

CANADIAN WHEAT
MARKETING POLICY

1929-1936

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CANADIAN WHEAT MARKETING POLICY:

1929-1936

By

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INTRODUCTION

It was some 38 years ago that Sir William Crookes, eminent British scientist, in the first edition of his book, "The Wheat Problem" predicted the inevitability of a long-run increase in the price of wheat. This grim prospect arose, he contended, due to the rapidly diminishing supply of available wheat land, which, according to him, would soon be inadequate to provide for the world's needs. Within an appreciable distance, he predicted a scarcity of this vital foodstuff. As late as 1917, in the preface to the third edition of his book, he still reiterated his earlier conclusions, and stated that although "...the details of the impending catastrophe no one can predict, ...its general direction is obvious enough." He predicted that by the year 1931 there would be an insufficient supply of wheat to satisfy the demand for it. Once more the grim spectre of Malthusianism reared its ugly head.

Despite this gloomy foreboding, the year 1931 saw the world suffering from a veritable plethora of wheat, and the problem became one, not of dearth, but of excessive abundance. Accumulated surpluses of staggering dimensions piled up, and wheat prices fell to calamitous depths, lowering the standard of living of wheat producers the world over to subsistence levels. On all sides, wheat producing countries, exporting and importing alike, were forced to initiate a host of measures designed to protect their farmers from this catastrophe.

The present monograph is an attempt to outline the causes, development and phases of the world wheat problem, to serve as the necessary background to Canadian marketing policy in the years 1929 to 1936. The author feels that although he devotes consid-

erable space to the world situation, such is necessary in order to give the fullest meaning to the specifically Canadian aspects of the problem.

Up to 1929, Canadian wheat production and exports increased rapidly, and a strong sense of buoyant optimism, characteristic of an expanding frontier economy, prevailed. Few foresaw the coming debacle in the world wheat market, and for this reason the drastic fall in prices in 1929, and the calamitous decline in 1930, came as unexpected surprises. The Government, which had hitherto merely laid down a framework, through regulatory legislation, within which the grain trade could expand, soon found itself forced to give active assistance to wheat growers through bounties, direct relief, and finally, stabilization operations. In the summer of 1931 it authorized an individual to make purchases of wheat on the open market to support prices, and this was later supplemented by pegging. By May 1935 the Government, as a result, found itself involved in a huge contingent liability. Marketing policy was then reversed, and by the Canadian Wheat Board Act an Agency was set up to liquidate the heavy accumulated carryover.

The Canadian wheat "problem" is not the physical problem of how to increase our production. It is a problem of how to market our wheat at profitable prices, and how to put the wheat industry on a remunerative basis. That is the fundamental issue. The subject is a highly controversial one, and there are different schools of thought. The past five years have raised the whole problem to a position of primary importance. We can no longer blind ourselves to the fact that the issue will not work itself out within a short time. A definite future marketing policy is

essential. What should it be? That is the question I try to answer in the following pages.

In Chapter 1 I discuss the geographical and historical aspects of the problem, including the development of the wheat industry in Western Canada, trends in the world wheat market up to 1920 and the early history of the Pools; Chapter 2 traces the causes of the wheat crisis, and its ramifications on the Canadian grain trade; in Chapter 3 I outline certain major trends in the world wheat market from 1930 to 1936, including a discussion of Government assistance in importing and exporting countries; Chapter 4 is devoted to the stabilization operations of Mr. McFarland and to an appraisal of them; Chapter 5 discusses the establishment and policy of the new Canadian Wheat Board, while in Chapter 6 I examine the reorganization of the three Pools and their policies and operating results since 1931. Finally, in the last Chapter, I list my conclusions and make specific recommendations.

In preparing this thesis, much invaluable assistance was obtained from the Wheat Studies of the Food Research Institute of Stanford University. These publications are so scholarly and comprehensive that surely everyone who writes about wheat must be extremely self-conscious.

The bibliography on the whole subject is, of course, vast, although there is a relative dearth of information on the purely Canadian aspects of the problem. Most of my information was drawn from the reports of Parliamentary Committees, as far as the stabilization operations were concerned, while the House of Commons Debates and the files of the Financial Post proved of immense benefit for the thesis as a whole.

I am indebted to many individuals who kindly supplied me with information and/or literature. These include: Dr. J. E. Lattimer, Professor of Agricultural Economics, Macdonald College; Dr. W. A. Mackintosh, Professor of Political and Economic Science, Queen's University; Dean A. M. Shaw of the Canadian Wheat Board; Dr. H. S. Patton of the Department of Economics, Michigan State College; Mr. H. L. Griffin of the United Grain Growers Ltd.; Dr. T. W. Grindley, Chief, Agricultural Branch, Dominion Bureau of Statistics; Mr. W. A. MacLeod, of Canadian Cooperative Wheat Producers Ltd.; and Mr. H. Van Vliet of the University of Saskatchewan. I also wish to acknowledge the receipt of literature from the three Western Wheat Pools.

I should also like to thank Dr. J. C. Hemmeon of the Department of Economics and Political Science, McGill University, for reading through my manuscript, and for offering valuable suggestions.

CHAPTER ONE: WHEAT - THE GEOGRAPHICAL AND HISTORICAL SETTING

Among the important commodities entering into international trade, wheat probably takes first place. It is consumed in large quantities in every important country on the globe, and it is the chief cereal food for the white population of practically every nation, with the exception of a few in Northern Europe and Asia where rye is preferred.* In no country is production and consumption so well balanced that wheat neither flows in nor out, except in the case of a few Tropical regions. The total value of the world cotton trade exceeds that of wheat, and cotton has, perhaps, more consumers than wheat. In point of quantity, international coal movements are much larger.** Cattle is raised by more people, and in more regions, than wheat is. But with regard to widespread production, consumption and trade - the characteristics which give a commodity an international character - wheat undoubtedly stands first among other commodities of international commerce.

Wheat is grown in every country in Europe and Asia, except Siam; in fact, the only parts of the globe where it is not grown are the hot low-lying regions of the Tropics. It is still grown extensively, however, in the Tropics, notably in Ecuador, Colombia, British East Africa, India, Arabia, Peru, and in Central American Republics.

* "The Changing World Wheat Situation" Wheat Studies Vol. VI No. 10 page 421

**"World Resources and Industries" by E. Zimmerman (Harper Bros. 1933) p. 235

Despite this widespread production, wheat growing is actually concentrated in a few large areas where climatic conditions are most favourable to its cultivation. These areas are chiefly in latitudes above 30° north or south, and not beyond latitudes 60° north or 40° south. The chief exceptions to this rule are India and Egypt. The requisite climatic factors which are present chiefly within these latitudes are a cool, moist growing season followed by a bright, dry and warm ripening period of six to eight weeks, a mean temperature of some 66 F., and an annual rainfall of twenty to thirty inches, chiefly concentrated in the growing season. Within the belt extending 30° on each side of the Equator wheat cultivation is possible only in certain areas, notably India and Egypt, where altitude, topography and rainfall are suitable.*

While climatic factors are of primary importance in wheat production, soils and topography nevertheless exert considerable influence. It has been said that "... the best wheat soils of the world are heavy and dark in colour and of high available fertility. Prairie soils usually have a high humus content and yield wheats having more protein than those grown on lighter soils. Level land is also highly favourable..... it permits the use of machinery so necessary to modern wheat farming on a large scale."**

A glance at a world wheat map will show the concentration of wheat production in relatively few areas. These are: (1) Central North America (2) Eastern Washington and Oregon (3) Northwestern Europe (4) the Mediterranean countries (5) the Danube

*"The Changing World Wheat Situation" page 424

**"Economic Geography" by Whitbeck and Finch (McGraw-Hill Book Company Inc. New York 1924) page 22.

Basin and Southern Russia (6) Northwestern India (7) Argentina and (8) Southeastern Australia. The wheat that is exported is produced almost exclusively on semi-arid and sub-humid grasslands in the Americas, Australia, and Russia.* Lesser and intermittent exporting regions are the Danube Basin, India and North Africa. The great importing region is Europe, which normally takes some four-fifths of the wheat exported.

The wheats of the world fall into two divisions - winter and spring wheats. Winter wheat, the product of warmer regions, has a long growing period amounting in extreme cases to 225 days, being sown in the autumn and harvested early in the following summer. In regions of dry, cold winter, early-maturing varieties, sown in the spring and known as spring wheats, are grown. These are harvested at the end of the summer, and may even run through their life cycle in as short a period as 90 days.

The character of wheat is greatly influenced by the amount and seasonal distribution of rainfall. In general, the wheat of humid regions is soft and starchy and produces a "weak flour", while that of drier areas is harder and higher in protein.

Wheat has been grown from remotest antiquity. Its historical origin "is probably to be sought somewhere in the countries of the Levant."** Botanists have claimed to have found it growing wild on the slopes of the Syrian Mountains, while field archaeologists at work in Mesopotamia have recently found quantities of charred wheat which they date back to as early as 3500 B.C.

* H.M.Strong "Export Wheat Producing Regions" (Economic Geography April 1932) page 161.

**Sir William Ashley "The Bread of our Forefathers" (Oxford Clarendon Press 1928) page 159.

The cultivation of wheat in Egypt also dates back to very early times; but it is probable that it was grown there later than it was in Mesopotamia. It was cultivated by the Chinese in 2700 B.C., and was believed a direct gift from heaven. Wherever the cultivation of wheat may have begun in the Near Levant, it spread westward until it became "the most generally diffused bread corn of all the Mediterranean lands".* We have reason to believe that it displaced barley in a large measure in prehistoric Greece, and spelt in prehistoric Italy. Wheat played a vital part in ancient history, its importance in Egypt, Athens, Sicily, Rome and Roman Britain being widely recognized. It was an article of widespread importance in the days of Joseph, who, when Prime Minister of Egypt, ran the first and only successful "corner" in wheat. There is little doubt that the wheat plant as we know it today differs substantially from that grown in these earlier times.

Wheat is used as food, seed, feed and for industrial purposes. The first of these uses is, of course, overwhelmingly the most important. Long experience has proved that cereals are the best kind of staple food because of their nutritive value, ease of cultivation, keeping qualities and adaptability to a wide range of climates and soils. Of all the cereals, wheat best fulfills these qualities. It is probably the best balanced so far as its proportions of proteins and carbohydrates are concerned, while it is also the most appetizing. It keeps better than other cereals and is rivalled by few crops in its ability to grow in a wide variety of climates.**

The demand for wheat as a foodstuff is made up of three separate elements. The first of these is a fairly constant and highly inelastic one. It is represented by the demand of such

* Ashley - op. cit.
 ** Huntington "Economic and Social Geography" (John Wiley 1933) p.74

countries as the United States, France, Canada, Australia, the United Kingdom and others, where wheat flour and bread are among the cheapest in the diet.* Certain limited classes in most other countries also are represented in this group. This element in the demand for wheat as food is highly inelastic, though of course not invariable. It is subject to the influence of measures affecting quality as well as price. Changes in population trends, age distribution of the population, and dietary habits likewise have a substantial effect, but, generally speaking, these changes are not readily discernible over short periods. Probably between one-third to one-half of the world production of wheat goes to supply this element in the demand. It is generally recognized that per capita consumption of wheat by these groups of people is tending downward.

The second element in the demand for wheat as food is a variable but somewhat elastic one. This is represented by those countries and among those classes where it is a staple in the diet but not the cheapest cereal food in common use, and where more wheat and less of other cereals would be used if it could be afforded. Representative of this group are Italy, the Danube countries, Germany, Poland and Russia, and to a lesser degree, India and China. Perhaps one-quarter to one-third of the world consumption of wheat falls in this category. This demand is a fairly elastic one, but is also dependant on the price of wheat in relation to the price of other cereals.

The third element in the demand is highly elastic in nature but is confined to low-price strata. It is best represented by the demand of China, which displays marked elasticity only when the price of wheat is very low. Wheat is also demanded as seed, and this demand is slightly variable, but in general,

* "The World Wheat Problem" Wheat Studies Vol.VIII No.8 p.425

somewhat inversely elastic, i.e., the higher the price, the more is demanded. This absorbs some 12% of the world's annual production of wheat.

Finally, there is the demand for wheat as feed. This is another "surplus outlet" channel, and is confined to low-price strata. When wheat is plentiful and cheap in relation to other feed grains, it is fed to cattle, swine, sheep and poultry. It is a highly elastic demand but when wheat is dear it is nil. The industrial uses for wheat are at present so limited that the demand here is negligible. When the price of wheat is very low, and low in relation to the price of competing products, very limited quantities of it may be used in the manufacture of starch, gluten and occasionally industrial alcohol.

It is clear, then, that the demand for wheat is not the homogeneous unit which it is commonly supposed to be. It is an aggregate expression of many varying elements, some elastic and others inelastic, and depending not only on the absolute price range of wheat but on the relative price range of competitive products. In general, however, it may be truthfully stated that the demand for wheat in the aggregate is fairly inelastic. The implications of this fact are far-reaching. A large wheat crop leads to a very sharp decline in price, while a short crop results in a sharp upturn in price.

THE GEOGRAPHICAL BACKGROUND OF THE PRAIRIE PROVINCES

The three Prairie Provinces are included in what ~~has~~^{have} been called the Canadian Great Plains, a northward extension of the wheat lands of Minnesota, North Dakota and Montana. This region lies between the western border of the non-agricultural lands of the Pre-Cambrian Shield, and the eastern slopes of the Rocky

Mountains. The three provinces, which comprise some 455 million acres of land, stretch northward from the United States boundary some 800 miles. The agricultural section of the province forms an irregular, generally triangular figure, with the international boundary as the base and the apex some 350 miles north of its western extremity. The major agricultural belts are the brown and dark brown prairies, centring in Saskatchewan towards the Alberta boundary, and the black park belts, lying to the north, east and northwest. Beyond the park country is the forest region.

Soils and topography show wide variations, in contrast to the common belief that the Prairie country is flat, level and uniformly fertile. Over the whole region moisture is scanty. In most areas, at most times, there is sufficient for agricultural needs, but it is always the critical point in farming.* Over the whole region the average annual precipitation ranges from about 11 to 19 inches. The lowest precipitation and the highest evaporation is usually experienced in southeastern Alberta and southwestern Saskatchewan. In the past five years this region has suffered severely from the drought.

The growing season is a short one. There is always the menace of frost, and this is especially serious in the north, where the frost problem takes precedence over the moisture problem. Another serious menace to the growing crop is rust, which like frost comes near the end of the growing season. These two menaces have necessitated the introduction of early-maturing varieties and the speeding-up of farm operations in many areas.

* W.A. Mackintosh "Prairie Settlement - The Geographical Setting" (Canadian Frontiers of Settlement Vol.1 The MacMillan Co. 1934) page 13.

The general introduction of Red Fife by 1900, of Marquis by 1912 and of Garnet and Reward wheats by 1929 mark definite stages in the northward expansion of wheat growing.* Of these, Marquis is of the best quality.

Not only has the Canadian wheat grower to contend with the problem of scanty moisture and a short growing season, but also with local summer hailstorms, grasshoppers, caterpillars, weeds and plant diseases. All these factors explain the wide variations in crops from year to year which characterize wheat growing in Western Canada. This results in a highly fluctuating income over the whole region, due also in part to the wide fluctuations in price which characterize a staple of such international importance and of so inelastic a demand, as wheat. This variability of income, coupled with heavy community and regional overhead, characteristic of most pioneer regions of rapid development, lies at the centre of the economic problems of the Prairie Provinces and of the Canadian economy as a whole.**

Canadian wheat has long been recognized as the finest in the world. It is characteristically hard and of high protein content. It yields a strong white flour which absorbs water freely, forms a strong elastic dough and yields more loaves to the barrel than weaker flours do. Since the bulk of western European wheat is soft, and much of the wheat exported from the United States, Australia and Argentina either soft or semi-hard, Canadian wheat is widely in demand for blending with weaker flours. Foreign millers are usually willing to pay a substantial premium for it.

* W.A.Mackintosh "Prairie Settlement " page 79.

** W.A.Mackintosh "Economic Problems of the Prairie Provinces" Canadian Frontiers of Settlement Vol.1V (The MacMillan Co.1935)

THE DEVELOPMENT OF WHEAT GROWING IN WESTERN CANADA

Canada's rise to importance as a wheat producer and exporter did not come until as late as 1900, but actually wheat growing dates back to the early days of Canadian history. Wheat is said to have been first grown on this continent in 1605 in the French settlement at Port Royal, now Annapolis, in the Maritime Provinces.* A little later it was introduced into Canada, where, after innumerable ups and downs, it became of considerable importance. Wheat growing in Western Canada dates back to 1812 when Lord Selkirk's settlers cleared land near Fort Garry for winter wheat. The difficulties of these early colonists were legion, and agricultural progress was very slow. Fur trading was still dominant in the west, and the little settlement languished until a combination of several factors led to the general opening up of the Prairies. Many factors delayed the settlement of the West. Notable was its physical isolation which separated it from Eastern Canada by a barren stretch of some 400 to 500 miles of wilderness, and from British Columbia by the Rocky Mountains. The political separatism of Canada and the United States prevented the free flow of goods and men between the two countries, and altered the development of water and rail routes. Likewise as long as land was cheap and plentiful in the United States, settlers were drawn there. Finally, from 1670, the whole area belonged to the Hudson's Bay Company, who used it exclusively for the fur trade, and bitterly opposed its general settlement.

These obstacles were, however, gradually overcome. In 1869 the huge inland area of the Northwest Territories and Prince

* D.A. MacGibbon "The Canadian Grain Trade" (The MacMillan Company of Canada Ltd. 1932) page 3.

Rupert's Land was transferred by sale from the Hudson's Bay Company to the newly-established Dominion of Canada. This prepared the way for the formation of the Province of Manitoba in 1870, which at that date had a white population of merely 12,228.*The completion of the Canadian Pacific Railway in 1885 broke down the physical isolation of the region. From that date on railway mileage in the Prairie Provinces grew rapidly, especially after 1903. The C.P.R. tapped the short-grass plains where wheat growing was the most profitable and least difficult occupation. The revolution in the mechanics of milling which took place in the 'seventies and 'eighties also indirectly contributed to the opening up of the west. The invention of the LaCroix purifier, which separated the particles of bran from the middlings and flour, led to the merits of hard wheat being recognized. The development of roller mills saved much of the gluten and gave added value to western wheat.**

Despite these favourable factors, the period from 1870 to 1895 was one of retarded settlement. Economic factors, which have always been dominant in the settlement of the West, were adverse. Wheat prices, along with agricultural prices in general, were falling, and the depression in agriculture and industry led to difficulties in obtaining capital for extension either of transport facilities or agriculture. Land was still cheap and plentiful in the United States and most settlers went there. During this period, however, there was some migration into the West, chiefly Manitoba, from Great Britain and Eastern Canada. The migration from Eastern Canada was due to the end of the supply of desirable land in

* D.A. MacGibbon "The Canadian Grain Trade" page 25.

