

# ***The International Trade in Food and the City of London Since 1850***

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There has been built up in London a highly complex system of merchants, bankers, commodity markets and traders of various kinds to secure the growth of overseas trade under free terms of finance and commerce and free interplay of the market. The system was long in building but it may be quickly damaged.

K.M. Stahl, *The Metropolitan Organization of British Colonial Trade: Four Regional Studies*, London 1951, p 93.

The attempts by governments to regulate commerce both domestically and internationally have resulted in a series of mistakes, each one requiring some fresh legislation to counterbalance the initial blunder, until the maze of restriction on every form of industry has made clear thinking very difficult.

A.A. Hooker, *The International Grain Trade*, London 1936, p 135.

The combination of protection and subsidy ensures that the world market, whether in times of surplus or shortage, is treated as a residual, used by producers and consumers alike as a means of stabilising their own supplies and not as a price mechanism indicating the required adjustment in either supply or demand.

N. Butler, *The International Grain Trade: Problems and Prospects*, London 1986, p73.

Countries that have liberalised their pricing and marketing of agriculture have seen a resurgence of domestic production of both food and export crops.

Financial Times 12/13 March 1994 (re World Bank Report on Sub-Saharan Africa).

By the 1990s the world trade in foodstuffs had become one of the most troublesome components of the international economy, leading to disputes involving such major countries as the United States, Japan and the European Union. As Avery noted in 1993:

One would be hard pressed to identify an area of economic policy that causes more problems for world trade than agriculture<sup>1</sup>.

The successful completion of the Uruguay round of the

<sup>1</sup> W.P. Avery, 'Agriculture and Free Trade' in W.P. Avery (ed), (*World Agriculture and the GATT*, Boulder, Colorado 1993), p 1.

General Agreement on Trade and Tariffs (GATT) negotiations was both long delayed and nearly abandoned because of a reluctance by countries to free markets for food, which had been largely excluded from the general liberalisation of world trade that had taken place since 1947. Underlying these problems were the policies adopted by numerous governments as they intervened to support either the producers or consumers of food in their national economies. One of the by-products of these policies was its distorting and destabilising effects on the international trade in food as it either closed off major markets or subsidised the dumping of excess production. Altogether it has been estimated that farm support in 1992 cost the member countries of the OECD some \$354bn, and this included heavy export subsidies by the United States and Western Europe. Between 1985 and 1993 the US government spent \$6.2bn subsidising wheat exports, for example. Increasingly, the pattern and volume of the world trade in foodstuff has come to be determined not by market forces, and the operation of absolute and comparative advantage, but by governments more concerned with solving domestic political, social or economic difficulties than with the harmonious functioning of the international economy and the overall prosperity of the world. If the reductions in tariffs and subsidies negotiated under the Uruguay round of GATT are implemented, the welfare gains to the world population are estimated at \$190bn.<sup>2</sup> As the *Financial Times* noted in May 1990:

There is little debate over the long-term impact of agriculture trade liberalisation: it would result in a more efficient system for the world.<sup>3</sup>

<sup>2</sup> G.E. Schuh, 'The Role of Markets and Government in the World Food Economy' in D.G. Johnson and G.E. Schuh (eds), *The Role of Markets and Government in the World Food Economy*, (Boulder, Colorado 1983), pp 286-8; N. Butler, *The International Grain Trade: Problems and Prospects*, (London 1986), pp4, 35, 73-4; A.J. Lougheed, 'The Common Agricultural Policy and International Trade', *National Westminster Bank Quarterly Review*, November 1971, p 27; *Financial Times*, 21 May 1990, 30 March 1990, 20 July 1990, 22 May 1992, 16 December 1993, 11 January 1994, 7 January 1994.

<sup>3</sup> *Financial Times*, 21 May 1990.

The consequence was that the trade in foodstuffs has become a very sluggish component of international commerce over the last 40 years. Although the value of world trade in foodstuffs did rise, for example, from \$20 billion to \$199 billion (at current prices) between 1955 and 1985, its share of the total dropped from 22 per cent to 10 per cent over the same period and has shown no sign of recovery. In turn, those countries dependent upon food exports experienced slower rates of economic growth, and increasing economic problems as a result, whether they were advanced countries like Argentina, with its grain and meat, or less-developed nations, as with the Caribbean sugar-cane producers. Conversely, those industrial countries that have increasingly substituted domestically-produced for imported foodstuff - principally the United Kingdom - have also suffered relative economic decline. In 1946, the UK imported 70 per cent of its cereal requirements, whereas by 1981 self-sufficiency has been achieved. Generally, there has been a retreat since the Second World War from a dependency upon either export markets or imported supplies in the international trade in foodstuffs, to the disadvantage of all economies concerned. The proportion of world wheat that entered international trade was around 11 per cent before 1914, fell to 10 per cent in the early 1960s and then rose strongly to 15 per cent in the late 1980s. However, much of this growth reflected the need by the European Community to dump excess output abroad rather than production for expanding export demand. In 1990, when world wheat production totalled 598.9m tonnes, a total of 91.7m tonnes (15 per cent) was internationally traded but a further 120m (20 per cent) was carried forward into stocks, and this had become a regular occurrence.<sup>4</sup>

<sup>4</sup> N. Grimwade, *International Trade: New Patterns of Trade, Production, and Investment*, (London 1989), p 58; R.W. Rowthorn and J.R. Wells, *De-Industrialization and Foreign Trade*, (Cambridge 1987), p 106; *Proceedings of the United Nations Conference on Trade and Development*, (Geneva 1964), vol I, p 119, vol III, p 252. *Financial Times*, 20 January 1992, 22 May 1992.

In contrast, a hundred years before the international trade in foodstuffs was one of the most dynamic elements in the world economy. Between 1876 and 1913 the volume of food exports tripled, and they maintained their share of world trade at around the c25 per cent level. This was despite the rapid expansion of international trade in manufactured goods, both between industrial economies and to the developing world, and the accompanying increase in demands for raw materials and fuels, which rapidly outgrew the supplies available within individual countries, especially in Western Europe.<sup>5</sup> Reviewing the expansion of the international food trade in this period Stern concluded that:

This vast outflow of food and other commodities from the United States and other new countries, and from Western Europe constituted a true revolution in the world's commerce.<sup>6</sup>

A country like Germany, which had been an exporter of wheat in the 1860s (1865-9 - 0.2m tons per annum) had been transformed into a major importer by 1914 (1910-3 - 2m tons per annum) and experienced a rapid rate of economic growth at the same time. Conversely, those countries producing for these export markets also underwent economic transformation at this time. The economies of Argentina, Australia and Canada all grew rapidly, helped by the worldwide demand for foodstuffs, especially that coming from Western Europe. By the First World War, at least half of their total wheat crop was being exported, for example, and production had risen enormously, as in the Canadian case from 2m to 120m bushels per annum between 1871 and 1914.<sup>7</sup>

<sup>5</sup> P. Lamartine Yates, *Forty Years of Foreign Trade*, London 1959; R. Nurske, *Patterns of Trade and Development*, (Oxford 1962), p 16.

<sup>6</sup> R.M. Stern, 'A Century of Food Exports', *Kyklos*, vol XIII (1960), p 46.

<sup>7</sup> M. Tracy, *Agriculture in Western Europe: Crisis and adaptation since 1880*, London 1964, p 101; J.R. Scobie, *Revolution on the Pampas: A Social History of Argentine Wheat, 1860-1910*, (Austin, Texas 1964), p 8; S.G. Hanson, *Argentine Wheat and the British Market*, (Stanford, California 1938), p 1; L.A. Clarkson, 'Agriculture and the Development of the Australian Economy during the Nineteenth Century', *Agricultural History Review*, vol 19 (1971), p 96; J.A. Stovel, *Canada in the World Economy*, (Cambridge, Mass), p 105.

