

PROBLEMS AFFECTING THE MARKETING OF
WESTERN CANADIAN WHEAT

by

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B. S., University of Alberta, 1949

A THESIS

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Economics and Sociology

KANSAS STATE COLLEGE
OF AGRICULTURE AND APPLIED SCIENCE

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INTRODUCTION

Purpose

On August 1, 1950 the operations of the first compulsory wheat pool, conducted under the auspices of the Canadian Wheat Board, an agency of the Canadian Government, were completed. This pool was an attempt at centralized marketing of the entire Western Canadian wheat crop. Ostensibly the main reason for this scheme was to secure for the farmer a fair and stable price for his wheat crop.

The purpose of this thesis is to trace the chain of events which, through the years, culminated in the government establishing the Canadian Wheat Board and vesting in that agency monopoly power in the marketing of wheat grown in Western Canada.

The extension of the activity of the present Wheat Board from that exercised in its beginning in 1935 to that indicated above was not accomplished without considerable controversy. The arguments which have been presented in support of the Wheat Board and its various activities will be compared with the arguments of those opposed to the Board. It is hoped that this comparison will clarify the issue, setting out both the weaknesses of the Wheat Board pool system and also the contributions which the latter has made to Canadian grain marketing.

It is also the purpose of this thesis to set out some

points which were brought to view while considering the period from 1917 to the present and which are significant to any future wheat marketing policy for Canada. These points consist mainly of ideas expressed by individuals and organizations concerning marketing policy.

Scope

The marketing history was reviewed from the date of the first appearance of government activity, June 11, 1917, when the Board of Grain Supervisors was appointed by the Government of Canada for the purpose of gathering wheat supplies for the Allies. The activities of this Board together with the ideas which were conceived regarding group selling are important. The organization of cooperative wheat pools was the direct result of the experiment in group selling of wheat through a government agency, and was stimulated by declining prices following World War I.

Through the activities of the cooperative wheat pools formed at this time and their imprudent selling policies, the government was drawn once more into the wheat marketing picture. In 1935 a new Wheat Board was formed. A complete review of the activities of this organization, which is still in existence, is given.

Review of the Literature

The most useful piece of literature available on the Canadian Wheat Board is a pamphlet reprinted from the Canada Year Book (1939 and 1947 editions). The basic article was prepared by Dr. T. W. Grindley and additions were made later by the staff of the Canadian Wheat Board. The pamphlet is available from the King's Printer, Ottawa. This pamphlet together with the annual reports of the Canadian Wheat Board contains a complete record of the business transactions of the Board from 1935 to 1950.

A complete history of the development of the wheat marketing problem up to 1938 is presented in the Report of the Royal Grain Inquiry Commission, 1938. The report deals extensively with the marketing policy developed by the Wheat Pools and the rather unfortunate results of that experiment.

The Story of Wheat, a commercial publication by L. D. Nesbitt, records the early history of the Canadian grain trade excellently, but the later developments are presented in a somewhat biased manner.

Several periodicals were relied upon to a considerable extent. The Country Guide, published at Winnipeg, has devoted a substantial amount of space to problems concerning the grain trade. Most of the material presented is unbiased and proved very useful in this study. The Wheat Pool Budget, The Searle Grain Company Letter, and various statements prepared by the

Winnipeg Grain Exchange were used to some extent.

The Official Reports of the debates in the House of Commons, Ottawa, were relied upon heavily. Volume 92, numbers 28 and 29 contain much useful information concerning the five year compulsory pool operated by the Canadian Wheat Board and details of the Anglo-Canadian Wheat agreement. These reports are available from the King's Printer, Ottawa.

A number of bulletins published by both the Wheat Pool and the Winnipeg Grain Exchange were used.

Wheat Fields and Markets of the World by Rollin E. Smith and Wheat by W. W. Swanson and P. C. Armstrong were depended upon for most of the material concerned with the early history and development of the grain trade. Smith's book gives an excellent account of the world development up to 1906 while Swanson and Armstrong dealt only with Canada but carry the history up to 1928. World Wheat Planning and Economic Planning in General by Paul de Havey was found to be an excellent source of statistical data for the period ending in 1939.

Method of Procedure

The marketing system which developed along with the settlement and cultivation of Western Canada was ascertained and this is reviewed briefly under the heading, Historical Development. The year 1917 is considered the point of departure of this study, since in that year the marketing system which had been developed through the years was abandoned, and a new

system introduced in its stead. This new system which consisted of a government agency assuming the responsibility for disposing of the wheat crop, while considered a temporary measure, had lasting effects upon the Canadian marketing system.

The reasons for this change and the reasons for its lasting influence have been sought in the literature. Widely divergent opinions have appeared in the literature and in an effort to reconcile these differences a considerable amount of correspondence has been carried on with several individuals who are prominent in the Canadian grain trade or who are interested in it from an academic point of view. The questions raised in the literature and the answers provided by the gentlemen with whom correspondence was carried on, provided the basic material for this thesis.

Limitations

There are no doubt a number of considerations to be kept in mind when deciding whether a particular marketing system is a good one or not, but so far as the farmer is concerned the main consideration assuming that a continuous market with reasonable service does exist, probably is the amount of the net return received for his product. Throughout the literature on Canadian grain marketing it is contended that some system other than the one in use would have resulted in a

greater or a smaller net return, depending on the point of view of the particular author. For the most part it seems impossible to say, with any degree of certainty, that some other system would have provided a greater net return and so it is only possible, in appraising a marketing system, to speculate on this very important point.

Another limitation to the usefulness of this study is the fact that political considerations play an important role along with the economic aspect of a marketing system. Both have been given varying weights from time to time.

Geographical Setting

The area in which Canada's hard wheat is grown may be likened to a triangle, with its base some 850 miles in length, or roughly that distance between the 95th and the 120th meridians extending along the 49th parallel. The hypotenuse of the triangle extends northwest from the eastern extremity of the base and meets the third side some 500 miles north of the western extremity of the base in the area known as the Peace River country. This triangle encloses about 168 thousand square miles of occupied land which is about equal to the total area of Kansas and Nebraska.

Between 90 and 95 percent of the Canadian wheat crop is produced in this area and it is to this portion of the crop only that the regulations of the Canadian Wheat Board apply.

It is therefore only with the marketing of wheat produced in this area that this thesis is concerned.

Historical Background

When the territory in question was purchased by the Canadian Government from The Hudson's Bay Company in 1870, barely 9,000 acres were cultivated. However, with the completion of the trans-continental railway in 1886, and the development of varieties of wheat suitable for the area, land settlement accelerated. By 1906 more than 5 million acres were cultivated.

An export market had been found for wheat by this time. In 1878 a shipment was made via a United States railway to the seaboard and thence to Scotland. In the years immediately following the completion of the Canadian Pacific railway several private companies established systems of elevators throughout this area to facilitate marketing the crop. In 1887 the Winnipeg Grain Exchange was opened for cash trading and facilities for futures trading were added in 1904. Total storage capacity west of the Great Lakes of 7½ million bushels in 1887 was increased to 21 million by 1900 and to 78 million by 1910.¹

¹ Stanley N. Jones, Unpublished address delivered at the Annual Meeting, Grain and Feed Dealers National Association, St. Louis, Missouri, September 16, 1947.

The nature of the marketing enterprise which had developed to meet the needs of expanded production by 1913 is aptly described in this statement.

As the grain business expanded there was increasing competition. Very few points in the West had less than three or four elevators competing for business. A number of milling companies operated large lines of elevators. There were commission merchants and trackbuyers to compete for carload lots of grain. There was keen competition on the part of shippers, exporters and mill buyers for their offerings on the Winnipeg market. Farmers' co-operative companies had developed to large size and competed actively in all branches of the grain trade. Under these conditions, the wide price margins existing in earlier days soon disappeared and it is safe to say that the spread between the price received by the farmer in Western Canada and the price paid by the consumer in Canada and elsewhere, when free open markets are allowed to function has been reduced to a minimum, as close or closer than in any other exporting country.

The system of marketing developed in Canada, which I believe the best in the world, functioned very satisfactorily under normal free open markets. There was under such conditions, no difficulty in disposing of the increasing volume of production. Supply and demand conditions governed prices and generally these were found satisfactory. The fine quality of our wheat made for a steady demand and our better grades sold at a premium over the best competing sorts.¹

A substantial international grain trade had developed by the turn of the century. The rapid growth of an urban industrial population in many parts of Europe, the abandonment of many trade restrictions and the development of steam powered steel ships were important factors in the building of this

¹ Henry Gauer, "Wheat Marketing in Canada", Unpublished address delivered to the Grain Exchange Lecture Club, Winnipeg, Canada, December 2, 1948.

trade. By 1906 the United Kingdom imported 90 percent of her domestic wheat requirements and Germany and several other continental countries were significant importers.¹ Of the 540 million bushels which entered world trade in the 1906-1907 crop year, 41 million bushels were exported by Canada.²

The population of Canada was small and little of the expanding production was required for domestic use. A ready market was available in Europe, and the United States which had occupied the position of major exporter for some time had smaller quantities of wheat available for export due to increased domestic requirements. The period between 1906 and 1913 was one of rapid development; in 1913 production approached 200 million bushels from approximately 11 million acres of land. The average annual production for the period 1910-1914 was 196 million bushels of which 99 million or 50 percent was exported. Average annual production had increased to 254 million bushels in the period 1915-1919 of which 160 million bushels or 63 percent was exported.³

From the outset, and as time went on and production increased, it became increasingly true that Western Canada was primarily a wheat exporter. As has been pointed out by a member of the grain trade, "Western Canada must export or die in the attempt."⁴

¹ Rollin E. Smith, Wheat Fields and Markets of the World,
p. 109 and 129.

² Ibid., p. 16.

³ Leonard D. Nesbitt, The Story of Wheat, p. 52.

⁴ Jones, loc. cit.

THE FIRST WHEAT BOARD

The first intervention of the Dominion Government in the grain trade was the result of difficulties which arose in the acquiring of food supplies by the Allies during World War I. In 1916 when a grave food crisis appeared to be imminent the Allies established a centralized agency known as the Grain Export Company for buying wheat in the North American markets. By the early spring of 1917, this organization in the course of bona-fide efforts to acquire adequate supplies of wheat, secured a corner on the Winnipeg May futures market.¹ When the "shorts" discovered their position a panic occurred in the Winnipeg and Chicago markets and the Government was forced to come to the rescue. On June 11, 1917, the Government established the Board of Grain Supervisors and vested in that body the power to fix the price of Canadian wheat and to determine its movements from the local elevator to the Allied purchasing agency. Futures trading on the Winnipeg market was suspended on September 1, 1917, and remained suspended throughout the period of the Board's activities. However, the other facilities of the grain trade were used as previously. Prices set by the Board were \$2.40,

¹ G. E. Britnell and V. C. Fowke, ed., "Development of Wheat Marketing Policy in Canada." *Journal of Farm Economics*, XXXI, (November, 1949), p. 628.

basis No. 1 Northern, Fort William,¹ for the balance of the 1916 crop, \$2.21 for the 1917 crop and \$2.24½ for the 1918 crop.²

The desired result of this was clearly that of holding down the price of wheat in the face of a short supply in Europe and grave need on the part of Allied countries. It has been suggested that the price of wheat would likely have reached three or four dollars per bushel if the Government had not instituted price control.³

Concerning this first period of Government control the following statement is apt:

The inauguration of this Board was purely and simply a war measure, and as such it was accepted by all interests and met with their cooperation. One of the first things the Board did was to fix the price below what had been current on the open market. Nevertheless, the price fixed, \$2.21 per bushel for No. 1 Northern Wheat basis in store Fort William and Port Arthur was a high price in relation to other commodities at the time and one with which our farmers appeared to be quite satisfied.⁴

Once the war was over and the crop of that year disposed of by the Board of Grain Supervisors there seemed little reason for this organization remaining in existence. Therefore on July 21, 1919 the free market at Winnipeg was reopened. It

¹ All wheat prices quoted henceforth are on the basis of No. 1 Northern, in store, Fort William-Port Arthur.

² Britnoll and Fowke, op. cit., p. 629.

³ Stanley N. Jones, "Government Control and the Grain Trade." Unpublished article, Winnipeg Grain Exchange, Winnipeg, Canada, May, 1947.

⁴ Gauer, loc. cit.

was apparent immediately that conditions were not normal. The October contract which opened at \$2.20 on July 21 advanced to \$2.45½ by July 29; after six days' trading the market was again suspended.¹ On July 31 the first Canadian Wheat Board was constituted to handle the 1919-1920 crop.

The nature of this new organization, the reasons which prompted its formation and the results of its operations are highly significant factors in the Canadian grain trade.

The Wheat Board of 1919-1920 differed in important respects from its predecessor, the Board of Grain Supervisors. Whereas the latter was a purchasing agency at a fixed price and directed the movement of Canadian wheat, the Wheat Board was a state operated compulsory pool. It took title to all wheat marketed in Canada, paid the grower a fixed initial payment and issued participation certificates for whatever additional sums might be realized from the sale of the wheat. The Wheat Board disposed of the crop as it saw fit and distributed the amount received over and above the initial payment on a pro-rata basis. The initial payment was set at \$2.15 per bushel and additional payments brought the total proceeds to \$2.63 per bushel. The Board was discontinued in July, 1920.

It has been suggested that the formation of the Wheat Board was a measure of aid to former allies and enemies in a

¹ Jones, loc. cit.

² Britnoll and Fowke, op. cit., p. 630.

time of critical wheat shortage, and while the markets in these countries were still in a disorganized state. It has also been suggested that the Canadian Government had committed itself to sales overseas at prices which would have resulted in a substantial loss had it not taken over the marketing of wheat.¹

The significant point, however, is the opinion which was developed as to the relative merits of the free market and a Government Board.

Three years of complete control of Canadian wheat marketing by the Dominion Government had done nothing to alter the official viewpoint (on the part of the Government) that grain should normally be marketed by means of the open market system. With the growers, however, it was a different matter. The possibility and comparative efficacy of a new system of marketing had, as far as they were concerned, been amply demonstrated. In the months which followed the restoration of open market trading in 1920 the price of wheat fell drastically. It was easy to argue that the Board, had it been continued, might have prevented or at least significantly tempered the decline. The growers accordingly were determined not to remain longer at the mercy of the open market system.²

The alleged advantage of the pooling system is pointed out again in this statement:

But the grain producers of Western Canada have long memories and do not intend to forget what happened to them under the open market system in past years. When the Wheat Board was thrown overboard in 1920 after World War I, the speculative marketing system was given an opportunity to demonstrate its value to the farmers of Western Canada. Wheat prices

¹ Gauer, *loc. cit.*

² Britnell and Fowke, *op. cit.*, p. 630.

hit a high of \$2.85 a bushel early in September 1920 just when wheat started to pour into the market. Then a steady decline set in until by December 1923, wheat had been carried to the low average of 93¢. In that year the average farm price in Alberta was 67¢ a bushel compared with an average price of \$2.21 in 1919.¹

Neither of these two statements attempts to reconcile the fact that while the average price received by the Canadian farmer was \$2.63 per bushel in the crop year 1919-1920, the average price at Minneapolis was \$3.04 per bushel. Nor does either statement attach any significance to the fact that the 1919 crop was one of the smallest in years. Total exports that year were only 92 million bushels while the average for the five year period 1915-1919 was 160 million bushels. It is true that wheat prices declined subsequently but this can be associated with the post-war depression which struck at that time, the revival of European agricultural production, discontinuance of credits by Canada and the United States, relaxation of government purchasing, the erection of tariff walls and the dislocation of foreign exchange.