** A. Brady "Canada" (The MacMillan Co. of Canada 1932) page 178.

Ontario, the decline of the lumber trade, the increasing density of population in the old areas, the desire of wheat farmers with the decline of the wheat industry in Ontario to find new areas for their crops, and to the railroad advertising of the new area.* The free land policy of the Dominion Government initiated in 1872 was also a stimulating factor.

The first shipment of wheat from Western Canada was made in 1877 by Red River steamer to St. Paul, thence by rail to seaboard. In 1884 the first elevators of the C.P.R. were available, and grain began to move east under modern conditions of handling. In December 1885 the first carload of western wheat grown in Manitoba left Winnipeg by railroad to Montreal.

About this time, the trade was gradually becoming organized. By Act of 1885 various grades of Manitoba hard wheat were given recognition. Grain inspectors were appointed and in 1887 the Winnipeg Grain Exchange was formally opened and incorporated by Act of the Province of Manitoba in 1891. Rapid progress in the marketing, handling, grading and inspection of wheat was made, and by 1900 the western grain trade had firmly established itself in world markets.

The general settlement of the West, long delayed, became a reality after 1896. Between the census years 1901 and 1911 the population of the western provinces more than trebled, and the improved farm area expanded fourfold. This tremendous expansion was chiefly caused by a huge tide of immigration, which reached its peak in 1912-1913 when some 400,000 people entered Canada. The causes of this huge flood of immigrants were many. The primary cause was the return of prosperity. Wheat prices rose sharply, and coupled

* M.Q. Innis "An Economic History of Canada" (Ryerson Press Toronto 1935) page 221.

with a drop in the total cost of transporting wheat to foreign markets, created a conjuncture conducive to rapid settlement.* An aggressive immigration and land settlement policy initiated by the Laurier Government in 1896 began to yield results, while the gradual exhaustion of free land in the United States not only diverted much of the stream of immigrants from overseas to Canada, but also led to an inflow of experienced American farmers into the Prairies. At this time, moreover, the rapid industrialization of Western Europe favoured a shift of wheat production from this mature area where costs were high, to the semi-arid and sub-humid grasslands in such outlying pioneer regions as Canada, where the soil was virgin, land cheap and abundant, and climate and topography suitable to large-scale mechanized grain growing. Prairie settlement after 1896 coincided with this shift in wheat production.** The rapidity of settlement was fostered by borrowing freely of the ripe experience and equipment of the United States and Great Britain, which facilitated and hastened the settlement process. The heavy overhead involved in railway construction, and the desire of Eastern Canadian manufacturers to find markets in the West, likewise were strong factors in the rapid opening up of the West after 1896.***

As the West was opened up, cattle ranching which after 1880 had spread over the prairies due to the luxurious growth of native grasses, declined in importance with the division of ranches, and the reduction of the free range.****

* W.A.Mackintosh "Economic Problems of the Prairie Provinces" p.10

** Ibid. pages 13-14

*** H.A.Innis "Problems of Staple Production in Canada"(Ryerson Press Toronto 1933) pages 90-97

**** R.W.Murchie "Agricultural Progress on the Prairie Frontier" (Canadian Frontiers of Settlement Vol.V 1936) page 51-52

Wheat production and exports began to expand rapidly, and existing physical facilities for shipping and handling wheat soon proved inadequate. To overcome this shortage of local storage, the C.P.R. offered free sites to all those who would build standard country elevators. To make their offer even more attractive, the railway agreed to refuse to accept grain loaded otherwise. This amounted to a virtual monopoly, and soon led to a rapid growth of elevators at every important shipping point in the west. With monopoly came abuse. The farmers contended that they were subject to excessive dockage, that weights used by the elevator companies were unfair, that charges ($1\frac{1}{2}$ cents a bushel) were too high, and that the railways discriminated in supplying cars. This sense of common grievance was strong enough to lead to organized associations of farmers to combat these abuses. The first cooperative attempts were in the form of local companies to provide elevators for their farmer-members. But it was almost hopeless for one small local unit to compete with a powerful chain of elevators. As a result, in 1899 out of 477 country elevators, a mere 26 were owned by farmers.*

The Manitoba Government was finally led to investigate the alleged abuses, and as a result of a Report of a Royal Commission, it passed the Manitoba Grain Act, the foundation of the present system of grain legislation. The Act broke the elevator monopoly by compelling the railways to provide cars without discrimination and to supply flat warehouses or loading platforms free of charge. The whole

* W.W. Swanson and P.C. Armstrong "Wheat" page 140.

grain trade was put under the supervision of a Warehouse Commissioner, who was to act, in effect, as an attorney-general for the grain growers. The farmers soon discovered, however, that the new Act was being violated. As a result, the Territorial Grain Growers' Association was formed in 1901 to obtain for the farmer his rights at law under the Grain Act. In 1906 it changed its name to the Saskatchewan Grain Growers' Association. In that year the Grain Growers' Grain Company was formed, with the purpose of selling on the Grain Exchange as a commission house. As a consequence of a dispute between the Grain Growers' Grain Company and the Exchange, the latter body disbanded, and reorganized as a voluntary unincorporated association, a status which it maintains to the present day.

In 1909 at the continued insistence of farmers throughout the province, the Government of Manitoba launched on a scheme of publicly-owned country elevators. But it was a dismal failure, and the Government leased its elevators to the Grain Growers' Grain Company. In 1911 the Saskatchewan Cooperative Elevator Company was formed, owned and managed cooperatively by farmers. In 1913 the Alberta Farmers' Cooperative Elevator Company was established along the same lines as the other two. In 1916 the Alberta and Manitoba companies united to form the United Grain Growers, Limited, the Saskatchewan "Co-op" preferring to remain outside. These companies rapidly increased the number of their elevators, acquired terminals and organized subsidiary companies. Due to the volume of grain they handled they were able to offer effective competition against the private elevator companies. They lessened the dependance of

producers on private middlemen; their centralized competition greatly help improve marketing services and increase marketing returns to growers; the profits realized were returned to their members either in cash, stock dividends or in the form of extended facilities or services; and lastly, they were influential in obtaining provincial and federal legislation advantageous to wheat growers.*

In 1912 the Canada Grain Act was passed, superseding the Manitoba Act. This, and subsequent amendments, put the trade under even closer regulation and supervision.

Up to the war, then, Government policy in relation to the wheat industry had been two-fold. The industry was encouraged and fostered through state immigration and land settlement programmes, experimental farms and stations, the development of early-maturing varieties of wheat by Dominion cerealists, expansion of bank note issue in the crop moving period, etc. The Government had also regulated the trade through various Grain Acts, and had laid down a framework within which the industry could expand.**

THE WORLD WHEAT TRADE UP TO 1920.

From this account of the development of the Canadian grain trade we turn to an examination of the world wheat trade up to the close of the War. Up to 1850 the world trade in wheat was very small and production was chiefly concentrated in the older regions. But after that date the growing

* H.S.Patton "Grain Growers' Cooperation in Western Canada" (Harvard University Press 1928) pages 189-190

** S. Cartwright "The Participation of the State in the Wheat Industry of Canada" (Canadian Papers 1933 - Canadian Institute of International Affairs) page 89

industrialization of Europe, the rapid growth of population, and a rising standard of living increased the demand for agricultural products. The quality and yield of wheat produced in western Europe under the influence of a humid climate was low, and the area available for expansion limited. The development of transportation and the fall in transportation costs brought the outlying pioneer regions with their sub-humid and semiarid grasslands eminently suited for grain growing, nearer to the Old Country. As a result, regional specialization was fostered, and as the white race spread over these virgin grasslands, wheat production and international trade in wheat was expanded greatly. The increased production was also aided by the development of agricultural mechanization, which was well adapted to the large areas of fairly level topography in these countries. The reaper in its early forms dates back to the end of the eighteenth century. It was first used on a commercial scale after 1826 and by 1850 many types were on the market. The binder, which marked a new era in agriculture, was developed in the United States about 1850. After 1870 machines approximating the modern binder came into general use. The combined harvester-thresher came into practical use after 1890 in the relatively dry districts of the United States and Australia. These inventions were able to greatly increase output per man, and were well adapted to frontier regions characterized by a scarcity of labour and an abundance of land.

From early days wheat had been a staple foodstuff in the United States. As railway construction developed in the decades after 1830 and as harvesting machinery was improved, settlement rapidly spread to the relatively level open prairies and plains of the west with their superlative wheat soils. After

the Civil War the expansion became exceedingly rapid and wheat production rose from 200 million bushels in 1867 to over 700 million bushels in 1898. Since production grew much faster than population, the exportable surplus rose rapidly from 10% in 1860 to over 40% in 1890-92.*

The development of wheat growing in Argentina only gained prominence in the 'nineties. Previously the agricultural lands were chiefly occupied by ranchers, and it was only in the 'nineties that wheat began to compete at all significantly with cattle and sheep for possession of the rich lands of the pampas.** The immediate cause was the depreciation of the Argentine currency which gave a great stimulus to wheat exports, while the rise in wheat prices after 1896 gave an added inducement. In 1899 the wheat crop for the first time exceeded 100 million bushels, and from then on expansion was rapid. The latest addition to the ranks of major wheat exporting countries was Australia. During the nineteenth century interest was chiefly centred on gold mining and ranching. Some expansion in wheat production did occur in the 'nineties, but even as late as 1903 Australia had to import some 10 million bushels due to drought conditions. After 1904 exports began to increase, and wheat growing expanded chiefly in the less arid section of the former sheep country. Here, too, an abundance of fertile land favoured the rapid expansion of the industry.

Before the Crimean War, the Baltic lands were the principal suppliers of European deficit wheat areas, but after 1875 European countries were faced with the competition not only of the new overseas competitors but of Russia and the

* H.S. Patton "Papers on the World's Wheat Trade" (University of Alberta Press 1925) page 7

** ibid page 8

Danube Basin, the latter soon replacing the Baltic lands as Europe's chief surplus-producing area. Moreover, the opening of the Suez Canal in 1869 brought the hard winter wheat of India into the British market. Due to this new and intensified competition, wheat prices fell steadily after 1875 and an agricultural crisis was engendered, which lasted until 1895. Wheat production, however, continued to expand in extra-European countries. The birth of agricultural protectionism can be traced to this period.* Farmers all over Europe appealed to their governments to protect them from the fall in the prices of agricultural commodities, notably wheat, and as a result customs duties were imposed or increased. This surge of agricultural protectionism, which became especially rapid after 1878, soon spread to industry as a whole, and the general tendency towards freer trade in Europe was completely reversed.

After 1896 wheat prices rose, due not only to an increased output of gold, but to a gradual readjustment in the supply of, and demand for, wheat. This rise went on uninterrupted until 1920.

The following figures show the volume and distribution of wheat production and exports in the five years before 1914.

PRODUCTION: AVERAGE OF YEARS 1909-13

World Total	3,761	million bus.
Europe (ex Russia)	1,348	million bus.
Russia	757	million bus.
United States	690	million bus.
India	352	million bus.
Canada	197	million bus.
Argentina	147	million bus.
Australia	90	million bus.

* "Considerations on the Present Evolution of Agricultural Protectionism" League of Nations Economic Committee 1935 pages 36-40.

EXPORTS: AVERAGE OF YEARS 1909-13*

	<u>Net Exports</u>	<u>% Share</u>
Russia	164.5	24.5
United States	110.0	16.4
Danube Basin	109.0	16.2
Canada	95.6	14.2
Argentina	84.7	12.6
Australia	55.2	8.2
India	49.8	7.5
Chile	2.4	.4
(million bus)	671.2	100.0

Up to the War, then, Russia, the United States and the Danube Basin dominated the wheat export trade, with Canada and Argentina following closely behind. The enormous potentialities of the two latter countries, as well as of Australia, were hardly as yet realized.

Just before the War, the international wheat market had apparently reached a sort of equilibrium.** Supply and demand were well-balanced, and the development of a world wheat market occasioned by the rapid development of transportation and the fall in transportation costs, had done away with the violent fluctuations which had previously taken place in localized markets, and had made all wheat producing countries interdependent. The Liverpool price, by virtue of Britain's position as the world's greatest wheat importer, soon came to be recognized as the world price, and prices in export markets began to equal it after taking account of transportation and shipping costs.

Britain, long the centre of the financial world, became the centre of the world wheat trade.*** Wheat destined to any part

* "The Wheat Situation 1931" (Twentieth Report of the Imperial Economic Committee 1932 H.M.S.O.) page 49.

** "The Agricultural Crisis" (League of Nations) 1931 Vol. 1

*** A.H.Hurst "The Bread of Britain" (Oxford University Press 1930) page 6 et seq.

of the world would come, as a matter of course, to England. Grain bills were drawn through London whether wheat was destined to London or elsewhere. The trade soon came, as a result, to be concentrated in the hands of the British grain merchants, and proved to be of great benefit not only to them but to shipping, insurance, exchange and banking interests. The British grain merchants bought and sold grain freely in unlimited quantities; they hedged freely in the leading markets of the world, and they always intervened in markets where the price was above world parity. By judicious "spreading," prices in different markets were kept in line with each other. The entire grain trade, with Liverpool at the centre, was a marvellously integrated whole, and was free and competitive. There were no Federal Farm Boards, no McFarlands, no powerful international grain firms, and no powerful milling trusts. As a result, world prices were always true indicators of world supply and demand. Were prices in ^{an} exporting markets to get substantially out of line with prices elsewhere, merchants would sell in that market and buy elsewhere, or vice versa. The idea of any one nation withholding supplies and thus influencing the trend of world prices was not seriously entertained.

Before the War, the United Kingdom, Germany, and a few other countries played a very important part in easing annual fluctuations in the international wheat situation by absorbing world wheat surpluses through accumulation of stocks in periods of redundant supplies, and by drawing on these for domestic consumption in periods of short crops.* This tended

* "The Changing World Wheat Situation" Wheat Studies Vol.VI No.10 page 446.

by evening out supply and demand to exert a stabilizing effect on prices.

The outbreak of the War caused a great upheaval in the world wheat trade, and radically changed the volume and source of wheat supplies. The delicate equilibrium which characterized the pre-war wheat trade was completely ruptured. The allegiance of Turkey to Germany shut off the only channel by which the crops of Russia and Roumania could reach southern and western Europe. At the same time, nearly every important European wheat producer with the exception of Holland, was involved as a belligerent, resulting in a sharp curtailment of domestic production. These countries had, as a result, to look elsewhere for wheat supplies, not only to replace the 265 million bushels normally supplied by Russia and the Danube Basin, but also to replace the curtailment in their own supplies.* The American continent was the nearest and most convenient source of supply. Australia and Argentina, which could have helped also to make good the shortage, were largely shut off from the European market due to an acute shortage of shipping space especially in the later stages of the War, and to excessive marine insurance rates. Canadian and American wheat growers responded admirably to this unexpected opportunity, and wheat production ~~was~~ expanded tremendously. Acreage in Canada devoted to wheat rose from 10 million acres in 1914 to over 19 million acres in 1919 ; United States acreage from 53½ million acres to over 73 million in the same period. Australian acreage actually declined in this period from 9½ million acres to 6.4 millions. In Argentina the area sown to wheat rose from about 15½ million acres to only 17½ millions.

* H.S.Patton "Papers on the World's Wheat Trade" (University of Alberta Press 1925) page 17.

Russian agriculture was seriously disorganized by the War, and the Revolution so unsettled production that, though at the close of the War the Black Sea and the Baltic were open again, Russia had no exportable surplus, and in fact did not export again on a major scale until 1930.

In the early years of the War the allied governments through their buyers bought wheat from traders on the Exchange, but gradually wheat was brought under the scope of Government control. A Commission on Wheat Supplies was set up in London, and the British Government created the Wheat Export Company, a purchasing agency under the control of the Commission, which bought not only for Britain, but her allies as well. In the United States a Grain Corporation was set up to control the movement of grain, while in June 1917 the Canadian Government established a Board of Grain Supervisors with wide powers of control over the disposition of wheat. Prices were fixed at \$2.21 a bushel, No.1 Northern basis Ft. William, in 1917 and \$2.24 a bushel in 1918. This was done to prevent speculative abuses. The Board was not a buying corporation, but merely a body to regulate the movement of the wheat crop to overseas buyers (i.e the Wheat Export Company.) This was a radical innovation in Canadian wheat marketing policy, but was, of course, rendered necessary by the exigencies of the War.

At the close of the War there was a general relaxation of government control in the wheat market all over the world, but difficulties of reconstruction in Europe again brought the various national governments back into the picture again. In

the United States a corporation was set up, authorized to pay a price of \$2.26 a bushel, if the grain trade refused to take wheat at equal or higher prices. Western farmers favoured the continuance of government control, and the Government decided to create a Canadian Wheat Board to handle the 1919 crop, and all wheat which remained undelivered on August 15, 1919, on which date the Board of Grain Supervisors was to cease accepting grain. The new Board was ^{given} full control over the sale of wheat domestically and for export, and over the export of flour. Trading in futures on the Winnipeg Grain Exchange was forbidden. The new Board differed from the old in being a marketing instead of a mere regulating body. It gave an initial payment on grain delivered, and it issued negotiable certificates entitling the holder to a further share in the final distribution of the total receipts. Its payments were \$2.15 (initial), 30cents and 18 cents, the final one being distributed in November 1920. The Board ceased operations on August 15, 1920. It still had a surplus of \$400,000, which was distributed to the western governments.

Trading on the Winnipeg Grain Exchange was resumed in the middle of August 1920 and prices rose to \$2.85 in the second week of September. After that prices began to fall rapidly and by December 1923 the price of wheat was down to 93½ cents. The fact that the discontinuance of government control coincided with this catastrophic fall in prices led farmers to attribute one as cause of the other. Actually, the price decline was ~~due~~ due to such factors as the release of supplies from Australia and Argentina, the gradual recovery of European agriculture, the discontinuance of credits to Europe, the dislocation of the

foreign exchanges, and the deflation of the general price level. This fact was disregarded, however, in the subsequent agrarian agitation in Canada, which led ultimately to the establishment of the Wheat Pools.