It was not just these newly-settled countries, with their vast resources of agricultural land, that benefitted from their ability to supply export markets with foodstuffs, for many established economies were able to participate in this trade because of either climatic advantages or abundant supplies of labour. A small country like Ceylon grew rapidly in this period, attracting in 200,000 workers from India, through its success in producing coffee, and later tea, for the world market. In turn, the need to feed these workers created a demand for rice which other Asian countries were able to fill, expanding their agricultural production and promoting economic growth in the process. Conversely, Olson argues that external demand for wheat, and other foodstuffs, was not of major importance for the export economies in this period, especially if one considers only British demand. However, by concentrating upon the aggregate rate of increase of UK imports of wheat over the 1885-9 to 1909-14 period, he makes no allowance for the size of that demand and thus the extent of its impact on the individual producing economy. Hanson, for example, when investigating exports from the less-developed economies in this period, suggests that any lack of rapid economic growth was due to the combination of a small export sector and the slow growth of exports.<sup>8</sup>

Overall, the international trade in foodstuffs between 1870 and 1914 acted as a major conduit in transmitting the economic growth that was taking place in Western Europe, as a result of industrialisation, to other parts of the world. These ranged from non-industrial countries in Western Europe itself, like Denmark

<sup>8</sup> Y. Lim, 'Trade and Growth: The Case of Ceylon', *Economic Development and Cultural Change*, vol 16 (1967-8), pp 245, 249; J.C. Ingram, 'Thailand's Rice Trade and the Allocation of Resources' in C.D. Cowan (ed), *The Economic Development of South East Asia*, (London 1964), pp 103, 109; A.J. Latham, *The International Economy and the Underdeveloped World, 1865-1914*, (London 1978), pp. 94, 155; C. Siok-Hwa, *The Rice Industry of Burma, 1852-1940*, (Kuala Lumpur 1968), p 200; M. Olson, 'The United Kingdom and the World Market in Wheat and other Primary Products, 1870-1914', *Explorations in Economic History*, vol 11 (1974), pp 329-34; J.R. Hanson II, *Trade in Transition: Exports from the Third World, 1840-1900*, (New York 1980), p 25.

and Holland who emerged as specialist producers of value-added foodstuffs such as bacon and butter, through land-rich economies in the Americas and Australasia, which could produce grain and meat at low cost, to basically subsistence economies in Latin America, Asia and Africa that were able to supply the food products that Europeans could not produce for themselves but could increasingly afford, especially tea, coffee, cocoa, rice or bananas. As a result, a high proportion of the output of a number of these commodities was being exported, ranging in 1934-8 from 51 per cent of tea, through 71 per cent of coffee, to 93 per cent of cocoa, with Asia, Latin America and Africa producing two to three times more than their own consumption. The overall commitment to the world market was much greater in tropical than with temperate zone foodstuffs which possessed a strong local market. In wheat, for instance, 11 per cent of output was exported, and in beef a mere 7 per cent, in 1934-8, with Australasia being the only continent where production was substantially above consumption.

It could not be expected that the trade in foodstuffs would continue to play such a dynamic role in the world economy, or even maintain its share of international commerce, as increasingly affluent consumers spent a lower proportion of their income on food. Nevertheless, it is surprising that in these two periods of substantial change and growth in the world economy, separated by a mere 30 years, the food trade should occupy such a different position in each. It is difficult to accept that this was the inevitable result of long-term demand and supply trends - the operation of Engels law on a world scale - as many economics texts suggest, when the change was so abrupt. The share of food in world commerce stood at 27 per cent in 1913 and only fell to 24 per cent in 1929, 23 per cent in 1937 and 22 per cent in 1955, before beginning its precipitate collapse to its current 10 per cent level. At the same time food comprised a wide variety of different commodities, ranging from such basic items as wheat or flour, which would be damaged by rising real incomes in the world, to

meat, fruit, vegetables, tea, coffee and other such exotic items, demand for which would grow with prosperity. For example, it was imports that met the British consumers' increasing demand for the more expensive proteine food, like meat, butter, eggs and cheese in the 1870-1914 era. By 1910-14, the average consumption of meat reached 127 pounds per head in the UK as compared with 87 pounds in 1851-60, and the share of imports in the total supply had risen from 4 per cent to 42 per cent. There was no reason to believe that the international trade in foodstuffs would then stagnate. Between 1913 and 1986, it did experience considerable change with the share of cereals being halved while that of fruit, vegetables and nuts more than doubled (Table 1).

**TABLE 1 - World Trade in Foodstuffs - (Composition)**

	1913	1929	1937	1953	1986
Cereals	32%	25	24	24	16
Animal/Fish Products	21%	21	18	15	35
Beverages	18%	21	14	25	19
Fruit/Vegetables/Nuts	8%	11	13	14	20
Oilseed/Fats	14%	16	17	12	10

P.L. Yates, *Forty Years of Foreign Trade*, London 1959, pp 224-5.

United Nations, *International Trade Statistics Yearbook 1987: Vol. I*

In fact, as consumer tastes and income changed and transport became ever faster, completely new areas of food rose to prominence in international trade. For example, by 1992 the global market for seafood totalled \$40bn with species like prawns, shrimps, scampi, squid and lobster becoming increasingly popular among consumers. In that year Chinese shrimp exports reached \$1.5bn, followed by India with \$0.3bn. Similarly an international market for high quality mushrooms had been established by the 1990s, as air freight allowed this highly perishable food to be moved from producing regions in India and China to consumers in North America and Western Europe. As in

the period before the First World War, countries that could, successfully, tap these new markets for food benefitted accordingly. Exports of temperate fruit from Chile, for example, grew from 44,000 tonnes per annum in 1974 to 888,000 in 1990, as they applied new production technology and speedier transport to highly perishable varieties in order to meet the out-of-season demand in the Northern Hemisphere. Conversely, many countries in Sub-Saharan Africa, that had prospered with the production of such commodities as cocoa and tea before the Second World War, failed to move into the new products, and so lost out to producers in Asia and Latin America.

Consequently, though fundamental economic forces would suggest a diminished role for foodstuffs in world trade, the chronology of the decline does not support the inevitability thesis, while the changing composition of the food trade indicates its potential for expansion. The very growth of an integrated world economy, and increasing inter-dependency should demand greater, not less, specialisation in food production both to satisfy ever more varied consumer requirements and the operation of comparative advantage, and this should have resulted in the international trade in foodstuffs growing more rapidly than it did in the post-1945 era, though not necessarily as fast as world trade as a whole. Within this there existed, as before 1914, ample opportunities for producers favoured by location or climate or costs to prosper by serving the world market for food as it sought an ever greater variety, quality and regularity of supply.<sup>9</sup>

It is not possible to take refuge in long-term economic forces in order to explain the changes in the international trade in foodstuffs over the last one hundred years. Instead, it is

<sup>9</sup> R.C. Michie (ed), *Commercial and Financial Services*, Oxford 1994, Introduction plus contributions in Part I: Commerce; W.S. and E.S. Woytinsky, *World Population and Production*, (New York 1953), p 322; W.S. and E.S. Woytinsky, *World Commerce and Governments*, (New York 1955), pp 133-4; R. Perren, *The Meat Trade in Britain, 1840- 1914*, (London 1978), p 3; *Financial Times*, 18 November 1992, 21 July 1993, 24 February 1994, 12-13 March 1994. (Engels Law: The proportion of income spent on food diminishes as the income increases.)

necessary to explain why governments became so involved in the trade, and adopted policies that restricted its growth after 1914. However, there is no real appreciation of why these policies came to be implemented, for the increasing role of government is itself regarded as an inevitable process. As the international economy became more complex and interdependent, it required intervention and supervision. If this was due to the gradual breakdown of the market-based trading system for foodstuffs both before 1914 and afterwards, then the present involvement of government in the production and distribution of foodstuffs was inevitable. However, if it was due to specific and unforeseen events that destabilised the food trade, then government involvement was only a temporary phenomenon, to be dispensed with when circumstances altered. Consequently, it is essential to know why government became involved in the trade in foodstuffs, and how the trade was organised before then. It is only by studying the pre-government era, that an answer to the question of what would replace the present system, and what would be its consequences, can at least be attempted.<sup>10</sup> For example, in 1986, a book on the international grain trade stated that:

...there is no way of knowing how the world grain trading system would be managed in the absence of these corporations.<sup>11</sup>

This was in the context of a discussion on the five trading companies that dominated the grain trade. However, while the future is hidden the past does provide essential clues, for these companies did not always dominate. It should never be forgotten that trade needed to be organised. Before the intervention of governments and international agencies, and the creation of multinational corporations, this was done in a completely

<sup>10</sup> R. Tyers and F. Anderson, *Disarray in World Food Markets: A Quantitative Assessment*, (Cambridge 1992), pp 19-23, 44, 66, 80; Grimwade, *International Trade*, pp 59-62.

<sup>11</sup> Butler, *International Grain Trade*, p 106.

decentralised way by numerous merchants and other intermediaries operating within formal and informal markets. As Yates observed in 1959 on international trade in general:

Every working day in a hundred different countries in thousands of cities and in hundreds of thousands of offices, lowly clerks prepare invoices, fill out shipping documents, and complete customs declarations.<sup>12</sup>

This required management at all levels and the process was not that much simpler before 1914 when governments and corporations were little involved. At that time the City of London - now regarded simply as a financial centre - was one of the few, if not the only, place in the world that possessed the spread and depth of mercantile expertise and contacts, and also the ancillary financial, shipping and other services, that were necessary to arrange the receipt and delivery of an increasing volume and variety of food from ever more diverse sources to ever more numerous destinations.<sup>13</sup> Before the Second World War the City of London was acknowledged to be at the very heart of world trade, not just in terms of extending the necessary credit or providing the required transportation, but actively overseeing the whole complex process.<sup>14</sup>

The City of London's direct involvement in the international trade in food, as opposed to indirect involvement through shipping, finance and insurance, can be divided into three distinct though closely related components. Firstly, there was participation in the physical trade, which involved the physical handling of exports and imports, and acting as a entrepot, with

<sup>12</sup> Yates, *Forty Years of Foreign Trade*, p 15.

