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Behind the commodity-raw materials price problem

The last two weeks' slump in world copper prices, which dropped suddenly below the 80 cent per pound level on Friday, May 25, signals that a new phase of the 1979 raw materials crisis has begun.

The first phase, a period of "speculative boom," began in November 1978, when a continuous creeping rise in international copper prices left a four-year plateau of 60 cents per pound, and eventually flared to a $1.05 U.S. producer price from February through March, the highest since 1974.

During those months, copper traded as if it were the "precious metal" of the industrials, fluctuating upwards on a daily basis more in tandem with gold, silver and platinum than with the other industrials.

The second phase began with the gradual downslide of copper. On May 25, copper slipped under the 80 cent per pound mark, and on May 30, bottomed out to 78.40 cents, its lowest level since February.

The first months' "boom" was a direct result of international patterns of speculative capital flows. While many financial analysts and columnists cite the year-long drain on London and New York Commodity Exchange stockpiles as the "underlying" impetus to the copper price rise, the timing and fashion in which the price took off belie this explanation.

Substantial amounts of "hot money" flooded onto metals exchanges this year as a result of panic induced by the collapse of the Iranian government, the disruption of world oil supplies, and the dramatic rise in oil prices.

Now, inflows into copper have subsided because economists, financial journalists and investors are scratching their heads wondering if the oil crisis will now provoke a U.S. recession, and bring the wrath of a collapse of copper orders down on the heads of speculators.

For the time being, copper has ceased to be a "hot" item trailing the price of gold, and has become one of many psychological measuring rods of confidence in western economies.

No mere supply and demand

One of the lessons to be drawn from these events is that simplistic circumstances of supply and demand do not govern materials prices. This is underlined by the present situation. At exactly the point that copper prices collapsed, other industrial materials including lead, nickel, zinc and aluminum began to take off and become a prime target for either speculators or hotshot merchant houses.

On May 30, the *Wall Street Journal*—picking up on a *Business Week* article—played up a major story on lead, trying to prove that lead purchases by the Soviet Union for its new foreign-built automobile plants were responsible for the record upward leaps in lead prices. (To give an idea how fast lead is rising, on May 25 lead jumped 48 pounds on the London Metal Exchange, to a record 666.25 per ton.)

While informed sources can demonstrate that the Soviets are involved in some major—and in the case of copper, sophisticated—moves in Western raw materials purchasing and reexporting, these moves can only swing the market further in a direction it is already going—they could not establish a new trend.

We summarize here the three major considerations determining materials price inflation:

• Most important over the long term has been the deliberate policy of the World Bank since 1974 of nixing mining and refinery development in the Third World per the austerity conditions imposed in return for deficit-financing loans. Had these proposed projects in Africa and Latin America in particular gone through on the basis of advanced country exporting of the necessary technologies, the cost efficiency of mining overall would have been vastly cheapened. Without these trading arrangements, the cost efficiency of mining declines—causing U.S. copper producers to push for a $1.20 per pound price as the precondition for opening new or unutilized capacity.

• Medium term, U.S. government antitrust suits since the 1960s and the Carter Administration's wage-price guidelines are directly responsible for rising prices. Every mining corporation which attempts to cement long-term stable supplier contracts is accused of "price-fixing" with like-minded firms. As a matter of self-defense, copper and nickel producers link their prices to the New York and London Metals Exchanges, to prove that the international market conditions are behind their prices. In every case, this linkage has resulted in price rises.

• The reason is that once on the metals exchange, the commodity in question is a target for speculaton. In recent months, zinc, lead and aluminum producers have been pushed to join the N.Y. Exchange as a way of saving legal costs incurred by antitrust suits.

—*Renée Sigerson*

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