THE WHEAT POOLS : 1923-1928

The genesis and early development of the Canadian Wheat Pools have been treated so admirably elsewhere* that it would be superfluous to devote much space to this great phase of Canadian wheat marketing history. Due, however, to the very important part played by the Pools in subsequent events, it is necessary to briefly sketch their organization and development.

The collapse in wheat prices in 1920 led to agitation for a re-establishment of the Canadian Wheat Board. This was vigorously opposed by the private trade, and a lively and prolonged controversy developed. Due to a constitutional interpretation that such a Board in time of peace would constitute an infringement of provincial rights, the Federal Government passed an Act in 1922 to create a national marketing agency, which would be established after two or more of the western governments had passed the necessary legislation. The Governments of Alberta and Saskatchewan responded by doing so, but the Board was not called into being in that year due to the difficulty of getting experienced grain men to accept the chief executive posts. In 1923 the Government of Manitoba voted down a bill to give its support to a Wheat Board, and though the other two provinces did their utmost to get the services of experienced men who would hold the public confid-

* Especially H.S. Patton "Grain Growers' Cooperation in Western Canada

ence, they were unsuccessful. As a result, the whole project of a National Wheat Board was dropped.

During the controversy it had been suggested that an alternative lay in voluntary wheat pools, and with the collapse of the Wheat Board project, this idea rapidly gained head. The wheat growers in the three provinces, after a series of conferences, decided to establish voluntary pools, and in this decision they were encouraged and assisted by Aaron Sapiro, American legal expert in cooperative marketing. In 1923 the Alberta Pool was established and handled the crop of that year. In the subsequent year similar voluntary Pools were established in Manitoba and Saskatchewan. In the same year the Canadian Cooperative Wheat Producers' Limited was incorporated with a capitalization of \$150,000, equally distributed among the three Pools. This was the Central Selling Agency of these three provincial organizations.

The Wheat Pool was an entirely revolutionary conception, and entirely in contrast to the individualistic postulates of the private^{trade.} The fundamental thesis of the Pool, I believe, was that unorganized competitive selling by a host of farmer producers was bound to lead to low prices, and that only by unified selling could the best price for wheat be obtained. It was believed that a host of farmers pushing their wheat on the market in the autumn months of the year had the result of unnecessarily depressing the price, and that the solution to this situation lay in cooperative marketing, and spreading sales as far as possible, evenly over the whole year. It was felt that the futures system, which worked in a satisfactory manner ~~and~~

and provided sheltered safety as far as bankers, millers, grain merchants and handlers were concerned, did not provide the same security to the farmer. The organized western farmers believed "...that the price they receive for their wheat from day to day is largely influenced by the attitude of mind of the uninformed speculating public, and that such a method of determining or influencing the price level is too insecure and unstable a foundation on which to build any industry. They feel that the effect of uncontrolled speculation results in much wider fluctuations in the market price than would otherwise be the case."*

Moreover, in the normal functioning in the grain trade, it was possible for a farmer's wheat to pass through half a dozen middlemen before reaching overseas consumers. By a policy of selling their wheat direct the Pool hoped to be able to narrow the spread between the producer's and the consumer's price. The Pool's avowed purpose was to eliminate speculation and to stabilize growers' returns, and to accomplish this it endeavoured to follow a policy of "orderly marketing." This phrase, which has been variously interpreted, in its purest form means selling wheat in approximately equal quantities each month in the year. This is, of course, impossible and undesirable, and according to Pool interpretation, it meant unified selling on the basis of existing knowledge of the conditions of world supply and demand.**

The Pool

~~It~~ believed in pressing sales when demand was brisk and ~~to~~ holding back from the market when prices were sluggish. But more of this

* Evidence of A.J. McPhail before the Commission to Inquire into Trading in Grain Futures April 1931 page 332.

** H.S. Patton "Grain Growers' Cooperation in Western Canada" (Harvard University Press 1928) page 267.

later.

The organization of the Pools was comparatively simple. Membership was open to all those directly engaged in the production of wheat. Every member on joining paid a fee of \$2, allocated to organization expenses, and an additional \$1 for one share of the capital stock, in compliance with provincial company laws. Every member signed a five-year contract by which he agreed to deliver to the Pool all the wheat which he produced for a period of five years. The function of selling the wheat was delegated to the Central Selling Agency, on whose directorate each of the three Pools had equal representation. To carry out its avowed policy of selling direct, some 27 agency connections with wheat importing houses were established in 15 countries and 4 continents.

It was obvious that the complete success of the Pool system could only be achieved if it were in possession of its own country elevators and terminal houses. As a result, after 1925 the Pool launched on a policy of elevator acquisition. In 1926 the Saskatchewan Pool acquired the Saskatchewan Cooperative Elevator Company at a price of \$11,059,310, while the other Pools through lease and construction soon acquired elevators and terminals of their own. The financing of the Pool elevator system was one of the most conspicuous achievements of the new organization. The necessary money was obtained by the non-stock method of deducting 2¢ a bushel on elevator reserve account from each member's annual sales returns. This had yielded in the years 1925-1929 a fund of \$18,589,501. An additional fund of \$9,942,077 was accumulated in these same years from 1% commercial reserve deductions, which was partly used in elevator finance. The

farmer member was credited with interest at 6% on the amount of his deductions. In 1929, at the peak of their power, the three pools owned and operated no less than 1,642 country elevators, or fully one-third of the country elevators in Western Canada, and owned or were operating by lease, 12 terminal elevators. This huge programme of elevator acquisition representing an investment of some \$25,000,000 was financed without any governmental loans, or bond issues, and with the exception of \$8,500,000 of instalment obligations assumed in connection with the acquisition of the Saskatchewan Cooperative Elevator Company, all pool elevators had been paid for in cash. Surplus elevator earnings were returned to members on a patronage basis. In the years ¹⁹²⁵⁻²⁹, this had amounted to a total of \$6,167,125. Coarse grain pools were likewise set up, and by 1929 all three organizations were operating pools for oats, barley, flax and rye.

Under the Pool method ^{of} payment, members were paid an initial payment on delivery of their grain, and a participation certificate entitling them to further payments. The money for these initial payments was obtained by bank credit on the security of the grain delivered, the banks stipulating that a margin of 15% between the sum advanced and the value of the grain be maintained at all times. As the Central Selling Agency gradually disposed of its grain, it was able to repay the bank borrowings, and to accumulate balances for further payments to its members. An interim payment was made just before seeding time and a third payment followed in July when the approach of the harvest necessitated working funds. Near the end of October when most of the

crop holdings had been disposed by the Central Selling Agency, a final payment was made, based on the realized returns from the sale of each grade. Each Pool received its pro rata share of the sales receipts and redistributed them to its members, after deducting operating costs, and amounts to be kept as commercial and elevator reserve. Payments to members, on the basis of No.1 Northern Fort William, from the years 1924-29, with the total amount distributed to members from the sales of wheat and coarse grains, are given below as follows:

	<u>PRICE PER BUSHEL</u>	<u>AMOUNT DISTRIBUTED TO MEMBERS</u>	
		<u>Wheat</u>	<u>Coarse Grains</u>
1924-25	\$1.66	\$123,398,955	
1925-26	\$1.45	\$256,943,806	
1926-27	\$1.42	\$230,767,037	\$15,946,357
1927-28	\$1.42 $\frac{1}{4}$	\$246,976,260	\$14,004,668
1928-29	\$1.18 $\frac{1}{2}$	\$232,175,545	\$21,149,660
		<u>\$1,090,261,603</u>	<u>\$51,100,685</u> *

In short, in five years the Pool turnover was well over one billion dollars. Deliveries of wheat to the Pool in this period and the percentage of Pool deliveries to total deliveries in the Western Inspection Division, were:

	<u>POOL DELIVERIES</u>	<u>% TO TOTAL DELIVERIES</u>
1924-25	81,668,348 bus.	37.3
1925-26	187,364,999 bus.	52.2
1926-27	179,993,435 bus.	53.1
1927-28	209,908,536 bus.	51.1
1928-29	243,929,491 bus.	51.3 **

In 1928, when the five-year contracts were renewed, some 133,000 farmers signed up, out of a total of 248,000 in the three prairie provinces.

Let us now turn to a discussion of the marketing policy of

* Canadian Wheat Pool Year Book. Quoted in "The Canadian Wheat Pool in Prosperity and Depression" in "Economics, Sociology, and the Modern World (Harvard University Press 1935) page 29

** *ibid.*

the Pool. As we have mentioned, most of the Pool sales were made direct. In the first five years of its existence some 60 to 75% of its sales were made in this manner.* The Pool did not hedge, but spread the risk of price fluctuations over the entire membership. It did, however, at times acquire large volumes of futures in connection with ~~the~~^{its} sales of cash grain. That is, in selling cash wheat to millers on the Winnipeg Grain Exchange, it took back their hedges in exchange, so that the immediate sale of these might not have a depressing effect on the market.** These options were disposed of by the Pool at advantageous moments. The Pool also, at times, made sales for future delivery when prices were attractive. Finally, on several occasions, in order to maintain the price of wheat on the Winnipeg market, and consequently the value of its grain held as security by the banks, the Pool actively entered the market and bought futures. These "stabilization" purchases were made in the spring of 1925*** and also in May 1929.**** The total amount of these, however, was never substantial.

The policy of "orderly marketing" pursued by the Pool is one that has caused an endless controversy. On one hand, it has been said that the Pool never followed such a policy at all, and on the other hand, the theoretical assumptions underlying it have been put to severe criticism not only by the Pool opponents but by such impartial authorities as the Food Research Institute of Stanford University***** and the Stamp Commission.

* H.S.Patton "The Canadian Grain Pool" Pacific Affairs Feb.1930 p.

** Evidence of A.J.McPhail before the Royal Commission to Inquire into Trading in Grain Futures April 1931 page 332 et. seq.

*** H.S.Patton "Grain Growers' Cooperation in Western Canada" p.277

**** Address by A.J.McPhail March 13,1930 before the Regina Board of Trade. (Pamphlet issued by the Canadian Wheat Pool) p.3.

***** "A National Wheat Growers' Cooperative" Wheat Studies Vol.II No.3.

I do not propose to delve into this controversy. It is far too complicated. For instance, Appendix XII of the Stamp Report shows that from 1924-25 to February 1931, out of 1990 market days, there were only 230 days on which a Saskatchewan Pool farmer could have sold his wheat for less than the Pool net payment. On the other hand, Patton* writing in 1929 showed that such a comparison was unfair inasmuch as the Pool payment was a net price, and that a fair comparison would also necessitate weighted prices.

As far as the allegation that the Pool did not follow an orderly marketing policy is concerned, it is obvious that the Pool did not sell equal amounts every month. But that was never its intention. To have followed such a policy would have been foolish, for it would have meant foregoing good prices when the demand for wheat was brisk, and selling too much when demand was sluggish and prices low, leading to further price declines. Above all, it would have placed the Pool in the buyers' hands. Instead, the Pool followed a policy of supplying the market with wheat in varying quantities from time to time, depending on demand and the total amount to be sold. This was the Pool interpretation of "orderly marketing." As it is, in actual practice, sales were distributed fairly evenly over the crop year, this being evidenced by the fact that in the years 1925-26 to 1929-30 the Pool sold 31.4% of its receipts in the first quarter of the year, and 22.1%, 24.3% and 22.2% during the second, third and fourth quarters, respectively.**

Closely coupled with the attacks against "orderly marketing"

* H.S.Patton "The Market Influence of the Canadian Wheat Pool" (Proceedings of the American Statistical Association 1929)pp.

** "A Defence of Canada's Wheat Pool" (The Alberta Wheat Pool 1931)p15

came the frequent charge that the Pool's purpose was to raise prices by withholding supply. It was claimed that the Pool hoped to influence world prices in virtue of the large volume of wheat under its control. Over-zealous Pool members had often made such claims for their organization themselves, but it is significant to notice that such statements were never made in official capacity. At best, the Pool never controlled more than one-fifth of all the wheat moving into international trade, and although this figure suggests the possibility of some price control, actually its potential influence over world prices was much less than this percentage would imply, for Canada had to compete not only with the exportable surpluses of other countries but also the domestic production of the wheat importing countries themselves.*

The Pool realized this fact, and as late as August, 1929 an official Pool publication, quoting the words of A.J. MacPhail to the effect that the Pool exerted a "stabilizing influence upwards" on prices, stated: "It would be futile.....to argue that this.....can be magnified to anything approaching monopoly control over general price levels. In the last analysis, the world price will be determined by the relation between the supply of wheat and the demand for wheat...."***

The Pool, however, did feel that by an orderly merchandising policy it would be able to prevent excessive declines in the price of wheat, and stabilize seasonal and day-to-day ups and downs in the market. It felt that in virtue of the large volume of wheat under its control, and the extent of its selling and intell-

*H.S.Patton: "The Market Influence of the Canadian Wheat Pool".

(Proceedings of the American Statistical Association 1929) page 212.

**W.A.Irwin: "The Canadian Wheat Pool". Issued by the Canadian Wheat Pool Publicity Department 1929. page 20.

igence connections, did exercise a certain influence in keeping prices in different markets more closely in line with each other, and was able to realize the fullest competitive value for its product. If Winnipeg prices showed a tendency to fall off, the Pool reduced its Winnipeg sales, and concentrated on sales overseas. If a bull movement started on the Exchange, the Pool increased its sales there and helped prevent prices get out of line. This, by tending to eliminate speculative possibilities, did much to stabilize returns to non-pool farmers as well.

Had this policy of "orderly marketing" implied the substantial withholding of stocks from the market, as its critics have so frequently alleged? An examination of the following figures should do much to disprove this contention.

July 31st	Total Can. Carryover	Unsold Pool Wheat	Trade's % of Carryover	Pool's % of Carryover	% of Crop Marketed By Pool
1926	39 mill.b.	20 mill. b.	48.6	51.4	52.2
1927	53 mill.b.	39 mill. b.	26.4	73.6	53.1
1928	92 mill.b.	12 mill. b.	86.5	13.5	51.1
1929	127 mill.b.	52 mill. b.	59.0	41.0	51.3 *

From this chart it will be seen that in only one year did the Pool's percentage of the total carryover exceed the percentage of the crop marketed by it. This would imply that rather was it the private trade that was "holding." The above table also tends to unduly favour the trade, for the Pool year actually ended one full month later, and in these months it made substantial sales, reducing its holdings from 20 to 11 million bushels in 1926, from 39 to 22 millions in 1927, from 12 million to 0 in 1928 and from 52 to 48 in 1929.

* "A Defence of Canada's Wheat Pool" page 18.

THE POSITION OF WHEAT IN THE CANADIAN ECONOMY

In concluding this chapter, I feel that a short note on the place of wheat in our economy is necessary in an understanding of Canadian wheat marketing policy, especially since 1929.

The Canadian economy has from earliest days been dominated, and its development conditioned by, the production and export of a succession of a few great staple commodities.* At first fish and fur were of primary importance, and as these declined in relative importance, their place was taken by lumber. The present economy is dominated by wheat, and in recent years this has been supplanted by pulp and paper, and non-ferrous metals. Our whole economy has been geared to the production and export of these staples. Heavy and costly capital equipment has been built to enable their large scale exploitation. None of them has, however, exerted the influence that wheat has. Expansion of the production of this great staple led to the improvement of navigation on the St. Lawrence River and the Great Lakes, the building of railroads, the construction of elevators, the opening of ports in the Maritimes and on Hudson Bay and on the Pacific Ocean, the growth of towns and the development of a vast part of our present capital equipment.** At the same time, the development of wheat production led to the growth of the iron and steel industry, the lumber industry in British Columbia and in Eastern Canada, and indirectly, to the development of the mining industry. Finally, the demands of wheat producers led to the growth of a host of industries, especially in Eastern Canada, strongly depend-

* On this whole subject, see M.Q. Innis "An Economic History of Canada" (The Ryerson Press Toronto 1935).

** H.A. Innis "Government Ownership and the Canadian Scene" in "Canadian Problems" (Oxford University Press 1933)p.77 and "Economic Conditions in Canada in 1931 and 1932" (Economic Journal March 1932)

ent on the purchasing power of the western wheat grower.

It can be thus seen that there are a host of industries in Canada which not only owe their development to the expansion of wheat growing, but which are still vitally dependent on it. The transportation system is a notable example, while eastern manufacturers, in general, find much of their market in the West. In fact, as Sir John Aird has pointed out "...it is difficult to name a single branch of Canadian Commerce that is not influenced in some degree by wheat growing. The two most notable exceptions, metal mining and paper manufacture, are to be regarded as new sources of national revenue which have assisted materially in offsetting the sharp drop in wheat revenue which we have suffered during the last three years."*

To support the huge volume of capital investment involved in the exploitation of its staples, especially wheat, Canada has imported much capital from abroad. Her ability to make annual payments on this indebtedness has depended chiefly on the export of wheat, which for many years have constituted some 22% to 24% of her total exports. But the returns from the sale of wheat have been of a notoriously fluctuating nature due to world factors of supply and demand and to the vagaries of climate. Thus, when the returns from the sale of wheat and other staples abroad fall, not only is it difficult for Canada to meet its obligations abroad (unless it borrows) but the whole economy suffers, inasmuch as it is subject to a host of rigidities, artificial and natural, which are exceedingly heavy to bear when the national income is contracted.** Eastern manufacturers so strongly dependent on western buying power are forced to contract operations, and

* "Wheat from Winnipeg West" (American Bankers' Ass'n Journal

** "The Canadian Economy and its Problems" (Eds. Innis & Plumtre)
Canadian Institute of International Affairs, Toronto 1934.

unemployment and general stagnation in business results. This connection between urban unemployment and a fall in the price of wheat was traced by Jackson in 1922* who, on the experience of the two depressions of 1913-14 and 1920-21, attempted to prove that the latter was one of the main causes of the former, although he admitted that "political and monetary" complications were also very important factors. It is interesting to notice that the depression which started in 1929-30 in Canada also coincided with a sharp drop in the price of wheat. It is, of course, obvious that the latter was not the cause of the former, but at any rate, it did aggravate the situation.

Finally, the movement of wheat has sharp effects on exchange rates. The "hold-up" in the wheat export flow in the autumn and winter of 1929 led to a depreciation of the Canadian dollar, while in the fall of 1932 exceptionally heavy exports had the effect of strengthening the dollar in relation to the pound sterling.**

* G. Jackson "Wheat and the Trade Cycle" (Canadian Historical Review September 1922) pages 257 et seq.