<sup>13</sup> Preface by M. Perham to K.M. Stahl, *The Metropolitan Organization of British Colonial Trade*, (London 1951), p xi; Woytinsky, *World Commerce*, pp 11, 71; R.M. McNnis, 'The Emergence of a World Economy in the latter half of the Ninethenth Century' in W. Fisher, R.M. McNnis and J. Schneider (eds), *The Emergence of a World Economy: 1500-1914*, (Stuttgart 1986), vol II, pp 364-5; S.B. Saul, *Studies in British Overseas Trade, 1870-1914*, (Liverpool 1960), p 53; E. Van Cleef, *Trade Centers and Trade Routes*, (New York 1937), p 132; Yates, *Forty Years of Foreign Trade*, p 17,60-1.

<sup>14</sup> For an overview of the City of London see R.C. Michie, *The City of London since 1850: Continuity and Change*, (London 1992).

goods flowing into and out of warehouses in the City of London. Secondly, there was the office trade, which was concerned with the organisation of both British trade and the exchange of goods between third countries, without these goods ever passing through London, or even Britain. Thirdly, there was the future trade in which commodities not yet produced or needed were traded in organised markets in anticipation of the appearance of supply and in expectation of the growth of demand. As the scale and complexity of trade grew, so it became both possible and desirable to separate the physical, office and future components into specialist tasks handled by different groups at an increasingly sophisticated level. To do this required a commercial centre of considerable magnitude, and the City of London, with a workforce of nearly 400,000 by 1914, could provide that.<sup>15</sup>

Before 1914 the trend in bulky commodities was definitely away from London and towards other ports. In the grain trade Liverpool became the principal port for wheat and maize imports into Britain, while Bristol dominated the trade in barley, leaving London with flour and oats, reflecting its large human and horse population. Only in re-exports was London still dominant, with 54 per cent of the total trade in 1913, by which time they were running

**TABLE 2 - UK re-exports of foodstuffs, 1913**

	Foreign Produce		Colonial Produce		Total	
Grain and Flour	£ 1.2m	75%	£ 0.4m	25%	£ 1.6m	10%
Meat	£ 1.6m	76%	£ 0.5m	24%	£ 2.1m	13%
Others	£ 9.4m	79%	£ 2.5m	21%	£ 11.9m	76%
Total	£ 12.2m	78%	£ 3.4m	22%	£ 15.6m	

*Annual statement of the trade of the United Kingdom with foreign countries and British possession: 1913.*

<sup>15</sup> For a wider perspective on this see R.C. Michie, 'The City of London and International Trade, 1850-1914' in D.C.M. Platt (ed), *Decline and Recovery in Britain's Overseas Trade, 1873-1914*, London 1993.

at £107m per annum (1910-13) compared to a mere £19m per annum in the 1850s. However, the need for entrepôts was itself on the wane as there was a growing ability to conduct direct trade between producers and consumers through improvements in world transportation, with the steamship, and communications, with the telegraph, supported by the growing volume of world trade which could justify bilateral shipment. Increasingly continental Europe, for example, drew its supplies of wheat, rice, tea and other foodstuffs directly from the producing countries and not via London, thus avoiding the costs and inconvenience of transshipment. Food comprised under £16m of Britain's re-export trade by 1913, for instance. (Table 2) Ports such as Antwerp, Amsterdam, Le Havre and Hamburg were now major destinations for foodstuffs shipped directly from producing countries rather than via London.<sup>16</sup>

Nevertheless, the trends in the physical trades were not universally against London as the very diversity and complexity of the food trade necessitated intermediate or temporary storage points. London's combination of expertise, organisation and convenience made it a popular entrepôt to which foods could be shipped and stored before despatch to a final destination, as was often required by seasonally produced crops. Many bulky commodities also required careful inspection and quality testing before sale to users, such as in the case of coffee or tea, and London was one of the few centres where such a facility was available. Consequently as London lost one re-export trade,

<sup>16</sup> A. Barker, *The British Corn Trade, London c.1919*, p 66; F.E. Hyde, *Liverpool and the Mersey: An Economic History of a Port, 1700-1970*, Newton Abbot 1971, pp 96-100; S.W. Dowling, *The Exchanges of London*, London 1929, pp 106, 130, 140; Perren, *Meat Trade*, pp 197, 201; *Statistical Abstract for the United Kingdom*, London 1914, pp 94-6; J.G. Broodbank, *History of the Port of London*, London 1921, vol II, pp 498-9; G.L. Rees, *Britain's Commodity Markets*, London 1972, pp 144-5, 173, 229, 234, 241-4, 269, 269, 274, 269-70, 325, 334, 351, 417; C.A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie*, Brighton 1987, pp 106, 110-11, 113-14, 116; C. Maughan, *Markets of London*, London 1931, pp 85-6, 94, 108, 127-8; W.J. Passingham, *London's Markets: Their Origin and History*, London 1934, pp 149-51; Siok-Hwa, *Rice Industry of Burma*, pp 202-4; Hanson, *Trade in Transition*, pp 106, 128-131; D.C.M. Platt, *Latin America and British Trade, 1806-1914*, London 1972, pp 255, 266-7; A.W. Kirkaldy, *British Shipping: Its History, Organisation and Importance*, London 1914, pp 489-91.

because its volume and popularity could justify a full organisation at source or destination, another appeared.<sup>17</sup> This was, however, as long as London's costs for storage and trans-shipment remained competitive. It was not until after 1945 that the physical trade in bulky commodities came to bypass London because of the Port's inability to match its costs to those of its competitors, especially those on the Continent, like Rotterdam. This was largely owing to government legislation on dock manpower introduced at the end of the War, and subsequently reinforced. By the 1980s even food destined for Britain was being landed at Rotterdam, Antwerp or Zeebrugge and then trans-shipped to the UK by ferry.<sup>18</sup> With or without the undermining of London's competitive position as a port, the importance of the physical trade to the City would have undergone relative decline. As it became progressively easier to transport goods direct in an integrated world economy, the relative need for intermediate storage points diminished. As Barker observed about the pre-1914 grain market:

... a London wheat merchant can tell almost to a day when a parcel of wheat from New York, or Montreal, or Buenos Aires is likely to reach him. There is therefore no necessity for keeping the stocks which were once an absolute necessity.<sup>19</sup>

<sup>17</sup> J.G. Smith, *Organised Produced Markets*, London 1922, p 147; G.L. Rees, *The History of the London Commodity Markets*, London 1978, pp 32, 59, 129, 144-5, 269; Maughan, *Markets of London*, pp 78, 85-6, 98, 203; Dowling, *Exchanges of London*, pp 106, 130, 140; Jones, *Cosmopolitan Bourgeoisie*, pp 41, 59-61, 184-8; S.B. Saul, *British Overseas Trade*, pp 59, 217; A.H. Imlah, *Economic Elements in The Pax Britannica: Studies in British Commerce in the Nineteenth Century*, Cambridge, Mass 1958, p 159.

<sup>18</sup> J.H. Dunning and E.V. Morgan, *An Economic Study of the City of London*, London 1971, pp 242, 371-6; D. Forrest, *Tea for the British: The Social and Economic History of a Famous Trade*, London 1973, p 256; J. Bird, *The Geography of the Port of London*, London 1957, p 166; R.D. Brown, *The Port of London*, Lavenham 1978, pp 115, 183-4, 194; C. Leubuscher, *The West African Shipping Trade, 1909-1959*, Leyden 1963, pp 55-65, 81, 96-7; D.K. Britton, *Cereals in the United Kingdom: Production, Marketing and Utilisation*, Oxford 1969, p 354; *Financial Times*, 28 June 1988, 7 April 1989, 12 May 1989, 13 May 1989, 12 January 1990; *Port of London Authority, Guide to the Docks and Warehouses*, London 1913, p 94; Dunning and Morgan, *City of London*, p 39; O.R. Hobson, *How the City Works*, London 1940, p 11; Passingham, *London's Markets*, p 142.

<sup>19</sup> Barker, *British Corn Trade*, p 90.