The revival of wheat production throughout the world is considered by Gauer to be useful in explaining the price decline. The reaction of this decline on farmers is also suggested in this statement:

¹ Alberta Wheat Pool Budget, February 2, 1951.

Following the small world crop of wheat in 1919, 2,690 million, excluding Russia and China, there was a steady increase in the size of world crops during the next four years--about 200 million bushels more in 1920, about 400 million bushels more in 1921, about 450 million bushels more in 1922, and about 800 million bushels more in 1923, all exclusive of Russia and China. A large part of these increases were in Europe. Naturally under these conditions the very high prices of the 1917-1920 period were bound to decline to more normal levels. The average price for One Northern wheat for the 1923-24 season was \$1.04½ per bushel basis store Fort William and Port Arthur, this comparing with pre-war prices of 89½¢ for the season of 1912-13 and 89½¢ per bushel for the season of 1913-14. There was much dissatisfaction among farmers because of this decline in price and, thinking erroneously that the government appointed Board of Supervisors and the Wheat Board were responsible for the high prices during the time they were functioning, a strong movement arose for restoration of such a Board.¹

It may be said then, in summarizing the marketing activities of this period, that during this critical time, when food supplies were scarce there was a legitimate reason for government agencies taking an active part in marketing the wheat crop. There is no doubt that one of the main objectives of these agencies was to prevent price from rising excessively. It was the exigencies of war and the shortage of grain which caused the higher prices to exist, and the existence of higher prices and upward pressure on prices was the cause and not the result of government intervention. This fact seems to have been completely overlooked, particularly in the statement quoted from the Alberta Wheat Pool Budget.²

¹ Gauer, *loc. cit.*

² A weekly publication of the Alberta Wheat Pool, Calgary, Canada.

The association of high prices with government controlled marketing and low prices with the free open market became very strong in the minds of many people, especially those who did not consider the basic facts of the situation. A student of the Canadian grain trade, Professor Mackintosh, referred in the following words to the farmers' attitude as:

The state of mind which connected the controlled buying of the Wheat Board with high prices and (farmers) looked to a similar organization to bring back the halcyon days of two dollar wheat.¹

VOLUNTARY POOLING

Early Development

The demands on the part of farm organizations for the restoration of a government sponsored Wheat Board became more persistent as the price of wheat declined. The Dominion Government passed an act which would have provided for a Board to operate for a period not longer than two years. The Act, however, required the concurrence of the Governments of the three Prairie Provinces. Manitoba failed to concur, Alberta and Saskatchewan agreed but were unable to find satisfactory personnel to operate a Wheat Board. On June 29, 1923, the Grain Growers' Guide (later known as the Country Guide)

¹ Report of the Royal Grain Inquiry Commission, 1938, p. 82.

observed that the Wheat Board idea was dead.¹

In the meantime the idea of a cooperative grain pool had been gaining favor. Such an organization came into being with the commencement of operations by the Alberta Pool in the fall of 1923. Similar pools were organized in Manitoba and Saskatchewan in 1924 and the three formed a Central Selling Agency, The Canadian Cooperative Wheat Producers.²

The attitude which members held concerning this new organization is summarized from the evidence submitted to the Royal Grain Inquiry Commission, 1938.

The Pool movement was intended to secure all the advantages thought to reside in centralized selling, but without government control. As is stated in the Pool brief (Ex 330, p. 7.) it was intended to be "a Wheat Board without government assistance." The ideal of cooperation and producer control was emphasized as preferable to any contact with governments. As late as the autumn of 1929 such sentiments were expressed with great force by Pool leaders (Ex. 454).³

The main advantage thought to reside in centralized selling was that of price improvement. This improvement would result by pursuing several main objectives:

- (1) eliminate (or reduce) speculation, manipulation and unnecessary transactions;
- (2) stabilize the market;
- (3) improve methods and reduce costs of marketing;

¹ Ibid., p. 64.

² Gauer, loc. cit.

³ Report of the Royal Grain Inquiry Commission, 1938, p. 65.

(4) market directly;

(5) market with regularity.

The Pool acted simply as a selling agency for its members and in this respect differed from a conventional grain company. Instead of making a coincident sale in the futures market when wheat was acquired from a farmer as conventional companies did, the Pool simply added the new purchase to the supply already on hand. The additional risk which the Pool ran was shared not only by those responsible for selling wheat but by each member who delivered grain, since the producer received only an initial payment when his grain was delivered to the elevator. If the grain was subsequently sold for more than the initial payment the difference was made up to the member. This system of partial payment made it possible for the Pools to secure a line of credit from a bank for the purchase of grain without hedging, since it was considered unlikely that the ultimate selling price would be less than the initial payment. As mentioned above it was the producer who bore the risk. By boycotting the futures market in this respect it was considered also that speculation and manipulation were reduced. The futures market was used, however, as will be suggested below, in an effort to stabilize the market. Direct marketing was used to a considerable extent and offices were established in London and Paris to facilitate this. No attempt appears to have been made to market with regularity. The selling policy

is described in this statement:

The Pool was responsible for the disposal of roughly one-half of the western wheat crop. It had no automatic method of selling to be carried on irrespectively of its own views as to price, as is the case with elevator companies buying wheat from farmers, but was necessarily required to regulate its sales policy by the judgment of its officials.

It is true that it might have adopted a policy requiring no salesmanship whatever, that of selling approximately equal quantities every month, every week or every day, but as will be seen no such mechanical, automatic method was ever adopted. On the contrary, the problem for the Central Selling Agency was to decide when and how and in what quantities to sell. Upon their decisions rested the return which their members would receive for their grain and with them the responsibility lay to insure, if possible, that the risk of owning and carrying in one hand one-half of the Canadian crop, a risk shared jointly and collectively by all Pool members instead of as formerly by outside speculators, did not bring disaster.¹

Wheat Pools in Difficulty

Something more than 50 percent of the Canadian wheat crop was being marketed through these channels and the Pools were, therefore, a significant factor in the grain trade. It has been pointed out that these organizations were not required by the banks, from which they received their line of credit, to hedge their grain purchases as other companies were required to do, since the Pools only gave the farmer a part of the value of the crop at the time of delivery. This system was satis-

¹ Ibid., p. 66.

factory while the market was reasonably stable but it proved to be quite the reverse at other times. During the first several years of operation the Pools disposed of their wheat in good time and at a price at least as high as that made in the initial payments to the farmers. However, at August 31, 1929 the Pool had an unsold carry-over of 48 million bushels as compared to no carry-over at the same date in 1928.¹ The Pool had virtually discontinued selling wheat in May, 1929, in the face of falling prices which were considered to be the result of a 'bear raid' on the market. The opinion which Pool officials held at that time is suggested by a statement of the General Manager of the Central Selling Agency in a pamphlet issued in May, 1929.

The increased consumption which has developed this past year will in all probability provide a market, and at a profitable figure, provided it is marketed in a sane way. There is no doubt that a reasonable price will be obtained for the balance of this year's and succeeding crops as we are adequately financed and prepared to await the demand.²

The Pool not only ceased selling in May but went further and bought futures in an effort to counter balance the 'bear raid' which was thought to be taking place. Something more than six million bushels were purchased in May and were sold out in June at a profit of more than half a million dollars.³

¹ Ibid., p. 73.

² Ibid., p. 76.

³ This was actually the second venture of this kind. In April, 1925, the Pool had purchased 3,435,000 bushels of futures on which slightly less than one-half million dollars profit was made. This action was explained as a counter measure to manipulation and was intended to give strength to the market. (Report of the Royal Grain Inquiry Commission, 1938. p. 70.)

The 1929 crop was harvested and 44 percent of it was delivered to the Pool at an initial payment of \$1.00 per bushel. The holding policy which had been initiated earlier but had been relaxed somewhat was again in effect. The general attitude at that time is described by a Pool statement which appears in The Report of the Royal Grain Inquiry Commission of 1938.

On October 10, 1929, when the Winnipeg cash price was \$1.46 $\frac{1}{2}$ and the December futuro \$1.47 $\frac{1}{2}$ -5/8:

The Pool in Control.---There is a recognition of the fact that it is the attitude and the stand taken by the Canadian Wheat Pool which has held the price of Canadian wheat to its present level in the face of the serious congestion in domestic storage warehouses. So far as we can recall, no more general recognition of the power of the Wheat Pool to influence prices or the movement of Canadian grain generally has been in evidence since the formation of the Pool than is evident at the present time.¹

Again in November, 1929, in the face of rapidly falling prices the Pool commenced buying futures and continued doing so until April, 1930. The loss on this action was in excess of two million dollars.² This loss, however, was only a small portion of the total difficulty which beset the Pool during the 1929 crop year. The situation is described in the following statement.

Wheat values were shaken throughout the world. A persistent decline then commenced, and the Pool was faced with the dilemma of having accepted millions of bushels of wheat from members on the basis of \$1.00 a bushel initial payment with the downward trend in price rapidly approaching that figure. The money for

¹ Ibid., p. 90.

² Ibid., p. 70.

the initial payment had been borrowed from the banks on a 15 per cent margin, and those institutions became much concerned.¹

In January, 1930, the governments of the three prairie provinces found it expedient to come to the aid of the Pools by guaranteeing their deficit to the banks. This deficit ultimately totalled 24 million dollars.

The guarantee of the Provincial Governments was concerned only with the 1929 crop and the carry over of the 1928 crop. Of course, the difficulty did not end here as is described in the following statement:

The year 1930-31 produced new difficulties. An initial payment of 70 cents for No. 1 Northorn was fixed on July 10 when the Winnipeg closing cash price was 95 cents. The guarantee of the provincial Governments did not extend to the 1930 crop. The initial payment was reduced on August 14 to 60 cents, again to 55 cents on September 11 and finally to 50 cents on November 8.

Prices continuing to fall, the Dominion Government was called upon for assistance, and through an arrangement entered into by the Central Selling Agency and approved by all parties, Mr. John I. McFarland became Manager of the Central Selling Agency in November 1930, taking charge of the carry-over and of the 1930 crop. Dominion Government guarantees were then given to the banks.

On July 31, 1931, the Pools became separated from the Central Selling Agency and since then have operated as separate entities carrying on a country and terminal elevator business. They also operated voluntary selling pools, each in its own province, for those of their members who wished to pool their grain. This voluntary pooling went on for the four years 1931-32-33-34, but

¹ Nosbitt, op. cit., p. 36. The Pools were required to hold stocks of grain having a market value 15 percent in excess of their liability to the banks.

was discontinued upon the establishment of the Canadian Wheat Board in the summer of 1935. The voluntary pooling operations were of small volume, slightly less than 20 million bushels of wheat being marketed in that manner during the four years.¹

The errors made by Pool officials during 1929 and 1930 have not been reviewed for the purpose of discrediting either the individuals concerned or the organization. The discussion is significant in so far as the policy influenced the wheat marketing system within Canada in the years to follow. The Pool policy is also significant in so far as it affected the attitude toward Canadian wheat in the export market and it is also relevant to proposed marketing policies which will be considered later.

STABILIZATION OPERATIONS

The marketing system which was used following the intervention of the provincial governments in 1929 was characterized by further governmental activity. In November, 1930 the Federal Government became involved, and what are referred to as "stabilization operations" were carried out for the next five years. The Central Selling Agency of the Pools became in effect an organ of the Federal Government, however, it appears that the chairman, John I. McFarland was relatively free to carry out policies which seemed best.

¹ Report of the Royal Grain Inquiry Commission, 1938, p. 35.

The market was very unstable at that time, it was difficult for private grain merchants to hedge their purchases due to the withdrawal of speculators from the market. The price of wheat was still falling rapidly and large quantities of wheat were being accumulated. The "stabilization operations" were an effort to restore some confidence in the market and to stabilize the price of wheat through the purchase and sale of futures. The operations are typified in the following statement:

"PEGGING" OF WINNIPEG PRICES

Mr. McFarland says that in the fall of 1932 he "attempted to support the market at 50 cents".... This was unsuccessful as his credit was exhausted on October 25 and the price fell. This was not strictly a price peg.

On August 14, 1933, at Mr. McFarland's request, an order of the Winnipeg Grain Exchange prohibited trading in the October future below 70 1/8 cents a bushel. The price then remained at or slightly above this figure but from September 8 to 13 all trades were made at the pegged level. Mr. McFarland had to buy heavily (14,653,000 bushels) in order that hedging could be done. On September 15, the peg was removed and the October future price fell during the next 30 days to 54 3/4 cents on October 16, despite net purchases of 31,756,000 bushels by Mr. McFarland.

On November 1, 1934, the Exchange at Mr. McFarland's request pegged the December future at 75 cents and May at 80 cents. (Subsequently, the July future was also pegged at 80 cents.) This peg was maintained until the July future expired, without the help of stabilization purchases.¹

The net effect of these operations is difficult to appraise.

¹ Ibid., p. 98-99.

A profit approaching 10 million dollars in cash was made from wheat accumulated during the "stabilization operations"¹ but it was the unanimous opinion of millers, merchants and traders that harmful results accrued overseas. The following statement is relevant.

They (millers, merchants and traders) all expressed the belief that its results were injurious to the sale of Canadian wheat in the market. The market dislikes selling monopolies or near-monopolies, the retention of wheat from sale, or anything which looks like an attempt to secure prices out of line with those paid currently to other sellers. They blamed the stabilization measures for all these things.²

The losses in volume which Canada suffered in the export market started with the Pool holding policy in 1928 and carried on through the stabilization operations. This was not so much an absolute loss but a relative loss. The fact has been raised above that as the population in the United States grew that country relinquished much of its export market. In the period 1922-27 the United States percentage of the world wheat trade was 23.2, it was 17.7 percent in 1927-32, and 9.0 percent in 1932-37.³ The new export outlets which thus became available were secured in the main by Argentina and Australia in spite of the fact that these two countries had poorer quality wheat than Canada and were substantially further from the

¹ Nesbitt, *op. cit.*, p. 38. This profit was not realized until 1936 when the last of the accumulated wheat was sold by the Canadian Wheat Board. The profits were added to the assets of that organization.

² Report of the Royal Grain Inquiry Commission, 1938, p. 99.

³ *Ibid.*, p. 140.

European market. The annual production, export and year-end stocks for Argentina, Australia, Canada and the United States for the years 1920-1948 are shown in Tables 1, 2, 3, and 4.

It may be seen from these tables that production in each country was increasing during the period considered. The increase in both Argentina and Australia was being taken care of by increased exports, in the United States by increased consumption and some increase in carry-over and in Canada by dangerous increases in carry-over.

There is no doubt that the Pool activities allowed Argentina to capture an unnecessarily large portion of the European market in 1928 and 1929¹ and again during the stabilization operations the same condition seems to have been true.

