

Coffee Pacts and Facts *Proof*

Now that coffee rationing is upon us, an examination of the terms and conditions by which coffee imports are governed may not be amiss. To persons with even a smattering of economic understanding, the revelations in this article will be startling, to say the least.

The author, LOUIS B. POTTER, qualifies as a foreign trade expert by reason of his twenty-seven years in the import and export business. In 1938 he organized and became the first director of the Reciprocal Trade Council, a non-partisan organization devoted to the removal of tariff barriers and the encouragement of free enterprise.

★ THE Commodity Credit Corporation (CCC) has recently made an agreement with Brazil for the purchase or underwriting by the United States of the unshipped balance of Brazil's coffee quota for the year ended September 30, 1942. In addition, the United States agrees to purchase Brazil's full quota of 9,300,000 bags for the year ending September 30, 1943, and to pay such storage charges as may arise while cargoes are awaiting shipment. The significance of this arrangement will not be clear unless it is remembered that the balance of the 1942 quota, which this country now agrees to buy, is still unshipped; and that we have likewise obligated ourselves to pay for the entire quota of the 1943 year regardless of whether it, or any part of it, can ever be shipped to us. The quota figure of 9,300,000 bags was first fixed in the 1940 pact between the United States and Latin American coffee countries, which allotted to each of the latter the amount of coffee that it could ship to this country. Being close to maximum shipments of recent years, the figure assigned to Brazil was considered generous, as were the quotas set for the other coffee-growing countries that were parties to the agreement. The arrangement was held to be an effective stroke on our part in the economic warfare on the Latin American front between the United States and the Axis countries.

As regards the present deal, the CCC states that "this agreement will contribute greatly to the stability and prosperity of the Brazilian coffee industry," that "both governments will make every effort to facilitate the shipment to the United States of the full amount of the quotas, *subject only to the shipping priorities as they are established by the United States for inbound traffic and to the availability of coffee,*" and that "American importers, acting as purchasing agents for the CCC, will be permitted to buy during the 1942-1943 quota year the full amount of the basic Brazilian quota of 9,300,000 bags, *if it is their desire to do so.*"

It would seem that the CCC official spoke with his tongue in his cheek, knowing, as he must have, that a substantial part of the preceding year's quota remained unshipped, though cargo space had been readily available, and knowing, too, that coffee surpluses were rising steadily in all the Latin American coffee producing countries. None the less he did not hesitate to announce that coffee imports into the United States would be subject only to "shipping priorities and the availability of coffee." And to climax the comedy, he offered the assurance, quoted above, that American importers would be permitted to purchase the "full amount of the quota, if it is their desire to do so."

As to the claim that the new pact "will contribute greatly to the stability and prosperity of the Brazilian coffee industry, let us go back a little in recent history. In the early thirties, Brazil, like all the other countries of the world, was suffering from the high tariff barriers that had been erected by one country after another in the vain hope of keeping purchasing power at home. Acting in the belief that by excluding all possible imports they were encouraging employment at home, what the Brazilians actually accomplished was only a dangerous brand of super-nationalism, a large degree of economic isolation, and a considerable measure of planned economy. Little did they realize that by sending wealth abroad, while refusing to accept any in return, they were impoverishing their economy and adding to their hordes of unemployed. The inescapable result was a continuing decline in purchasing power at home and a sharp upsurge in international animosities. Tariffs, plus heavy taxes and penalties on such exchange of commodities as continued to be carried on, plus, again, the giant monopoly inherent in a system of land ownership which denied access of the masses to the great natural resources of the country, were taking their inevitable toll. Employment continued to drop while unsaleable stocks of coffee, cocoa, manganese and other commodities mounted to huge proportions. Like all the other nations of the world, Brazil, because of laws which were economically unsound, was experiencing ever-deepening poverty in the midst of plenty.

Seeking a way out but groping in an economic fog and prodded by greedy pressure groups, Brazil then formulated its so-called coffee valorization scheme whereby the government bought increasing quantities of coffee from the farmers and stored it away in the hope of being able to sell at some future day in a more favorable market. But the more favorable market failed to materialize; surpluses kept on mounting as the government continued its buying program, and world markets were glutted and demoralized. Government credit was being undermined in the international market, and the huge surplus coffee stocks were a constant source of pressure on world coffee prices. In desperation the government resorted to the extremity of burning huge

quantities of its stored coffee. It was only a matter of time until the valorization had to be abandoned.

Instead of finding prosperity, the government of Brazil emerged with a staggering deficit, which sharply higher taxes could only partly offset. How marvelously like our own government stabilization schemes for bringing prosperity to our wheat and cotton farmers, and all the other plans for subsidy or relief to this and that group, all of which, in the long run, can only make for a condition of national weakness rather than of strength, of pauperism rather than of prosperity!