However, the very changes in communications that were continually undermining the City's role in the physical trade, also allowed it to play a greater role in the organisation of that trade on a world scale. Previous to the telegraph the physical movement of cargo, and the documentation that is required, travelled at much the same pace and even on the same ship. In contrast, with the telegraph, information and orders could be transmitted much more rapidly than the goods themselves. By the late 1870s London was connected to all the major commercial centres by telegraph so allowing rapid communication worldwide. By 1903, for instance, the telegraphic office at the Baltic Exchange -where grain was traded- was sending or receiving an average of 2.4 telegrams a minute during the working day. In addition, international telephone links beginning in the 1890s provided instantaneous contacts while the use of air travel, from the inter-war years onwards, allowed the rapid movement of both samples and agents, further facilitating the central organisation of international trade.<sup>20</sup>

The result of this communication revolution was that it became possible to conduct a global trading business from an office in the City, maintaining constant contact supplemented by rapid visits and the receipt and despatch of samples and catalogues. The organisation of much of the international trade in foodstuffs thus continued to be done in the City or even gravitated to London from elsewhere. In grain, for example, though Liverpool became the principal centre for importation and flour milling in Britain, London remained the organisational centre not only of the British but the international grain trade. This included the maintenance of links with other grain producing or consuming centres in the operation of a 24-hour global market.

<sup>20</sup> J.A. Findlay, *The Baltic Exchange*, London 1927, p 39; J. Ahvenainen, 'Telegraphs, Trade and Policy: The Role of the International Telegraphs in the Years 1870-1914' in Fisher et al, *Emergence of a World Economy; Maughan, Markets of London*, p 119.

Firms from all over the world, and from within Britain, gravitated to the City as an ideal place from which to organise their business. Browns, an Anglo-American firm of merchants, shifted from Baltimore/Liverpool to a New York/London axis as a result while the Swiss firm, Volkart Bros, which specialised in coconuts, made London its operational base before 1914.

Plantation companies producing tea, rice, spices and rubber, whatever the origin of their founders, found it convenient to establish either branches or connections in London, through which their products could be marketed and their supplies obtained.<sup>21</sup> Propelling London into the forefront as an international trading centre were the foreigners, in particular, who arrived and set up operations in the City. The Greeks, for example, were heavily involved in the grain trades, having gained their initial experience in the Mediterranean. They were a major component of the Baltic Exchange's membership. Germans were also an important force, being of major significance in both sugar and coffee, reflecting Germany's position as a principal producer of one and consumer of the other. These immigrants, whether from within Britain or abroad, were important not only for the talent, experience and expertise they possessed but also for their existing contacts in other centres. By choosing to base their operations in the City, they brought in their train both a deep understanding of the markets and products they served and a ready-made distribution

<sup>21</sup> Maughan, *Markets of London*, p 34; cf pp 85-6, 108-113, 118-9, 127-8, 131; Rees, *Britain's Commodity Markets*, pp 129, 133, 172, 269; Smith, *Organised Produced Markets*, p 97; Passingham, *London's Markets*, p 156; Rees, *London's Commodity Markets*, pp 6, 07 3 65; E.J. Perkins, *Financing Anglo-American Trade: The House of Brown, 1800-1880*, Cambridge, Mass 1975, pp 9, 76, 141, 182, 256- 8; A.A. Hooker, *The International Grain Trade*, London 1936, p viii; *One Hundred Years as East India Merchants: Harrison's & Crossfield, 1844-1943*, London 1943, pp 3, 15, 17-18; Balfour Williamson & Co and Allied Firms: *Memoirs of a Merchant House*, London 1929, pp 1, 82; *One Hundred Years 1837-1937: Joseph Tetley & Co*, London 1937, p 10; S. Jones, *Two Centuries of Overseas Trading: The Origins and Growth of the Inchcape Group*, London 1986, pp 24, 29-33, 53; W. Hunt, *Heirs to Great Adventure*, London 1951-60, vol II, p 66; Jones, *International Bustness*, pp 161-2; The Duncan Group, London 1959, pp 38-9, 149; A.C. Pionton, *Wallace Brothers*, Oxford 1974, p 1; *History of Charles Hope & Son*, London 1948, pp 2, 6.

network which could be directed from London offices.<sup>22</sup> Essentially telecommunications allowed these physical markets to be bypassed but necessitated the direction of trade so that the appropriate goods arrived at their destination at the time required, in the amount needed and at the price agreed. This was the role the City merchants played, and that was why the City attracted so many individuals and firms from other parts of the world who centred their operations there before 1914. This move from the physical to the office trade was missed by most contemporaries, who only saw Britain being by-passed by cargoes that were once trans-shipped there and were unaware of the changes taking place in the City. Consequently, historians have failed to appreciate the transformation in trade while economists tend to ignore the importance of intermediation and organisation.<sup>23</sup>

However, in the years after 1914, London's attractions as such a centre, and its ability to organise trade, were gradually undermined. Firstly both world wars led to discrimination against particular groups, especially the Germans, who were excluded from membership of such bodies as the Baltic Exchange. As Hodges reminisced concerning the impact of the First World War on the sugar market.

<sup>22</sup> Dowling, *Exchanges of London*, p 35; P. Griffiths, *The History of the Indian Tea Industry*, London 1967, p 665; K.M. Stahl, *The Metropolitan Organisation of British Colonial Trade: Four Regional Studies*, London 1951, pp 7, 34, 43, 165; *The History of Knowles and Foster, 1828-1948*, London 1948, pp 32, 58, 88, 90; *Two Centuries of Lewis & Peat, 1775-1975*, London 1975, pp 16, 28-9, 32; C.H. Woodhouse, *The Woodhouses, Drakes and Careys of Mincing Lane*, London 1977, pp 28-31; *History of Charles Hope & Son*, London 1948, pp 2, 6; C.A. Muir, *Blyth, Greene, Jourdan & Co Ltd 1810-1960*, London 1961, p 28; G.D. Hodge, *56 Years in the London Sugar Market*, London 1960, pp 13-14; Rees, *Britain's Commodity Markets*, p 127; Rees, *London's Commodity Markets*, p 33; Barty-King, *Unique Market*, pp 246, 335; H. James and H.J. Sayers, *The Story of Czarnikow*, London 1963, pp 9-25, 31; Jones, *International Business*, pp 68, 80-2, 142, 155-7, 160-2; *The City or the Physiology of London Business*, London 1852, pp. 155-6; *The Duncan Group 1859-1959*, London 1959, p 68.

<sup>23</sup> A.L. Bowley, *A Short Account of England's Foreign Trade in the Nineteenth Century*, London 1905, p 144; Kirkaldy, *British Shipping*, pp 489-91; R.J.S. Hoffman, *Great Britain and German Trade Rivalry, 1875-1914, Philadelphia 1933*, pp 67-9; Platt, *Latin America*, pp 266-7.

At last it was brought home to the Mincing Lane fraternity that a foreigner really had no standing in this country.<sup>24</sup>

Thus, in both the inter-war years, and for long after 1945, there was a general resistance to foreigners setting up business in London, as they were long excluded from important trade organisations like the exchanges. At the same time the operations of London merchants in foreign countries were being curtailed. In the 1950s it was often difficult to obtain the British staff willing to spend years abroad managing operations, because of the attractions of easy openings within Britain itself. This broke the continuity of ties that had linked commercial operations abroad to an office in London. This was further worsened by the growing nationalist feeling in countries where British firms had operated successfully in the past, such as India and Latin America. The result was the forced or voluntary withdrawal from these countries by City-based commercial concerns. In Burma the British firms that had organised the rice trade were forced to leave after independence in 1947. Generally, the Second World War represented a disaster for the City's trading interests, not so much from physical damage, but from the loss of contacts and expertise during the War. It was not easy to re-establish these contacts, in the face of strong competition from countries less affected by the War, but that task was made more difficult by the trading restrictions that followed the end of the War.<sup>25</sup>

Even before the Second World War there were attempts by governments to control trade in foodstuffs. The First World War had left a legacy of overproduction, as in wheat and sugar, and this was compounded by the depressed demand after the world economic collapse of 1929-32. The result was a growing

<sup>24</sup> Hodges, *56 Years in the London Sugar Trade*, p 28; cf Barty-King, *Unique Market*, p 316.