It was rather this withholding of wheat from the market, giving rise to a fear among buyers of an attempt to extort unreasonable prices, that led to the criticism overseas, and caused consumers to turn elsewhere for their requirements.²

Not only was considerable antagonism towards Canada engendered³ but British millers discovered that a small percentage of hard wheat could be mixed with the soft wheat available from Argentina and Australia and a cheap and acceptable product was thus obtained. This kind of loss is serious indeed.

¹ Report of the Royal Grain Inquiry Commission, 1938. p. 80.

² Ibid., p. 100.

³ Ibid., p. 95.

Table 1. Argentine wheat production and distribution for the period 1921-1948.

Year	:Acreage: :million: : acres :	Production: million : bushels :	Carry-over million : bushels :	Domestic use: million : bushels :	Exports million : bushels :
1910-14	15.1	154.7	-	71.3	83.4
1915-19	15.1	177.0	-	79.7	97.3
1921	13.2	156.1	5.9	66.8	65.8
1922	14.1	191.0	29.4	64.3	145.4
1923	16.1	195.8	10.7	65.1	140.8
1924	17.0	247.8	0.6	68.3	169.9
1925	16.0	191.1	10.2	70.8	116.9
1926	17.6	191.1	13.6	87.4	82.0
1927	19.0	230.1	35.3	83.3	163.9
1928	20.2	282.3	18.2	84.7	203.1
1929	22.4	349.1	12.7	86.2	249.9
1930	15.9	162.6	25.7	86.2	86.6
1931	19.5	232.3	15.5	93.4	138.1
1932	16.0	219.7	16.3	95.6	129.4
1933	17.8	240.9	11.0	96.0	149.4
1934	18.0	286.1	6.5	95.5	181.7
1935	17.2	240.7	15.4	92.1	146.3
1936	11.7	141.5	17.7	99.2	63.2
1937	17.6	249.9	- 3.2 ¹	99.3	147.6
1938	17.2	207.6	- 0.2 ¹	99.2	75.5
1939	20.1	379.1	32.7	101.0	179.4
1940	12.5	130.7	131.4	117.1	137.3
1941	16.6	299.5	7.7	100.6	90.0
1942	14.7	238.3	116.6	117.1	83.0
1943	12.0	235.2	154.8	120.6	76.1
1944	14.8	249.9	193.3	166.5	96.7
1945	10.8	150.1	180.0	154.6	95.5
1946	10.0	143.5	80.0	142.5	53.0
1947	13.9	206.3	28.0	124.6	84.7
1948	11.7	250.0	25.0		79.0

¹ The amount indicated was used from the new crop prior to January 1.

Source: Nesbitt, Leonard D., The Story of Wheat, p. 55.

Table 2. Australian wheat production and distribution for the period 1920-1948.

Year	:Acreage: :million: : acres :	Production: million : bushels :	Carry-over: million : bushels :	Domestic use: million : bushels :	Exports :million :bushels
Av. 1910-14	12.5	77.4		33.6	43.8
Av. 1915-19	9.6	113.6		47.3	66.3
1920	9.1	145.9		29.9	116.0
1921	9.7	129.1	5.0	44.6	84.5
1922	9.8	109.5	5.0	43.9	62.1
1923	9.5	125.0	8.5	42.4	81.2
1924	10.8	164.6	9.9	50.6	119.3
1925	10.2	114.5	4.6	37.8	74.4
1926	11.7	160.8	6.9	50.9	104.7
1927	12.3	118.2	12.1	40.9	80.5
1928	14.8	159.7	8.9	52.7	100.3
1929	15.0	126.9	15.6	52.7	76.0
1930	18.2	213.6	13.8	52.8	158.0
1931	14.7	190.6	16.6	46.1	150.3
1932	15.8	213.9	10.8	56.7	149.5
1933	14.9	177.3	18.5	61.2	94.5
1934	12.5	133.4	40.1	52.3	104.5
1935	12.0	144.2	16.7	35.0	97.5
1936	12.3	151.4	8.4	51.5	99.4
1937	13.7	187.3	8.9	52.1	130.2
1938	14.3	155.4	13.9	57.4	90.9
1939	13.3	210.5	21.0	59.7	94.3
1940	12.6	82.2	77.5	59.6	58.1
1941	12.0	166.7	42.0	59.6	44.6
1942	9.3	155.7	104.5	68.9	37.3
1943	7.9	109.7	154.0	94.6	91.2
1944	8.5	52.9	77.9	100.3	19.0
1945	11.4	142.4	11.5	76.6	57.1
1946	13.2	117.3	20.2	67.9	56.1
1947	13.9	220.0	13.5	80.0	130.0
1948	13.0	200.0	-	-	-

Source: Nesbitt, Leonard D., The Story of Wheat, p. 54.

Table 3. Canadian wheat production and distribution for the period 1920-1948.

Year	:Acreage: :million: : acres :	Production: million : bushels :	Carry-over: million : bushols :	Domestic use: million : bushels :	Exports million : bushels :
Av. 1910-14	10.5	196.1		97.3	98.8
Av. 1915-19	16.4	254.5		94.3	160.2
1920	18.2	263.2		96.4	166.8
1921	23.3	300.9	14.1	107.5	185.4
1922	22.4	399.8	22.1	130.7	279.0
1923	21.9	474.2	12.2	92.2	346.1
1924	22.1	262.1	48.1	87.4	192.1
1925	20.8	395.5	30.7	61.9	324.2
1926	22.9	407.1	40.1	99.1	292.5
1927	22.5	479.7	55.6	111.6	332.5
1928	24.1	566.7	91.2	124.5	406.2
1929	25.3	304.5	127.2	120.2	184.9
1930	24.9	420.7	126.6	150.3	258.4
1931	26.4	321.3	138.6	117.2	206.8
1932	27.2	443.1	135.9	97.2	264.1
1933	26.0	281.9	217.7	102.3	194.4
1934	24.0	275.8	202.9	99.9	164.9
1935	24.1	281.9	213.9	114.3	254.1
1936	25.6	219.2	127.4	114.8	194.8
1937	25.6	180.2	37.0	105.9	86.8
1938	25.9	360.0	24.5	116.5	165.1
1939	26.8	520.6	102.9	115.5	207.5
1940	28.7	540.2	300.5	136.5	224.1
1941	21.9	314.8	480.1	149.2	221.9
1942	21.6	556.7	423.8	183.2	202.7
1943	16.8	284.5	594.6	174.6	348.0
1944	23.3	416.6	356.5	181.8	333.2
1945	23.4	318.5	258.1	167.1	335.9
1946	24.1	413.7	73.6	160.1	239.8
1947	24.3	336.8	87.4	148.7	199.5
1948	24.1	393.3	76.0	-	-

Source: Nesbitt, Leonard D., The Story of Wheat, p. 52.

Table 4. United States wheat production and distribution for the period 1920-1948.

Year	:Acreage: :million: : acres :	:Production: : million : : bushels :	:Carry-over: : million : : bushels :	:Domestic use: : million : : bushels :	:Exports :million :bushels
Av. 1910-14	50.3	724.4	117.0	578.2	154.8
Av. 1915-19	59.1	823.8	99.4	599.9	203.3
1920	62.4	843.3	170.0	576.7	312.6
1921	64.6	819.0	124.0	581.4	265.6
1922	61.4	846.6	96.0	605.5	205.1
1923	56.9	759.5	132.0	623.1	131.4
1924	52.5	841.6	137.0	615.9	254.7
1925	52.4	868.7	108.0	586.8	92.9
1926	56.6	832.2	97.0	614.3	205.9
1927	59.6	875.1	109.0	680.1	191.0
1928	59.2	914.4	113.0	659.4	141.0
1929	63.4	824.2	227.0	619.8	140.3
1930	62.6	886.5	291.1	753.0	112.1
1931	57.7	941.5	312.5	755.8	122.9
1932	57.9	756.3	375.3	721.9	31.9
1933	49.4	552.2	377.8	631.7	25.4
1934	43.3	526.1	272.9	658.1	- 5.0 ¹
1935	51.3	628.2	145.9	664.1	-30.4 ¹
1936	49.1	629.9	140.4	692.7	-25.2 ¹
1937	64.2	873.9	83.2	704.6	99.4
1938	69.2	919.9	153.1	716.6	106.4
1939	52.7	741.2	250.0	666.9	44.6
1940	53.3	814.6	279.7	679.5	30.1
1941	55.9	942.0	384.7	671.9	24.0
1942	49.8	969.4	630.8	954.1	27.2
1943	51.4	845.8	618.9	1,219.3	-73.2 ¹
1944	59.7	1,060.1	316.6	991.6	105.9
1945	65.1	1,108.2	279.2	899.3	388.0
1946	67.1	1,153.0	100.1	775.2	394.1
1947	74.4	1,367.2	83.8	775.7	479.6
1948	71.9	1,288.4	195.7	-	-

¹ The amounts indicated were net imports.

Source: Nesbitt, Leonard D., The Story of Wheat, p. 23.

In May, 1935, the Central Selling Agency held some 230 million bushels of wheat. Mr. McFarland's stabilization operations were doing little to improve the price and the embarrassing surplus of wheat continued to grow. It was obvious that some new action had to be taken and for the second time in Canadian history a national Wheat Board was established.

THE SECOND NATIONAL WHEAT BOARD

The Canadian Wheat Board Act of 1935 introduced a new stability to the market, by establishing a minimum floor price, and at the same time corrected several malpractices of the "stabilization operations." Following the election of 1935 a statement issued by the newly appointed Minister of Trade and Commerce indicated the change in policy.

The concentration of surplus stocks of wheat in Canada during the past few years has created an abnormal situation in the world's wheat trade.

Last June this situation was recognized by Parliament as not being in the interests of Canada or her wheat producers, and the Dominion Government desires to have our surplus restored to a normal basis. To accomplish this the Wheat Board will seek the good will and co-operation of the grain and milling trades in all importing countries.

It is not necessary to have and there will not be any 'fire sale' of Canadian wheat, but it will be for sale at competitive values and will not be held at exorbitant premiums over other wheats.¹

¹ The Canadian Wheat Board, 1935-46, p. 10.

The Bill originally written would have granted monopoly power to the Board to handle all wheat produced in Western Canada, and there seems little doubt that the farmers' organizations, mainly the Wheat Pools, would have preferred this type of legislation. However, the traditional view that wheat should be marketed by private agencies prevailed and a bill so written became law. The legislation provided for the appointment of a three member Board and a seven member Advisory Committee. Mr. John I. McFarland, the first Chief Commissioner took office in August, 1935. The newly appointed Board provided a voluntary marketing organization prepared to buy wheat from producers at a fixed price established by the Board, (subject to the approval of the Governor in Council), and subject to adjustment from year to year. The producer also received a participation certificate which entitled him to a share of any profits realized by the Board. At times when the open market price was higher than the fixed price it was unlikely that any wheat would be marketed through the Board. At times when the fixed price was above the open market price most of the wheat was delivered to the Board. The important point is that the farmer had an alternative market through which he might dispose of his wheat and he was free to exercise his own judgment as to which he should use.

Four paragraphs in the Act refer to the marketing policy to be employed by the Board.

Sect. 8, paragraph (b), stated that it was the duty of the Board "to sell and dispose of from time to time all wheat which the Board may acquire, for such price as it may consider reasonable, with the object of promoting the sale and use of Canadian wheat in world markets".

Sect. 8, paragraph (c), stated that it was the duty of the Board "to sell and dispose of stocks of wheat and contracts for the delivery of wheat acquired from Canadian Co-operative Wheat Producers, Limited, and the wheat represented by such contracts as may be reasonably possible, having regard to economic and other conditions".

Sect. 8, paragraph (i), stated that it was the duty of the Board "in selling and disposing of wheat as by this Act provided, to utilize and employ without discrimination such marketing agencies, including commission merchants, brokers, elevator men, exporters and other persons engaged in or operating facilities for the selling and handling of wheat, as the Board in its discretion may determine".

Sect. 8, paragraph (j), stated that it was the duty of the Board "to offer continuously wheat for sale in the markets of the world through the established channels: Provided that the Board may, if in its opinion any existing agencies are not operating satisfactorily, take such steps as it deems expedient to establish, utilize and employ its own or other marketing agencies or channels".¹

Section 7 (b) of the Act provided that "no wheat shall be purchased by the Board except from the producer thereof".²

Sections 7 (b) and 8 (j) in particular, mark a departure from the previous system. There was no longer an attempt to influence price either by the system of buying futures in the open market or by accumulating large quantities of wheat and

¹ The Canadian Wheat Board 1935-46, p. 6. For Sect. 8, paragraph (i) see Report of the Royal Grain Inquiry Commission, 1938, p. 101.

² Report of the Royal Grain Inquiry Commission, 1938, loc. cit.

holding it off the market. The attempts to manipulate supply and demand during the previous period probably improved the Canadian price somewhat but this improvement was of questionable net benefit when it is recalled that sales declined seriously during the period.

The purpose of the legislation is aptly described as follows:

There is no doubt that the intent of the Canadian Wheat Board Act, 1935, was to protect the Canadian producer against untimely developments in the international wheat situation. In actual fact, the Canadian Wheat Board, through its power to fix a minimum price, through its power to receive Dominion financing, and through its power to transfer deficits to the Dominion Government, really acted as a buffer between chaotic conditions in the international wheat market and the farmers on the land in Western Canada.

Under this legislation the burden of international conditions as affecting wheat, did not fall entirely upon the producer of wheat but was shared between the producer and the country at large.¹

Professor Bladen has suggested, however, that the farmers would have preferred a similar organization to the monopoly Board of 1919.²

In September, 1935 the price which would prevail through that year was fixed at 87½ cents per bushel. When freight and other charges were deducted from this figure, approximately 70 cents per bushel was left for the producer. The market price was slightly above 87½ cents per bushel when the Board price was fixed but declined subsequently and remained below during

¹ The Canadian Wheat Board 1935-46, p. 7-8.

² Bladen, L. V., An Introduction to Political Economy. p. 143.

about eight months of the crop year.

With this price relationship in effect it is natural that 141 million bushels out of a total country marketing of 216 million bushels were delivered to the Board.¹

There was evidence that the spirit of the new legislation particularly Section 8 (j), was not being carried out as net sales during the four month period from August to November amounted to some 12 $\frac{1}{2}$ million bushels.² In December the personnel of the Board was changed and the Advisory Committee was dispensed with, it being considered that this body was unnecessary. With Mr. J. R. Murray as Chief Commissioner, the more vigorous sales policy endorsed by the government was followed. The crop failures in the United States and the Argentine in 1935 and the drought conditions in North America during 1936 aided Canada, the now willing seller, to dispose of a substantial quantity of wheat. By July, 1936 all but two million bushels purchased by the Board in 1935 had been sold and the stabilization holdings of something more than 200 million bushels had been reduced to 82.7 million. A net loss of 11.9 million dollars was suffered on the sale of the 1935 crop, and of course, the participation certificates were valueless.³

¹ The Canadian Wheat Board 1935-46, p. 10.

² Report of the Royal Grain Inquiry Commission, 1938, p. 103.

³ The Canadian Wheat Board 1935-46, p. 11.

