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Tin and Rubber in United States Trade with the Sterling Area -- John H. Power — 10 pages

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TIN AND RUBBER IN UNITED STATES TRADE WITH THE STERLING AREA

John H. Power

In an effort to reduce the prices of rubber and tin to "reasonable" levels, the United States eliminated competitive bidding in this country for the two commodities about a year ago by designating the General Services Administration and the Reconstruction Finance Corporation as sole legal purchasers of rubber and tin, respectively. Since then tin and rubber prices have fallen sharply, along with the prices of other sterling area commodities, both absolutely and relative to the prices of dollar area commodities. This, combined with the reduced volume of United States imports of key sterling area commodities, helps to explain the recent reemergence of a sterling area dollar shortage.

Tin and rubber are singled out in this article because they have been made the object of deliberate United States policy, whereas market influences on the other sterling area commodities have been of a more ramified character. At least in the case of tin, this policy has caused a significant reduction in sterling area dollar earnings. The decline in these earnings since the spring of 1951 is of considerable concern to this country, because it affects both Britain's aid requirements and the progress of trade liberalization in Western Europe. It may be appropriate, therefore, to review the effects of our controlled buying policies.

The attack on rubber and tin prices

The establishment of the two agencies as sole buyers of tin and rubber resulted from the rapid rise in the prices of the two commodities in the second half of 1950. In New York rubber rose from 31 cents a pound in June 1950 to a peak of 85-1/2 cents on November 8. The General Services Administration, which theretofore had purchased rubber for the government stockpile only, assumed the sole authority for the import of rubber on December 28, 1950. By April, private contracts undertaken prior to December 28 had been liquidated and the official GSA selling price of 66 cents had been established as the effective market price. A further reduction to the present level of 52 cents a pound was effected in July. The reduction in the United States official price was made possible by the downturn in the Singapore price after February; which, in turn, was the result of the sharp reduction in American buying early in the year, reflected in a low volume of arrivals during the period from February through June. By July, the Singapore price had fallen below 47 cents. The relationship between the volume of imports and the movements of the Singapore and New York prices can be seen in Chart I.

Tin and Rubber

Exclusive authority for the import of tin was vested in the Reconstruction Finance Corporation in March of 1951 following the suspension of stockpile purchases on March 6. The latter action had caused the price to fall from $1.82 to $1.34 a pound in less than a week. (The pre-Korean price was $.78). A series of price reductions in June and July brought the RFC selling price down to its present level of $1.03 a pound.

The attack on rubber prices was successful in that since April the Singapore price has generally remained sufficiently below the GSA selling price to permit the import of considerable quantities (Chart I). Imports in the first nine months of 1951 were only two or three per cent under the level of the comparable period in 1950. Imports from the sterling area were down seven to eight per cent.

The story with respect to tin (Chart II) has been quite different, however. The Singapore price, which is normally several cents below the New York price, was virtually identical with it from February through August 1951, and since then has been somewhat above the RFC price of $1.03. Although the Singapore price has declined in recent weeks it was still at $1.12 at the end of December. The volume of United States imports in the first nine months of 1951 was down 66 per cent from the level of the comparable period in 1950. Imports from the sterling area were down 84 per cent. The world tin price has been brought down at the expense of virtually cutting off United States imports.

The divergence in dollar and sterling price movements

The decline in commodity prices after February 1951 was not restricted to tin and rubber, but was quite widespread. Sterling area commodities, in general, declined about as much as tin, though not so much as rubber. On the other hand sterling commodity prices fell more drastically in 1951 (as a counterpart to their more rapid rise in 1950) than did the average for most commodities. This is indicated by Chart III, which compares an index for United States prices of eight leading sterling area commodities with the Bureau of Labor Statistics (BLS) index for twenty-eight primary commodities.1/ If the sterling commodities were

1/ The BLS price index is unweighted and includes twenty-eight commodities among which are to be found most of the important sterling area commodities. The index for sterling area commodities, computed by the Board's staff, includes United States market prices for rubber, tin, wool, jute, burlap, tea, cocoa, and goatskins, weighted by the volume of United States imports in 1948.

eliminated from the BLS index the difference would be even more striking, as is shown by an examination of the price movements of individual dollar and sterling commodities. Wheat and cotton rallied from summer lows to levels at the end of November which approached (in the case of cotton) and exceeded (in the case of wheat) the levels of last spring. The dollar non-ferrous metals (copper, lead and zinc) were at (or near in the case of copper) high levels for the year in November (Canadian prices). The notable exception among dollar commodities is sugar, which has returned to the relatively depressed levels of last spring after a sharp summer advance.