<sup>25</sup> A.C. Pointon, *Wallace Brothers*, pp 180-8; *Two Centuries of Lewis & Peat*, p 54; Muir, Blyth, Greene, p 51; Hunt, *Heirs to Great Adventure*, vol II, pp 228, 239; Siok-Hwa, *Rice Industry of Burma*, pp 228-35.

unwillingness to trust the market and a greater desire to influence its working through quotas, cartels, and other forms of governments intervention. As Yates wrote in 1943:

It used to be supposed that market forces would keep supply and demand in step with one another, but if by market forces is meant price, no such thing occurs... Clearly, price has become but a cork on the wave; it is no longer the rudder of the ship.<sup>26</sup>

**TABLE 3 - U.K. dependency upon imported food, c1913.**

	Year	%
Wheat	1911-13	78
Barley	1911-13	43
Oats	1911-13	25
Maize	1911-13	100
Meat	1911-13	41
Fish	1913	7
Potatoes	1911-13	2
Apples	1911-13	58
Butter	1907-08	35
Cheese	1907-08	80

*Memorandum and tables relating to the food and raw material requirements of the UK: Dominions Royal Commission, London 1915, cd 8123.*

Though agricultural crops were always subject to sharp fluctuations in supply due to weather conditions, while demand varied more in the long term with population growth, prosperity, competition and consumer preferences, this were rarely sufficient to prompt large-scale government intervention before 1914, a part from the traditional protection in the form of tariff barriers. Western Europe's imports of wheat, for example, rose from 280.1m bushels in 1885-9 to 511.2m in 1909-14 despite their adverse effects on the regions agriculture. Britain became heavily

<sup>26</sup> P. Lamartine Yates, *Commodity Control: A Study of Primary Products*, London 1943, p 10.

dependent upon foreign supplies of foodstuffs as a result (Table 3), and even a protected economy like Germany saw its wheat imports grow over six-fold in this period. It was war, which brought economic and political instability in its wake, that forced a change in the way the trade in foodstuffs was organised. Even then the schemes that were introduced between the wars, to cope with the problems affecting agriculture, were regarded as temporary, though they did cover around 50 per cent of the trade in agricultural products in the mid-1930s, compared to only 10 per cent in 1929.<sup>27</sup> Certainly Hooker, writing in 1936, envisaged an end to the intervention by government in the grain trade.

National exigencies are to-day blocking the flow of grain along its natural channels, but the time may come when tariffs, quotas and exchange restrictions are no longer considered necessary, when countries are free to do business economically with one another; then organised grain trade will once again be ready to perform its full function with the utmost efficiency. If its distribution is, at present, incomplete it is through no fault of its own.<sup>28</sup> At this stage the international grain trade was still directed from London, and handled by the traditional means of merchants operating in competitive markets, though their actions were now considerably circumscribed by exchange controls, grain pools,

<sup>27</sup> *Political and Economic Planning, Report on International Trade*, London 1937, p 14; F.V. Meyer, *Britain's Colonies in World Trade*, London 1948, pp 65-6; Yates, *Commodity Control*, pp 31, 46-7, 51, 215, 222-3, 241-2; J.W.F. Rowe, *Primary Commodities in International Trade*, Cambridge 1965, pp 52, 87, 122, 125, 129, 145, 151; M.M. Kosteki (ed), *State Trading in International Markets*, London 1982, pp 27-8, 133, 138, 146, 170; Forrest, *Tea for the British*, p 213; Hooker, *International Grain Trade*, pp 135-7; P.E. Dewey, *British Agriculture in the First World War*, London 1989, pp 4, 15-6, 221, 240; W. Malenbaum, *The World Wheat Economy*, Cambridge, Mass 1953, pp 19, 196, 199; B. Albert and A. Graves (eds), *Crisis and Change in the International Sugar Economy 1860-1914*, Norwich 1984, p 14; B. Albert and A. Graves (eds), *The World Sugar Economy in War and Depression, 1914-40*, London 1988, pp 5, 8; J. Ashton, 'Introduction' in F.O. Grogan (ed), *International Trade in Temperate Zone Products*, Edinburgh 1972, p vii; J.A. McMahon, *European Trade Policy in Agricultural Products*, Dordrecht 1988, pp 3-4.

<sup>28</sup> Hooker, *International Grain*, p 1. See also p 137 and Malenbaum, *World Wheat Economy*, pp 3, 104.

prohibitive tariffs, imperial preference and other such measures, implemented or supported by governments around the world. With the coming of war in 1939 the prospect of a return to a normal peacetime operation disappeared, for the governments of belligerent countries quickly took control of essential food supplies, replacing merchants and markets with government agencies. Food production and its distribution was now managed according to war needs. When the War did end in 1945 there was no consensus that the trade should be returned to private hands. The prevailing feeling was that the market economy had failed both producers and consumers in the 1930s, while state direction had succeeded during the Second World War. Lamartine Yates, writing towards the end of the War, made it clear that a return to unregulated market was not a practical option, while the continuing worldwide political instability after 1945, combined with fear about global food shortages, reinforced the desire to retain at least an element of government direction.<sup>29</sup> This was true in both importing and exporting economies. In Britain, not only was agriculture insulated from the world market, but it was only gradually that the food trades were returned to private hands. Often ten years or more elapsed between the beginnings of state control in 1939-40 and it being relinquished, making it difficult to re-establish normal peacetime trading links, because of the loss of personnel, the abandonment of business practices and the decay of contacts. The sugar trade, for instance, was under government control until 1957, when the principles of free-trading had to be re-learnt.<sup>30</sup>

However, it was not just a simple matter of the City of London losing its primacy in the international trade in foodstuffs to some other centre such as New York as a consequence of the interruptions and diversions of wartime and post-war policies. The

<sup>29</sup> Yates, *Commodity Control*, pp 46-7, 222-3; Malenbaum, *World Wheat Economy*, p vii.

<sup>30</sup> Clarke, *City's Invisible Earnings*, p 66; Rees, *Britain's Commodity Markets*, p 109; Woodhouse, *The Woodhouses*, p 46; Griffiths, *Indian Tea Industry*, p 671; Janes and Sayers, *Czarnikou*, p 146, cf p 108.

way the trade itself was organised internationally also changed fundamentally. In most producing countries, for example, state-run marketing boards had been established, mirroring the position in the importing nations. Once established, these marketing boards were generally retained after 1945 as they had coped well with the difficult wartime conditions and offered governments some measure of control over their external trade in an uncertain future. This was especially so after the difficulties of the inter-war years. In wheat, for example, states bodies handled 56 per cent of world exports in 1953-7 and 39 per cent in 1973-7 and this reflected the position in many commodities and countries.<sup>31</sup>

Even where the state withdrew from the direct control of the trade, as in the United States and the Argentine, there was no general return to the pre-1914 pattern of independent merchants and markets. Instead, it was increasingly multinational corporations that came to dominate. In both sugar and tea, for example, the separate functions of production, shipping, processing and wholesale and retail distribution came to be controlled by large integrated companies operating on a world scale. In Britain, by 1970, 85 per cent of the tea trade was handled by four such firms, like Brooke Bond, which was originally a firm of the tea wholesalers in the City.<sup>32</sup> In the international grain

<sup>31</sup> P.T. Bauer, *West African Trade*, London 1954, pp 145, 265, 276; Stahl, *Metropolitan Organization*, pp 4-5, 243, 293; Dunning and Morgan, *City of London*, p 348; Rees, *Britain's Commodity Markets*, p 118; Butler, *International Grain Trade*, pp 35, 74; Siok-Hwa, *Rice Industry in Burma*, pp 234-5; J.W.F. Rowe, *Primary Commodities International Trade*, Cambridge 1965, p 54; Leubscher, *West African Shipping*, p 74; Kosteki, *State Trading*, pp 164, 226; Tracy, *Agriculture in Western Europe*, pp 246, 389; Butler *International Grain Trade*, pp 90-101; D. Morgan, *Merchants of Grain*, New York 1979, pp 4, 220; Britton, *Cereals in the U.K.*, pp 334, 337, 339-40. Clarke, *City in the World Economy*, pp 79-84; Dunning and Morgan, *City of London*, pp 374-6; Rees, *Britain's Commodity Markets*, pp 123, 212; Jones, *International Business*, pp 184-8; Hobson, *How the City Works*, p 135; Passingham, *London's Market*, p 140; Rees, *Britain's Commodity Markets*, pp 122, 285; Barty King, *Unique Market*, p 359; Woodhouse, *The Woodhouses*, p 33; James and Sayers, *Czarnikow*, p 96; Forrest, *Tea for the British*, pp 239, 276; *Financial Times*, 25 January 1989, 16 January 1990.