This marketing system will be considered in more detail later in the discussion but some of the difficulties facing the Board may be mentioned here. The Board was required to set a price at the beginning of the season which would remain in effect for the entire crop year. Regardless of what that price was the Board was required to accept all deliveries from producers, who saw fit to deliver to the Board, and offer it immediately for sale at the open market price. Thus the possibility of a two price system was avoided. Although a producer might deliver his wheat to the Board regardless of what the open market price was, it seems reasonable to suspect that such deliveries would only be made when the open market price was less than the fixed price. It may be seen that under this arrangement it was difficult for the Board to avoid losing money. During the crop year in question the open market price ranged between 73 $\frac{5}{8}$ cents and \$1.03 $\frac{3}{8}$ with, as has been mentioned above, the price below 87 $\frac{1}{2}$ cents for approximately eight months. Therefore, it was possible for the Board to lose up to 13 $\frac{7}{8}$ cents per bushel on wheat purchases. However the average loss on the entire amount handled was approximately 8 cents per bushel. It would of course have been possible for the Board to have broken even or even made something to return to producers had the wheat delivered remained in its possession until the price rose above 87 $\frac{1}{2}$ cents.

A price of 87 $\frac{1}{2}$ cents per bushel was fixed again in August, 1936 to apply to deliveries from that crop. However, an

additional proviso was made whereby the Board would only accept deliveries if the open market price fell below 90 cents per bushel. Since the price remained above 90 cents throughout the year the Board did not handle any of the 1936 crop. The remainder of the "stabilization" stocks were disposed of that year at a profit approaching ten million dollars.¹

The smallest wheat crop since 1914 was harvested in Canada in 1937. The price remained above 90 cents and for a second year the fixed price was ineffective.²

There was a sharp change in the wheat situation during 1938. While Canada had disposed of practically all of its 1937 crop, this was not so elsewhere, particularly in the United States. As the 1938 season advanced there was every indication that the wheat crop would be considerably larger than that of the five previous years. This condition along with continued low demand caused Mr. Justice Turgeon to report to the Government in the following manner:

For all these reasons (and not withstanding the adverse considerations to which I have referred in relation to government Boards) I do not feel that I can suggest the immediate dissolution of the Canadian Wheat Board. There is a strong possibility that conditions may develop which will require a measure of assistance in the marketing of the coming crop, and I do not know, of course, how long these conditions may continue after the final chapter of this report is written. In the meantime I can think of nothing better to suggest than that the Board be maintained to

¹ Loc. cit.
² Ibid., p. 12.

meet any situation which may arise.¹

The Government subsequently announced that the Board would remain in operation in 1938 and that a minimum price of 80 cents per bushel would be made as an initial payment. The early appraisal of the difficulties which would arise from wheat surplus that year were amply borne out. So far as Canada was concerned it suffices to say that the final account of the 1938 crop was not closed out until 1942 and the Wheat Board recorded a deficit of \$61.5 million.²

This heavy loss prompted two important amendments to the Wheat Board Act:

(1) The fixed initial price for the 1939 crop was established at 70 cents a bushel by Parliament, thus shifting the responsibility of price fixing from the Board to Parliament.

(2) Deliveries from any one producer were limited to 5,000 bushels in any one crop year subsequent to the passage of the amendment.³

A substantial carry-over of wheat from the 1938-1939 crop year indicated that Government aid would be necessary again in 1939-1940. The outbreak of war, however, brought an improved export demand and the price advanced above the minimum fixed, and remained above throughout most of the year. The Board was

¹ Report of the Royal Grain Inquiry Commission, 1938, p. 194.

² Report of the Canadian Wheat Board, Crop Year 1941-1942, p. 23.

³ The Canadian Wheat Board 1935-46, p. 14.

able to dispose of 247 million bushels during the crop year but some 300 million bushels remained as the total carry-over on July 31, 1940.¹

Farmers anticipating conditions similar to those experienced during World War I increased the wheat acreage by two million acres in 1940. Favorable growing conditions together with the record soeded acreage resulted in a 540 million bushel crop. This amount of wheat added to the carry-over from the previous year caused a severe storage problem. A system of payment for on-the-farm storage was introduced, and presumably to offset this cost, a processing tax of 15 cents per bushel was levied on all wheat utilized for human consumption. This tax produced a net revenue of \$5.8 million dollars.²

In an effort to prevent further pressure being added to an already strained system a policy of acreage control was introduced in 1941 to apply to the 1941-1942 crop year. It was hoped that the crop in that year could be restricted to 230 million bushels, the amount which it was estimated would meet domestic and export demand for the year. The still remaining surplus from previous years was treated as a war-time reserve.

The crop in that year turned out almost exactly as was hoped, 228 million bushels were harvested. Two bulk sales were made to the United Kingdom during the year which together

¹ The Canadian Wheat Board 1935-46, p. 16.
² Ibid., p. 17.

with other consumption reduced the carry-over at the end of the year to 60 million bushels.¹

The Government policy remained essentially the same in the 1942-1943 crop year. Acreage reduction was still in effect but the initial payment was advanced from 70 cents to 90 cents per bushel. Early in 1943 improved demand became a noticeable factor and by March the open market price had moved above the Board's initial price and 38 percent of the total authorized deliveries under the Government's crop reduction scheme were disposed of through the open market and the remaining 62 percent through the Board.²

This system, which seemed to have been operating with reasonable success was suddenly abandoned on September 27, 1943, and for the second time a Government monopoly appeared in the Canadian grain trade.

GOVERNMENT MONOPOLY IN THE GRAIN TRADE

The War Years

The complete change in policy which was thus effected is summarized by the Canadian Wheat Board under the following points:

¹ Britnell and Fowke, op. cit., p. 638.

² Loc. cit.

(1) The discontinuance of wheat trading on the Winnipeg Grain Exchange;

(2) The raising of the fixed initial price to producers from 90 cents per bushel to \$1.25 per bushel;

(3) The purchase by the Board, on behalf of the Dominion Government, of all stocks of unsold wheat in commercial positions in Canada on September 27, 1943;

(4) The closing out of the 1940-1941, 1941-1942 and 1942-1943 Wheat Board accounts on the basis of closing market prices on September 27, 1943;

(5) The use of Government-owned wheat (Items 3 and 4 above) to meet requirements under Mutual Aid and to provide wheat for subsidized domestic purchasers.¹

What was the motive behind this change? A press announcement of September 28, 1943, by the Minister of Trade and Commerce stated that the change in wheat policy was necessary because of the unusual circumstances surrounding the marketing of Canadian wheat; and added that transportation difficulties had interfered with the normal functioning of the Winnipeg market so that farmers had not been able to benefit fully from rising prices.²

A substantial quantity of the wheat in Canada was in farm and country elevator storage. The supply of railway cars suitable for moving grain was short due to the pressure of other transportation needs of the war period. Western farmers were still on a delivery quota basis. It is likely that these

¹ Report of the Canadian Wheat Board, 1943-44, p. 3.

² Jones, op. cit., p. 6.

factors would have caused an increase in the price of wheat had the Government not been in control, when it was learned shortly afterwards, that large bulk sales had been made to the United Kingdom and the United States. It is reasonable to assume that the Government wished to prevent a substantial price rise since it would have greatly increased the cost of wheat purchases to be used for Mutual Aid (an assistance program applicable to Allied nations) and thus added an additional strain on the Treasury. It was, no doubt, also the Government's desire to prevent the cost of living from rising, in this respect, within Canada. Another, and no doubt very important reason, for the establishment of a Government monopoly is suggested.

The change in the wheat marketing policy which was made in 1943 placed the Dominion Government in a strategic position for the formulation of policy for the post-war period. The Government made it clear that the first consideration would be to supply Canadian wheat in maximum quantities to meet the desperate food requirements of European countries. For the longer run the Government has consistently pursued the goal of greater market stability for the wheat economy.¹

The idea of a post-war policy directed towards stability was, no doubt, very much in the mind of the Minister of Agriculture, Mr. Gardiner, who was one of the major architects of the new wheat policy. His concern for the post-war period is suggested in this statement "When the five year pool was announced on September 19, 1945, the war had just ended--and

¹ Britnell and Fowke, op. cit., p. 639.

we were facing the uncertainties of the future. It was thought by most persons that prices would go down."¹

There were no substantial changes in the policy during the next two years. The stocks of wheat acquired in 1943, and that added subsequently, were disposed of through domestic use and the Mutual Aid program, as needs arose. On July 31, 1945, 258 million bushels of wheat were in the possession of the Wheat Board as carry-over into the next crop year.

The Five Year Pool

With the completion of World War II in the late summer of 1945 it might have been expected that some measure of de-control would be initiated. On the contrary, the compulsory Wheat Board was established in the Canadian economy for a five year period. Under this arrangement the Board would continue as the sole purchaser of wheat and the crop years 1945-1946 to 1949-1950 would constitute a single pool. As previously, the producer would receive an initial payment on delivery with participation certificates to represent his further equity.

The Government's intention to stabilize the wheat market and also its plan in regard to selling policy are suggested in this statement.

¹ Hansard, House of Commons Debate, p. 1060, March 8, 1951.

On September 19, 1945, the Dominion Government announced that for the time being Canadian wheat was to be offered for export at a price not exceeding \$1.55 per bushel for No. 1 Northern wheat basis in store Fort William/Port Arthur or Vancouver. At the same time the Dominion Government announced that "as a further means of stabilizing wheat prices during the post-war period, it is the intention that steps shall be taken to ensure that producers will not at any time up to July 31, 1950, receive less than \$1.00 per bushel for No. 1 Manitoba Northern wheat, basis in store Fort William/Port Arthur or Vancouver, on the authorized deliveries for each crop year".¹

With the exception of the private grain trade it can be said that the five year pool was greeted enthusiastically by Canada. The \$1.00 floor price was encouraging to all who could remember the decline in price following World War I. The reasonable selling price led most people to believe that an expanding market, that could be relied upon in the years ahead, would be established for Canadian wheat. A statement which is typical of many which appeared in the press at that time is included. Under the heading, "The New Wheat Policy" the Winnipeg Free Press of September 21, 1945, had this to say:

The statement on wheat prices made on Wednesday by Trade Minister MacKinnon is a major decision of post-war policy. In the first place, the decision not to exact the last available cent which the prospect of hunger would force our customers to pay, is a long-sighted effort to ensure indispensable markets in the years ahead. At the same time, the fixing of a floor to producers for five years will remove the threat of ruinous prices and make a contribution of great importance to the stability of farm income in Western Canada for a substantial period.

¹ The Canadian Wheat Board 1935-46, p. 48.

The Government has instructed the Wheat Board to continue to offer wheat for export at \$1.55 per bushel basis No. 1 Northern, Fort William--the price which prevailed at the end of hostilities. Owing to the dire need of European countries and small crops in some areas a higher price could be obtained for a short while on the basis of credit. This temptation was resisted because, as Mr. MacKinnon made clear:

'Any further increase in wheat prices now would aggravate the problems of economic and political readjustment of the liberated areas to Canada's detriment in future trade with those areas. Higher wheat prices would encourage the importing countries in a hurried return to wheat production and pre-war wheat policies very directly to the detriment of the wheat exporting countries, particularly Canada. Moreover, production in a number of exporting countries would be unduly encouraged'.

The average return from exports and the domestic market will probably bring something over \$1.40 basis Fort William, for wheat now being disposed of. It will be generally agreed that, under the present circumstances, such a price is a profitable one for farmers. It is worthy of note that the Government's instructions to the Wheat Board to offer wheat for export at \$1.55 does not specify a period of time. That is to be the policy in the light of present and anticipated conditions.

The Government's commitment respecting the 'floor' price is definite as to duration--namely, '...in the five-year period ending July 31, 1950, producers will receive not less than \$1 per bushel, basis No. 1 Northern in store Fort William, Port Arthur or Vancouver, on authorized deliveries for each crop year'. The 'floor' is to be not less than \$1.00; it could be more according to circumstances and Government decision from year to year. For the present crop year, 1945-46, the effective floor is the initial price of \$1.25.

The guaranteed minimum of \$1.00 will, in the light of past experience and the ruinous prices that have sometimes prevailed, be a factor of great importance in the life of western agriculture. For almost half the period since 1920 the average annual price was below \$1.00. The average open market price for as late as 1942 was less than \$1.00. The Wheat Board minimum price at the beginning of the war was 70¢, and the initial price in the present Wheat Board Act is only 90¢. The assurance which has been given to wheat growers over the next five years is far more valuable than the dubious benefits of a short-lived boom.

The new wheat price policy is basically consistent with the Government's general efforts to prevent a disruptive post-war inflation and with its active endeavors to obtain and hold prosperous export markets for the years ahead. No area has a greater stake in the full attainment of these objectives than Western Canada.¹

Mr. Justice Turgoon had issued a warning to the Government in 1938 concerning the weakness of such a pool but this point will be considered below.

So far as was known at the outset it was the Government's intention to have the Wheat Board dispose of all the Canadian wheat crop in both domestic and foreign markets on a first come, first served basis. It appeared later, however, that a somewhat different selling policy was to be used. The Government, faced with the responsibility of disposing of the entire wheat crop, saw fit to seek long term contracts with wheat importing countries. Long term contracts if made at a sufficiently high price would remove the possibility of any embarrassment to the Government in the event that world wheat prices declined below the \$1.00 minimum price, which had been promised the farmers for the duration of the compulsory pool.

Canadian-United Kingdom Agreement

One such long term contract was signed with the United Kingdom and the complete text of that agreement is given herein:

¹ Alberta Wheat Pool Budget, January 20, 1950.

AGREEMENT BETWEEN CANADA AND THE UNITED KINGDOM
FOR THE PURCHASE OF CANADIAN WHEAT

Signed at Ottawa, July 24, 1946

The Government of Canada and the Government of the United Kingdom, recognising that their mutual interest in the maintenance of reasonable prices and adequate supplies of wheat for consumers and of steady and remunerative prices for producers can best be met by international co-operation in the expansion of world trade and employment, have entered into the following arrangements designed to ensure a measure of security in the supply and of stability in the price of wheat supplied by Canada to the United Kingdom:--

(1). (a) The United Kingdom Government undertakes to purchase and the Canadian Government undertakes to sell the following quantities of Canadian wheat, which quantities include wheat to be processed into flour for sale to the United Kingdom Government:

- (i) within the crop year 1946-47,
160,000,000 bushels;
- (ii) within the crop year 1947-48,
160,000,000 bushels;
- (iii) within the crop year 1948-49,
140,000,000 bushels;
- (iv) within the crop year 1949-50,
140,000,000 bushels.

A bushel shall be of the weight of 60 pounds avoirdupois.

(b) In the event of the United Kingdom requiring from Canada any additional quantities of wheat that the Canadian Government is prepared to make available, such additional quantities which the Canadian Government offers and the United Kingdom Government accepts shall in all respects be subject to the provisions of this Agreement.

(c) Of the total quantity of wheat specified above for each crop year, the United Kingdom Government agrees to take the following quantity in long tons in the form of flour:

- 1946-47 500,000 tons as a minimum, with an additional quantity not exceeding 140,000 tons to be determined by negotiations in the light of the out-turn of the crop.
- 1947-48 400,000 tons as a minimum, with an additional quantity not exceeding 140,000 tons to be determined by negotiations in the light of the out-turn of the crop.

1948-49 300,000 tons as a minimum, the actual tonnage to be negotiated by the 1st July, 1947.

1949-50 300,000 tons as a minimum, the actual tonnage to be negotiated by the 1st July, 1948.