** T.W. Grindley "Agriculture in the Economic Life of Canada" (Scientific Agriculture February 1934) page 300.

CHAPTER TWO : THE WHEAT CRISIS AND ITS DEVELOPMENT

The year 1920 saw the beginning of a long period of gradually falling wheat prices which, with minor ups and downs, continued right up to 1934. Up to 1928, however, although the decline had been going on for some time, prices were not unremunerative, for wheat production went on expanding in most of the major wheat producing areas in the world. In the same period, unsold stocks of wheat began to pile up, especially after 1925. After January, 1930, the decline in prices became accentuated, and stocks began to pile up at an even more alarming rate. The accumulated world (ex-Russia) carryover, which on August 1st, 1928 had stood at 705 million bushels, had by August 1st, 1933 run up to the staggering total of 1,106 million bushels.

As prices fell catastrophically, nations the world over, and especially the importing nations, initiated a plethora of policies designed to shelter their wheat growers from this decline. Tariffs, quota, milling restrictions, state monopolies, exchange control, stabilization schemes, bounties, subsidies, rebates, and a host of other expedients were devised to meet this contingency, and though they have had the effect of mitigating the severity of the wheat crisis, they have in no way solved the crisis itself, but have probably had just the opposite effect. The coming of the industrial depression in the autumn of 1929 merely served to aggravate a serious wheat problem already under way. To contend that the latter is the result of the former is incorrect,

and, if anything, the relationship is the other way around, because, in reality, the wheat crisis and the general agricultural crisis were major factors in bringing on the industrial crisis.*

The world wheat problem today is essentially one of a surplus in relation in effective demand. It is my purpose to trace, in the present chapter, the causes of the present wheat problem, a knowledge of which is essential to subsequent discussion. This involves a study of trends in the world wheat market since 1920.

Up to the War, as we have shown, there had been no world wheat problem, this being due to an equilibrium of supply and demand. Population in Western Europe and North America was expanding rapidly and if anything, a future dearth rather than a future surplus of wheat, was feared. The War broke up the delicate equilibrium, and diverted the production and flow of wheat into new channels. The overseas countries, notably Canada and the United States, took the place of Russia and the Danube Basin in the export market, and expanded their production enormously. After the War when Europe and Russia recovered their pre-War production, these overseas countries did not contract their production but actually continued to expand it. This fundamental maladjustment lies at the roots of the present surplus problem.

Immediately after the War agriculture experienced a period of prosperity** but in 1920-21 wheat prices fell sharply, and continued to fall until the end of 1923. In 1924 prices picked up

*V. Timoshenko "World Agriculture and the Depression" (Michigan Business Studies Vol. V No. 5 1933) page 641

**"The Agricultural Crisis" (League of Nations 1931) Vol. I

due to a short wheat crop and to the rise in the general price level. From 1925 onwards, however, the general trend in wheat prices was downwards, and this decline and the accompanying rise in stocks, at a time of general industrial prosperity and expansion, gave evidence of a maladjustment of supply and demand.

The following table shows the change in the distribution of wheat supplies occasioned by the War.

	PRODUCTION IN MILLION BUSH.		% OF SHARE OF WORLD PRODUCTION	
	<u>1909-13</u>	<u>1920</u>	<u>1909-13</u>	<u>1920</u>
World(ex-Russia)	3000	2900		
Europe(ex-Russia)	1345	948	44.8	32.6
U.S.A., Canada, Australia, India, and Argentina	1476	1786	49.2	61.5

From 1920 world wheat production continued to expand annually with the exceptions of 1924 and 1929 when crops were less than the respective years immediately preceding. The following table illustrates the development of wheat production from 1920-29.

	<u>WORLD*</u>	<u>U.S.A.</u>	<u>CANADA</u>	<u>ARGENTINA</u>	<u>RUSSIA</u>	<u>EUROPE</u>	<u>INDIA</u>	<u>AUSTRALIA</u>
1920	3363.9	843.3	263.2	156.1	474.0	948	377.9	145.9
1921	3384.8	819.0	300.9	191.0	286.0	1221	250.4	129.1
1922	3523.0	846.7	399.8	195.8	405.0	1044	367.0	109.4
1923	3844.4	759.5	474.2	247.8	417.2	1256	372.4	125.0
1924	3518.1	840.1	262.1	191.1	474.0	1057	360.6	164.6
1925	4075.1	669.1	395.5	191.1	782.3	1396	331.0	114.5
1926	4267.6	833.5	407.1	230.1	913.8	1209	324.7	160.8
1927	4351.6	874.6	479.7	282.3	784.6	1273	335.0	118.2
1928	4712.3	926.1	566.7	349.1	807.3	1405	290.9	159.7
1929	4096.3	812.6	304.5	162.6	693.6	1461	320.7	126.9

Though the production of individual countries has shown wide variations from year to year, it can be seen that, with the exceptions 1924 and 1929, the world total has been rising steadily. This post-war upward trend in world production is substantially less than the pre-war trend, which has been

* Excludes large wheat-producing areas in China and southwestern Asia, and numerous insignificant producing areas.

estimated by Enfield* at an average of 53 million bushels a year. It will also be seen from the above figures that Europe had recovered its pre-War production in 1925, and that Russia had also recovered its pre-War figure by the same date.

(Russia's production in 1909-13 averaged 758.3 million bushels.)

What were the factors responsible for this substantial increase in world wheat production since the War? This involves a study of acreage and yield trends in this period.

In the rapid expansion of production in post-War years, acreage expansion played practically the entire part. Between 1885 and 1915, with minor interruptions in 1900, 1902, 1907 and 1912, the trend in wheat acreage was rapidly upwards.** World acreage declined between 1915 and 1917 from 292.4 million acres to 262.3 million acres. This was chiefly caused by the dislocation of agriculture in Europe, but in part was due to a drop in the acreage of the United States from 60.5 million acres to 45.1 million acres. In 1918 world acreage rose to 283.7 million acres aided by the recovery of United States acreage to 59.2 millions, and an increase in Canadian acreage of some 3 million acres. Despite a further increase of over $1\frac{1}{2}$ million acres in Canada in 1919 and almost 14 million acres in the United States, world acreage declined, and continued to do so until the low point of 250.9 million acres was reached in 1922. From then on, there was a steady increase in acreage on all the continents. The following table gives the expansion in acreage in

* R. Enfield "The World's Wheat Problem" (Economic Journal Dec. 1931)
 ** T. W. Grindley "Trends in World Wheat Acreage" (World's Grain Exhibition and Conference Regina 1933 Vol.I) page 120.

the chief producing areas:

	<u>AVERAGE 1909-13</u>	<u>1919</u>	<u>1920</u>	<u>AVERAGE 1926-30</u>
	(in millions of acres)			
World	268.10	278.40	274.10	312.00
United States	47.10	73.70	62.40	59.91
Canada	9.94	19.13	18.23	23.93
Argentina	14.88	16.90	13.22	19.43
Australia	7.60	6.42	9.70	14.40
India	29.22	23.80	29.95	31.52
Russia	74.03	68.00	66.00	74.75
Europe(ex-Russia)	72.80		56.30	71.30

It will be seen from the above table that practically the entire increase in world acreage between 1909-13 to 1926-30 is attributable to the United States, Canada, Argentina and Australia. Between 1926-30 both Russia and Europe ex-Russia had recovered their pre-War acreages. Inasmuch as the four major exporting countries had greatly increased their acreages, there was by 1930 a substantial addition to the world wheat area. The greatest expansion took place in North America, although since 1919 acreage in the United States has gradually been declining, due to increased competition for overseas markets, and increasing domestic requirements.* Canadian acreage expansion after 1920 was gradual in contrast to the rapid change during the War. Australian acreage actually decreased during the War, but between 1920 and 1930 it almost doubled.

Acreage in the Danube Basin was seriously contracted during the War, but by 1930 all of the four countries had recovered their pre-War positions, with the exception of Roumania. Russian agriculture was seriously disorganized by the Revolution of 1917 and the War. Acreage devoted to wheat declined steadily until 1922. After that there was a steady increase, which became especially rapid after 1928 due to the speeding up of collectiv-

*T.W.Grindley: "Trends in World Wheat Acreage". (World's Grain Conference and Exhibition Regina 1933). page 123.

ization. In India, there has been little significant change in acreage since 1910.

To what extent have increased yields per acre been responsible for the changes in the volume of production in post-War years? Yields are always of a highly fluctuating nature, and vary widely from country to country. In certain post-War years high yields have done much to lead to bumper crops as in 1923 and 1928. But an examination of the following figures should show that yields have played a negligible part in the expansion of production:

	<u>U.S.A.</u>	<u>CAN.</u>	<u>ARG.</u>	<u>AUST.</u>	<u>INDIA</u>	<u>U.K.</u>	<u>EUROPE</u>	<u>OTHERS</u>	<u>WORLD*</u>
	(Bushels per Acre)						<u>EX U.K</u>	<u>EX RUS</u>	<u>EX RUS</u>
							<u>RUSSIA</u>	<u>&CHINA</u>	<u>&CHINA</u>
Average 1909-13	14.7	19.8	9.9	11.9	12.0	31.5	18.5	12.1	15.3
Average 1920-30	14.1	17.1	12.6	12.0	11.1	32.9	17.9	12.5	14.9

The significant features in this table are the sharp decline in yield per acre in Canada, and the sharp increase in Argentina.

The great expansion in production, then, during and since the War, was due almost entirely to an expansion of acreage in the four overseas exporting countries. It is now my purpose to examine the one great factor that laid the basis for this expansion. This was the rapid development of agricultural mechanization. Biological and cultural advances also played their part, notably through the perfection of early-maturing and drought-resistant varieties of wheat, through the discovery of methods of conserving soil moisture, etc. But these were relatively insignificant in comparison with the great changes

* "The Wheat Situation 1931" (Twentieth Report of the Imperial Economic Committee H.M.S.O. 1932) page 39.

effected by agricultural mechanization. The gradual mechanization of agriculture has been going on during the past century, the advent of the combined harvester-thresher in the relatively dry districts of the United States and Australia after 1890, and the general purpose tractor after the War, being the chief developments. These inventions have revolutionized agricultural production in countries where they are extensively used, these being notably the major overseas exporting areas and especially, since 1928, Russia.

Mechanization is a very recent development as far as Canada is concerned. In 1910 a 20-foot combine was imported into Canada* and used in Saskatchewan for three years. In 1912 the first combine was used in Alberta. In 1922 the Dominion Experimental Farm at Swift Current began experiments with it, and in 1923 and 1924 four were sold to private users.** By 1929 the number of these had grown to 7,255 and in 1931 there were no less than 8,925 combines in Canada.*** The tractor was introduced into this country some 20 years ago. After the War, due to improvements which increased its efficiency, its use became quite general. In 1921 there were 47,455 tractors in Canada and by 1931 their number had increased to 105,269.**** Along with the tractor came increased dependence on trucks and automobiles.

The economic and social consequences of these inventions have been many. They have resulted in a great reduction in the costs of production and a great saving of labour power. Compared with the binder, the cost of labour involved in harvesting and threshing is nearly cut in half by the combine, and running

*D.A. MacGibbon "The Canadian Grain Trade" pages 472-473.

**W.W. Swanson and P.C. Armstrong "Wheat" page 57.

***J.F. Booth "Some Economic Effects of Mechanization of Canadian Agriculture with Particular Reference to the Spring Wheat Area" (World's Grain Exhibition and Conference Vol. I 1933) page 356.

**** ibid.

costs are lessened, while the total costs are said to be reduced in the ratio of approximately seven to four. Mechanization has profoundly affected the labour requirements in production. It has caused a disappearance of the seasonal "peak" in farm labour requirements. No longer do thousands of casual labourers go west in the fall months of the year to aid in harvesting. Similarly, in the ploughing and sowing seasons the use of labour has been reduced, due to the use of tractor-drawn drills, and other implements. In Canada in 1881 there were 1.43 persons gainfully employed per farm and in 1931 the number was 1.55 per farm. In 1881 there were 33.07 acres of improved land per worker while in 1931 there were 76.01. In short, the improved acreage per farm more than doubled in fifty years, though there was practically no change in the number of persons engaged on these farms. Agricultural improvements had cut labour requirements in this period in half.*

Another significant effect of agricultural mechanization was, coupled with the development of early-maturing and drought-resistant varieties of wheat, to push production into regions formerly considered unprofitable, and to make dry farming a possibility. This has opened up great stretches in America, Argentina, Australia and Russia. Another effect has been to increase the size of farms to enable large-scale operations. In the case of Canada, the average size of farms increased from 97.2 acres to 224.5 acres in 1931**

The extensive use of agricultural machinery in the production of wheat and other crops, has also had the effect

* J.F.Booth "Some Economic Effects of Mechanization of Canadian Agriculture With Particular Reference To The Spring Wheat Area" (World's Grain Conference & Exhibition Regina 1933 Vol.1) p.357

** ibid page 355.

of reducing horse power. This has had significant effects as far as wheat production is concerned, for the areas formerly devoted to the production of feed were chiefly turned over to the production of wheat. In the United States it has been estimated that no less than 25 million acres of crop land, formerly used to provide feed for horses, have been released since 1918 and made available for crops for human consumption, notably wheat.* In Canada acreage devoted to oats and hay had decreased some $5\frac{1}{2}$ million acres between 1921 and 1931 or 20%. "The release of this acreage" says Booth, "has meant an increase in the amount of land available for other crops and has had a pronounced effect upon agriculture particularly in those regions where production for export was a major factor."**

The results of all this have been far-reaching in relation to the present wheat crisis. By reducing costs and increasing production per man, farm mechanization has done much to bring on the existing wheat surplus. Inasmuch as the demand for wheat is generally inelastic, these technical advances have led to overproduction, for the increased output cannot be readily absorbed, so long as population is increasing very slowly.

We have said that these technical advances largely made possible the great increase in production. They were not, of course, the causes of the expansion. The causes lay in the high War, and immediate post-War, prices which led to a disproportionate expansion in the overseas countries. The general level of post-War wheat prices was sufficiently attractive to

* R. Enfield "The World's Wheat Problem" (Economic Journal Dec. 1931)

** J. F. Booth op. cit. page 360.

induce wheat growers in these countries to continue to increase production, though at a lesser rate. Europe, however, was gradually recovering its pre-War production, and this soon made a surplus inevitable.

What was happening to wheat consumption trends in this period? The piling up of abnormal stocks of wheat after 1925 is evidence of the fact that consumption was lagging considerably behind production. Wheat consumption is very difficult to measure, and statistics are woefully inadequate. At best, we can only roughly estimate the general trend, because our knowledge of waste, dockage, the amount fed to animals, and changes in stocks is very limited. There are many factors which affect the trend of per capita wheat consumption. A rising standard of living, such as has been witnessed in many countries in post-War years, has the effect of lessening wheat consumption. People tend to turn more and more from bread grains to more concentrated or diversified forms of food, as fruits, vegetables and sugar. Likewise, increasing mechanization of industry lessens food requirements by lessening the amount of physical and muscular work needed. A change in the age distribution of a population also modifies food requirements, i.e., if there are fewer young and more aged people in a nation, the total food requirements become less. All these factors have actually been at work in post-War years, and have exerted considerable ^{influence} on the trend of wheat consumption, though of course their influence in different countries has varied widely.

The Food Research Institute of Stanford University has so admirably summed up the trend in per capita wheat consumption

that I quote it in full: "Relatively few of the countries of the world have exhibited during the years since the War any substantial evidence of a tendency towards changing per capita consumption of wheat and these few will show increases; wheat has been displacing rye in certain European countries, notably in Germany, the Netherlands and Scandinavian countries, and replacing various other foods in the Tropics. It is clear that no substantial change is under way in the United States, the United Kingdom or India, which, with Russia, France and Italy are the world's largest consumers of wheat. In France, Spain and Canada, three other large consumers, no tendency to change in the level of per capita consumption is in evidence..... It is worthy of note, however, that in the United States, United Kingdom and probably in Canada also, the post-war level of per capita consumption is appreciably below the immediate pre-war level: in the United States and probably in Canada about 10 per cent, and in the United Kingdom about 5 per cent below the pre-war level."*

This being so, it was inevitable that the increased production occurring during the War and post-War years would lead to increased surpluses of unsold wheat.

The War, causing, as it did, a notable shift in wheat production from Europe and Russia to overseas areas, had the effect of changing the distribution of export supplies.

<u>AVERAGE CROP YEARS 1909-14</u>			<u>AVERAGE CROP YEARS 1924-29</u>			**
Order	Net Exports	% Share	Order	Net Exports	% Share	
Russia	164.5	24.5	Canada	309.5	38.8	
U.S.A.	110.0	16.4	U.S.A.	178.5	22.4	
Danube	109.0	16.2	Argentina	154.6	19.4	
Canada	95 .6	14.2	Australia	96.6	12.1	
Argent.	84.7	12.6	Danube	36.7	4.6	
Austr.	55.2	8.2	Russia	12.8	1.6	
India	49.8	7.5	India	8.3	1.1	
Chile	2.4	.4				
<u>TOTAL</u>	<u>671.2 million bu.</u>		<u>TOTAL</u>	<u>797.2 million bu.</u>		

* Wheat Studies Vol VI No.10 "The Changing World Wheat Situation" p.433

** "The Wheat Situation 1931" (Imperial Economic Committee 1932) p.49

The above table illustrates the significant changes caused by the War. Notable was the disappearance of Russia and the Danube Basin from the rank of major exporters. Whereas in the five years before the War they supplied over 40% of the total net exports, in the period 1924-29 their contribution had fallen to a little over 6%. Canada's rise to the rank of premier exporter was little short of phenomenal. Significant, also, was India's decline, and it appears that this country is destined to disappear from the market as a net exporter altogether. The post-war set-up was, however, an unstable one for it was inevitable that at some date Russia would again enter the market on a major scale. The New Economic Policy and the Five Year Plan had led to a rapid recovery in Russian agriculture, and there always existed the possibility that a series of good crops or the pressing need for foreign exchange would force the country to export on a large scale. As far as the Danube Basin was concerned, post-War changes in farm organization and the rapidly increasing population made it unlikely that it would ever be a dominant figure in the market.