The picture with respect to sterling commodities presents a sharp contrast. The fall in the prices of rubber, tin, wool, cocoa, and burlap from the spring of 1951 was far more drastic than the fall in dollar commodity prices and the autumn rally was brief and of insignificant magnitude. Consequently, the prices of these sterling area commodities were at or near the low level for the year by the end of November 1951.

This shift in the pattern of sterling-dollar commodity prices helps in some measure to account for the deterioration in the sterling area's balance of payments with the dollar area, which began in the second quarter of 1951 and attained critical proportions in the third and fourth quarters. It is the exact counterpart of the shift in the opposite direction in 1950, which contributed to the improvement in the sterling area trade position.

But prices are not the whole story. The volume of United States imports of wool and tin has declined substantially since the first quarter of 1951. The double-barreled impact on sterling area dollar earnings has been of considerable importance in the development of Britain's most recent financial crisis.

The effect of controlled buying on sterling area dollar earnings

Tin and rubber are the sterling area commodities the prices and import volumes of which have been directly and deliberately influenced by United States policy. These are the ones which are important in stockpile purchasing and the ones for which we have established controlled monopsonistic buying. It is possible to increase sterling area earnings from these two commodities immediately and directly without widespread repercussions on other sectors of the American economy. To accomplish the same for other sterling commodities would require general fiscal and credit measures of an expansionary character, which would be inconsistent with a policy of inflation control.

Tin and Rubber

The impact of our controlled buying policies on sterling area dollar earnings may have been considerable, especially with respect to earnings from tin. One way to estimate the effect in the third quarter of 1951 is to calculate the difference in dollar earnings for this period under more "liberal" buying policies for tin and rubber and to compare this with the actual third quarter trade deficit of the sterling area. A very "liberal" assumption would be to put prices for the two commodities at their respective peaks for their monthly averages of unit values. This would mean 55.3 cents for rubber and 167.5 cents for tin.1/ The volume of rubber imports in the third quarter was above the average quarterly rates for both 1950 and the first half of 1951, so no adjustment in volume would seem to be necessary. The volume of tin imports, in contrast, was far below the level which prevailed prior to controlled buying, so that an adjustment of the volume is necessary under the assumption of "liberalized" buying. The average rate of import from the sterling area in 1950 may be selected for this purpose.2/

These assumptions yield a rise in rubber earnings of $12.7 million, slightly over 10 per cent. Tin earnings jump over 55 times, yielding an increase of $56.8 million. The total increase in earnings of $69.5 million would wipe out about 80 per cent of the third quarter sterling area trade deficit with the United States, as calculated from United States trade statistics.

These assumptions about tin and rubber prices appear to be too extreme, however. More reasonable assumptions for a "liberal" buying policy for tin might be a price of $1.25 per pound (though it is not certain that the projected volume of tin could have been bought at this price). As for rubber, perhaps the GSA price was "liberal" enough. The volume of imports was high in the third quarter while the Singapore price was adequately below the GSA selling price. The additional earnings from tin would still yield $43.2 million which would eliminate about one-half of the third quarter trade deficit.

From these calculations, it is evident that the crucial factor was the volume of tin imports. Had this volume been at the 1950 rate, any conceivable price would have yielded sufficient dollars to make a significant dent in the third quarter trade deficit. Two further questions must be answered, however. First, is the rate of import in 1950 a reasonable one to use in this context? Second, would the increased tin earnings have altered significantly the total dollar deficit of the sterling area as opposed to its trade deficit with the United States?

1/ These are unit values for imports from the sterling area only.
2/ This was considerably under the rate for the third quarter of 1950.

Tin and Rubber

Tin imports from the sterling area in 1950 were about two-thirds higher than in 1949 and about 80 per cent above 1948. The rise in 1949 and 1950 was due primarily to government stockpiling which can be estimated at about 56 and 44 thousand long tons, respectively, for the two years as opposed to consumption figures of 71 and 100 thousand. The stockpile was estimated to be at a level of about 125,000 long tons on January 1, 1951,1/ a level which represents only slightly more than one year's consumption at the 1950 rate. Presumably the stockpile goal is much above this level. It would not seem extraordinary, then, that this country might have imported tin in 1951 at about the 1950 rate had the metal been available at "reasonable" prices.