(d) The rate and place of deliveries of wheat and flour shall be determined from time to time by mutual agreement.

(2). (a) The prices per bushel to be paid by the United Kingdom Government to the Canadian Government, on the basis Number One Manitoba Northern, in store Fort William/Port Arthur, Vancouver or Churchill, shall be as follows:--

- (i) In respect of wheat bought and sold in the crop year 1946-47, \$1.55.
- (ii) In respect of wheat bought and sold in the crop year 1947-48, \$1.55.
- (iii) In respect of wheat bought and sold in the crop year 1948-49, not less than \$1.25.¹
- (iv) In respect of wheat bought and sold in the crop year 1949-50, not less than \$1.00.¹

(b) The actual prices to be paid for wheat to be bought and sold within the crop year 1948-49 shall be negotiated and settled between the United Kingdom Government and the Canadian Government not later than the 31st December, 1947, and prices for wheat to be bought and sold within the crop year 1949-50 shall be negotiated and settled not later than the 31st December, 1948. In determining the prices for these two crop years, 1948-49 and 1949-50, the United Kingdom Government will have regard to any difference between the prices paid under this Agreement in the 1946-47 and 1947-48 crop years and the world prices for wheat in the 1946-47 and 1947-48 crop years.

(c) The prices to be paid for grades other than Number One Manitoba Northern to be delivered under this Agreement shall be determined yearly in consultation between the United Kingdom Government and the Canadian Government.

(d) In addition to the prices detailed in Section (a) of this Article, the United Kingdom Government undertakes to pay such carrying and forwarding charges as may be mutually arranged.

¹ As a result of negotiations between the Government of Canada and the Government of the United Kingdom, the following prices were established:--

Crop Years 1948-49	\$2.00 per Bushel Basis No. 1 Northern
1949-50	in store Fort William, Port Arthur and Vancouver.

(e) Payment shall be made in full in Canadian funds at par Winnipeg by the United Kingdom Payments Office against presentation of completed statements of claim or otherwise as may be mutually agreed.

(3) It is agreed that the United Kingdom Government may sell or dispose of the wheat and flour purchased under this Agreement in whatsoever manner the United Kingdom Government may deem expedient both in regard to destination and price.

(4) (a) The Canadian Government will use its best endeavours to arrange that the quantities of wheat set out in Article I (a) shall at all times be available and at the disposal of the United Kingdom Government within the stipulated dates and in accordance with the rates and places of delivery determined under Section (d) of Article I of this Agreement.

(b) The United Kingdom Government will use its best endeavours to arrange for the provision of the required ocean tonnage within the stipulated dates and in accordance with the rates and places of delivery determined under Section (d) of Article I of this Agreement.

(5) It is agreed that the detailed terms and conditions relating to such matters as carrying and forwarding charges, grades, routing of shipments and all other matters incidental to the fulfillment of this Agreement shall be discussed and settled from time to time and incorporated in documents to form annexures to this Agreement.

(6) It is mutually understood that matters arising from, or incidental to, the operation of this Agreement may at the instance of either party become subjects of discussion between the parties to this agreement.

(7) Having in mind the general purposes which this Agreement is designed to serve, the two Governments have agreed that its terms and conditions shall be subject to any modification or amendment which may be necessary to bring it into conformity with any international agreements or arrangements hereafter entered into to which both Governments are parties.

Done in duplicate, in Ottawa, on the twenty-fourth day of July, 1946.¹

For the Government of Canada:
Jas. A. MacKinnon

For the Government of the United Kingdom:
P. A. Clutterbuck

¹ Treaty Series, 1946. No. 30.

Other European countries were approached with the idea of arriving at similar contracts. The Minister of Agriculture, Mr. Gardiner, in an address given in Montreal in the autumn of 1946 stated:

We have been prepared to discuss a similar contract with any other country which has been a customer for a reasonable quantity of our wheat. We have discussed the possibilities with a number but up to date no other country has definitely proposed a contract.¹

The contract between Canada and the United Kingdom was supported by farm organizations in general but there was a considerable amount of disagreement on the part of the Parliamentary Opposition,² a large sector of the press and many individual farmers.

The Minister of Agriculture defended the agreement vigorously but his defence in the outset was clearly based on an anticipated decline in the world price of wheat and also to the advantage which he attached to price stability. In a speech made in the House of Commons on August 14, 1946, immediately after the Agreement had become effective, these points were indicated.

When we are at the end of the four-year period, if in the last six or twelve months we find ourselves in the position that world markets, so-called, are not offering as much for wheat as we are getting for it, I hope people will stand behind us to the extent they are standing behind us now. Even if wheat stays above \$1.55 during the whole period, I

¹ From correspondence with an official of the Canadian Wheat Pool who has asked that his name be withheld.

² Hansard, House of Commons Debate, p. 1055.

hope people will still feel that it was worth while trying. If we are successful in this experiment, then we can talk to the grain trade people with some assurance. If they are able to show us at the end of the five-year period that we were all wrong, that over that length of time the farmer got less than he ever got before under similar circumstances and that the other system would have brought him more, then we shall be in a position to discuss the matter with them on an even footing. I am sure anyone who has taken this position and finds himself wrong will be quite prepared to discuss it from that point of view. In the meantime we are convinced that this is the best thing for the farmer. As long as we are convinced of that, and having another four years in which to try it out, we can put the policy into effect in a way that will at least help us to determine how this long argument between farmer and grain trade in western Canada ought to be settled in the interests of the great masses of the people.¹

Mr. Gardiner thus made his position clear that he was prepared to defend the agreement on the basis that it would result in a greater net return to the farmer for his wheat or failing that, would provide a degree of price stability which would compensate the farmer for some loss in total revenue. However, he places the responsibility on the grain trade to establish, at the end of the agreement, that the price received was something less than might otherwise have been obtained.

From the outset the Wheat Pools were staunchly in favor of the scheme.² Less sympathetic opinions, however, existed in other quarters. As evidence of this a statement is included from the results of a survey of farmer opinion conducted by the

¹ Hansard, House of Commons Debate, p. 4810.

² The Alberta Wheat Pool, "The Story of the Wheat Pool", p. 11.

Country Guide in the late summer of 1947. On the basis of approximately 1,000 questionnaires concerning the agreement, returned by subscribers of that magazine, the following observation was made.

Thus, 56 percent of the definite opinions offered, and 53 percent of all wheat growers supplying returns, were, on the whole, dissatisfied with the agreement, believing that it is not likely to prove a satisfactory deal for prairie farmers.¹

What actually was the outcome of the agreement? The agreement provided, in clause 2 (b), for the negotiation, at a future date, of the price to be paid in the last two years. It was observed in a footnote to the copy of the agreement included above, that the price in each of the last two years was fixed at \$2.00 per bushel. Official statements were issued by the Government following each negotiation. Concerning the 1948 crop, a press release setting forth the arrangement was issued by the late Right Honorable W. L. Mackenzie King on October 1, 1947 and reads in part:

The Prime Minister, Mr. Mackenzie King, made the following announcement: 'A Wheat price of \$2.00 per bushel for the third year of the Canada-United Kingdom wheat contract has been agreed upon by the governments of Canada and the United Kingdom.

In the negotiations which took place during the past month both parties recognized the obligation contained in clause 2 (b) of the agreement, which requires that in settling the price to be paid in the last two years of the agreement period regard should be had to the difference in the first two years between the world prices and the agreement price. Having in mind the magnitude of the agreement and the long

¹ The Country Guide, November 1947, p. 43.

term security which it provides, a precise arithmetical calculation of the difference in price was not suggested. The government is satisfied that the considerations which have prompted the United Kingdom government to offer and the Canadian government to accept a price of \$2.00 per bushel in 1948-49, will apply, fully and in the same spirit, in the negotiations for the settlement of the price to be paid in 1949. The negotiations for this purpose are to take place before the end of 1948".¹

Discussions on the payment to be made for the 1949 crop were carried on in December, 1948, between Mr. Gardiner representing Canada and Mr. Strachey and Sir Stafford Cripps representing the United Kingdom. A price of \$2.00 per bushel was agreed to by both parties but further consideration was to be given at a later date, at which time a price adjustment might be made. The press release issued on January 20, 1949 reads as follows:

The government made the following announcement today:

Representatives of the United Kingdom and Canadian governments have had discussions on the price to be paid by the United Kingdom for Canadian wheat in 1949-50, the fourth and final year under the United Kingdom-Canadian wheat agreement of 1946. After taking into account all relevant considerations, including but without attempting to reach a final settlement of the United Kingdom obligations under clause 2 (b) of the agreement, the two governments have agreed upon a price of \$2.00 per bushel.

The two governments have also agreed that their representatives shall meet not later than 31st, July, 1950, to settle any obligations of the United Kingdom which may then still be outstanding under clause 2 (b) of the agreement.

¹ Hansard, House of Commons Debates, p. 1064.

The extent to which any such obligations will remain will depend largely upon the actual price ruling for wheat during 1949-50.¹

However, the discussions were in fact closed with that meeting. The Canadian Minister of Trade and Commerce, Mr. Howe, while in London in Msy, 1950 on other business, was advised by Sir Stafford Cripps that the United Kingdom felt no further obligation under the wheat agreement.² The first reaction on the part of the Canadian Government to this development was one of considerable annoyance. However, it was recognized that if the United Kingdom Government chose to take that stand nothing could be done about it. The agreement was not written in such terms as would permit enforcement.³ Canada did suggest to the United Kingdom Government that a further payment of \$65 million might be made since that amount of money remained unused in a loan which Canada had previously made to the United Kingdom. The latter refused to do this, and in fact, cancelled the remainder of the loan.⁴ The crux of the disagreement was apparent in the wording of clause 2 (b). As was no doubt recognized by Sir Stafford Cripps in reaching a decision for the United Kingdom and which was no doubt recognized later by Mr. Gardiner, the agreement declared that in determining a price in the two final years, 1948-1949 and 1949-1950 consideration would be given to the world price which ruled during

¹ Hansard, loc. cit.

² Ibid., p. 1065.

³ Loc. cit.

⁴ Ibid., p. 1067.

the first two years, 1946-1947 and 1947-1948 when the price was fixed at \$1.55 per bushel. So far as clause 2 (b) of the Agreement was concerned the world price ruling in 1949-1950 had nothing to do with the price which would be fixed between Canada and the United Kingdom.

On Friday, March 2, 1951, the Canadian Government announced that it would contribute \$65 million to the five year pool, "because they did not think the settlement was as high as it should be."¹

With that the matter was closed between the two governments without acrimony.

Both prior to and subsequent to the final settlement a diversity of opinions had been expressed as to the merits of the Canada-United Kingdom Wheat Agreement. Several of these opinions were considered worth including. It must be kept in mind that the agreement under consideration was only one of three distinct outlets for wheat accumulated in the five year compulsory pool. The amount of wheat handled by the pool was 1,435,955,510 bushels of which 631,552,419 bushels were sold to the United Kingdom under the agreement for a total amount of \$1,089,889,013.²

When Mr. Gardiner announced the signing of the Canada-United Kingdom agreement he challenged the grain trade to prove, at the end of the period, that the farmer had received less

¹ Loc. cit.

² Ibid., p. 1060.

than he would have received under similar circumstances and another marketing system (p. 50-51). The grain trade has since taken up that challenge and the statement of an official of the grain-trade is given:

During the first two years 1946-47 and 1947-48, of this bilateral contract the world market price, with a high of \$3.45, averaged around \$2.60 so that more than \$1.00 per bushel was lost to Canadian farmers on all wheat delivered during that period. Agreement at a price of \$2.00 was reached for 1948-49 and 1949-50, also much lower than the market and further losses have accrued since.

The last year under wartime control, 1945-46, was pooled along with the four British contract years and I had figures compiled by a prominent Canadian statistical service, covering the crop years 1945-46 to the end of 1948-49 which showed that on the average half section, the Canadian farmer received at his country elevator at an average Saskatchewan point, south of Regina, about \$1,000.00 less each year than his American neighbor operating the same size farm - or about 50 cents per bushel less on every bushel marketed since the end of the war. The story of last year's experience, 1949-50, differs little from the others, but in having figures compiled, I was impelled, because of claims of farm leaders that American prices were not world prices, to have comparisons made between the cash returns received by Canadian producers and the price which countries, outside the agreements, have paid for Canadian wheat, a price set each day by the government monopoly, the Canadian Wheat Board. The fact that this price is so set should satisfy my critics that it is authentic, but everyone in the grain trade knows that it is based on the price of wheat on the open markets of the United States.

It was found that last year's discrepancy was 44 cents per bushel.

A new computation, accepting the farm leaders' premise, and based upon the Wheat Board's official world price for the full five years was even more devastating. The previous figure of loss was estimated to be 680 million dollars. Taking the Wheat Board's figures this was increased to 751 millions, but what's another 70 million in these days of

astronomical calculations, particularly when it has gone down the drain, never to be recovered.¹

The case made by this official, Mr. S. N. Jones, was no doubt the best that could be made in respect to the challenge offered by Mr. Gardiner in 1946. The statement does not attempt to prove that the farmers received less than they ever got before under similar circumstances, but it does attempt to prove that the farmers would have received more for their wheat under a different marketing system and during the period of time in question. This attempted proof was based on a comparison between the price received under the Agreement and the world price. The expression 'world price' was used in the Agreement but it was not defined. Mr. Gardiner referred to 'offerings in the world market', but did not elaborate further as to where that market was to be found. The challenge was, therefore, difficult to meet in that respect.

Mr. Jones made a comparison on the basis of the price which the Canadian farmer received in comparison with what the American farmer received during the five year period in question. This comparison is not considered parallel since the government support program in that country has, no doubt, influenced the price. In 1942 prior to the closing of the Winnipeg Grain Exchange, while the Canadian wheat price remained at the 70 cent floor price, Chicago May wheat futures were quoted as high

¹ Jones, Unpublished address delivered at the Annual Convention of the Farmers' Elevator Association of South Dakota, Huron, South Dakota, December 4, 1950.

as \$1.29 3/4.¹

This fact does not prove that the price of wheat in Canada would have been less than in the United States under similar circumstances, that is the open market system, nor does it prove that the price of wheat in Canada would have been higher than it was in recent years in the absence of the Agreement.

A comparison between the price received under the Agreement and that received for wheat exported elsewhere than to the United Kingdom was also made in Mr. Jones' statement, but this comparison may be questioned also. The quantity of wheat, upon which this price was established was a comparatively small percentage of the total saleable wheat in Canada. It was noted that out of 1,435,955,510 bushels of wheat handled by the Board, 631,552,419 were involved in the Agreement. Some 200 million bushels were sold in the domestic market leaving some 600 million available for sale elsewhere.² Not only was a substantial portion of the product in question gone from the market, but so were the largest buyers, the United Kingdom and domestic purchasers. The market, under these circumstances, was quite different than it otherwise would have been, and no doubt the price was quite different also. To say that the price established from day to day by the Wheat Board during the period of the Canada-United Kingdom Wheat Agreement would have been the same in the absence of the Agreement is a statement

¹ The Wheat Pool Budget, November 3, 1950.

² Ibid., June 8, 1951.

which is subject to question. The fact of the matter seems to be that there is no current price against which the price in the Agreement may be compared, and if that be the case, Mr. Gardiner's challenge is a difficult one to meet.