<sup>32</sup> Stahl, *Metropolitan Organization*, pp 4-5, 46, 163, 169, 237; *Financial Times*, 23 July 1986, 6 September 1988.

trade, five firms came to dominate, handling c70 per cent of the total by the 1970s. By controlling transport, finance, and distribution, and operating worldwide, these integrated grain trading companies were in a position to act as intermediaries between the large state bodies that were either buying or selling grain. Such was the size of these firms that they were able to bypass the market altogether, having internalised all its functions within their own organisations. Though a few of these multinational trading companies did have their head offices in the City of London, they were not numerous. In Britain, both between the wars and for a period after the War, income tax was levied on a company's entire profits, no matter where it was earned. When the rate of taxation was low this was a small price to pay for the convenience of a London location from which to direct operations, but with the high post-war levels and the restrictions of exchange controls, there was every incentive to locate in another country. Consequently, London was not an attractive head office for these international concerns, with Geneva being the preferred location for the grain traders, with its liberal tax and currency laws. A number of British concerns also switched their management base overseas. A. Baumann & Co, for instance, which was one of the major traders in the international coffee trade, moved its head offices to Kenya from London in 1948.<sup>33</sup> The growth of these large integrated multinational firms was, to an extent, inevitable as it became necessary to oversee in more detail the whole process of the food trade, from production to consumption, as was the case with both bananas and frozen meat even before 1914. However, the prospects of these multinational firms was considerably boosted from the 1930s onwards, and especially with the Second World War, by the increasing intervention of government. This greatly complicated the

<sup>33</sup> Stahl, *Metropolitan Organization*, pp 158, 218, 287; Butler *International Grain Trade*, p 101; Morgan, *Merchants of Grain*, pp 33, 73, 203-9; R. Greenhill, 'Merchants and the Latin American Trades: An Introduction' in D.C.M. Platt (ed), *Business Imperialism, 1840-1930*, Oxford 1977, p 190.

organisation of international trade by introducing such barriers as quotas, exchange controls, subsidies, preferences and ever more numerous refinements of these. Increasingly it was only the large integrated firms that could cope with these, and absorb many of the costs within their total operations. At the same time governments were unable to deal collectively with numerous small firms competing at every stage of trade and specialised in particular commodities in markets.<sup>34</sup>

In West Africa, as in other countries, administrators prefer to deal with a few large firms rather than with a number of small enterprises,<sup>35</sup> observed Bauer in 1954. Consequently, in dealing with governments the large firm was preferred over the small, and with so much of the food trade under the control of the state after 1945, conditions were created that fostered these integrated companies rather than the specialised intermediary. This was all to the disadvantage of the City of London, which had thrived because it had the critical mass of merchants and markets which no other centre was in a position to replicate.

Therefore, through a combination of world war, government restrictions, taxation, marketing boards and integrated firms, the role played by City merchants in organising the world trade in food in 1914 largely disappeared after 1945. Increasingly removed from either the handling of the trade in food or its direction and organisation were the formal markets that developed in the City of London. These markets evolved out of the need for those engaged in any particular trade to communicate with each other. One of the problems in the continued growth in the number of intermediaries, and their increasing specialisation, was a means by which they could come together to focus on any particular trade. Otherwise, there would be little advantage in having the organisation located in the City. Physical proximity was, of

<sup>34</sup> Perren, *The Meat Trade*, pp 191-5, 206, 211, 215; Stahl, *Metropolitan Organization*, pp 49, 53.

<sup>35</sup> Bauer, *West African Trade*, p 145. See also p 155.

course, a major advantage in this with particular trades concentrated in specific parts of London which made contact between neighbouring offices very easy. Mincing Lane, for example, was an especial haunt of firms dealing in coffee, tea, sugar, spices and cocoa. The formation of organised markets in each of the various trades, provided a convenient time and place at which meetings could take place and arrangements made between all who were involved in the various aspects of a trade. In grain, for instance, entire shiploads were traded on the Baltic Exchange for clients worldwide while the Corn Exchange dealt in less than shiploads, splitting up shiploads purchased at the Baltic, to meet the needs of domestic consumers, like the flour millers. As a result there was some overlap in membership and trading between them as customers' needs were met.<sup>36</sup>

These exchanges, whether formally organised or not, allowed the City to combine successfully size, diversity and specialisation. However, some came to mean much more than that, creating a role for themselves even after the telephone lessened the need for physical contact. This added another dimension to the City's involvement in the food trade, namely the Future Trade. In many products, owing to the limited scale of activity in any individual item, sales could only be conducted through direct negotiation, with the merchant or agent acting as intermediary and building up an expertise and a circle of clients. This was true of the more exotic foodstuffs traded in Mincing Lane. In others the volume of business was such that regular auctions could be held but the wide range of quality meant that each transaction was an individual one, establishing a general price level rather than a specific current price, as was the case with tea. However, there were a few commodities which lent themselves to classification as to type and quality, and were traded in sufficient volume to encourage efforts along those lines in order to facilitate buying

<sup>36</sup> Passingham, *London's Market*, pp 136-7, 156, 160; Maughan, *Markets of London*, pp 22-4, 26-27, 39, 85-6, 98, 115-17, 189-91; Rees, *Britain's Commodity Markets*, pp 205, 397; Swiss Bank Corporation, *Commodity Markets*, London 1935, pp 7, 14.

and selling. Numbered among these were coffee, cocoa and wheat. Generally, it became possible, after considerable trial and error, to agree upon a number of standard grades and to fix standard quantities, delivery dates and destinations. As a result, the trading process was reduced to one of price determination of multiples of identical lots. Consequently, the public market acquired an importance far beyond the simple mechanism of facilitating the meeting of supply and demand, though even in these commodities private negotiation and long-term supply contracts operated.<sup>37</sup>

With the telegraph it became possible for the first time to trade systematically, and with an increasing degree of confidence, in future delivery, rather than taking a gamble on a very risky speculation. Forward dealing then became a normal part of business. Firms wishing to guarantee the continuation of regular supplies at current prices could buy in the forward market, thus reducing the risks of both price fluctuations and variations and interruptions in delivery, because they could find others willing to sell them contracts for future supply, as available information now indicated that these were likely to be forthcoming. Those selling future contracts undoubtedly took a risk, as weather could always affect harvests and shipping, but the level of that risk was now considerably reduced as it depended not on vague possibilities but measurable quantities, like the likelihood of storms and frosts. However, there was a problem as the consumers wanted delivery of a physical commodity that met their exact requirement for type, quality, amount and location, while those selling forward desired greater flexibility, so that they could substitute what was available for what was not. The result was a compromise contract for future delivery which was acceptable to both sides, but one which changed from time to time so as to reflect the realities of

<sup>37</sup> Maughan, *Markets of London*, pp 85-6, 98, 106, 115-17, 122, 189-91; Rees, *Britain's Commodity Markets*, pp 170, 205, 397; Swiss Bank Corporation, *Commodity Markets*, pp 7, 14; M.C. Borer, *The City of London*, London 1962, p 58; H.E. Miller, 'Developments in Mincing Lane Markets' in *Financial News, The City 1884-1934*, London 1934, p 54.

production and demand. Through these forward contracts a measure of increased stability was added to both production and supply, and the resulting confidence encouraged consumers to become more dependent upon that supply, and suppliers to become more responsive to demand, further stimulating the growth of international trade, and thus the position of the merchants that handled it. The telegraph, and later the telephone, and their use by intermediaries meant a qualitative change in the degree of risk and the way it was handled in trade, with positive consequences for the quantity of trade being conducted. With the ability to freeze meat, for example, and the regular supplies becoming available from Australia, New Zealand, Argentina, and the United States, it was possible to purchase forward standard grades and quantities for delivery at specific times. This helped to make meat an integral part of the British diet in the late nineteenth century, with Smithfield market in the City being central to the whole process, though the actual distribution went through ports like Liverpool.<sup>38</sup>

Out of these standard contracts there came a further development. Purchasers of commodities did not wish to be left with supplies they did not want, at prices above that prevailing in the spot (or current) market when delivery took place, as this would jeopardise their business. At the same time these merchants selling forward continued to be exposed to risk, though a much reduced one. Thus, for those consumers and merchants who wished to reduce even further the risks they took in obtaining and providing supplies, a further refinement took place, and that was a market in the contracts themselves in which there was no expectation of final delivery of a physical commodity. Standard future or option contracts increasingly represented a proxy for the physical market, and reflected trends in it. Thus, a purchaser of a contract wishing future physical delivery could also take out a

<sup>38</sup> Perren, *The Meat Trade*, p 203; Rees, *Britain's Commodity Markets*, pp 170, 348; Smith, *Organised Produce Markets*, pp 4, 41, 147; J.T. Critchell and J. Raymond, *A History of the Frozen Meat Trade*, London 1912, p 102.

reverse contract to sell the same amount. If the price fell, the value of the sell contract would rise and that of the buy contract would fall, while if the price rose, the reverse would be true. Therefore, for the cost of the commission paid on contracts, consumers and merchants could shift the entire risk onto others, leaving them free to concentrate on their own business, whether it was processing, distribution or the organisation of trade.<sup>39</sup>

Consequently, there developed in London in the late nineteenth century a number of terminal markets - from the French word for time - which traded in either options of futures, and though these contracts implied, and could result in actual delivery, their function was to act as a means of spreading the risk involved in trade. Increasingly, in the London commodity markets, most of the deals did not result in physical delivery. By the 1980s, for example, it was estimated that at most only 14 per cent of deals on the London Grain Futures Market resulted in actual delivery. There was a gradual divorce between the commodity markets and either the physical trade itself or the organisation of trade, which went on through other routes and by other means, by-passing the City entirely. Again, the London futures markets faced intense competition from similar exchanges in other centres even before 1914. In wheat the options market founded in 1898 had collapsed by 1906 in the face of competition from both Liverpool and Chicago. Conversely, legislation prohibiting futures trading in Germany in 1898 curtailed business in Berlin and Hamburg, to the benefit of their counterparts in London and Liverpool.<sup>40</sup> The contribution made by these Futures

<sup>39</sup> Rees, *London Commodity Markets*, pp 42-7; Hooker, *International Grain Trade*, pp 8-9, 95-6; Maughan, *Markets of London*, p 108; Smith, *Organised Produce Markets*, pp 44-5; C. Prior-Willeard, *Faming Futures: A Guide to the Agricultural Commodities Markets*, Cambridge 1984, p 50; Barker, *British Corn Trade*, p 90; J. Lurie, *The Chicago Board of Trade, 1859-1905: The Dynamics of Self-Regulation*, Urbana 1979, pp 24, 26, 107; (Note: an option could be allowed to lapse but a future had to be cancelled with a reverse contract.)