The rapid growth in **production**, and the much slower growth in consumption, soon led to an increase in total world wheat stocks. The following table gives the figures for certain important areas: (About August 1st of each year)

	TOTAL WORLD	U.S.A.	CAN.	AUST.	ARG.	DANUBE BASIN	INDIA	IMPORTING EUROPE	AFLOAT TO EUROPE
1922	618	118	41	24	61	26	29	240	49
1923	560	147	33	33	64	36	36	150	39
1924	685	143	48	34	66	45	56	214	42
1925	529	117	30	28	58	20	51	165	33
1926	611	106	40	24	67	40	49	206	39
1927	647	119	53	35	69	46	36	202	46
1928	705	123	92	36	95	25	35	213	45
1929	970	245	127	41	130	75	29	241	38

(millions of bushels)

It will be seen from the above table that stocks began to take on abnormal proportions after 1925. This, and the fact that wheat prices began to fall more rapidly after that date, give clear indication of a growing surplus over effective demand.

After 1925 another unfavourable factor developed. This was the revival of agricultural protectionism. After the War the necessity of reconstruction had necessitated a more liberal tariff policy,* but after 1925 there was a revival of economic nationalism. The competition of the lower-cost producing areas was as sharp as ever before, and European nations raised customs duties to protect their farmers and to hasten the revival of their agriculture. In 1925 Germany recovered her freedom to impose customs duties, and at once re-imposed high duties on food. The year 1925 also saw the beginning of Mussolini's "Battle of Wheat" designed to make Italy self-sufficient as regards wheat. On July 24, 1925 Mussolini reinstated the import duty of 75 gold lire (\$14.50) per ton on wheat, which had been suspended in 1914.** This duty was supplemented by some 20 decrees and circulars which created propaganda commissions, multiplied travelling teachers, and which promoted the production of selected seed, the application of electricity to agriculture, and the tillage of uncultivated areas. The underlying objectives of this "battaglia del grano" were to give employment to Italians otherwise working in foreign countries by utilizing land not currently used, to protect the lira by strengthening the balance of pay-

* "Considerations on the Present Evolution of Agricultural Protectionism" (Economic Committee League of Nations 1935) page 16.

** G. Salvemini "Mussolini's Battle of Wheat" (Political Science Quarterly March 1931) page 25.

ments and to improve the diet of the Italian people by substituting wheat for corn. The year 1925 also saw the introduction of sliding scale duties on imported wheat in Austria and Czechoslovakia. From that year the changes in European customs duties were upwards, though up to 1929 the general level was not unduly excessive.

The implications of this revival of economic nationalism as applied to wheat are obvious. It meant that the import market for wheat was narrowing, and that exporting countries were ultimately going to face a dwindling demand from abroad. The implications of this coming struggle between low-cost extra-European countries and high-cost European countries, were not fully appreciated, and the former went on producing in the belief that the market for wheat was indefinitely elastic. It took the wheat crisis to prove otherwise. The rapid increase of Russian production was also largely disregarded. The general belief was that Russia would never re-enter the wheat market on a large scale. Writing as late as 1929, just one year before Russian exports began to pour on the market, Swanson and Armstrong had expressed the belief that "...Russia has not re-entered the export market to any extent, and we doubt if it ever will."*

The condition of increasing production which we have described in the preceding pages differs notably from that prevailing before the War. Before 1914 production had been expanding rapidly, but had not outstripped consumption. In general, it was felt that the future was especially gloomy, for it appeared that possibilities of further expansion of production were extremely limited. In fact, even as late as 1922 the same

* W.W.Swanson and P.C.Armstrong "Wheat" page 206.

sentiments prevailed, this being evidenced by the opinion of a group of statistical experts as follows: "The requirements of the 1921-22 harvest year have been met entirely from current production, thus demonstrating that even without Russia the world's present bread needs can be met so long as harvests are reasonably good. Supply and demand are nicely balanced, however, and a serious crop failure probably would cause a world shortage of wheat."* But after that date the situation completely changed. The question became not one of dearth but of abundance, and up to 1929 this condition became aggravated. Up to that date, however, little serious attention was given to the problem of mounting surpluses. Optimism was the keynote in the exporting countries, especially so in an expanding frontier economy such as Canada.

THE CROP YEARS 1928-29 AND 1929-30

The crop years 1928-29 and 1929-30 are so important in an understanding of the world wheat crisis that I will treat them rather fully.

The year 1928-29 brought remarkable changes in the world wheat situation. The world crop (ex-Russia, China and Asia Minor) was unquestionably the largest in history and 16% above the 1922-1927 average.** It was the result of a record post-war harvested acreage, some 7% above the 1922-27 average, and a yield per acre that had never been surpassed in the past two decades, and 8% above the 1922-27 average. Practically every important producing area had a record crop. The world crop was not only the largest in history, but it was also unusual in that it followed on the good crop of 1927. As a result, although consumption was very

* "Some Great Commodities" by the Statistical Division of the National Bank of Commerce of New York (Doubleday, Page & Co. 1922)

** "The World Wheat Situation 1928-29" Wheat Studies Vol VI No. 2

heavy, excessive and burdensome stocks were built up during the course of the year, notably in the United States, Canada and Argentina, as well^{as} in many European countries. The volume of international trade at some 940 million bushels was the largest in history. Argentina made record shipments of 224 million bushels, due principally to her relatively low prices. Canada also exported her largest volume in history, some 406 million bushels, over 40% of the total export movement. The United States exported less freely, her figure being 150 millions. Australian exports were also large.

Prices, on the average, were at their lowest level since the War except in 1923-24, and judging from the purely statistical position they should have been much lower. A strong sense of optimism had led, however, to a disposition to hold stocks, and this, coupled with a rather tight feed grain position, and an exceptional import demand from India and Asia Minor, lent support to prices. Even in countries where wheat prices were supported by tariffs, prices were lower than in 1927-28. In cents per bushel, international and export prices were lower in 1928-29 than

1929-30 by:	British parcels	22.7¢
	Canada	18.2¢
	Argentina	23.1¢
	Australia	19.3¢
	U.S.A.	23.3¢

"An especially significant feature of the world wheat price situation in 1928-29 was the unusual relative cheapness of Argentine wheat on the world import market.** Rosafe was consist-

* " The World Wheat Situation 1928-29" Wheat Studies Vol.VI No.2 page 64.

** ibid. page 66.

ently sold below competitive wheats for the greater part of the year, and Argentina was able to expand its exports, as a result, chiefly at the expense of Canada and the United States. Inasmuch as Canada and other exporting countries were to meet this competition for the next five years, it is necessary at this point to examine the reasons for this underselling. Argentina is a debtor country peculiarly dependent on an inward flow of capital to enable it to balance its international accounts. In the middle of 1928 the raising of loans was becoming an increasingly difficult matter, and Argentina along with most other agricultural debtor nations,* found itself in serious difficulties. It was, therefore, forced to sell as much as it could in order to meet its international obligations. The United States and Canada were not under the same pressure. The pressure on Argentina was ultimately so great that it had to abandon gold on December 16, 1929.** Likewise, storage facilities were woefully inadequate, and with the bumper 1928 crop her only alternative was to sell at any price. Inasmuch as the entire export movement is in the hands of a few large international grain firms whose only interests are volume and margin of profit, there was not the same resistance to price declines as characterized, for example, the Pool. On the other hand, as we shall discuss later, prospects of a short 1929 crop had led to a disposition to hold stocks in North America where storage and credit facilities to do so were ample.

For Canada the crop year 1928-29 was a difficult one.

After January 1929 Argentine competition became very serious and

* On this whole subject see V. Timoshenko "World Agriculture and the Depression" (Michigan Business Studies Vol.V No.5 1933) Chaps.3&4.

** L. Smith "Suspension of the Gold Standard in Raw Material Exporting Countries" (American Economic Review Sept. 1934) page 433.

the Pool found difficulty in following its "orderly marketing" policy. The trials of the Pool in these months are best explained by the late A.J. MacPhail, former President, in one of his addresses: "From January on, we were faced with the most severe kind of competition from the pressure of Argentine wheat on the market. In spite of that very strong competition, and in spite of the fact that during the winter months last year our Winnipeg prices were unduly high as compared with Argentine, we had 173 to 174 million bushels of wheat sold in the first week in May out of a total to sell for that year of 255 million, including local purchases.....No one could say that we had not taken advantage of every opportunity to sell our wheat, in the face of very difficult competition.....When the big break in prices came in May, to as low as \$1.06 and \$1.08 a bushel, we decided to take a definite stand against what we considered a "bear raid" on the market. We bought between four and five million bushels of wheat. This was the second time we had taken such action since the Pool was organized."* This wheat which had been bought at \$1.07 and \$1.08 was later sold out at \$1.14 and \$1.16.

The Pool year which closed on August 31st, 1929 saw the Pool with a carryover of 48,358,585 bushels,*considerably different from the situation obtaining the year before when it had absolutely no carryover at all.** As a result, the Pool was unable to declare a final payment on the 1928 deliveries. In the final months of the Pool year, it was practically driven from the export market, by Argentine competition.

* Address before the Regina Board of Trade March 13, 1930. (Issued by the Canadian Wheat Pool)

** Directors' Report Canadian Cooperative Wheat Producers Ltd. 1928-29

The world wheat situation at the opening of the 1929-30 crop year was exceedingly vulnerable.* The huge 1928 crop had left a carryover of some 970 million bushels, and it was clear that production had already outrun consumption. It was merely a question of when prices were going to collapse. Many factors, notably a strong disposition to hold in North America, and liberal credits to many European countries which enabled them to make large purchases, had supported wheat prices. A sudden weakening of the disposition to hold, a sudden contraction of import demand, or a general loss of confidence, would cause prices to collapse.

Early in May, a bullish movement started in North America, for it appeared that the 1929 crop was going to be a decidedly short one. Prices rose precipitously, but by August a general recession set in, broken, however, by several upward spurts.** After January 1930, the decline in prices became precipitous. Early expectations of a short crop proved to be substantially true. The world crop (ex-China) proved to be some 600 million bushels smaller than the crop of the preceding year. But this, coupled with the 1928 carryover, made wheat supplies available during the year about the same size as they were in 1928-29. From the point of view of the world wheat situation, the geographical distribution of the 1929-30 crop was most unfortunate. The importing countries of Europe harvested their largest wheat crop since the War, while crops in all the major exporting areas,

* J.S.Davis "Wheat, Wheat Policies and the Depression." (Review of Economic Statistics April 15, 1934) page 81. Also "Wheat and the World Depression" (World's Grain Exhibition and Conference Regina 1933 Vol.I) page 103.

** "The World Wheat Situation 1929-30" (Wheat Studies Vol.VII No.2)

notably North America, were decidedly short. Crops of rye and feed grains were also excessively abundant in Europe. The causes of short crops in the major exporting areas ~~were~~^{were} drought and other unfavourable climatic conditions, while in Europe the weather was unusually favourable. The European crop (ex-Russia) exceeded the 1928 crop by some 55 million bushels, the greatest gains being recorded in the importing areas. This huge crop was substantially underestimated earlier in the season, as were the 1928 carryovers in Argentina and the Danube Basin. These facts, coupled with the prospects of short crops in North America, had led to a bullish movement in the latter half of 1929, centring chiefly in North America, where most students and traders believed a generally higher level of prices was going to prevail in 1929-30 than actually did. The result was that there was a strong disposition to hold, and a great part of the public came into the wheat market and bought futures, keeping prices out of line with those prevailing elsewhere, especially in the early months of the crop year.

The result of the geographical distribution of the 1929-30 wheat crop was a very small volume of international trade in wheat. European countries drew very liberally from their own stocks and were also able to substitute rye, of which there was an abundance, for import wheat. Export trade declined some 300 million bushels, the largest change between two successive years in the twentieth century. A very large proportion of the exports came from Argentina which shipped freely throughout the year, especially in the first half, in contrast to the North American movement, which was decidedly retarded. Throughout the greater part of the year the belief persisted, especially in

North America, that import demand from Europe was going to pick up, but it never did. As a result, those traders and organizations, such as the Canadian Pool and the American Federal Farm Board, that had held back from the market in the early months of the year, (or had assisted wheat growers to hold back) were doomed to disappointment. The small import demand, coupled with the Stock Market crash in the autumn of 1929, had the effect of undermining confidence and weakening the disposition to hold. Consequently, after January 1930, the fall in wheat prices became rapid.

Due to the bullish sentiment in North America in the latter half of 1929, prices there got distinctly out of line with the prices of other export wheats. Argentine wheat was exceedingly cheap, and British and Continental buyers purchased it in preference to the higher priced wheat of Canada and the United States. In August 1929 the spread between Argentine Rosafe and No. 3 Northern was as high as 30¢, but from then on it gradually narrowed especially in the latter months of the year. By May-July the spread was down to about 5¢. Its narrowing, especially after February 1930, was due to the fact that the holding movement in Canada weakened as prices declined, exports dwindled and stocks became larger, and due to the lessening of the pressure of Argentine exports.

The year witnessed an intensification of economic nationalism all over the world. As prices fell, nations increased their tariffs, and initiated a host of new devices in order to protect their producers from the decline, and in order to protect their national currencies by endeavouring to balance their international accounts. We will discuss this more fully in a subsequent Chapter.

The crop year 1929-30 was the most difficult one that the Canadian Pool ever experienced, and I shall discuss Pool policy in this year rather fully.

The year 1928-29 had seen the Pool at the height of its power and prestige. In that year it handled fully one-fifth of all the wheat entering into international trade, and although, as we have seen, it had considerable difficulty in marketing its wheat, it had, in general, a very successful year. Its very success had, however, engendered the bitter hostility of the private grain trade, both at home and abroad, which objected to having business taken away from it. But it is significant that the Pool did not arouse the antagonism of the millers, except when they "...were so deeply involved in the grain trade that it was difficult to tell whether they were grain traders interested in the milling business, or millers interested in the grain trade."*The private trade never lost an opportunity to attack the Pool and its policies. In its early years the Pool had made use of the selling agencies in Britain and elsewhere which had for years marketed Canadian wheat. In 1929, hoping to save the middleman's commission, the Pool informed these agencies their services were no longer requested. This action led to further antagonism in British grain trade circles against the Pool. They were awaiting an opportunity to strike a blow at it.

Other features of the Pool made it highly vulnerable. In the first place, it did not hedge as did the ordinary elevator companies, but instead spread the risk of ~~price~~ fluctuations over

* W.A. MacLeod - Address to the Caledonian Club Winnipeg Jan. 10, 1936. (Copy supplied by Mr. MacLeod)

the entire membership. Insofar as the Pool's sales policy had the effect of stabilizing price to some degree, it was able to limit the risk of these fluctuations. The latent possibility always existed, however, that a drastic price decline would carry the price of wheat below the Pool's initial payment. The Pool, not having hedged its sales, would thus find itself in serious financial difficulties. Moreover, the reserves of the Pool were not in a sufficiently liquid position against an hour of need.

The opening of the 1929-30 crop year looked highly favourable. With prospects of a coming short crop throughout the world and with the price of wheat well over \$1.50 in September, the Pool set its initial payment at \$1.00. This move proved to be a disastrous one, and the subsequent troubles of the Pool can be traced to it. In setting this payment at \$1.00, it was undoubtedly influenced more by past experience than by a correct appraisal of the future. Had they set it at 85¢ as they had in 1928, they might have saved themselves much of their ills.

As in previous years, the Pool was able to make its initial payments by getting credit from the banks under Section 86 of the Bank Act. The banks stipulated that the margin between the value of the grain used as security and the amount of credit be 15%. This was in keeping with the policy of earlier years. As we mentioned before, the Pool had a carryover from the 1928 crop of some 48 million bushels. As a result, the seven banks with which the Pool dealt carried over loans of some \$69,000,000. (These seven banks were: Bank of Montreal, The Canadian Bank of Commerce, The Royal Bank, Bank of Nova Scotia, The Imperial Bank, Bank of Toronto and the Dominion Bank.)

As we have seen, prices began to fall when the crop moved on to the market, and after January 1930 the decline became precipitous. At the beginning of February a real crisis developed. The 15% margin between the value of the Pool grain and the amount of bank advances became endangered, and the Pool faced the prospect of being forced to push its stocks on to the market. This was prevented, however, by the timely action of the Governments of the three Western Provinces. On February 4th. the announcement was made in a Canadian Press despatch from Winnipeg that these three Governments were prepared to give financial support to the three Pools*. Following this, came the official announcement that the three Governments had guaranteed the Lending Banks against loss on account of loans they had already made to the Pools (including the unpaid balance advanced on the 1928 crop) or might make up to August 1, 1930. Each Government guaranteed the account of its respective Pool. The purpose of the guarantees was to prevent a forced liquidation of Pool stocks, which would have seriously depressed wheat prices, already declining rapidly, and have had unsettling effects on financial and business interests, in all parts of the country.

Following the announcement, the premier^d of the three provinces held a series of meetings and consultations concerning the shaping of the legislation which was to implement these guarantees. Identical legislation was soon put through the three Legislatures, by which each Government guaranteed to pay the banks all past and future advances, plus interest, as might be made to the Pools before August 1, 1930. It was a condition of these guarantees that the banks would not sell, or cause to be sold any of the Pool grain.

*Canadian Annual Review of Public Affairs 1929-30 (Toronto: The Canadian Review Co. Ltd) page 533.

without giving each Government four days clear notice, and in any event, not before November 1st, 1930.*

There has always been some obscurity concerning these guarantees. The banks have always insisted that there had been no pressure exerted on the Pool to liquidate its stocks, and that the action of the three Provincial Governments was entirely voluntary.** According to one banker, what actually occurred was that late in January 1930 when prices were sagging, the Pool officials had asked the Chairman of the Lending Banks Committee, (a Committee representing the seven Banks) what the attitude of the Banks would be if prices declined to such a point at which the 15% margin could not be maintained. The Chairman had told them that he could not give them an answer without first consulting the other banks but that he felt they would likely expect the margins to be maintained, even at the expense of some liquidation of grain holdings. The Pool officials had obviously, without waiting for further notice from the Banks, approached the three Western Governments for their guarantees, for on February 1st they reported to the Chairman of the Lending Banks Committee that they were in a position to furnish such guarantees in place of margin.***

The effect of these guarantees was to exert a steadying influence on prices, but the decline continued, and by June the price of No.1 Northern, basis Fort William had gone down to \$1.00, or equal to the amount of the initial payment. Before passing to an examination of subsequent events, let us turn to a discussion

* Statutes of Manitoba 1930 Chap.18
 Statutes of Saskatchewan 1930 Chap. 90
 Statutes of Alberta 1930 Chap.27

** See especially statement of Beaudry Leman, President of the Canadian Bankers' Association on Feb.7th, 1930 in the Press.