The total dollar deficit of the sterling area for the third quarter was much larger than its trade deficit with the United States: $638 million 2/ as opposed to $87 million. When we compare the hypothetical increase of $43 million in tin earnings in the third quarter (which would have resulted from a price of $1.25 a pound and a volume of import at the 1950 rate) with this larger figure, it seems to lose a great deal of its significance. It must be remembered, however, that the decline in total United States imports from the sterling area from $683 million in the second quarter of 1951 to $539 million in the third quarter was an important contributory cause of a speculative movement which helped to swell the over-all payments deficit, and the decline in tin imports was by no means an insignificant part of the decline in total imports.

The effect of controlled buying on tin and rubber markets

There is good reason to believe that the effect of controlled buying of rubber has not been to alter fundamentally the results which would have obtained in its absence, once speculative influences had abated. Rubber was not scarce in 1951. Scare buying stemming from the fear that the rubber producing areas would be lost to the western world was largely responsible for the speculative price rise following the Korean invasion. The excess of world production of natural rubber over consumption in the first nine months of 1951 was at an annual rate two and one-third times the rate for 1950, permitting considerable additions to strategic stockpiles. Visible stocks were virtually unchanged in the same period.3/

The large excess of production over consumption of natural rubber was due, in part, to increased production; but, in addition, the phenomenal rise in the output of synthetic rubber permitted an actual reduction in consumption of the natural product. At the end of 1951, synthetic production in the United States was at the rate of more than

1/ American Metal Market, *Metal Statistics 1951*, page 454.
2/ The decline in reserves plus the ERP aid received.
3/ *Rubber Statistical Bulletin*, vol. 6, no. 2, page 2.

930,000 long tons a year, almost three times the 1950 rate. It has been estimated that synthetic production will supply about 65 per cent of our rubber consumption in 1952.1/ Thus, even with the expected rise in consumption for 1952, stockpiling would have to be at the rate of over 300,000 long tons a year if the rate of import of natural rubber of the first nine months of 1951 were to be continued throughout 1952. But the minimum goal for the natural rubber stockpile is expected to be reached early in 1952,2/ and stockpiling is expected to proceed at a slower rate thereafter. The inescapable conclusion is that a world surplus of natural rubber is quite likely for 1952. This, combined with the fact that synthetic rubber sells for 26 cents a pound in the United States (and is exported at that price), indicates that the GSA price of 52 cents a pound for natural rubber may be too high rather than too low.3/

There is, however, another important factor to consider. The United States may decide to purchase more rubber than the above figures would indicate simply in order to prevent it from going to the Soviet bloc. Ceylon has been selling rubber to China, despite our protests, and has indicated she will continue to do so unless we offer more attractive terms. It will be even more difficult to prevent such shipments if a world surplus develops in 1952.

The effect of our tin purchase policy, unlike the effect in the case of rubber, has been clearly to alter drastically the tin market picture. The results have been unfortunate for both the sterling area and the United States. The effect on the sterling area's trade balance with the United States has been indicated above. At the same time the United States has been unable to add to its strategic stockpile since last March, private and government (non-strategic) stocks are down, and further restrictions have been placed on tin consumption.

The tin situation is complicated by the presence of Bolivia as the most important supplier of tin ore to the United States Government-owned smelter, which produces normally about 40 per cent of the tin consumed in the United States. Negotiations between the RFC and

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1/ Estimate by John L. Collyer, president of the B.F. Goodrich Company, quoted in the New York Times, December 17, 1951, page 38.

2/ Journal of Commerce, December 17, 1951, page 2.

3/ On January 17 the GSA announced that the price for February and March deliveries was cut to 50-1/2 cents, reflecting the lower prices at which GSA had been buying overseas in recent weeks.

the Bolivian producers have been stalemated with the RFC offering $1.12 per pound and the producers asking $1.50.1/

It is not the purpose of this article to go into the controversy surrounding these negotiations. Recent developments, however, strongly indicate that a change in our tin price policy is imminent. A second exchange with Great Britain of United States steel for Canadian aluminum and (this time) for Malayan tin has just been reported.2/ Under the terms of the agreement the United States will buy 20,000 tons of tin over a twelve months period at a price of $1.18 a pound.3/ It seems certain that this will bring about a break in the tin situation in the immediate future. The RFC price will probably be about $1.20 to $1.25 a pound, which is believed to be acceptable to Bolivian producers. (The present Singapore price is about $1.14). When this happens tin imports are likely again to achieve the high level of 1950. The effect this will have on the sterling area trade balance with the United States has been indicated above.

