of annual food consumption per head under the Plan is as follows :

Item	1936	1960	1965
Meat (kg)	32.9	57.0	65.0
Eggs.	137.0	170.0	247.0
Sugar (kg)	23.8	34.9	38.7

More rapid increases are expected as regards production and purchase of industrial goods. The increase in the frequency of certain items, expressed by dividing total households by total units to be produced, is as follows:

Item	1955	1960	1965
Washing machines	8.3	2.4	1.5
Refrigerators	40.0	8.8	3.0
Television sets	95.6	5.0	1.8

At the same time, the Third Five-Year Plan reckons on the sale of 1.4 million motor vehicles, including a quarter of a million motor cars. Consumption trends will, furthermore, be supported by a 40 per cent. increase in the volume of services.

STANDARD OF LIVING IN VILLAGE AND TOWN

Up to 1945, 70 per cent. of the farmers worked farms not exceeding 5 hectares. Only about one-fourth of the total agricultural land belonged to this majority, and the larger part of it was in the hands of big landowners. After the end of the Second World War, excess land was confiscated and distributed among the working farmers, who later joined in co-operatives which, together with the state farms, now cultivate 90 per cent. of the land.

The formation of co-operatives facilitated the development of mechanised large-scale agricultural production and an increase in the productivity of labour. As a result, there were substantial increases in the income and standard of living of the farmers, especially in terms of industrial goods consumption. In 1948 pension insurance was extended to all farmers, and practically all members of farming co-operatives are entitled to free medical treatment and medicaments.

Further development was hampered, in particular, by the fact that the individual co-operative farms are comparatively small and that part of the land and cattle is still in the private use of the co-operative farmers, who thus spend part of their working time on less productive small-scale farming. This situation also creates differences in the farmers' social position as compared with that of employed persons, owing to the fact that part of their living is derived in kind from their own plots. In addition, the present system of dividing up the results of their joint labour mainly at the end of the year does not provide sufficient incentives. To abolish these shortcomings the smaller co-operative farms are now being joined together into bigger ones comprising two or more villages. At the same time the farmers are being persuaded gradually to hand over their privately used land and cattle and to accept a new system of remuneration in the form of regular monthly payments related to the economic results of the co-operative and of the individual farmer's work. It is estimated that about half of all co-operative farmers will have chosen this system by 1965. The members of co-operatives of the new type will in the course of 1962 become eligible for the same social security benefits as employed persons, which means that in addition to their present coverage they will receive family allowances, maternity and sickness benefits. The conditions for and rates of pensions will also be aligned on those of employed persons.

The social security rights of the other co-operative farmers will also be augmented by family allowances and some other benefits. The situation of these farmers will then differ from that of employed

persons in that they will not be eligible for sickness and maternity benefits and their pensions will be lower.

The amalgamation of the smaller farming co-operatives will permit the establishment of social centres with theatre halls, cinemas, clubrooms, medical and social welfare wards. By 1965 the number of kindergartens for farmers' children between 3 and 6 years of age is to increase to 2,350, with a total capacity of 46,000 children.

SOCIAL SECURITY

Cash benefits under sickness insurance and the pension scheme for employed persons were substantially improved in 1956. Sickness and maternity benefits range from 50 to 90 per cent., and pensions from 55 to 100 per cent. of net wages, the latter being graded according to the strenuousness and importance of the work performed and according to length of employment. At the same time, the family functions of women and the requirements of victims of war and Fascism are given special recognition.

During the period covered by the Third Five-Year Plan, increased expenditure on social security cash benefits will not be linked to legislative amendments but will be the automatic result of increases in wages, employment and the number of people reaching a higher age. Even so, the expenditure on pensions, for instance, is expected to rise by 47 per cent., reaching about 17,000 million crowns in 1965, not counting the planned amendments to the farmers' social security scheme. There will also be further adjustments of pensions awarded up to the end of 1956, so as to raise their level to the average of the substantially higher pensions awarded from January 1957.

In this connection, it may be of interest to explain further the procedure of adjustment. Out of the total of 1.6 million main pensions in payment in January 1957, more than half of the old-age and disability pensions were lower than 600, and more than half of the widows' pensions were lower than 420 crowns per month. These amounts correspond approximately to the average rate of the new pensions awarded as from January 1957. Since it would have been financially impossible to adjust all these pensions to the new average rates, it was necessary to find another solution. It was ascertained that not all pensioners had to rely on their pension alone; many do, in fact, have additional income from work or live in families where the wife also draws a pension or working income. In view of this, it seemed possible and justifiable to proceed, not by way of a general and automatic increase of all pensions, but on an individual basis, giving priorities according to the situation of the pensioner.