<sup>40</sup> Rees, *Britain's Commodity Markets*, pp 348, 416-17, 437; Smith, *Organised Produce Markets*, pp 44-45, 86; Maughan, *Markets of London*, pp 32-3, 106, 122.

Exchanges was to provide a marked based pricing mechanism sending out signals to both producers and consumers about the state of supplies, and so stimulating responses that would maintain equilibrium over time.<sup>41</sup>

The role played by these commodity markets was very dependent upon the ability of prices to fluctuate in response to known variables, such as the state of the harvest or the availability of transport. However, for much of the period after 1914 prices were either controlled or subject to intervention making the operation of the exchanges irrelevant or difficult. During both world wars the government took control of supplies, buying on long-term contracts, and so the need for the exchanges was removed as there was no open market. In addition, there was a growing tendency to set prices and maintain them by restricting output and stockpiling. In the immediate post-war years, the incoming Labour Government in Britain saw no merit in future trading, regarding it simply as speculation, and so prevented the opening of the exchanges and tried to arrange supplies directly with producers. However, the government gradually realised that it was unable to control world prices and was slowly obliged to allow the markets to re-open. This trend was accelerated with the return of a Conservative Government in 1951, but even then, with some reluctance as the value of a future markets was unclear since few actual deliveries took place. Nevertheless, the commodity markets were freed, as with cocoa in 1951, and coffee as late as 1958.<sup>42</sup>

The problem was an interlude of such a length had given opportunities to other future markets to establish themselves, especially in the United States, which remained a major consumer, and producing countries like India. Nevertheless, the 1950s and 1960s did witness an absolute recovery of trading on many of the London exchanges, such as those dealing in coffee and sugar.

<sup>41</sup> Hooker, *International Grain Trade*, pp 1-2.

<sup>42</sup> Clarke, *City in the World Economy*, p 82.

However, that recovery was not universal. Some markets never regained the position lost during the decade of the 1940s.<sup>43</sup>

To an extent, the City's recovery was achieved by London coming to dominate commodity trading in Britain as alternative U.K. markets disappeared. In particular, Liverpool failed to re-establish its wheat market successfully and it gravitated to London. However, London also failed to make it a success. Wheat, for example, only survived on a home-grown wheat contract, which represented a considerable decline from the time when the Liverpool contract had reflected the world market. Thus London achieved British supremacy but lost it internationally in many areas.<sup>44</sup> The futures market business was itself a fiercely competitive one with rival centres vying for supremacy in individual contracts. As Britain's own requirements for imported food declined, especially with deliberate import substitution and as sterling disappeared as a major currency, the City markets lost the advantages that had given them a once dominant position. Now it was American centres like New York and Chicago that possessed these advantages, and the City had to become more efficient in operation and more innovative in its contracts if it wanted to retain a position in the market. This meant switching the base for contract, responding quickly to user requirements and opening up their markets to foreign traders. The introduction of a potato contract in 1980 and a meat one in 1984 were examples of this response. The problem was that the high degree

<sup>43</sup> C. Brooks, *Something in the City: Men and Markets in London*, London 1931, p 232; Griffiths, *Indian Tea Industry*, p 678; Clarke, *City in World Economy*, p 83; Passingham, *London's Markets*, pp 149-51; Rees, *Britain's Commodity Markets*, pp 244, 252, 327, 361, 376; Findlay, *Baltic Exchange*, p 25.

<sup>44</sup> Financial News, *The City*, p 60; Dowling, *Exchanges of London*, p 183; Rees, *Britain's Commodity Markets*, pp 152, 163-6, 168; Rees, *London Commodity Markets*, p 48; Clarke, *Invisible Earnings*, p 72; Clarke, *City and World Economy*, pp 132-33; Dunning and Morgan, *City of London*, pp 344-5, 348; Rees, *Britain's Commodity Markets*, pp 118-120, 130, 230-5, 262, 276, 334, 336, 337, 376, 430; Rowe, *Primary Commodities*, pp 39, 46-7, 53; P. Lamartine Yates, *Food, Land and Manpower in Western Europe*, London 1960, pp 219-21, 232-4, 238; Morgan, *Merchants of Grain*, p 72; Prior-Willeard, *Farming Futures*, pp 10-14.

of government intervention in agriculture introduced both a high level of political uncertainty, with which it was difficult for markets to cope, and a high level of stability to food prices in the short run through guaranteed minimum prices. In grain the Common Agricultural Policy smoothed out price fluctuations within the European Union, and so there was little prospect for a European-based international grain contract that could challenge the well established position of the Chicago Board of Trade. The London Commodity Exchange did stand ready to introduce one if the opportunity arose.<sup>45</sup>

The existence of these futures markets was important not only in removing an element of risk from trade, and thus stimulating its growth, but also through the fact that it made it easier to finance stocks of commodities awaiting sale. The cost of financing stocks of commodities was a heavy burden and also involved the risk that they would remain unsold or could only be disposed of at a low price. One solution to the problem was to make the title to ownership of these stocks transferable, so that it could be bought by other than the original producer or final consumer until it was consumed. Warehouse and dock warrants or railway and shipping receipts, which certified a particular amount, type, quality and location thus came to be regarded as negotiable paper to be bought and sold at will. The ownership of a ship's cargo could alter many times during a voyage as could the contents of a warehouse.<sup>46</sup> "Warrants for tea are like bank

<sup>45</sup> *Financial Times* 12 September 1984, 26 July 1985, 2 November 1985, 3 February 1987, 28 May 1987, 13 August 1987, 28 October 1987, 2 February 1988, 10 February 1988, 28 June 1988, 1 July 1988, 6 July 1988, 6 September 1988, 26 October 1988, 25 January 1989, 1 June 1989, 7 September 1989, 2 October 1989, 31 October 1989, 19 January 1990, 16 February 1990, 20 February 1990, 10 March 1990, 16 December 1993.

<sup>46</sup> Clarke, *Invisible Earnings*, pp 70-1, 132; Clarke, *City in the World Economy*, p 79; Dunning and Morgan, *City of London*, pp 344-5, 348; Rees, *Britain's Commodity Markets*, pp 357-62; *Financial Times*, 12 September 1984, 23 July 1986, 12 June 1987, 12 October 1988, 25 October 1989, 26 January 1990, 31 January 1990, 9 March 1990, 4 April 1990; *Invisible Earnings of the UK Commodity Markets*, BEQB, vol 17, 1977, pp 35-8; *The Commodity Future Markets*, BEQB, vol 26, 1986, pp 217-21;

notes and change hands frequently", was the view of the Tea Buyers' Association in 1900.<sup>47</sup> When tea arrived in Britain it was weighed in the warehouse and sampled for quality before being sold. Its terms of sale included 13 weeks' free rent and free insurance in the warehouse which meant it could be actively traded in that period without incurring any additional charges. Thus, those holding the claim to this tea in store could change repeatedly, and include many who had no interest in the tea beyond the expectation that its price would rise and thus return them a profit.

While it was relatively easy to obtain loans secured on such documentation as warrants and receipts the cost of the finance and the size of the margin demanded could be considerably reduced if an active market in the warrants/receipts existed. Such a market indicated to the lender that the warrant or receipt collateral for the loan could be easily resold if the borrower defaulted or if the loan was called in before the sale of the produce. It also gave the lender confidence in the amount lent as there existed an acknowledged price achieved through regular and active trading, and this price could be continuously monitored.<sup>48</sup>

This ability to finance stocks in the City at a lower cost than anywhere else attracted not only the organisation of international trade to London but also the physical trade itself. If there was a doubt about when and where stocks of a commodity were to be sold, it was easiest to ship them to London. Though dock and warehouse charges might be higher there, they were conveniently

Invisible Earnings of the UK Commodities and Financial Future Markets, BEQB, vol 29, 1989, pp 413-4; London as an International Financial Centre, BEQB, vol 29, 1989, p 521; Rees, *Britain's Commodity Markets*, pp 52, 133, 171, 208, 348; S. Chapman, *The Rise of Merchant Banking*, London 1984, p 137; Dowling, *Exchanges of London*, p 158; Maughan, *Markets of London*, p 31; Smithe, *Organised Produce Markets*, pp 11, 96-7.