The Canadian Wheat Pools which had defended the Agreement in the outset, were dissatisfied with the final payment. A brief was presented to a committee of the Dominion Cabinet on November 23, 1950 in which their dissatisfaction was explained. The salient points of that brief are in connection with clause 2 (b), and in that regard a statement from a speech delivered in Winnipeg on February 25, 1947, by Mr. John Strachey, British Minister of Food, is quoted in the brief:

Now these words (clause 2 (b) mean neither more nor less than they say. They mean that the fact that we have bought our wheat from you this year below world prices - and that we may do so again next year - will be one of the factors in negotiating the actual price to be paid in the third and fourth year. I, and my Government, and I am quite sure that this applies also to the Canadian Government, would resist any attempt to add to or to subtract from this clear and definite statement as written into Paragraph 2, Sub section (b) of the Wheat Agreement.

In the same speech, as pointed out in the Wheat Pool brief, Mr. Strachey referred to the fact that a floor price for wheat, delivered in the third and fourth years, was provided in the Agreement at \$1.25 for the third year and \$1.00 for the fourth year.

In regard to this fact Mr. Strachey is quoted further:

I have heard it alleged that if the world price of wheat fell heavily so that we in Britain could buy our wheat elsewhere at far less than the floor price fixed under the agreement--that in that event the British Government would refuse to pay the floor prices and so let down the Canadian farmer. I should like to say here and now, that this is an utterly unwarranted suggestion. It is monstrous to suggest that any British Government would ever break the terms of a solemn agreement such as this. And in this I am quite sure that I speak for the Conservative opposition in the British House of Commons as well as for my own Government.

And later in the speech Mr. Strachey said:

And I reiterate that it is an inescapable obligation of the British Government to pay at least those prices, however low the world price of wheat may go. So I trust that we shall hear no more of a suggestion which, to put it plainly, calls in question the honour of the British Government.

With the full knowledge of what transpired in the two years following Mr. Strachey's speech in Winnipeg, which points have been included below, the Wheat Pool brief reached the rather astonishing conclusion quoted:

The conclusion which we draw from this statement (Mr. Strachey's immediately preceding) is that if in the event of prices declining, the undertaking to live up to minimum floor prices of \$1.25 and \$1.00 in the third and fourth years of the Agreement is--"an inescapable obligation of the British Government to pay at least those prices however low the world price of wheat may go"--then it is equally "an inescapable obligation" in the event of prices going higher, that the British Government should live up to the obligation to Canadian wheat growers contained in Clause 2 (b) of the Agreement and as interpreted by Mr. Strachey in his speech at Winnipeg.

It should be recalled that the price of wheat under the agreement was raised to \$2.00 per bushel in each of the two final years. This was done in the final year in spite of

Clause 7 which provided that the Agreement would be adjusted to conform with any international wheat arrangements which might become effective during the course of the Agreement in question. The International Wheat Agreement was in effect during the final year and a maximum price of \$1.80 was provided therein. Notwithstanding this fact \$2.00 was paid, as has been pointed out, under the Canada-United Kingdom Agreement. It would therefore appear that full regard was given to Clause 2 (b).

However, the situation which the Wheat Pools considered reasonable was that Britain should be prepared to pay a minimum price regardless of how low the price went but that no maximum price should prevail if the reverse situation existed. This attitude would prohibit any long term agreement since the possibility of risk must lie equally with both parties.

The Government defended the Agreement as sound, and in the interest of the Canadian farmer. It was declared that the Agreement was necessary for the successful accomplishment of the five year pool. The price received under the Agreement has been defended with particular regard to the final year in which \$2.00 per bushel was received. In reference to that price Mr. Howe, Minister of Trade and Commerce, made this statement:

In the circumstances then prevailing, \$2.00 plus five to six cents carrying charges looked like a good price for 140,000,000 bushels of wheat, and I think it was a good price at which to sell such substantial quantities of wheat, particularly as the

United Kingdom at that time anticipated that the international wheat agreement price would be \$1.70 per bushel and that wheat could be purchased from countries other than Canada for the international agreement price.¹

This explanation was probably satisfactory to those who consider the International Wheat Agreement a sound policy but for the most part members of the Winnipeg Grain Exchange are not in that group.

Since the Canada-United Kingdom agreement was closely associated with the five year pool, several other points concerning the agreement were included with the discussion of the pool.

An Appraisal of the Five Year Pool

The objective of the post-war wheat policy established by the Canadian Government, as set out in an official statement (p. 43), was price stability at a reasonable level. To accomplish this, particularly in view of the large percentage of Canadian wheat which must find a market in foreign trade, the price must be competitive. In order for a price to be competitive consideration must be given not only to the level of that price but also the availability of the necessary foreign exchange on the part of the buyer. When the latter is in short supply an additional premium is therefore placed upon it, and

¹ C. D. Howe, Unpublished address delivered at Ottawa, March 12, 1951.

to regain a competitive position some downward adjustment in price may be necessary. Most of Canada's exportable wheat must be disposed of in the non-dollar areas. At the close of World War II, these areas were faced with a critical shortage of dollar currency, and it was, therefore, necessary for them to curtail dollar purchases as much as possible. It is within the range of possibility that traditional purchasers of Canadian wheat might have turned elsewhere than to the dollar area for their wheat supplies, thus conserving their dollars for the purchase of products which could not be purchased elsewhere. It was possible, and indeed was true, later, that wheat importers paid higher prices for wheat which could be purchased with non-dollar currency, with which they were more adequately supplied.¹

If this situation had developed significantly it is possible that Canada would have been left a residual supplier of wheat and been faced with a surplus. Had wheat become a surplus commodity in Canada the price would certainly have fallen and the stability sought would have been near impossible to attain, and if attained it would have been at considerable expense in the form of government price support.

To prevent such an eventuality wheat was offered for sale in 1945 at the comparatively low price of \$1.55 per bushel (p. 44). At a later date it was found necessary to provide loans

¹ Hansard, op. cit., p. 1090.

to non-dollar areas, one of which was a loan to Britain in the amount of \$1,250 million.¹ Such loans were a charge on the Dominion Treasury and thence on the Canadian taxpayer. The higher the price of the commodity purchased with the loan, the greater the loan must be for the same size of transaction. This fact suggests a weakness in the arguments presented by those who have calculated the loss suffered under the Canada-United Kingdom Wheat Agreement. For the portion of that sale financed by loans, the loss in question can only be the difference between what the taxpayer contributed to the loan and what he might have contributed had the price of wheat been higher.

One of the points raised in defense of the five year pool in the statement quoted from the Winnipeg Free Press (p. 44-45) is associated with the discussion at hand. It was suggested that had Canada charged higher prices, wheat importing countries would have been encouraged to expand their wheat production, thus reducing the size of the market for imported wheat. Such a situation is not without an historical precedent. Following World War I, the high cost of imported wheats was partly responsible for encouraging home production through the use of protective tariffs in some European countries. The case of France, Italy and Germany is cited. During the five year period 1922 to 1926, France imported an average of 55.4 million bushels of wheat, Germany 59.4 million bushels and Italy 85.8 million

¹ Howe, op. cit.

bushels. In the five year period immediately following, 1927 to 1931, France imported an average of 51.1 million bushels, Germany 53.6 million and Italy 66.3 million. From 1932 to 1936 France imported an average of 13.9 million bushels, Germany, 9.4 million bushels and Italy 18.5 million. The decreases in imports noted were not associated with significant decreases in consumption. Total consumption during the period 1922 to 1926 averaged 328.8 million bushels in France, 169.2 million bushels in Germany and 288.3 million bushels in Italy. From 1927 to 1931, France consumed an average of 329.5 million bushels, Germany 190.9 million and Italy 299.1 million and again in the years from 1932 to 1937 average consumption per year was 323.4 million bushels in France, 186.5 million in Germany and 280.7 million in Italy.¹

The actual financial arrangements which accompanied the movement of wheat during the five year pool period indicate the abnormality of the time and lend some strength to arguments which favored government interference and the use of a five year pool. The case has been made by the Canadian Government that in the absence of the five year compulsory pool the Canada-United Kingdom Agreement would have been impossible to negotiate, and in the absence of the Agreement, the financial difficulties would have been intensified. During the crop years 1946-1947

¹ Paul de Hevesy, World Wheat Planning and Economic Planning in General. p. 751-767.

and 1947-1948 loans in the amount of \$3,750 million were made by the United States and \$1,250 million by Canada to the United Kingdom. These loans were used, in part, for the purchase of wheat.¹ In spite of the size of these loans they were approaching depletion when the European Recovery Program of the United States became operative in 1947.² So far as Canada was concerned the granting of the loan referred to, disturbed the foreign exchange situation in Canada to the extent that rigid exchange control measures had to be employed.³ In other words, Canada had loaned to the extent of her ability; no further loan was possible without running the risk of unbalancing the domestic economy. It was also true that Britain, without dollar aid, found it very difficult to make payments in the dollar area. The ERP aid to Britain at that time was very important to both Britain and Canada.

From 1947 to 1949 the United States permitted Marshall aid (ERP) funds to be used for the purchase of Canadian wheat, and though large stocks of wheat were accumulating in the United States that government respected the United Kingdom-Canada agreement and did not demand that the Marshall aid funds be used to purchase United States wheat instead of Canadian wheat.⁴

This statement does not prove that ERP aid funds would not have been available for the purchase of Canadian wheat had the agreement not been in existence but the following quotation suggests that both the United States and Britain were more

¹ Howe, op. cit.
² Loc. cit.
³ Loc. cit.
⁴ Loc. cit.

favorably disposed to the Canadian market because the Agreement was in existence.

However, before the 1949 crop came on the market United States wheat was declared in surplus supply, which automatically stopped the use of Marshall aid funds to buy Canadian wheat. Just think of the importance of that agreement during those years. Because of the agreement, the United States paid money to Canada for supplying wheat to Britain, instead of giving away her own surplus wheat to England, at a time when the surplus in the United States was becoming burdensome. Those who are making up the equation to show losses might very well put in that intangible for a very considerable price indeed.

Passing on now to the 1948-1949 crop year which was the third year of the contract, producers will receive \$1.83 for deliveries of 293,000,000 bushels. Throughout this crop year the payment difficulties of the United Kingdom continued acute. To put it bluntly what we faced here in Canada was the very real possibility that the United States would drive Canadian wheat out of our traditional markets. This actually occurred in the European markets with the exception of the United Kingdom, and the fact is that the Canada-United Kingdom wheat agreement was of the greatest value at this time in retaining our position in the United Kingdom market.

As a matter of fact we have a very serious problem ahead of us in regaining markets in continental Europe which are now being supplied by the United States under Marshall aid. It was for that reason the government sent a mission to Europe last year for the express purpose of finding out how to regain a foothold in some of those markets.

What the Canada-United Kingdom wheat agreement actually accomplished was to enable us to hold our position in the United Kingdom market. The United States Government respected the agreement, and in fact went so far as to provide a very substantial amount of United States dollars, \$175,000,000 to be exact, which enabled the United Kingdom to finance her wheat purchases from the 1949 wheat crop under the agreement. This amount was provided as the result of negotiations which took place in Washington early in September, 1949.

(At this point Mr. Howe quoted from a letter of September 13, 1949, from Paul G. Hoffman, E. C. A. administrator to U. S. Agriculture Secretary Charles Brannan in which Hoffman said that to help end the drain on British dollar and gold reserves, the U. S. would make \$175,000,000 available to finance part of British wheat purchases in Canada. Hoffman also told Brannan that this action was in the interest of U. S. farmers since it would facilitate export of other farm products both to Canada and the U. K.)

In weighing the losses under the agreement, let them weigh in the \$175,000,000 supplied by the Government in the United States to pay Canada for wheat shipped to Britain, which it is very probable Britain could not have bought without that assistance. Incidentally that assistance was barred under the strict terms of the Marshall aid plan.¹

The point which has been suggested in this statement is that the United Kingdom demand for wheat was tied to the Canadian market because of the Agreement. In the absence of the Agreement the United Kingdom's requirements might have been supplied by the United States. No evidence was given, however, that the United Kingdom requirements could have been met in the United States' market without reducing that country's commitments elsewhere. It is further suggested that in the absence of the Agreement \$175 million which Mr. Hoffman recommended be made available for United Kingdom purchases of wheat in Canada would not have been made available. While complete information was not available on this point there did not seem to be complete evidence that the amount of money in question was made available because of the Agreement. It could well be that Mr. Hoffman was only concerned with having

¹ Loc. cit.

the United Kingdom supplied with wheat, that wheat was available in Canada and likely would have been used even if the price had been the same as wheat available from other sources. However, if it was on the basis of the Agreement that the United States Government was induced to lend money to the United Kingdom for Canadian wheat purchases, then the Agreement was indeed important, because without United States' dollar aid the United Kingdom would have either had to curtail its use of wheat or have looked to the non-dollar area for its supply.

An additional piece of evidence that the Government wheat monopoly, the five year pool, and the pricing system which it made possible, was useful is given in this statement:

It is well to keep in mind that our second market in pre-war days was the Netherlands; and I may tell hon. gentlemen that we have hardly sold a bushel of wheat to the Netherlands since the war ended. Our next biggest market was Belgium. Belgium has supported our wheat, has bought sizeable quantities in the post-war years, for the reason that their supply of U. S. dollars was somewhat better than other countries. Italy was a great market. We are just now getting back into the Italian market in something like a substantial way, but there are other markets, which we have lost entirely for the reason that they were quite happy to buy wheat from the United States with E. C. A. funds.¹

The point made herein has weight. If Canada is to sell wheat in the European market some compensation must be made in price for what is lacked in the ease of obtaining the necessary foreign exchange.

¹ Loc. cit.

The demand for a commodity in a particular market is assumed to include not only the willingness, but the ability to buy. It is in connection with the ability to buy that the Government case, so far considered, has been concerned. This lack of ability to buy which has existed in the traditional markets for Canadian wheat in recent years is an abnormal situation and an outgrowth of World War II. So long as the abnormal condition exists then abnormal methods may be used to counter it. These abnormal methods have been the use of loans from various sources to finance the movement of Canadian wheat to the European market. The question immediately arises as to how long can the lack of foreign exchange in the European market be considered an abnormality and at what point of time must it be considered the new condition of normalcy. It would seem that if at any time up to the conclusion of the period under consideration, the lack of foreign exchange had been considered the new condition of normalcy, then the portion of European supplies of wheat, which Canada had provided, would have had to come at least in part from elsewhere. The market for Canadian wheat would thus have been substantially reduced, and it is questionable if price stability at a satisfactory level could have been achieved.

It has been claimed that the various concessions made during the difficult period have saved the market for Canadian wheat. In support of this claim the Government has cited the arrangements made for the 1950-1951 crop year, the first following, the termination of the Agreement.

Both governments have now reviewed the results of those talks. They are agreed that the international wheat agreement removes the need for a contract to replace the existing Anglo-Canadian wheat agreement which expires at the end of July (1950).