Instead of contributing to the stability and prosperity of Brazil's coffee industry, the CCC subvention will have the contrary effect. It is nothing more nor less than a scheme for spreading privilege abroad, a privilege in which our international monopolists will certainly participate. Can the CCC stop with the coffee growers, or will its help extend to cocoa and other products, to the mineral and agricultural lands of the land-owning monopolists in Brazil and elsewhere, in the very near future? The government has already declared that this coffee pact will be extended to the other coffee-growing countries in Latin America. How long will it be before our leaders will awaken one morning to find a vast herd of little and big pressure groups from beyond the seas waiting at their doorsteps? How long will the people remain blind to the fact that to encourage privilege is to aggravate these evils which are the very enemies of stabilization and prosperity?

Does the CCC imagine that through its plan it will relieve the "over-production" of coffee in Brazil or that it will inflate the purchasing power of the Brazilian economy? Can any such plan succeed when it overlooks the greatest of all impediments to purchasing power in international trade, namely, tariffs and other barriers?

To undertake such superficial means of bolstering without taking trade barriers into account, is to offer aggressor countries the opportunity to exploit and confound our own economy. Our government economists are either blind or they are refusing to tell us that as a result of our quota arrangements with the coffee countries, the non-quota portions of the coffee stocks of those countries are being sold to other countries at prices far below those which our own importers are required to pay for coffee of the same type and quality. Our superficial efforts at bolstering foreign coffee growers are encouraging the increase of large unsaleable stocks of coffee as well as of other products which Axis countries have shown us they know so well how to exploit through bilateral trade methods and similar exchange restrictions. We remember but too well how ineffective and helpless our own state and commerce departments were, in meeting the threats and deprivations of the bilateral or barter deals of Germany and other aggressor countries. We recall to our sorrow how for years, by offering the mere pittance of token currencies Germany and Japan were able to secure for a song tremendous supplies of foodstuffs and raw materials from all over the world while we sat back complacent in the belief that we could reattain prosperity

by pump-priming. Our potential enemies were buying up world surplus stocks at better prices than we could get, and more than once before the outbreak of war, Germany was able to deliver coffee to our shores at a lower figure than we could obtain it direct from the producing countries.

One of the probable objectives of the pact, though it is not stressed by our officials, is the good will of the countries to the south of us. If so, the scheme is bound to fail. For years we have been making loans to Brazil. We were always her largest customer. Our present quota agreement with Brazil and the other countries was entered into in October, 1940, fifteen months before Pearl Harbor. But not one step did Brazil take to curtail the operation of the German-owned network of airlines connecting strategic points in that country, nor did she stop shipments of minerals sorely needed by us to Germany and Italy via the Italian-owned Dakar-Natal airlines. Not in any way did she restrict her trade with the Axis powers.

The good neighbor policy as practiced by us with Brazil paid scant dividends. While our State Department intimates that the final alignment of Brazil as our ally, late though it was, resulted from our course, there is ample reason for believing that Brazil's action was determined solely by her own interests and was taken in spite of, rather than because of, our practice of coddling and indulging our neighbors to the south.

The higher price for quota coffee in Brazil has already been mentioned. Aside from price, however, now that the Brazilian coffee grower is going to be paid for his coffee no matter what happens, is he going to give his best in the important service of picking and sorting his coffee, or are we likely to get poorer coffee than before? The American importer must content himself with a limited maximum quota based on his previous imports, with net profit limited to 1½% of his cost. The CCC is the real buyer, even to the extent of advancing the funds. The importer's profit assured, limited though it is, will he exert himself to secure the best grade for his money? Will he look for economies in freight, in service and elsewhere as formerly when competition ruled the market?

The small importer is likely to find the business unprofitable. The business will most likely tend to gravitate toward a few politically influential firms, while in the meantime bureaucrats will gloat in the acquisition of added power.

The whole world seems deluded by the belief that the world's wrongs can eventually be righted by a program of government spending, with rigid trade control on the Russian or German plan or through a so-called democratic planned economy. Tied in with such economic fallacies is our weak and completely unscientific good neighbor policy. If we are to help freedom everywhere, obviously we must retain our own freedom, and neither is possible of accomplishment in any measurable degree so long as we stick to tariffs and other trade barriers. The retention of tariff laws on our statute books, especially in war when they are largely inopera-

tive, makes our claim of non-isolation a shabby pretense, our loans to foreign countries and other economic shots in the arm to the contrary notwithstanding.

When will our people arouse themselves from their state of economic illiteracy, shake off the bureaucratic incubus that threatens to strangle trade and production, and learn for themselves the truths that can lead them to economic salvation?