*** Evidence of S.H.Logan before Banking & Commerce Committee 1934 page 262.

of the "holding" policy, occurring in the latter half of 1929 in Canada. That some such policy existed cannot be denied, inasmuch as Canadian prices in these months were out of line with world prices. This, occurring in the face of a huge accumulated stock, and a retarded export movement, meant that traders were waiting for higher prices. The narrow spread between Winnipeg and Liverpool futures prices maintained throughout the year definitely reflected an abnormal condition. There is little doubt that Canadian traders were hoping that the level of prices would be higher after the turn of the new year, and they were acting accordingly. This belief was based on the short crops in North America, on an underestimation of the coming European crops and of the 1928 Argentine carryover, and on the assumption that foreign millers could not get along without Canadian wheat. Their estimates proved incorrect, and not only did Argentine wheat pour on the market in large quantities in the latter half of 1929, but European crops were the largest in history. Moreover, British and continental millers found they could get along without the usual volume of Canadian wheat, and bought Argentine wheat freely. After January 1930 when the long-anticipated demand from Europe failed to materialize, Canada (and the United States) found themselves "holding the bag". At the height of the excitement, a canard was sprung to the effect that British millers were boycotting Canadian wheat and that several bakeries in England had put signs in their windows to the effect that they did not sell bread made with Canadian flour.* This was definitely proved false.**

* "Grain Market Crisis" Round Table June 1930 page 618.

** For example, Premier King in the House of Commons on Feb, 24, 1930 said the situation had been investigated, and that no one was able to discover that any such placards had ever been exhibited. (House of Commons Debates 1930 p.41)

It has often been suggested that the British grain trade deliberately bought from Argentina in order to "get even" with the Pool. This suggestion of a boycott, however, must not be taken too seriously. Like all good business men, British millers and merchants bought in the cheapest market, and that was Argentina.*

The Canadian Pool has long been accused of being responsible for the "holding" policy. It is said that the Pool was engaged in an unholy attempt to defy the "divine" and "immutable" law of supply and demand, and to make overseas purchasers pay ransom prices for Canadian wheat. It is said that had the Pool pushed its sales in the autumn months and sold wheat on a competitive basis, Canada would not have been left with the huge carryover of 127 million bushels on August 1st, 1930. The Pool has also been accused of stimulating agricultural protectionism in Europe by its actions.**

The whole issue resolves itself into two parts: Was the Pool solely responsible for the holding movement? And if so, should it have followed a more liberal sales policy? It is generally recognized that the Pool did hold back somewhat from the market in these months, but its policy did not deviate greatly from that pursued in earlier years. The idea that it tried to "hold up" overseas purchasers is, of course, preposterous. The Pool realized that it would be impossible for it to influence the world price by withholding supplies. But it did not believe in pushing its stocks on the market which was already flooded. Believing that conditions would pick up after the turn of the year, it merely followed an orderly merchandising policy. There is little doubt that it shared the bullishness characteristic of most North American traders, and it felt that after January a strong import

*At the annual meeting of Spillers Ltd., British milling firm, the Chairman stated: "The idea in Canada that British millers were boycotting Canadian wheat was untrue, but owing to the competition in the milling industry British millers had to buy in the cheapest market available." (Quoted in the Financial Post May 29, 1930 page 17).

**For such criticism see S. Gampell: "Canada and her Wheat Pool"

demand would develop, and that it would be better not to push sales when prices were weak. Official pronouncements of Pool officials support this view. The Director's Report of the Canadian Cooperative Wheat Producers 1929-30 stated: "It is important to note that, allowing for natural increase in population, normal market conditions and the shrinkage in the world's supply, there was every reason to believe - and it was the general opinion - that the demand for the season 1929-30 would, in due course, be normal with prices at satisfactory levels. No one anticipated nor was there any indication of the changes in world economic conditions which prevailed subsequent to that time."* Such would suggest that the Pool had hoped that things would pick up, and explains why it did not follow a liberal sales policy in the autumn months of the year.

Was the Pool, however, solely responsible for the retarded Canadian export movement? It is generally recognized, despite the claims of anti-Pool adherents, that the private trade was equally responsible. In fact, it has been said that only one important grain firm took a contrary line of action.** An examination of record of Pool sales in relation to the total Canadian export movement should clearly show that the idea "...that the support of Canadian prices rested almost entirely on a holding policy of the Canadian Pool is largely, if not entirely erroneous."*** These figures (given in full in the Appendix) show that only in the months of January and February 1930 could the Pool be said to

* page 5.

** "Grain Market Crisis" Round Table June 1930 page 606.

*** "The World Wheat Situation 1929-30" Wheat Studies Vol. VII No.2 page 141.

have "held" in relation to total Canadian sales. In these months Pool sales witnessed a sharp contraction as compared with the total movement of Canadian wheat into consumption and for export. Normally these are months of rapid expansion in sales. It would appear, then, that the Pool pursued a "holding" policy at this time, it taking the form not of complete withdrawal from the market, but of purchases of futures against sales of cash wheat, or merely purchases of futures.* It is a matter of public record that in the latter months of 1929 the Pool did a certain amount of long trading, but not on an extensive scale. In the months of September to December, however, Pool marketing policy does not appear to have diverged widely from that pursued in earlier years. In these months, the percentages of Pool sales to the total movement is usually low, and in 1929 it was about the same as in earlier years. After examining all the data, the Food Research Institute concludes its article: "...it is clear that for the year 1929-30 as a whole, the Pool cannot be alleged to have taken less than its share of Canadian sales of wheat."**

Information recently brought to light shows that in the months of July, August and September 1929, the Pool actually offered wheat for sale from $1/8\phi$ to $6\frac{3}{4}\phi$ below the ruling Winnipeg price on 52 out of 76 market days.*** On eight days, however, the Pool made no offers at all. These occasions were August 6th to August 12th inclusive and September 28th and 30th. But the fact that the Pool offered wheat for sale below the market on 52 out of 76 days, should do much to disprove the contention that it was the only organization or trader that was responsible

*"The World Wheat Situation 1928-29" Wheat Studies Vol.VII No.2 p.144.

**ibid. page 143.

***Evidence of P.F.Bredt, Minutes of Proceedings and Evidence, Special Committee on the Grain Board Act 1935. pages 243 et seq.

for the retarded export movement.

Granted, however, that the Pool could have followed a more aggressive sales policy, would this have been desirable? It would have undoubtedly lessened Canada's carryover, and in this respect lessened the burden of huge wheat stocks in Canada. But it appears that to have sold on a competitive basis would have meant lowering prices greatly, and of leading to a price war. Argentina was determined to sell, in fact, it had to sell, as it had no storage facilities at home. Huge stocks of Argentine wheat were shipped afloat unsold, to be finally disposed of at distress prices. This wheat piled up in British ports, and it would have been folly for Canada to push her wheat at the same time, unless it was willing to sell for next to nothing. At best, the market was a limited one, and competitive selling would have merely meant greatly lowered prices, without much expansion of sales. As a result, the Pool and Canadian traders held back in the hope that this flood of cheap Argentine wheat would soon cease, and that demand from Europe would revive. But it never did. There is no doubt that the holding of wheat in Canada had the effect of preventing the price from falling as far as it might have, had a policy of cut-throat competition been followed. To quote the authoritative words of Dr. D.A. MacGibbon: "Wheat in Canada enters so intimately into the agricultural, mercantile and financial life of the country that had it registered a spectacular decline in value in the autumn of 1929 exceeding that suffered by share capital, the combined effects would certainly have produced an unexampled crisis in Canadian business affairs-----As a method of limiting losses to the country at large the price-reduction resistance policy of 1929 is susceptible to some defence-----it is

doubtful----in the autumn of 1929, whether a policy of forcing wheat sales by unexampled price-cutting would have better served the interests of the country as a whole."*

The Pool did, however, err in misjudging the future course of events. It set its initial payment too high, and with the same optimism had hoped that it could still carry through a policy of "orderly marketing" and thus stabilize returns to its members. The collapse in wheat prices after January 1930 showed how puny its influence as a stabilizing force was. The Pool was a victim of forces over which it had no control. A wheat crisis was inevitable, and the puny efforts of the Pool could not stem it. "The Pooling system has proved its worth", says Mackintosh, "in meeting day-to-day, seasonal or inter-market fluctuations; with cyclical fluctuations it cannot cope."**

The Pool made few major errors of judgment.*** In this category, I do not include its failure to push sales. Had it done so, there is little reason to believe that it could have substantially altered the future course of events. It is doubtful if it could have greatly increased its sales, inasmuch as Argentine prices kept slipping away from Canadian prices every time the Pool lowered its prices.

The Pool has been made a convenient scapegoat for the marketing difficulties of 1929. The retarded export movement had serious ramifications on the whole economy, reflected in seriously diminished railway earnings****, depreciation of the dollar,

*D.A. MacGibbon "The Canadian Grain Trade" (The MacMillan Co.) pp.424-2

**W.A. Mackintosh "Economic Problems of the Prairie Provinces" (Canadian Frontiers of Settlement Vol.IV) page 54.

***W.W. Swanson "Depression and the Way Out" (The Ryerson Press 1931) p.31

****Wheat products normally constitute 14% of the gross freight earnings of Canadian railways. In 1929 this figure was cut in half. (Financial Post Feb.27, 1930 p.7) Sir Edward Beatty said that the C.P.R. lost \$21 millions due to the hold-up (H.ofC. Debates-quoted)

reduced earnings of navigation companies*^{*}, unemployment in the Port of Montreal, and a sharp curtailment of sales by Eastern manufacturers and retailers catering to the Western farmer. Some one had to be found to be held responsible for this, and the Pool was singled out for carefully-prepared and disseminated propaganda, which accused it of being responsible for the huge carryover, and of stimulating economic nationalism as applied to wheat in Europe. This latter suggestion is especially fallacious, inasmuch as the increase in agricultural protectionism was the result of fear of low prices, not of high prices. European countries did not stimulate domestic production because they feared having to pay ransom prices, but because they found the low-priced competition of overseas producers ruinous. Europe was determined to make grain-growing a profitable business for reasons~~wh~~ which we shall soon discuss, and restrictive measures on imports were necessary to accomplish this.**

THE POOL CRISIS AND "DEFLATION":1930-31

Whatever may be said for the Pool marketing policy of 1929, this much was certain - it had led to another burdensome surplus of unsold stocks in the hands of the organization. On August 31st, the close of the Pool year, there was a carryover of over 43 million bushels. Of this 3,290,000 bushels were of the 1928 crop, while the remainder, 39,981,000 bushels were the unsold stocks of the 1929 crop.*** These stocks were carried over into the new crop year.

* One company, Canada Steamships, lost \$3,104,000 due to the reduced wheat movement. (Financial Post Feb. 27, 1930) page 7.

** "What ho! The Wheat Pools" by W.A. MacLeod (Canadian Forum

*** Directors' Report Canadian Cooperative Wheat Producers' Ltd. 1929-30. Page 6.

The Pool system entered the 1930-31 crop year in an extremely vulnerable position. The provincial pools had pledged their elevator properties to their respective Governments as security against losses which the latter might incur under the guarantees they had given to the banks. Already it was evident the Governments, and consequently the Pools, had suffered a substantial loss on account of the 1929 overpayment. The total indebtedness could, of course, only be determined when all the 1929 stocks had been disposed of, but with wheat prices falling rapidly, there was every prospect of it being increased. Rising restrictive measures on wheat in Europe, deepening economic depression and the prospect of a heavy world crop, gave justification for the belief that the Pool was going to face another hard year. Moreover, dissension was arising within Pool ranks, for members had not received final payment on the 1928 crop, and they had only received one payment on the 1929 crop, and that an overpayment. Non-Pool farmers had, on the average, obtained higher prices on the open market in 1929-30 than Pool members had, and it was recognized that unless an substantial initial payment could be given on the 1930 crop it would be very difficult to maintain the allegiance and loyalty of the contracting farmers.

On July 16, 1930 an initial payment of 70¢ per bushel, basis No. 1 Northern Fort William had been tentatively announced, as well as initial payments for coarse grains. It was now to be seen whether the necessary bank credit could be obtained in order to maintain these payments when deliveries became heavy. Early in August, meetings were held between the Pool officials, the three Western Premiers, and the banks, the purpose being to come to some agreement on the method of financing the 1930 crop, and the 1928

and 1929 Pool carryovers. The Pool was anxious to get as large a line of bank credit as possible to enable it to make a high initial payment. The provincial premiers, who had already pledged the credit of their respective governments on account of loans made to the Pools up to August 1st, 1930, were equally to have suitable arrangements made in order to enable it to carry on for another year at least. At these early meetings the seven Banks agreed to lend the Pool an additional sum of \$4,000,000 to complete the financing of the 1929 carryover, and repayment of this was unconditionally guaranteed by the three premiers, *who refused, however, to continue their guarantees for the 1930 crop. The Federal Government was approached to give its guarantee, but Mr. Bennett was not willing to make any commitments, as yet.** The Pool was forced, as a result, in its weakened financial condition, and with only the value of its grain to offer as security, to make what arrangements it could with the Banks.

On August 25th, A.J. MacPhail, President of Canadian Cooperative Wheat Producers Limited., announced that the necessary arrangements had been concluded and that a line of credit had been obtained from the Banks, which would make possible an initial payment of 60¢ a bushel, basis No. 1 Northern Fort William. Inasmuch as no guarantees were forthcoming, the Banks had stipulated a margin of 20% instead of the usual 15%. Payments for coarse grains were also announced, but the Alberta Pool decided to drop its coarse grains pool which it had started the year before. The reason given was that the initial payments were so low that it was felt advisable to allow members to sell on the open market and get the ruling price.***

*Evidence of S.H. Logan: Minutes of Proceedings and Evidence, Select Standing Committee on Banking and Commerce 1934. page 262.

**Financial Post August 14, 1930. page 1.

***Financial Post August 28, 1930 page 1.

On August 26th, an agreement was drawn up between the Pool, the three Provincial Governments and the seven Lending Banks whereby from that date all sales of wheat by the Pool were to be apportioned equally as to value between the 1929 Pool carryover and the 1930 crop. This was to assure the Provincial Governments (which had guaranteed repayment of loans on the 1929 crop) and the Banks (which had advanced loans on the 1930 crop) that the sales of one crop would not be excessive in relation to the sales of the other.

The price of wheat which had been 92¢ when the initial payment was announced, began to sag heavily when wheat started to be delivered. On October 14th, the Pool was forced to lower its initial ^{payment} to 55¢ a bushel,* and the initial payments on other grains were scaled down correspondingly. This increased the restlessness of Pool members who saw their hopes of further payments dwindling, and the opportunity of selling at the higher open market prices passing by. Much agitation for a release from their contracts arose, and a certain amount of "bootlegging" developed.

As the price of wheat and coarse grains continued to fall, the margin between the amount of Bank advances and the value of the Pool grain became endangered, just as it had in February. The Pool was forced on November 9th, effective November 11th, to make further cuts in its initial payments, the figure for wheat being sliced to 50¢ a bushel.** Prices had now fallen so low that a crisis was engendered. The Pool had in the latter months of 1929 and the first two months of 1930 made some purchases of futures on the Winnipeg market to try to stabilize the price, and by November had in their possession some seven million

*Canadian Annual Review of Public Affairs 1930-31 page 461.

**ibid.

bushels of options. The margin on these, deposited with the Clearing House, had to be replenished, and at a meeting on November 14th in Winnipeg between the three Western Premiers, the Banks and the Pool officials, an advance of \$211,000 was given by the Banks to enable the Pool to protect its long position in the market. On November 15th a further advance of \$350,000 was made for the same purpose. Repayment of these loans was guaranteed by the Provincial Governments.* An agreement was drawn up between the three parties to this effect: (1) The Canadian Cooperative Wheat Producers' Ltd. was to instal as soon as possible a general manager acceptable to the banks to act until the balance of the 1929 and the present 1930 crop was disposed of. (2) All sales from then on (November 15th) of cash grain until the expiration of one month was to be allocated to the 1930 crop as far as possible, except as provided in the following clause. (3) The advances of \$561,000 already made, and such further advances as might be necessary, to maintain margins on the Pool's long position acquired in disposing of the 1929 crop, were to be chargeable against the 1929 crop and to be repaid as soon as possible from sales of the 1929 crop, it being understood that the Banks would permit sufficient sales being credited to that crop to meet this condition. The Lending Banks agreed to take care of the situation until the morning of the 17th of the month. It was also decided to cable Mr. Bennett, then in London at the Imperial Conference trying to "blast" his way into the British market, urging him to take action with respect to the present crop.** It is interesting to notice that on the day of

* This arrangement (set out in full in the Appendix of the Acts) was ratified by Chapter 89 Statutes of Saskatchewan 1931
Chapter 57 Statutes of Manitoba 1931
Chapter 4 Statutes of Alberta 1931

** This agreement is set out in the Appendix of, and ratified by, the same statutes.

the Agreement the price of No.1 Northern wheat on the Winnipeg market was 60¢,*an amount equal to the initial payment at which most of the deliveries had been made. It is clear, then, that the margin between the amount of Bank advances on the 1930 crop, and the value of the Pool grain stocks was practically wiped out. Aid was obviously needed, or else the Pool holdings would have to be thrown on the market.

On the 18th after discussions between the three Prairie Premiers and the Dominion Cabinet, it was announced that the Dominion Government was prepared to guarantee the Banks against loss in connection with the financing of the 1930 crop until the return of Mr. Bennett from London. It was also understood that the Pool would appoint a general manager acceptable to the Banks and the Provincial Governments.** This guarantee was given after the Cabinet had cabled to Mr. Bennett asking for his consent. At first he had refused to give such aid, but it is believed that after he had been appealed to by banking and industrial interests, and notably Mr.(now Sir) Edward Beatty, he agreed to permit the guarantee.***

Negotiations were now going on for a reorganization of the Central Selling Agency. Premier Brownlee's name was mentioned for the position of General Manager, but that gentleman would not consider it, and in turn, suggested the name of John I. McFarland, a well-known and respected grain expert, then returning from London where he had attended the Imperial Conference. McFarland was met at the railway station in Montreal by A.J.MacPhail and asked to accept the position of General Manager. He accepted on November 27th on the conditions that he be given a free hand in

* Report on the Grain Trade of Canada 1930 (Dom.Bureau of Statistics)

** Evidence of S.H.Logan (Banking & Commerce Committee 1934) p. 263.

*** Financial Post November 27,1930 page 2.

marketing the unsold stocks, although in matters of policy he was to consult the Board of the Central Selling Agency,* and that he be given no salary.