It is possible that reduced imports of rubber (because of the achievement of the stockpile objective) will offset the gains the sterling area will enjoy from tin sales. It is also possible, however, that the stockpile goal will be raised and rubber imports maintained in order to prevent shipments from going to the Soviet bloc and as an indirect means of providing more aid to Great Britain than might otherwise be feasible.

1/ This is an equivalent metal price and corresponds to $1.12 (or $1.50) for tin metal delivered at New York.

2/ New York Herald Tribune, January 15, page 20.

3/ This is less than one-third of our tin imports from the sterling area in 1950.

CHART I

RUBBER

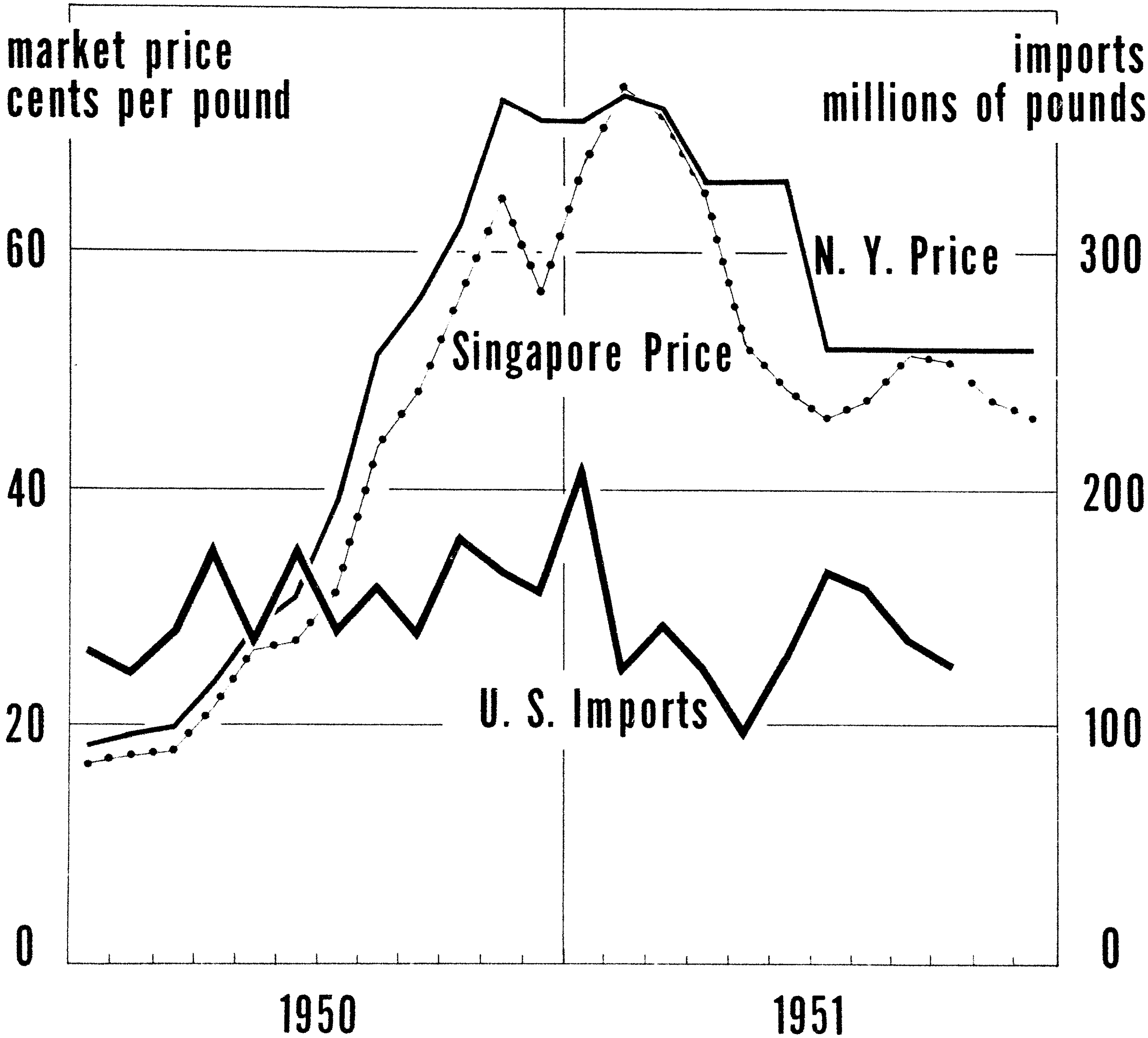

CHART II

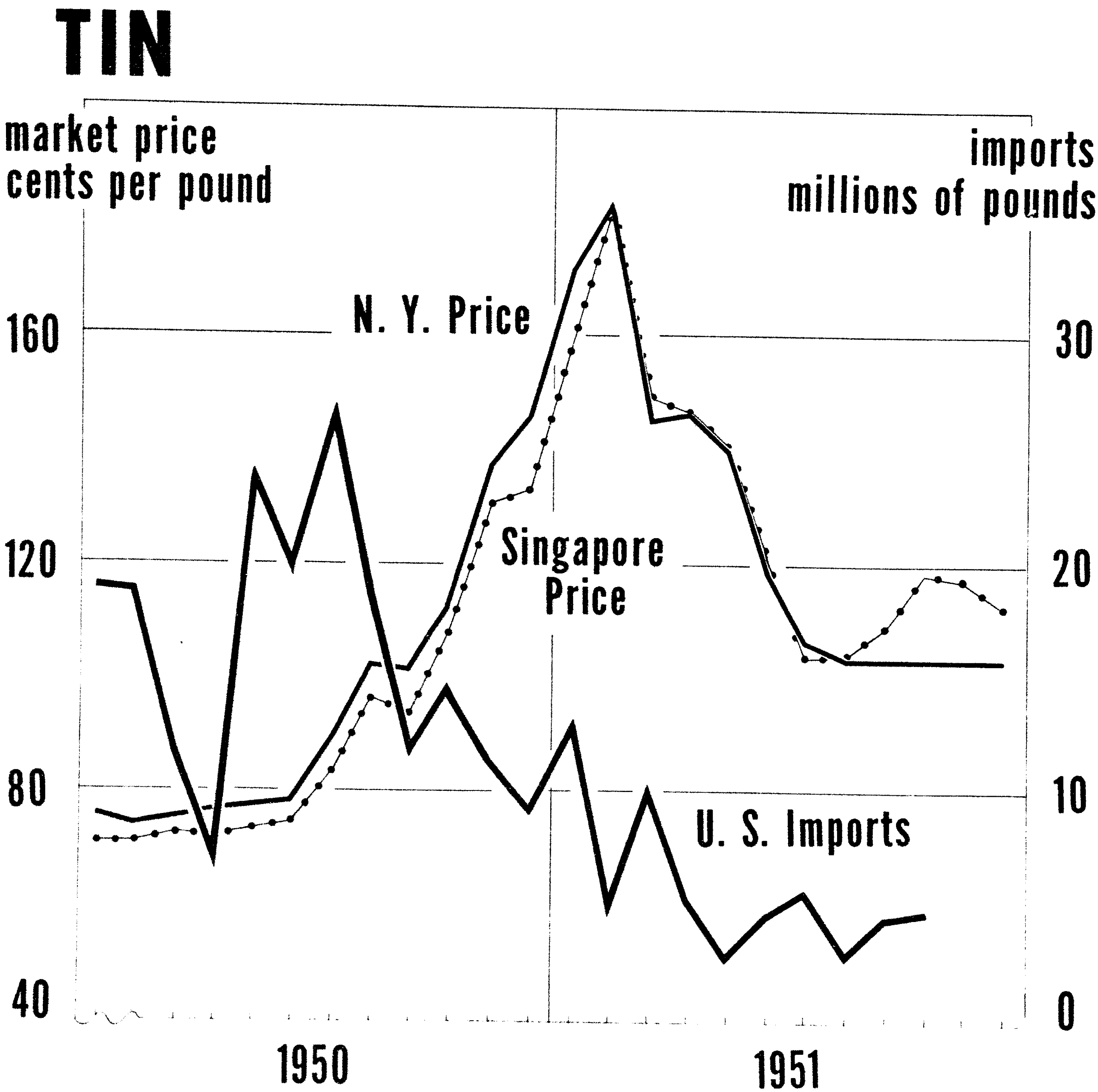
TIN
market price
cents per pound
imports
millions of pounds
N. Y. Price
Singapore
Price
U. S. Imports
160
120
80
40
30
20
10
0
1950
1951

CHART III

PRICES - PRIMARY COMMODITIES