<sup>47</sup> London Chamber of Commerce: *Tea Buyers' Association Minutes*, 22 February 1900, cf 20 October 1899, 7 February 1900, 2 April 1900, 3 April 1901. o7 3

<sup>48</sup> Chapman, *Merchant Banking*, pp 106, 125; *Enemy Banks* (London Agencies Report of Sir William Plender, 16 December 1910 CD 8430, London 1917.

placed for transshipment elsewhere, and could be financed at the lowest possible cost.<sup>49</sup>

More generally, one of the major competitive advantages that London mercantile firms possessed before 1914, no matter where they operated was access to the cheapest source of credit. The use of sterling bills of exchange drawn by British merchants on the correspondents in London was a ubiquitous means of commercial finance and of major importance for the food trade, with its need to hold large stocks of seasonal produce. Consequently, the First World War, with its huge financial requirements seriously undermined the ability of the City of London to provide a cheap and abundant supply of credit. The issue of Treasury bills by the government, in particular, reduced the demand for trade bills as a remunerative employment for short-term funds. Similarly the growing loss of confidence in sterling by the late 1920s undermined the flow of such funds to London from abroad, and made it increasingly difficult for the City to sustain its traditional position as the dominant force in the provision of international credit. That position was finally shattered by the Second World War, and its legacy of heavy debt burden, as post-war British governments then manipulated the London money market to finance the National Debt, and subsequent deficit, rather than allow it to resume an international role. In turn this created the opportunities for the grain trading companies that could tap international capital markets for necessary finance.<sup>50</sup>

Essentially, two world wars, when normal commercial activity

<sup>49</sup> Dowling, *Exchanges of London*, pp 106, 108, 159, 207; Maughan, *Markets of London*, pp 103, 127-8, 197, 203; H. Robson, 'Dealing in all types of the world's grain' in *Financial News*. The City, p 60; Rees, *Britain's Commodity Markets*, pp 241, 270, 323, 417, 427; Swiss Bank Corporation, *Commodity Markets*, p 20.

<sup>50</sup> Perkins, *Financing Anglo-American Trade*, pp 9, 221; Platt, *Latin America*, pp 147-8; Hyde, *Far Eastern Trade*, pp 44, 201-2; Bauer, *West African Trade*, pp 202-3; Stahl, *Metropolitan Organization*, pp 29, 226-7; R. Henriques, *Marcus Samuel*, London 1960, pp 64-5; V.B. Reber, *British Mercantile Houses in Buenos Aires, 1810-1880*, Cambridge, Mass 1979, pp 58, 138; PEP, *International Trade*, pp 24, 41, 168, 189-91; Hooker, *International Grain Trade*, p 135; Saul, *British Overseas Trade*, p 89.

was largely suspended, and a world depression in the 1930s in which the major casualty was world trade, shattered confidence in the operation of the pre-1914 international food marketing system and replaced it with a belief that governments were better at arranging supplies than the market place. The same condition also promoted the growth of multinational corporations that could cope with the restriction by internalising them. All this combined to undermine many of the functions once performed by a myriad of firms and individuals in the City of London in 1914. The result was that the world market for many foodstuffs, which had begun to emerge by the First World War, ceased to exist, with considerable price divergences between countries emerging instead. In 1981, for instance, the European Community price for wheat was 35 per cent above the world level and in 1968 it had been 83 per cent higher. Barriers to trade prevented the flow of grain from low price to high price markets so as to equalise supply and demand, and this was compounded by a lack of a regular market mechanism for distributing foodstuffs worldwide when the need did arise. Slowly and spasmodically the trade in foodstuffs after 1914 was being returned to the position it had been in before the abandonment of the Corn Laws by the British government in 1846. Then Britain only imported grain when the price passed above the threshold level, but as this was only an occasional occurrence there was no system in place to organise the flow from surplus production areas. It was not until the 1860s that, not only were new production sources in place, but also the market mechanism was in existence, so that the British consumer could be reliably fed with a cheaper and more varied diet than ever before. It was not just in Britain that this experience was taking place, for the same phenomena occurred in India in the late nineteenth century, according to McAlpin's study of the Bombay Presidency.<sup>51</sup>

<sup>51</sup> Yates, *Commodity Control*, p 47; Yates, *Food, Land and Manpower*, pp 258, 265; Schuh, *Role of Markets*, p 288; Butler, *International Grain Trade*, pp 36, 74-5; M.B. McAlpin, *Subject to Famine: Food Crises and Economic Change in Western India, 1860-1920*, Princeton 1983, pp 45, 148-156.

In contrast, the state marketing systems increasingly resorted to after 1914, and especially after 1945, have not enjoyed the same degree of success, according to those who have investigated their intentions and actions. In particular, the State has found it particularly difficult to set prices that are neither too generous to the producers and lead to large stocks, heavy financing charges and high prices, nor are too favourable to the consumer, causing acute shortages in their wake. In 1991, for example, it was estimated that Europe's structural over-production of foodstuffs was running at c20 per cent above demand, resulting in higher prices in the marketplace and higher levels of taxation to provide the subsidies to producers. Even the vertically-integrated companies have been criticised for their inflexibility and substantial management costs compared to the smaller and more specialised mercantile firms of the past.<sup>52</sup>

The international trade in food before the First World War was by no means free of government intervention, especially in Continental Europe, involving a measure of protection for such commodities as grain and sugar beet. However, this intervention was largely confined to the area of tariff barriers, which raised the domestic price above the world price, but still allowed substantial international trade to take place. Conversely, the policies adopted since the Second World War have been much more pervasive. These ranged from the European Union's Common Agricultural Policy, which fostered domestic rather than imported food supplies, to the Indian government's attempts to restrain exports in order to maintain plentiful domestic supplies at low price. Clearly both types of policies undermined both the international trade in food and the operation of a market where price was the prime arbiter of supply and demand. With food there is always the fear that supply and demand will only be matched at a price that involves starvation for many because of a shortage of production

<sup>52</sup> Bauer, *West African Trade*, pp 125-6, 136, 302, 310; Rowe, *Primary Commodities*, pp 187, 199; Kosteki, *State Trading*, p 49; Siok-Hwa, *Rice Industry of Burma*, pp 234-5, *Financial Times*, 17 September 1991.

owing to climatic and other factors. However, as D. Gale Johnson noted in 1991:

... the variability in food production from year to year is very small, far too small to be a significant source of instability of the food supplies.<sup>53</sup>

Instead it was individual government intervention on a massive scale that created the problems in matching worldwide supply and demand at relatively stable prices.<sup>54</sup> Before 1914 this was largely being achieved when left to the free play of the market as merchants and markets developed to distribute ever more food from ever more producers to ever more consumers. There was no sign than that this market was on the verge of collapse. Instead it was the subsequent events, and government reaction to them that destroyed that decentralised structure and replaced it with another whose imperfections and costs have been gradually exposed. In 1991 the U.S. and E.U. agricultural subsidy regimes cost their tax payers, respectively, \$34.7bn and \$83.6bn, with surplus production having to be sold on world markets at anything up to 25 per cent below the price guaranteed to farmers at home. Left to itself, the historical evidence from the 1850-1914 period, does suggest that a world food market, freed from the worst excesses of government control and intervention, can meet the needs of both producers and consumers better than any alternative system. There is also some prospect of this market being allowed to operate because of the realisation that previous interventionist regimes have largely failed. The successful conclusion of the Uruguay round of GATT, including for the first time agriculture, suggests that potential large-scale importers of food, like Western Europe, were willing to reduce the level of support and protection given to domestic producers. Similarly, moves by India a potentially large food

<sup>53</sup> D. Gale Johnson, *World Agriculture in Disarray*. London 1991, 2nd-edn, p 159, cf pp 1, 3, 153, 161.

<sup>54</sup> F.O. Grogan, 'Some Considerations for the Future' in *International Trade in Temperate Zone Products*, pp 291-2, 305; *Financial Times*, 17 October 1991, 29 September 1992, 26 March 1993, 10 June 1993.

exporter, to remove preferences for domestic consumers, indicates a recognition that producing for the world market can have substantial benefits in terms of economic growth.<sup>55</sup>

Nevertheless, it is unlikely that there will ever be a rapid return to the pre-1914 position, though that was by no means one of free trade in food, and it is even less likely that the City of London would ever regain the position it once occupied.

<sup>55</sup> K. Anderson and R. Tyres, *Global Effects of Liberalizing Trade in Farm Products*, London 1991, p 90; *Financial Times*, 19 June 1992, 25 September 1992, 26 March 1993, 10 June 1993.