On December 8th Mr. McFarland issued a statement to the Press which was of the sensational variety. He announced that the Pool was going out of the direct export business, and that all Pool agencies and connections abroad were to be closed, and representatives overseas withdrawn. Henceforth the Pool was to operate on the Winnipeg market as did the ordinary grain companies. In short, the very keystone of the Pool was thrown overboard. "It is my firm conviction", he said, "that this change in policy will have immediate and favourable effects in strengthening the demand for Canadian wheat overseas and that it will create a friendly feeling where there have been doubts and ill-feeling concerning our selling policies of the past.....I want the world to know that we are open to sell our wheat at a fair price as compared to that of other countries, and that we are ready and willing to use every established facility to that end and to transact business with whomsoever and wherever we can secure the best price, and thus remove all prejudice....." **

This announcement was met with widespread satisfaction from members of the grain trade, at home and abroad.*** It was, of course, a terrific blow to the Pool, but in the circumstances, it had no alternative but to accept this change in its policy. The Central Selling Agency became a mere liquidating agency. Mr. McFarland

* Directors' Report Canadian Cooperative Wheat Producers Ltd. 1930-31

** Montréal Gazette December 9, 1930

*** The Canadian Trade Commissioner in London reported: "Mr. McFarland's statement has been extremely well received in the West of England grain circles, and.....it is obvious that the trade generally is delighted over this step as they expect to obtain a larger share in the trading of Canadian wheat. It is not too much to say that their goodwill has been revived for the first time in recent years." (Commercial Intelligence Journal (Ottawa) Jan 10, 1931) page 34.

had under his control a small unsold carryover from the 1928 crop, and the unsold 1929 and 1930 crops. His task was to dispose of these. An account of his operations will be discussed later.*

During the months of November and December there was continual agitation for a Government Wheat Board to market the crop, and a fixed minimum price. Not only the Pool, but individual farmers and farmers' organizations kept sending letters, telegrams and resolutions to the Dominion Government asking that such a Board be established. Towards the end of December, Mr. Bennett returned from London and immediately got to work to get the whole situation cleared up. As we mentioned, the Banks had only got a guarantee until the Premier's return, and it was clear that some definite policy for the future had to be mapped out. On the 22nd a Conference was held between the Banks and Mr. Bennett, and at its conclusion the Premier made the laconic remark to reporters: "Arrangements have been concluded that ensure the orderly marketing of the 1930 crop of Western Canada."** On December 30th, speaking at Regina, he clarified this remark by admitting that the Government had "taken steps through the extension of credit facilities and by other means to prevent the precipitate and forced liquidation of the 1930 wheat crop."*** In January 1931 in a letter to the Canadian Bankers' Association Mr. Bennett stated that his Government undertook with the Lending Banks to guarantee them against loss on their advances to the Pools in connection with the marketing of the 1930 crop. He also stated that the necessary implementation of this guarantee would be made at the coming session of Parliament.**** Later, in defend-

* See Chapter IV

** Financial Post December 25, 1930 page 1.

*** Montreal Gazette December 31, 1930 page 13.

**** Evidence of S.H. Logan (Banking & Commerce Committee 1934) page 263.

ing his action in the House of Commons, he said: "...it is the opinion of those well able to express an opinion on the subject... but for the action taken by the Government the bottom would have undoubtedly dropped out of the market."*

It was obvious that the three Provincial Pools were heading for some form of reorganization. With the Central Selling Agency no longer following a direct sales policy, with the elevator assets of the Pools pledged to their respective Governments, and with the three Pools already indebted to their Governments on account of the 1929 overpayment** and without working capital, it was unlikely that they would survive the present crop year in their existing form. The period from December 1930 to August 1931 was one of Pool strife and agrarian discontent. There was insistent demand for release from contracts and Pool officials were desperately striving to maintain the allegiance of their members. The Pool tried to save the situation by appealing to the Federal Government to establish a Wheat Board and to peg the price, and the Prairie Governments and various farm organizations lent support to these appeals. Mr. Bennett was not prepared to accept these proposals*** With the opening of the new crop year action was forced, and after meetings between the Banks, the Pools and the Premier, the latter announced on August 7th that Pool members were to be released from their contracts, and to be given the right to sell on the open market, or Pool their wheat. The three Pool systems were to reorganize as ordinary elevator companies, operating on the open market like the other grain firms did. The Government was to

*House of Commons Debates April 28, 1931 page 1076.

**On June 15th Premier Bracken of Manitoba that at that date the liabilities were about: Manitoba \$3,700,000; Saskatchewan \$14,000,000 Alberta \$7,000,000. (Financial Post June 18 page 1).

*** Mr. Bennett had suggested the alternative of a trading corporation to which the Pool elevators would be leased, financed by the Dom. Gov't. Pools didn't favour this. (Directors' Report CCWP 1930-31).

guarantee bank loans to the Pools to enable them to get sufficient working capital to carry on. An initial payment of 35¢ a bushel, basis No. 1 Northern Fort William, was announced for those who wished to pool their wheat for the coming year. There was to be no pool for coarse grains. A statement by the three provincial premiers on August 11th. confirmed Mr. Bennett's announcement.

The three Pools ceased delivering grain to the Central Selling Agency on July 31, 1931. From that date they were to go their own way. Thus, in a short time, the Pool system was stripped of its distinctive features. The Central Selling Agency was now a mere liquidating agency, and the direct sales policy was over; the three Pools had pledged their elevator properties to their respective provincial Governments, and the five-year contracts were invalidated. "The 'deflation' of the Canadian Wheat Pool", remarks one observer, "appeared to be complete."*

The subsequent history of the Pools we leave to another chapter.**

* H. S. Patton "The Canadian Wheat Pool in Prosperity and Depression". (Economics, Sociology and the Modern World:Essays in Honour of T.N.Carver) Harvard University Press 1935.

** Chapter VI

CHAPTER THREE : THE WORLD WHEAT SCENE 1930-1936

Before turning to an examination of Canadian wheat marketing policy since 1931, I propose to devote this chapter to a discussion of trends in the world wheat market since 1930, in order to get the necessary background for the major part of our study.

The coming of the industrial depression in the fall of 1929 seriously aggravated the world wheat problem, but it most assuredly was not the cause of it. Rising carryovers and falling prices, coming especially at a time of industrial prosperity and expansion, give ample proof of the existence of a maladjustment between supply and demand since 1925. It is obvious that a world wheat crisis was inevitable, and would have occurred irrespective of the industrial depression,* which merely hastened its coming, and intensified it, by stimulating economic nationalism, reducing purchasing power, weakening the disposition to hold, and deflating prices in general. In turn, the wheat problem intensified the industrial crisis. It has been said "...a strong wheat position in 1929-32 would have favourably changed the course of the depression."**

Before 1929 there had been a maladjustment between supply and demand not only in the case of wheat, but of most agricultural commodities. Up to 1929 agricultural debtor exporting countries borrowed on an extensive scale, this enabling them to make large

*Sir Arthur Salter "Recovery-the Second Effort" (The Century Company 1932) page 41.

**J.S.Davis "Wheat and the World Depression" (World's Grain Exhibition and Conference Regina 1933 Vol.I) page 103.

purchases of the products of industrial countries and to meet their foreign obligations, without a proportionate increase in their exports. They were thus able to balance their international accounts by going deeper into debt.* This process carried with it an element of danger, for any strain on the international capital market or a drastic decline in agricultural exports would place these countries in an exceedingly difficult position. When in the second half of 1928 the flow of international loans began to dwindle, these nations, and industrial countries such as Germany also dependent on the inflow of capital, began to experience financial difficulties. The year 1929-30 brought the situation to a head. Not only did the international capital market virtually close, but many of the leading agricultural exporting countries experienced crop shortages. This meant that for these countries it was doubly hard to meet their foreign obligations. In the case of Canada, Argentina and Australia, a net active trade balance for the three countries of \$124,000,000 in 1928 was turned into a net debit of \$484,000,000 in 1929.** The only alternative open to these countries and others similarly situated, was to curtail imports and force exports. Canada was largely spared this, because it was able to obtain loans abroad. But such countries as Argentina and Australia were forced to push their exports on the market along with agricultural countries in general. This explains the huge floods of Argentina wheat in 1928-29 and 1929-30 and of Australian wheat in 1930-31. Industrial countries, creditor and debtor alike, reacted to this by pushing up their tariffs, and initiating other restrictive measures.

* For an exhaustive account see V. Timoshenko "World Agriculture and the Depression" (Michigan Business Studies Vol. V No. 5 1933) especially Chapters 2, 3, 4 and 5.

** *ibid* page 613.

Germany led the field in this race for agricultural self-sufficiency, with France, Italy and other industrial countries following close behind. Agricultural exporting countries, finding import markets for their products narrowing, were forced to restrict their imports of goods from industrial countries in order to balance their international accounts and protect their currencies. In a short space of time international trade was effectively strangled. Tariffs and other restrictive measures rose to staggering heights, and these were soon accompanied by depreciated and fluctuating exchanges. Inasmuch as wheat is probably the most important commodity entering into international trade, this surge of economic nationalism had serious ramifications on the great wheat exporting countries, and intensified the wheat problem by increasing production in importing countries ^{and by} restricting demand.

Protection to wheat growers is not new. As we have seen, it can be traced back to about 1875. Up to 1928, however, it was never unduly restrictive. Since that date it has greatly increased in intensity and diversity. Not only have tariffs been employed but a whole arsenal of expedients have been added to supplement them. The most conspicuous of these devices is thoroughgoing control of the milling industry. The usual procedure in most of the great importing countries has been to prescribe the proportion of imported wheat that may be mixed in the grinding of the flour with domestic wheat, and this is coupled with limitation of flour imports. This simply amounts to an order to use more domestic wheat. The proportions stipulated have varied from time to time depending on the relative size of local wheat supplies, France has probably made the fullest use of this device, and the

proportion of domestic wheat required to be used in the manufacture of flour has ranged from 75% to 100%, the latter being imposed in March 1933. Other methods of increasing domestic wheat production include embargoes, quotas, import certificates, tax exemptions, exchange control, prescriptions and proscriptions of uses, subsidies and bounties.* Control has in many cases been extended to bakeries in order to make the programme effective. Tariffs have, of course, been raised to prohibitive heights, in countries such as France, Germany and Italy, while they have been more moderate though still unduly restrictive, in other importing countries. In 1932-33 tariffs on wheat were as follows: Germany \$1.62 a bushel; France \$1.72 (maximum) and 85cents (minimum) Italy \$1.07; Finland 50 cents; Czecho-Slovakia 44 cents; Austria 61 cents; Lithuania 87 cents ; Greece 24 cents; and Japan 24 cents. These are illustrations of the general trend.

Other devices are higher extraction rates in milling, compulsory "stretching", sliding scales, Government purchases of wheat at fixed prices (such purchases were made on an extensive scale in France in 1933-34), and Government import monopolies, or monopolies of the entire grain trade. Dumping of surpluses on a large scale has also been resorted to. In the Danubian exporting countries state monopolies have been very popular, and these have been coupled with subsidies and bounties, and Government purchases to support the market.

The result of these policies has been to greatly aggravate the present world wheat problem. Not only has economic nationalism led to diminished import demand, but to substantial increases in production, and by supporting the price of bread at high levels

** "Economic Nationalism in Europe as Applied to Wheat" Wheat Studies Vol. VIII No.4 page 268.

and by substantially lowering its quality, to a decrease in consumption of wheat. Some of the results of the policy of self-containment may be seen in the following figures.

<u>WHEAT PRODUCTION IN EUROPE EX-RUSSIA 1928-34</u>				
	<u>Total</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>
1928	1,409	281.3	141.6	228.6
1929	1,449	337.3	123.1	260.1
1930	1,359	228.1	139.2	210.1
1931	1,434	264.1	155.5	244.4 (million bushels)
1932	1,490	333.5	183.8	276.9
1933	1,746	362.3	205.9	298.5
1934	1,532	338.5	166.5	232.8

As a result of this expansion, a serious surplus problem was created in France. The effectiveness of a tariff depends upon a certain amount of wheat being imported. Once there is domestic overproduction, it can no longer maintain prices. After 1934 France found herself facing such a problem, and was forced to subsidize the export of millions of bushels of wheat, which were sold regardless of price, and to denature large quantities. French policy has since December 1934 been changed from trying to increase wheat acreage to attempting to keep it down, and from keeping wheat and bread prices excessively high to pursuing a policy of making them more reasonable.

Italy is another country which has in recent years approached very closely to self-sufficiency. Under the "battaglia del grano" imports have fallen from some 80 million bushels a year to around 10 millions in the past four years. It appears, however, that this has probably been due at least as much to restraint of consumption as to intensification of production.* For example, in 1934-35 per capita consumption was only four-fifths as large as the 1924-29 average, and this can be attributed chiefly to the high prices of Italian wheat. It thus appears that "Mussolini's

*"The World Wheat Situation 1934-35" Stanford University Wheat Studies Vol. XII No. 4 page 131.

'Battle of Wheat' is in effect a battle against the consumer of wheat."*

Germany has in recent years become practically self-sufficient in bread stuffs, although here, too, this is accomplished only by keeping prices extremely high. Germany is securing a large part of its food requirements from potatoes. A substantial amount of German wheat has in recent years been dumped on the British market.

The most conspicuous example of the results of a policy of economic nationalism as applied to wheat is Japan. Between 1932-35 Japan increased its production 60% and became self-sufficient.** Systematic Government encouragement caused wheat acreage to expand chiefly at the expense of barley. Yields were likewise increased, due partly to educational programmes conducted by the Government to improve cultural methods and introduce superior varieties. It appears that in the immediate ^{future} Japan will remain self-sufficient or nearly so, for population is growing very slowly and per capita consumption is declining. Her imports have shrunk to negligible amounts.

The extent to which the price of wheat has been supported in import countries by restrictive measures can be gauged from the following comparison of the price of domestic wheat in Britain, France, Germany and Italy:

	<u>AVERAGE ANNUAL PRICES OF DOMESTIC WHEATS</u>			
	(In U.S. cents per bushel)			
	<u>Britain</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>
1929-30	112	147	165	187
1930-31	81	184	168	156
1931-32	61	172	152	149
1932-33	56	124	135	151
1933-34	64	212	191	189
1934-35	66	165	222	220

Inasmuch as the British market is "free", the prices of wheat in

*G. Salvemini "Mussolini's Battle of Wheat" (Pol.Sc.Quarterly March/31) page 40.

**"Japanese Self-Sufficiency in Wheat" Wheat Studies Vol.XII No.3.

France, Germany and Italy are a good indication of the extent of economic nationalism in these countries.

The surge of protectionism which enveloped the world after 1929 was so powerful as to even upset the traditional free trade policy of Great Britain, and especially its policy of "cheap food." After it left the gold standard in September 1931, a series of Acts were passed which set the United Kingdom on a thoroughgoing protectionist policy. Under the Import Duties Act of February 1932, flour imported from non-Empire countries was included among the articles subject to a 10% ad valorem duty. The British Wheat Act was passed on May 12th, and at the Ottawa Conference Britain imposed a duty of 2s. per quintal (some 6¢ a bushel) on wheat from non-Empire countries. This duty came into force on November 15th, 1932. These, coming in rapid succession, constituted a radical change in traditional British policy which had, since February 1st, 1849, with minor exceptions, allowed wheat and flour to enter duty-free.

Britain has long been the largest single importer of wheat in the world. In the five years before the War she imported some 30% of the world's net exports of wheat and flour, and in the five years up to July 1931 she imported some 27%. In the past decade her imports have ranged from 205 to 255 million bushels, or some 5/6 of total requirements. For years the British wheat grower had been a "forgotten man," and it was only after the price of wheat had fallen calamitously and Britain had become a dumping ground for Russian, French and German wheat, that the Government decided to do something to alleviate his plight. A thoroughgoing policy of relief was needed, and in the British Wheat Act the Government found an ideal method of administering such without

seriously interfering with the grain trade or the milling industry, and without substantially raising the price of wheat.* The object of the Act as expressed in its preamble was "to secure to growers of home-grown millable wheat a standard price and a market therefor." Wheat growers are given a bonus or subsidy in proportion to their sales of millable wheat sufficient to bring the actual average price of the wheat up to a fixed standard price of 10 s. per cwt. The Act thus guarantees a minimum average price for millable wheat but it does not guarantee this standard price to each individual grower. Those who sell their wheat for more than the ascertained average market price will get from their sales and the subsidy more than the standard price, while those who sell for less will get a total return less than the standard price.

To meet these subsidies, a "Wheat Fund" is set up which is raised by a tax called a "quota payment" levied on every sack of flour produced at home, or imported. The rate of the levy is determined by estimating the anticipated supply of millable wheat on which subsidies will be made, as well as the average price that the wheat grower will get for this. An estimate of the supply of flour, from home production and imports, leads to the calculation of the figure for the required tax per sack. The rate may be altered as changes in the estimates may require.

If domestic farmers are not able to dispose of all their stock during the year, the Flour Millers Corporation set up to administer the "Wheat Fund", is empowered to purchase and dispose of all unsold supplies. This ensures the farmer a market for his wheat. To prevent an excessive stimulation of home production,

*"Britain's New Wheat Policy in Perspective" Wheat Studies Vol.IX No.9. pp. 305-350.

the maximum amount of wheat on which the standard ^{price} was assured was 27 million cwt.(50.4 million bushels). In any year if the amount sold should exceed this, quota payments will be levied in such a way as to provide subsidies only on this maximum amount. As a result, the subsidies will not bring the average market price fully up to the standard price.

The Act has proved an admirable method of providing generous subsidies to wheat growers without appreciably affecting the price of bread. Total subsidies under the Act have been as

follows:	1932-33	£4,513,000
	1933-34	£ 7,178,000
	1934-35	£ 6,813,000*

These subsidies have practically doubled the income of British wheat growers. The result has, however, been a substantial increase in acreage and production. The Act must not be considered as a means towards greater self-sufficiency, but as a method of farm relief.