The United Kingdom government has made it clear that out of its total import requirements in 1950-51, it expects to buy a large proportion in Canada which, quite apart from the special contractual arrangements for the past four years, is, and it is hoped will remain, the traditional source of supply for the United Kingdom. The Canadian government, for its part, is satisfied that Canadian wheat growers will continue to find in the United Kingdom a market for a very substantial part of their exportable wheat.¹

In Mr. Gardiner's original statement on the five year pool plan, he suggested that the price of wheat, presumably in the world market, might remain above the \$1.55 level, which was thought might prevail throughout the five year period. Presumably he considered that some value could be attached to a price which remained constant over a period, to one which varied, in spite of the possibility that the latter would result in a greater total return. The Government has persistently laid claim to the value of this form of stability in defending the five year pool and the various schemes arranged thereunder. Precedent for this opinion was found in the Report of the Royal Grain Inquiry Commission of 1931, which investigated the effects of futures trading on price.

These differences in the violence of fluctuation may have a material economic effect upon the property of the farmer, and the range of fluctuation has, therefore, been a very important subject for our attention.

¹ Hansard, op. cit., p. 1066.

It has been put forward, for example, that if the range of fluctuation is reduced by futures trading it might even be worthwhile for the farmer to have a lower general average than otherwise, for the one advantage might more than compensate for the other disadvantage.¹

The price during the five year pool was the same for all wheat deliveries of equivalent grade made throughout the five years. That is the payments from all sales were pooled and the price received by the farmer was this total amount divided by the total deliveries. This system resulted in higher payments in some years than might otherwise have been the case and was claimed as an advantage in a Government statement:

As a result of the five-year pool producers are receiving \$1.83 a bushel basis No. 1 Northern, on all deliveries of about 235,000,000 bushels during the 1945-1946 crop year. The final payment is 28.3 cents over the export price of \$1.55 which remained in effect during that year, and is well above the open market price in other countries. The average price received on the farm in the United States during the 1945-1946 crop year was \$1.49 a bushel. The man who grew wheat and marketed it in this pool in 1945-1946 did not lose very much. Obviously he gained 28 cents per bushel over any other method of marketing.²

It might, however, be claimed by those who had marketed wheat in the later years of the pool, that if they were not also marketers in the first year, 1945-1946, that the gain claimed in the Government statement was their loss. There was no evidence of that claim having been made.

¹ Report of the Commission to Enquire into Trading in Grain Futures, 1931, p. 9.

² Howe, op. cit.

Also in connection with price stability the Government has laid further claim to the advantages resulting from the pool and Canada-United Kingdom Agreement:

The five year pool and the British Agreement were an experiment in long-term stability. They were entered into at a time of uncertainty at the end of World War II.

This statement later continues in the same regard:

Everyone recognized that there were risks in such an agreement. There were risks on both sides. But it must never be forgotten that there were even greater risks in not entering into the agreement. The advantage of the agreement was that it minimized the risk. The wheat agreement was similar to an insurance policy. Because a man who buys an accident policy never claims under it does not mean the policy should not have been taken out, or that the premiums should not have been paid. It is well to keep that in mind. If wheat prices in the last two years had fallen very substantially, the shoe would have been on the other foot, and I do not think it would have been proper for the United Kingdom to ask us to accept less than the floor prices provided in the agreement in order to reduce average returns to the open market level.

The have regard to clause (Clause 2 (b) is important but it did not mean, and we have never argued that it meant, that the United Kingdom should make up in the final two years any mathematical calculation of losses in the first two years.¹

The idea of an insurance premium is a useful one in connection with long term agreements. For those who felt that the possibility of a decline in the price of wheat following World War II was a serious threat, the premium of possible losses suffered under the pool arrangement was no doubt a reasonable one. It would appear from the Wheat Pool brief (p. 60)

¹ Loc. cit.

that that organization was not prepared to pay the premium demanded.

The five year pool, originally intended to include the crop years 1945-1946 through 1949-1950, was terminated on July 31, 1950. An amendment to the Wheat Board Act, introduced on March 8, 1951, removed the possibility of any long term pooling operation in the immediate future.¹ However, the Canadian Wheat Board remained the sole marketing agency, presumably as the Canadian complement of the International Wheat Agreement.

CONSIDERATION OF A FUTURE POLICY

In consideration of a future wheat marketing policy the major concern was found to be the retention of an export market. If wheat production is to survive as a major industry in Canadian agriculture approximately two-thirds of the crop must be disposed of outside of domestic trade. Britnell and Fowke have analyzed the situation.

From a position of minor importance among Canadian exports in 1900, wheat and wheat flour advanced to first place by 1920. In the late 1920's wheat and wheat flour yielded one-third of the dollar value of Canadian exports. Over the ten years 1929 to 1938 annual wheat exports averaged 200 million bushels. Throughout the second World War the average was 259 million bushels. Though Canadian farmers produce less than 10 percent of the world wheat supply, their

¹ Hansard, op. cit., p. 1051.

exports--approximately two-thirds of their production--accounted for from 35 to 40 percent of the world trade in wheat in the late inter-war years.¹

The question could be raised as to whether there was some other use to which part of the land used for wheat production could be put, thus reducing the high degree of dependence on the export market. Mr. Justice Turgeon felt that there was no other comparatively good use. He suggests that much of the land would have to revert to grazing or the production of some rye and oats.² He also makes the more important point, as was suggested by Britnell and Fowke, that the sale of wheat is an important source of foreign exchange. "It has abundantly been shown in this report that in the past no commodity has contributed more than wheat to the wealth and the export trade of the country."³

With this fact in mind a domestic marketing policy must be found which will facilitate the flow of Canadian wheat into world trade and will at the same time result in as high as possible a return to the producer and avoid wide price fluctuation.

During this study it was found that several marketing systems have been used, each had its particular merits and also certain weaknesses. These marketing systems have been classified as follows:

¹ Britnell and Fowke, *op. cit.*, p. 627.
² Royal Grain Inquiry Commission, 1938, p. 190.
³ *Ibid.*, p. 189.

(1) A compulsory pool or government wheat monopoly with no open market system.

(2) An open market system.

(3) Voluntary pooling with an open market system in operation.

(4) Government price stabilization and an open market system in operation.

(5) A government floor price in conjunction with an open market system.

Each of these five systems has been considered in relation to how well it lent itself to the export trade and also the level of price returned to the producer thereunder. The degree of price stability was a third consideration. Other merits and weaknesses were also considered.

A Compulsory Pool

It was observed that a compulsory pool was in operation during the crop year 1919-1920 and again from 1943-1944 to the conclusion of the period considered, 1949-1950. It can be said that during these periods export trade was at a high level, however, it must be recalled that those were periods of general world wheat shortage and so far as the latter period is concerned, one in which rather abnormal financial arrangements were used. So far as price stability is concerned there can certainly be no quarrel. The price remained constant for

equivalent grades during the 1919-1920 crop year and was again constant during the two crop years 1943 to 1945 and constant at a higher level for the five crop years between 1945 to 1950.

There was no evidence found of dissatisfaction, but quite the reverse, with the price level, \$2.63 per bushel, in 1919-1920. Considerable dissatisfaction however seems to have existed with the price level in the entire period from 1943 to 1950. While some evidence was found in support of claims that the price received between 1945 and 1950, \$1.83 per bushel, was as good as could have been obtained, nevertheless, some farmers were dissatisfied and in this respect the system could be said to have been less than perfectly satisfactory.

Practically all of the defence of this system is associated with the abnormality of the periods in which it was used (p. 62-74). In examining a policy for the future it cannot be said that world conditions will remain continuously abnormal. If the condition of normalcy which prevails in the future is one in which importing countries choose to continue bulk buying, as was true during both war periods, and particularly if they wish to project a bulk purchase contract into the future for several years, then, in order to guarantee that contracts be carried out, some government interference with marketing would seem to be necessary. If this interference takes the form of a government monopoly in the exporting country, similar to what Canada has used, a system of bilateral monopolies would

then exist and this situation is fraught with dangers. Any major exporter could exert a very bullish effect on the market, at least in the short run, by withholding supplies, and a major importer, such as the United Kingdom, could exert a very bearish effect on the market while bargaining for its wheat requirements.

In the event that importing countries choose to abandon government bulk trading and revert to a system of private trading it would appear that private trading in exporting countries would be the best complement to that development. Mr. Turgeon points out that private traders in importing countries distrust and dislike monopoly and they would not be anxious to contribute to their success.¹

It seems reasonable to assume that while a wheat monopoly in Canada had some rather strong points to recommend it during periods of stress, it would not be desirable for a system of government to government trading to continue once the emergency had ceased. A government selling agency dealing with private importers would be equally undesirable as suggested above.

Mr. Turgeon has suggested the harmful effects of political interference and criticism on a government board.

It is perhaps impossible to exclude any government appointed body from public criticism; but the fact that the members of such a body will sometimes believe and feel that the criticism to which they are subjected is unfair, and of a nature to mislead those whom they

¹ Ibid., p. 185.

are trying to serve, is something that will surely militate against the continued efficient performance of their duties. All this is bad for the producer. His interests are best served when politics are dissociated from his business.¹

The question of a political issue arising from government interference in marketing was real at the time this study was made.

The question is now becoming a political one and it might develop that the government may change its wheat marketing policy as a consequence. Opposition leaders are taking full advantage of the situation to criticize the government.²

It has also been suggested that some shift of opinion in regard to compulsory pooling has taken place among Canadian farmers between the pool of 1919-1920 and that conducted during and following World War II. During the Royal Grain Inquiry Commission, 1938, all the farmer's organizations and a great many individual farmers expressed a desire for a compulsory government pool.³ However, according to the survey conducted by the Country Guide (p. 51-52) a considerable body of opposition existed by 1947.⁴ Mr. Turgeon suggests the weakness of a compulsory pool in relation to voluntary pooling.

The Pool officials were responsible only to men who had joined the organization voluntarily, who had taken part in the appointment of the officials, and who believed in the system. But the members of a Board would be answerable, not only to producers who believe in a Board, but to the great number who do not believe in it, who wish to be left to do their own business, and who protest against what they con-

¹ Ibid., p. 188

² From correspondence with a Canadian Wheat Pool executive who asked that his name be withheld.

³ Royal Grain Inquiry Commission, 1938, p. 185.

⁴ The Country Guide, loc. cit.

sider to be high-handed government interference. Some of these producers gave evidence before me.¹

An Open Market System

Professor John McDougall of Queens University, Kingston has been an active supporter of the open market system, free from any form of government interference.

This system would include a number of private and co-operative companies and individuals, buying all of the grain offered for sale by producers in any crop year, and they in turn selling it in both the domestic and foreign markets. Each company or individual operating independently and in his own interest. The system would probably include a trading center where both cash and futures transactions would be carried on. The very important function of price making would be performed at the trading center rather than by bilateral arrangements used in the compulsory pooling system.

Professor McDougall sights the period prior to 1914 as one in which satisfactory development took place in the absence of either voluntary or compulsory pooling. He states that, while swings in price were wide prior to 1914, they were not unbearable.² Prices at Winnipeg by five year averages during the period in question show reasonable stability. From 1895-1899,

¹ Royal Grain Inquiry Commission, 1938, p. 187.

² Correspondence with Professor McDougall, May 18, 1951.

76 cents per bushel; from 1900-1904, 79 cents; from 1905-1909, 93 cents and from 1910-1914, 96 cents were the average prices in each period.¹ It can also be said that during that time the export trade developed satisfactorily. Professor McDougall suggests that in the absence of interference with the market this satisfactory situation would return. This view however is shared by very few from whom information has been sought. Neither the Winnipeg Grain Exchange on the one hand nor the Wheat Pools on the other was prepared to recommend this system in the absence of some form of floor price. So far as could be discovered the open market system with no government assistance is not used in any major grain producing country.

It was considered that too many forces, external to the farm, influence price and thus make for instability. So far as facilitating foreign trade, the open market system appeared to have much to recommend it. The statement of an official of the United Kingdom grain trade is cited:

The open market or competitive system, maintained a free flow of exports from Canada, and owing to very active competition among Traders the spread between producers' and consumers' prices was minimized. Owing to the "Futures" markets the "hedging" system also permitted the export and import of Canadian wheat at a minimized risk and cost.²

Mr. Turgeon reached the following conclusion:

The competitive system ensured that Canadian Wheat

¹ Bladen, op. cit., p. 101.

² Royal Grain Inquiry Commission, 1938, p. 169.

would at all times find its saleable level in international trade, enabling Traders to plan ahead. A free market is essential to United Kingdom Millers in order that they may meet competition of overseas exporters of flour.¹

Further consideration of this system, modified to make it more acceptable so far as the producer is concerned, was included below.

Voluntary Pooling

It was shown above that voluntary pooling of wheat to the large extent that that system was developed between 1923 and 1930 had a dilatory effect on foreign trade. This effect was the result of withholding wheat from the market in an effort to influence the price upwards, to what might be considered a satisfactory level. While nothing in the statement of Pool objectives listed above suggested that such a policy would be followed, it was agreed in evidence given to the Royal Grain Inquiry Commission that Mr. Sapiro² and others had held out the picture of first organizing a Canadian Pool and then an international Pool, and that this organization could then go overseas and toll the consumers what to pay.³

This attitude, once fixed, created an almost impossible

¹ Loc. cit.

² Aaron Sapiro, California attorney who figured prominently in the organization of Canadian Wheat Pools.

³ Royal Grain Inquiry Commission, 1938, p. 84.

position for those responsible for selling the pooled wheat. Mr. Brcdt, a wheat pool sales official, described the situation by saying that his department would have been liable to very severe criticism if anything less than the highest market prices had been accepted.¹

This point is raised, not to suggest that a voluntary pooling system could not prove a useful part of a future marketing system, but to suggest the main weakness of the pooling attempt which has been made. That main weakness seems to have been the size which approached a wheat monopoly. The Pools were too large and this resulted in their having a false idea of their strength, attempts to exercise this strength resulted in their failure and serious damage to the export market.

It is suggested, however, that smaller pools, designed to offer their members a price approaching an average of the many day to day prices which prevail throughout any crop year would perform a useful service. In this way a member would avoid the risk of accepting a price which was much lower than average for that season if, either inadvertently or through necessity, he sold his wheat when a low price prevailed. The member would of course, forego the possibility of receiving the highest or higher than average price by so doing. It has been suggested above (p. 72) that some farmers are prepared to accept a lower average price than risk selling in a fluctuating market.

¹ Ibid., p. 79.

A modest system of voluntary pooling would also provide a system to which producers who, for some reason, had a distaste for hedging and speculation, could turn. It is known that there are some farmers who are so inclined.¹

This system could do nothing to harm export trade since it would be a factor of similar size to ordinary private or cooperative grain companies. This system, however, would not provide any assurance of a satisfactory price level; that would have to be provided for elsewhere in the marketing system.

This suggestion was presented to an official of the Canadian Wheat Pool and the reaction was not enthusiastic.

I do not think that a voluntary wheat pool could be operated in Western Canada, and I am sure that no farm organization will make an attempt to do so. A few years ago the Pools and a few grain companies operated voluntary pools but little grain was contributed thereto.²

It is suggested, however, that the circumstances surrounding the operation of these pools was not conducive to their success. Operation was attempted between 1930 and 1934 immediately after the Wheat Pool failure. Many farmers at that time felt that anything the Pool received over and above the initial payment made on deliveries would be used to retire the huge Pool debt rather than make a further payment to the member. This, however, was not the case. Another reason which might be suggested for the lack of response to this pooling

¹ Ibid., p. 93.