It was decided to entrust the task of adjusting the old pensions individually to the social security committees of the district councils, which are responsible for awarding optional benefits, and which are composed of members and employees of the district councils, trade union representatives and other voluntary workers. Before deciding on adjustments, the social security committees were to consult the local councils and the citizens' committees, the latter representing the people of a given electoral district.

These social security committees increased 343,000 pensions in 1959, 219,000 in 1960 and 125,000 in 1961. Many of the pensions were adjusted more than once. On the average the increases ranged from 10 to 25 per cent. of the original rate. The total number of pensions adjusted up to the end of 1961 represents 47 per cent. of all old-age and disability pensions and 49 per cent. of all widows' pensions awarded prior to 1957. The adjustments will continue every year up to 1964, when the aggregate expenditure on all increases between 1959 and 1964 will reach the sum of 3,400 million crowns.

As regards social security benefits in kind, attention will mainly be concentrated on increasing the capacity of the institutions. The Plan provides for an increase of 10,656 in the number of beds in pensioners' rest homes (about one-third of the present figure), and a more than threefold increase in the capacity of institutions for handicapped children. This will make it possible to provide comprehensive care for the disabled children of all parents interested in it. Finally, the plan provides for the construction of several centres for the vocational rehabilitation of adult handicapped persons.

Apart from this, there will be an extension of home services, restaurants and clubs for pensioners. The provision for all branches of care for pensioners (including the payment of pensions) and disabled children during the Third Five-Year Plan totals 78,279 million crowns.

Special attention will be devoted to problems caused by changes in the age structure of the population. From 1950 to 1959 the number of persons of productive age (15-59 for men and 15-54 for women) in relation to the total population dropped from 59.7 to 56 per cent., while the proportion of aged persons increased from 14.5 to 16.7 per cent. It is estimated that by 1975 the number of aged persons will approach one-fifth of the total population. This trend, which may be observed also in other countries, will create special needs, especially in view of the fact that it is accompanied by a considerable improvement in the state of health of the aged population. The majority of older workers are no longer anxious to leave their work

and want to remain useful. On the average, as already indicated, workers leave their jobs two years after reaching pensionable age.

To meet this situation, the Government has ordered all establishments to refrain from giving notice to workers reaching pensionable age and to provide them with employment according to their capabilities. At the same time the local government councils have been instructed to provide pensioners who cannot or do not want to perform regular jobs with useful occupations within the field of local government work and to provide opportunities for hobbies. Thus, pensioners in great numbers participate in the reconstruction of parks, playgrounds and other public projects. They also co-operate with factories and schools in apprentice training or supervision of "polytechnic"¹ classes, and act as voluntary social welfare officers of the local councils.

At present, the entire problem of the aging population is under consideration. It is felt that the present pensionable ages (60 for men and 55 for women, miners and aviation personnel) should be maintained, while giving encouragement to those who wish to continue their employment.

As regards medical care, progress in reducing the frequency and gravity of contagious disease will make it possible to concentrate on the prevention and cure of ailments connected with old age. The Plan sets targets for increasing the specialised staff attached to the individual public health districts, while at the same time reducing the size of the districts to bring down the number of inhabitants in each to 3,750. The network of hospitals and related institutions is to be expanded in order to increase the number of beds per 1,000 inhabitants from 12.55 in 1960 to 13.67 in 1965. The number of beds in maternity hospitals and wards per 1,000 inhabitants is to be increased from 7.6 to 8.1. The number of doctors' posts per 10,000 inhabitants is to be increased from 17.35 in 1960 to 19 in 1965.

During the Third Five-Year Plan the capacity of the crèches is to be increased by 48 per cent. so as to reach a total of 63,000 places, or 10 per cent. of all children up to the age of 3 years. New crèches are to be built mainly by the enterprises. By 1965 the number of kindergarten classes is to rise to about 12,300, with room for 345,000 children.

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The foregoing description relates to social objectives of the Third Five-Year Plan which are actually being implemented. Further measures are, however, under consideration in view of the

¹ See above, p. 239.

specific aim of providing for needs to an ever-larger extent in ways not directly dependent on the individual's work performance. In the first place, plans are being drafted for the gradual abolition of the wages tax. Another series of provisions are being designed to reduce differences in living standards due to the cost of bringing up children and to ease the situation of working women.

In conclusion, the writer would like to stress that the social plan outlined above is based on the broad objective of creating all the necessary conditions for the full development of all human faculties within the framework of the family. The Czechoslovak Socialist Republic believes that this cannot be achieved by isolating the individual, or by stressing individualism, but only by harmoniously combining and mobilising the resources of all citizens. We accordingly consider that the chief function of the State should be to educate the people in this spirit of co-operation and solidarity, and we are convinced that we shall thereby systematically advance along the road entered upon by the first pioneers of social progress, who also include those who promoted the successes achieved by the I.L.O. in its work.