² From correspondence with a Canadian Wheat Pool executive, op. cit.

scheme was the extremely low prices which prevailed in those years. Receiving an initial payment on 60 cent wheat had little appeal to the farmer. ,

It was assumed that any voluntary pooling system of modest size would operate within an open market system where the price would be established by the forces of supply and demand.

Government Price Stabilization

It will be recalled that an attempt at price stabilization was made by a government agency following the Wheat Pool failure of 1929-1930. This attempt, known as "stabilization operations", was conducted under the direction of Mr. John I. McFarland. It has been contended that, at least as far as price stability was concerned, the operation was a success.

Government action was taken in all important wheat exporting and importing countries in an effort to save domestic producers from the effects of disastrously low prices. This disorganized world trade had resulted in the piling up of enormous carry-overs.

Mr. McFarland's operations resulted in much higher prices for Canadian wheat than those obtained by growers in Argentina and Australia.¹

The disorganization of world trade which was suggested in the statement quoted was particularly severe so far as Canada was concerned. Evidence of this was given in Tables 1, 2, 3 and 4.

¹ Nesbitt, op. cit., p. 38. .

The usefulness of 'stabilization operations', a system of large government purchases in the market with the deliberate intention of influencing the price, is questionable. The system did offer a reasonably stable price and a higher one than might otherwise have prevailed, but it was accomplished at the expense of a part of Canada's export market and therefore could only have short-run benefit. It could be said that this policy has nothing to recommend it for use in the future, since it has been said that the retention of the foreign market is the main consideration of a wheat policy. Mr. Turgeon has pointed to this fact.

On the continent millers simply do without our wheat when the price becomes relatively too high. In all these cases, new connections are formed, new grinding and baking mixtures are resorted to, and the result is detrimental to our long run interests. Everywhere, in the United Kingdom and on the Continent, the truth was brought home to us in almost the same terms: our wheat is grown for export and must compete with other wheats in a market which has become much restricted; the buyer has the choice in these circumstances; he can turn to other wheats.¹

A Government Floor Price

The marketing system initiated by the Wheat Board Act of 1935 continued the open market system of selling but provided for a floor price to be established annually. When the open

¹ Royal Grain Inquiry Commission, 1938, p. 157.

market price declined below the floor price the Government through its agency, the Canadian Wheat Board, stood ready to buy wheat at the floor price and offer it immediately for sale at the open market price. Any loss would be absorbed by the Treasury. This was a significant departure from the preceding system where government purchases were intended to influence the price upward and the government would hope to sell its purchases at this new higher level. A representative of the British grain trade commented on these two systems.

In no circumstances do we recommend that the "Open Market or Competitive System in Canada" should not be maintained. If the Government of Canada put some low bases price upon wheat--that is a domestic matter. Any attempt to obtain something in the nature of a subsidy, open or hidden, from Importing Countries, is bound to fail.¹

The marketing system initiated in 1935 allowed the open market to operate without interference so far as the export trade was concerned and therefore met the main requirement suggested in the outset. When attention was turned to the questions of providing a satisfactory price level and price stability, new complications were apparent.

It was observed above (p. 33) that the Canadian Wheat Board was impowered to establish a floor price and losses resulting thereunder could be transferred to the Dominion Government. If the floor price so established were sufficiently high a reasonable price level and a measure of stability

¹ Ibid., p. 171.

would be provided. Before this policy can be considered a permanent and reasonable solution to the difficulties which beset the wheat producer these questions must be answered.

(1) On what basis can the transfer of public funds to one industry be justified?

(2) In setting a floor price, how can a reasonable price level be established without the charge on the Treasury being excessive?

(3) Would losses incurred at one time be recovered from the producer at some later date?

Exponents of a floor price for wheat have defended this policy as a measure of protection for the farmer against eventualities over which he has no control. This statement appears in the report of the Bracken commission:¹

The wheat industry of western Canada which finds itself caught in the current of economic nationalism, subsidized export competition and strangling international political forces over which our producers have no control, is entitled as an industry to receive from the nation as a whole, emergency price assistance.²

A further point has been offered in defense of a floor price. It has been said that the tariff structure has offered protection to secondary industry at the expense of

¹ A committee representing western agricultural interests (1938-1939) under the chairmanship of Premier John Bracken of Manitoba.

² The Country Guide, April, 1939, p. 8.

consumers in general. It was therefore contended that the farmer was entitled to some return on this loss, by way of a floor price.¹

A floor price, however, met considerable opposition in many areas. The Financial Post,² of August 31, 1939, referred to the floor price as "the government price umbrella which has sheltered wheat producers so snugly from risk or loss".³

In considering the question of how high the floor price may be, the method used by the Wheat Board must be recalled. The Board was required to set a floor price at the beginning of any crop year, and in the event that the market price fell below this level, the Board stood ready to buy wheat at the floor price and offer it for sale immediately at the market price (p. 36). The risk of loss is apparent.

It has been recognized by most farm interests that this risk must be kept to a minimum. The following statement suggests that whatever formula is used to determine a floor price must have regard to the risk.

Any government prepared to guarantee to the Canadian farmer a price supported at a specific level in relation to a fixed parity formula, would be bound in self-defence to hold the support level low enough to keep the element of risk to the public treasury within limits which the public treasury could stand and of which parliament and the people would approve.⁴

¹ Loc. cit.

² Financial Post, Toronto, a weekly newspaper concerned with Canadian business affairs.

³ The Country Guide, October, 1940, p. 12.

⁴ The Country Guide, December, 1949, p. 45.

There seems little doubt that the Canadian Wheat Board was mindful of this problem in 1938. However, a loss of \$61.5 million resulted that year (p. 38) and strong pressure was brought on the government to abandon the Board.¹

The possibility of heavy drains on the Dominion Treasury and the political repercussions arising therefrom has caused Professor McDougall to suggest that the floor price cannot be more than what he refers to as a disaster cellar, which may not be an acceptable price.

If you limit yourself to a floor price, which is really a disaster cellar, I should expect that the protection of such a price could be had without giving up too much for it. But once you try to make that a really acceptable price under normal conditions the problem grows by leaps and bounds.²

Much of the objection to a floor price at an acceptable level would probably disappear if some system could be devised whereby losses resulting from payment during one year or series of years could be recovered from the producer at some time in the future. It is possible that a tax of 5 to 10 percent could be made on all receipts in excess of the floor price level, and the money thus accumulated used to offset government losses during periods when the market price was below the floor level. This system would constitute a form of contributory insurance and therefore might prove acceptable to wheat producers and the other elements of society

¹ The Country Guide, April, 1939, p. 8.

² Correspondence with Professor McDougall, May 18, 1951.

alike. At the same time a step would have been taken, towards a permanent solution of the problem of price stability at a reasonable level.

CONCLUSION

In this study an attempt has been made to review the history of marketing grain in Canada and to point out some of the difficulties which were apparent in each system used. With these difficulties in mind, some consideration was given to a futuro policy. In that regard the following statement is apt:

Changes in and around the grain trade take place so suddenly and drastically that it is difficult to have the feeling that one is dealing with anything finally. As an example of the recognized uncertainty of the problems involved, the following statement made by a witness in London may be quoted:

I am a member of a firm which has been for 99 years in the grain trade, although I have been only 27 years in the trade. During that 99 years the trade has had to be carried on according to circumstances. I think it was Mr. Coyne who said that you wanted to find out once and for all the best way of marketing Canadian wheat. You cannot find out anything once and for all; at least, I do not think so. If you look back at the history of the grain trade, you will find that it has to change with changed circumstances.¹

There is little doubt that circumstances will continue to change. During times of extreme crises a compulsory government pool may prove to be the most useful marketing mechanism.

¹ Royal Grain Inquiry Commission, 1938, p. 159.

During times of a lesser crises, such as a depression, the open market, operating in conjunction with a floor price provided through some degree of government intervention, would likely be acceptable. During other times, the open market system with the government involved only in a supervisory capacity would, no doubt, lend itself best to a free enterprise economy.

ACKNOWLEDGMENT

The advice and assistance given throughout the preparation of this thesis by Dr. Leonard W. Schruben, Professor, Agricultural Economics, Kansas State College, are gratefully acknowledged. Valuable assistance was given in the securing of material by Mr. Stanley N. Jones, President, Winnipeg Grain Exchange; Mr. H. C. L. Strange, Director, Research Department, Searle Grain Company; Professor John L. McDougall, Professor of Economics, Queen's University; Mr. H. S. Fry, Editor, The Country Guide and a senior executive of the Alberta Wheat Pool who asked that his name be withheld.

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PROBLEMS AFFECTING THE MARKETING
OF WESTERN CANADIAN WHEAT

by

BERNARD JOSEPH BOWLEN

B. S., University of Alberta, 1949

AN ABSTRACT OF A THESIS

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

Department of Economics and Sociology

KANSAS STATE COLLEGE
OF AGRICULTURE AND APPLIED SCIENCE

1951

A free open marketing system was developed in Western Canada to accommodate the expansion of wheat production in that area during the latter part of the nineteenth and early part of the twentieth centuries. Several grain trading and milling companies were formed which built systems of elevators as the need for these facilities became apparent. In 1887 the various companies and individuals associated with the grain trade established a trading center at Winnipeg. This institution, the Winnipeg Grain Exchange, became increasingly useful as domestic and export trade developed. The average annual production for the period 1910-1914 was 196 million bushels of which approximately 50 percent was exported. Average annual production increased to 254 million bushels in the period 1915-1919 of which 63 percent was exported.

Canada was recognized as an important source of wheat by the Allied nations during World War I and to direct the supply into the desired channels and agency of the Allied powers, the Grain Export Company became active in the Winnipeg market in 1916. The heavy purchases of this organization caused a severe disturbance in the market in 1917 with the result that the Canadian Government closed the Winnipeg Grain Exchange and purchased all the domestic wheat production for the duration of the war at a price fixed annually.

The Winnipeg Grain Exchange was permitted to reopen in the summer of 1919. The very short wheat crop (92 million bushels) which was harvested in that crop year suggested

that the price would become very high. To prevent the unfavorable effects which would result therefrom, the Government established the Canadian Wheat Board to act not only as a purchasing agent but as the sole marketing agency. A price of \$2.63 per bushel was returned to the farmer for wheat deliveries in 1919-1920. The Board was abandoned at the end of the crop year.

The recovery of wheat production throughout the world in the years immediately following was considered an important reason for the decline in price which took place from 1920 to 1923. Most farm organizations, however, subscribed to the opinion that the Government sponsored Wheat Board was responsible for the high prices in the one period and the free open market responsible for the low prices in the later period. When agitation for the restoration of the Board proved unavailing, attention was turned to the organization of cooperative pools.

A Wheat Pool was incorporated in each of the three Prairie Provinces during 1923 and 1924 and a Central Selling Agency was established to dispose of wheat for all three pools in the latter year. Approximately 50 percent of the wheat crop was marketed through this system in each of the crop years from 1924 to 1929. Evidence exists that the Wheat Pools considered themselves strong enough to influence the world price of wheat by withholding supplies from the market. With this objective in mind a substantial portion of the Pool holdings of

the 1928 crop and practically all of the deliveries to the Pool from the 1929 crop were retained in spite of falling prices in the latter year. When the banks from which the Pools had received their credit realized that the grain hold had a market value of less than the amount loaned they called for some action. The Provincial Governments guaranteed the debt but as the situation became more precarious in 1930 the Federal Government was resorted to for help. What were known as "stabilization operations" were carried out for the next five years. The Central Selling Agency was taken over by the Federal Government and the responsibility for any further loss on the wheat held was transferred to the Treasury. The rapid decline in the price of wheat resulted in the disappearance of speculators and the market became disorganized. The newly appointed chairman of the Central Selling Agency received Government aid for the purchase and sale of futures in an effort to restore confidence in the market and stability in the price of wheat. As a result the price of Canadian wheat was maintained at an artificially high level with a consequent severe decline in sales on the export market.

In 1935 the 'stabilization operations' were discontinued and a new Canadian Wheat Board was formed. The new Board provided an alternate market to the private grain companies and was prepared to accept deliveries of wheat from producers at a price fixed annually, when the open market price declined below that fixed level. The Board would offer to sell imme-

diately, purchases as they were made, at the open market price. It was also the intention to dispose of the wheat accumulated during the stabilization period.

During the next four years, 1935 to 1938, the Board lost some \$72 million dollars on its operations.

With the outbreak of war in 1939 European markets were closed to a considerable extent and large stocks of wheat accumulated.

In 1943 significant changes were made in the wheat marketing policy. The Winnipeg Grain Exchange was closed and the Wheat Board on behalf of the Government purchased all wheat in commercial position in Canada. The Board, from that date forward, was the only market for wheat. Large bulk sales of wheat were made at that time to foreign countries and Government requirements for the newly initiated Mutual aid program were large. It is likely that the Government wished to prevent the rise in price which might have accompanied these sales since it would have increased the cost of wheat for domestic use, and increased the cost of the Mutual Aid program. It has been suggested that the changed marketing policy placed the Government in a strategic position to formulate a post-war wheat policy.

This policy later proved to be a five year compulsory pool extending from 1945 to the end of the 1949 crop year. A minimum price of \$1.00 per bushel was guaranteed to the farmers.

As a means of disposing of the pooled wheat the Government

was prepared to negotiate long term agreements. One such agreement was arranged whereby Canada agreed to supply the United Kingdom with 600 million bushels of wheat at a minimum price fixed in advance. In this way the Government was able to reduce the risk involved in its promise of a \$1.00 per bushel floor price. The wheat marketed in excess of that involved in the Agreement was sold in domestic and foreign markets by the Canadian Wheat Board.

The five year pool and the Canada-United Kingdom Agreement have been the subject of considerable controversy, it having been contended that the farmers lost heavily under the system. The Government has defended the system on the grounds that reduced prices for wheat have saved an export market for Canada, both at the present time of dollar shortage, and for the future. The point has also been made that the stability of price has been worth more to the producer than a fluctuating price which might have resulted in a greater total revenue.

The main defence of the five year pool offered by the Government was associated with the abnormality of the post-war period when dollar exchange was very scarce in the traditional markets for Canadian wheat. With the correction of that difficulty the main justification for state trading would disappear. It was also suggested that a return to private trading in the importing countries would make state trading in Canada undesirable, since private traders distrust monopoly and would not be anxious to contribute to its success. Private traders

like the open market system and since Canada is highly dependent on export sales it would seem desirable to accommodate the private trader in this respect.

The open market system, while facilitating export trade in wheat may not offer a desirable degree of price stability or a sufficiently high price level. Voluntary pooling on a modest scale would provide an average price in any crop year and would therefore be a useful addition to an open market system. A Government supported floor price would also add stability but if the charge on the Treasury were excessive the system would become politically unacceptable. Evidence of this was noted in the period 1935 to 1939. However, if wheat producers were prepared to accept a tax on receipts in excess of the floor level, the revenue of which should be used to offset losses suffered when the market price declined below the floor level, the system might prove workable.

In concluding it was pointed out that the marketing system might have to be changed to meet changing world conditions. In time of crisis a Government controlled marketing system may prove most useful while at other times the open market system seemed to have the most to recommend it.