The above examples of European agricultural policy clearly show that nations are determined to make agriculture a profitable undertaking. On the continent economic nationalism is thought of as more than a mere method of alleviating distress; it is the means of preserving the peasantry which is the basis of the social and economic set-up. All over Europe the farmer is considered as an essential element that must be preserved at all costs. In France, for example, there is a general belief that "peasant life has moral qualities the nation cannot afford to ignore or lose.....The peasant home and the land are thought of something to be worked for and preserved, ends in themselves..... To strengthen the rural home, to guard the peasant holding against

*"The World Wheat Situation 1934-35" Wheat Studies Vol.XII No. 4 page 156.

violent change, to preserve the traditional agricultural arts, are as much national aims as is the supply of the 'materiel'..... National self-sufficiency is considered a good in itself, above and beyond fact or reproach; and any sacrifice in this interest is considered justifiable."* This is true not only of France, but of all of Europe. Somewhat the same idea has been expressed by other authorities: "For social, historical and psychological reasons, the preservation of agriculture appears to the majority of countries as an absolutely vital question. The peasant class which is an admirable reserve of energy forms, at any rate, in the countries of the Old World, the basis of the social edifice, and plays an essential part in reconstructing and rejeuvenating the physical strength of generations worn out by life in industrial and urban centres....."***

European countries also wish to become self-sufficient and to take their destinies in their own hands. The constant threat of war has made a ready supply of food at home essential. The experience of the last War has brought forcibly to the attention of Europe the need for agricultural self-containment. The present economic dislocation has also necessitated a "favourable" balance of trade, especially in the case of those countries with large foreign commitments. Of all commodities wheat lends itself the easiest to a policy of cutting down imports.***

Whatever may be the causes of agricultural protectionism

*R. Tugwell "The Agricultural Policy of France" (Political Science Quarterly June 1930) page 220.

**Considerations on the Present Evolution of Agricultural Protectionism" (Economic Committee League of Nations 1935) page 8.

***"Economic Nationalism in Europe as Applied to Wheat" Wheat Studies Vol. VIII No. 4 page 263.

and whatever may be its immediate future, this much is certain. It has vitally affected the course of the world wheat problem. At a time when a reduction in world production, a liberal flow of exports, and an expansion of consumption were essential, it had the effect of stimulating production, restricting international trade, and, by raising prices and lowering quality in the importing areas, curtailing consumption.

GOVERNMENT AID IN THE EXPORTING COUNTRIES

We have just discussed some of the measures taken by importing countries to protect their farmers from falling wheat prices and the competition of lower-cost producing areas. Exporting countries have also done much to alleviate the condition of its producers. In the Danube Basin, State monopolies, subsidies and bounties, tax rebates, special freight rates and other expedients were employed. It is now my purpose to discuss the measures adopted in Australia, Argentina and the United States.

Australia had, like Argentina, been forced off gold early in the depression. In December 1931 the Australian pound was pegged at a level 25% below the pound sterling. This represented a substantial gain to the Australian wheat producer, who got more local currency for his produce than he would have otherwise received, and he was able to pay off his internal debts and production costs in depreciated funds. The Government had huge obligations to meet abroad, and decided to encourage wheat growers in 1930 to plant as large an acreage as possible, so as to be able to expand exports. Under the stimulus of an anticipated bounty which never materialized, wheat producers greatly extended acreage

by some 3 million acres. At the end of October 1931 an agreement was reached between the Commonwealth Government and the Banks, under which the latter agreed to provide £3,000,000 to be distributed as a bounty, at the rate of $4\frac{1}{2}$ d. a bushel, on all wheat produced in the 1931-32 season.* The crop was underestimated, however, so that actually some £3,429 was distributed.

For the 1932-33 season, the original intention had been to distribute £1,250,000 to wheat producers as a bounty on a production basis. It was finally decided, however, to allocate £2,000,000 to the various states to assist necessitous growers in any way they wished.

The Budget of 1933 was passed at a time of rising prices, and as a result no provision was made for wheat producers. Prices soon fell abruptly, and it was obvious that some form of relief for the 1933-34 year had to be devised. The Government finally decided to finance a scheme to produce £3,000,000 by (1) a tax of £4 5 s. on flour per ton, consumed in Australia, estimated to yield £1,600,000 up to June 30, 1934 (2) an increase in customs duties of 6 d. per pound on tobacco, estimated to yield £130,000 and by (3) an increase in the special tax on property income estimated to yield £200,000. The balance was to be provided for from the Budgets of 1933-34 and 1934-35.** The allocation of this sum was made to the states on the basis of acreage sown to wheat. The states were to apply the money as they saw fit; actually most of it was used as relief to individual growers. The sum actually distributed was £3,056,000.***

A Royal Commission chosen to investigate the whole wheat

* Department of Overseas Trade: Economic and Trade Conditions in Australia 1930 H.M.S.O. page 68.

** Department of Overseas Trade : Economic and Trade Conditions in Australia 1933 H.M.S.O. pages 70-71.

*** "World Wheat Situation 1934-35" Wheat Studies Vol.XII No.4. p. 157

industry, in its First Report in August 1934, recommended financial assistance for the 1934-35 season of about £4,000,000, to be partly derived from proceeds of an excise tax on flour. In a Supplementary Report in November the Commission proposed the allocation of this sum as follows: (1) a bounty of 3d. per bushel on marketable wheat produced and sold in each state in 1934-35; (2) an additional sum of £1,926,750 to be distributed on an acreage basis among growers who sowed wheat in the autumn of 1934, this to be equivalent of a grant of 3s. per acre; (3) the balance to be distributed by states to meet cases of special hardship.* These recommendations were implemented. The Final Report in March 1935 suggested a compulsory marketing scheme, but but constitutional difficulties deferred it.

As for the 1935-36 crop year, a distribution of £1,880,000 derived from the flour tax returns will be made as follows: (1) 1s. per bushel will be paid on all wheat used for human consumption, estimated at about 32 million bushels. (2) One halfpenny per acre will be granted on the wheat acreage sown. (3) A special grant of £268,803 for the relief of distressed growers who have suffered unusual hardships through crop failures.**

In short, Australia has assisted its wheat growers solely by the method of bounties and direct relief. There has been no interference in any way with the marketing machinery. Currency depreciation has also substantially improved the condition of the primary producers. The benefits of this, however, are being lost as domestic prices of the goods which farmers must buy are gradually adjusted upwards.

* Department of Overseas Trade: Economic and Trade Conditions in Australia. 1935 page 48.

** Commercial Intelligence Journal (Ottawa) Jan. 25, 1936 page 152

Argentina has played such an important part in the world wheat situation since 1928 that I feel justified in discussing conditions there rather fully. The general organization of the trade consists of the chacarero (producer), the acopiador (middleman) and the exportador (exporter). The middlemen are chiefly local storekeepers who finance the small producer by supplying him with his requirements, and who buy his crops from him, which they in turn sell to the few large exporting firms which have sub-offices in various parts of the country. The wealthier producers do not deal with the middlemen, but sell direct to the exporters.* There are four grain exchanges in Argentina, those at Buenos Aires and Rosario being the chief ones. The others are at Sante Fe and Bahia Blanca, but their operations are of a local character. Not even the Buenos Aires market, however, can be compared to the Winnipeg, Chicago or Liverpool markets, for it has not their international character.

Argentina has not as yet adopted the bulk handling method, and wheat is still handled in bags. Storage facilities are very inadequate. Country elevators, such as we know them in Canada, do not exist. There are a few terminal elevators owned by the grain exporting firms, and a large one operated by one of the railways. It is this woeful inadequacy of storage facilities which has forced Argentina to press its wheat on the market so consistently. Wheat must get out of the country, and as a result, much of it is shipped afloat unsold. The Government has, however, decided to construct a chain of elevators throughout the country to remedy this weakness. On November 18, 1933 a bill

* Commercial Intelligence Journal (Ottawa) February 17, 1934 page 235

was passed granting the Executive power to proceed with the construction of an elevator system. In January 1934 a special committee was set up to investigate the possibilities of such. A provisional plan was recently drawn up calling for the construction of 14 terminal elevators with a combined storage capacity of 660,000 metric tons, and some 450 country elevators of a total capacity of 650 metric tons. At the last session of the Senate a bill authorizing the expenditure of 50 million pesos to build the 14 terminal elevators was passed. The bill will not become effective, however, until it passes the Chamber of Deputies, which will not meet until May.* Plans for the building of the 450 country elevators are still going on. The construction of this whole elevator chain should do much to lessen the chaotic, competitive conditions which have been prevailing in the world market during the past few years.

The entire export trade of Argentina is concentrated in the hands of a few powerful international grain firms. This is the fact that so disquieted Hurst** who saw in this concentrated selling another blow at his ideal of the free, competitive wheat market. The implications of this are, however, serious. It is a case of thousands of disunited wheat growers selling to a few powerful firms, and the inevitable result is that there is little price-reduction resistance. These firms are not interested in maintaining the price of wheat, but merely in obtaining the widest spread between their buying and selling prices and in handling the greatest volume.

Argentine wheat growers have not lacked their share of

* Commercial Intelligence Journal (Ottawa) November 23, 1935 p.913.

** "The Bread of Britain" (Oxford University Press London 1930)
page 17.

Government assistance. By decrees issued November 28, 1933, a Board of Control for cereals was set up.* It was authorized to establish from time to time prices for wheat, corn and linseed, after taking into consideration the ruling quotations, and to purchase, for export purposes only, all wheat, corn and linseed offered to it at these prices. These "basic" prices were established as follows: average quality wheat basis 80 kilograms per hectolitre, 5.75 paper pesos; corn 4.40 paper pesos and linseed 11.50 paper pesos. In current Canadian cents, the basic price for wheat was about 60 $\frac{1}{2}$ ¢. In short, the Board guaranteed producers of these products a minimum price. Were the market price to fall below the Board's fixed price, producers would deliver to the Board and get the basic price.** The difference between the buying and selling prices of the cereals purchased, as well as operating costs, were to be met from profits derived from exchange control.

Exchange control had been instituted early in October 1931, due to the heavy depreciation of the peso. On October 10, 1931 an Exchange Control Commission had been set up*** through which foreign exchange was to be bought and sold. Day-to-day rates for purchase and sale of exchange were fixed by the Commission. On November 29 the peso was pegged at Frs. 12.38 per gold peso. The control authorities were to continue to buy exchange from exporters at the official rates for the various foreign currencies as calculated from the pegged rate of the gold peso against the franc. Exchange, however, was now to be sold

* Commercial Intelligence Journal (Ottawa) Dec. 23, 1933 pp. 1027-28.

** Actually not the producers, but as we have shown, the middlemen and commission agents. The wealthier producers would, however deliver to the Board.

*** R. Stewart "Anglo-Argentine Agreements" (Can. Journ. Ec. & Pol. Sc F/36)

to importers by tender, which means that the allotment was to go to the highest bidder. As a result of these auctions, the control expected a profit of some 10%.* It was from this profit that losses from the Board of Control were to be covered.

The Board started operations on December 4, 1933. For the first six weeks its buying price for wheat was more attractive to farmers than the ruling price and, as a result, it bought in all some 147 million bushels.** It sold wheat for export at about 10% below the basic price, yet was able to sell only limited amounts. When prices rose in the spring of 1934, it only had to purchase very little wheat, and was able to sell more freely at a moderate profit. By August 1st, 1934, it held only 32 million bushels which it was able to work off in succeeding months. Towards the close of 1934 it was announced that basic prices for the coming year would remain the same as in the preceding year.*** At its basic price for the new crop, no more wheat was offered to it, as it was below the market price. On December 13, 1935, the Board announced a new basic buying price of 10 pesos per quintal for the short crop of 1935. This sensational change in the basic price, and its ramifications elsewhere, we shall discuss in a subsequent chapter.

What have been the financial results of the Board's operations? A statement issued on December 1934 showed that profits from exchange control from November 29, 1933 to September 30, 1934 was 91,200,000 paper pesos.**** At the same time it was

* Stewart op.cit. page 20.

** "World Wheat Situation 1934-35" Wheat Studies Vol. XII No.4 p.155.

*** Commercial Intelligence Journal(Ottawa) Jan. 12, 1935, page 50.

**** Commercial Intelligence Journal(Ottawa) Jan. 12, 1935, page 51.

announced that the losses of the Board of Control on its operations between December 4, 1933 and November 26, 1934 amounted to 8,815,942 paper pesos, of which some 5,777,596 paper pesos represented losses attributable to wheat. This latter sum, then, represents the bounty given to the Argentine wheat grower. The losses of the Board were amply covered from the liberal profits derived from exchange control.

In November 1935 a new Act respecting grain was passed. This was the Grain Act, which set up a commission of five with power over the production, sale and handling of grain.* It is given control over the proposed chain of elevators to be built. It is also given power to establish the types of grain that may be produced in zones to be determined. Farmers are to submit samples to the Commission to enable these to be classified. The Department of Agriculture assists the Commission in this work. The Ministry of Agriculture will also attempt to improve the quality of Argentine grain. Control over shipments of grain is provided by certificates which will show the type and grade of the grain. Other elaborate details are devised under this Act, but most of them will only become operative when the elevator chain is constructed. The Act is fundamentally an attempt to modernize the Argentine grain trade and to correct many deficiencies existing at present. It appears, however, that any attempt to raise the quality of Argentine wheat so as to be able to compete with Canadian hard wheats is doomed to failure. According to authorities, it is probably advisable that Argentina should be satisfied to raise filler wheats as it does now and concentrate on the best possible grain within that category.**

*Commercial Intelligence Journal (Ottawa) Nov. 23, 1935 pp. 911-913

**Monthly Review of the Wheat Situation (Dominion Bureau of Statistics) Feb. 21/36 p. 9.

Relief to American wheat growers dates back to 1921, when a duty of 35¢ a bushel was imposed on imported wheat. In 1924 it was raised to 42¢, at which it has since remained. Inasmuch as the United States has been a substantial exporter until the last few years, these duties were ineffective in maintaining the price of wheat, although they gave some protection to Northwestern growers of hard red spring wheat and also to growers in the Pacific Northwest.* In 1927 and 1928 two successive McNary-Haugen bills designed to make the tariff effective, were passed, but both were vetoed by President Coolidge. In May 1929, after much agrarian agitation, President Hoover passed the Agricultural Marketing Act, in which wheat figured prominently. The Federal Farm Board, an autonomous and independent institution, was set up under this Act on July 15th, 1929. In October the Farmers' National Grain Corporation was formed, comprising wheat cooperatives, elevators owned by farmers, and other farm organizations. In February 1930, a Grain Stabilization Corporation was set up, and in April the two latter organizations, both subsidiaries of the Federal Farm Board, were unified under the same management. **

We are merely interested in these organizations in so far as they affected wheat. Their policy as affecting wheat is extremely interesting, inasmuch as it is remarkably similar to the "stabilization" operations later conducted by Mr. McFarland. The original purpose of the Board was to assist in forming cooperative associations among primary producers by extending credits. The Farmers' National Grain Corporation, its first major undertaking,

*J.S.Davis "Wheat and the A.A.A." (The Institute of Economics of the Brookings Institute 1935) page 9.

**"World Wheat Situation 1929-30" Wheat Studies Vol.VII No.2 pp 145-64.

was, in effect, a national central selling agency. Another objective of the Farm Board was to lower acreage to the level of domestic requirements, in order to make the tariff effective. This was found difficult to accomplish, as mere persuasion was ineffective.

Loans were extended through the Farmers' National Grain Corporation to cooperatives to enable them to buy up the surplus of wheat, and take it off the market. These loans represented, in effect, minimum prices on wheat, and the cooperatives and growers could repay them by delivering their wheat. The effect of these loans was equivalent to buying futures and taking delivery of the grain. Originally, it had not been the intention of the Board to buy up the wheat surplus to influence the price, but as an emergency measure after the Stock Market crash, such purchases were found necessary. At some date in the proceedings, probably January 1930,^{it} began to purchase futures, and after the establishment of the Grain Stabilization in February, extensive buying began. By June 1930 its net holdings were some 65 million bushels, consisting of futures and cash wheat. On November 15, 1930 purchases on a large scale were resumed and by July 1, 1931, net purchases for the period had reached 192 million bushels. Its total holdings at that date were 257 million bushels, out of a total carryover for the country of 319 million bushels. This represented a net commitment of some \$277,000,000. The effect of these purchases was to give a substantial bounty to American wheat growers.

The year 1931-32 was characterized by the liquidation of the Federal Farm Board stocks, although final liquidation did not take place until early in 1933. To avoid an undue depression of

the market, these stocks were disposed of gradually, and through channels which affected wheat prices but slightly. The Grain Stabilization Corporation sold 60 million bushels in ordinary domestic and export channels at the average rate of 5 million bushels a month; 47½ million bushels were sold to the Governments of Brazil, Germany and China on special credit terms; and some 130 million bushels were delivered to the Red Cross for relief disposition. Final liquidation coincided with the coming into office of Mr. Roosevelt. It has been estimated that a total net loss of \$184,000,000 accrued on the operations conducted by the Federal Farm Board since its inception in respect of wheat.*

The Agricultural Adjustment Act passed in May 1933 was part of an elaborate programme initiated by the new Administration for recovery, relief and reform. The Act applied to American agriculture in general, but we are interested in it in so far as it applied to wheat. The purpose of the Act was to raise farm purchasing power. The belief underlying it was that the relationship between agricultural and industrial prices was not "normal" and that this disparity had to be corrected by Governmental action.** The Act gave the Secretary of Agriculture wide and extensive powers, and was largely permissive, though mandatory in certain details. Emphasis was laid on the need of increasing farm purchasing power and of attaining and maintaining "parity prices" for farm products; on reducing or adjusting production as the chief method to be employed; on contracts with producers to reduce their acreage or production; on benefit payments as compensation to contracting farmers; and on taxes, chiefly on the processing of basic farm products, as the method of raising

*"World Wheat Situation 1932-33" Wheat Studies Vol.X No.3 page 84.

**J.S.Davis "Wheat and the A.A.A." (Brookings Institution 1935) gives an exhaustive account.

the necessary funds.

The wheat plan was worked out and made public on June 16, 1933. Allotment benefits were to be paid to cooperating farmers in 1933, 1934, and 1935. To get such benefits the farmer had to agree to reduce his acreage by a certain percentage. On July 9th a processing tax of 30¢ a bushel was imposed. Provision was made for a rebate on exports.

Adjustment efforts were carried on in 1933-34 and 1934-35, and substantial payments were disbursed to contracting farmers in these years. The Act was declared unconstitutional in January, 1936. The whole programme has been so vast that it would be difficult to give a comprehensive account of it, or offer an appraisal. I merely list below a few of the major features involved in the two years of its operations.

Wheat growers representing roughly three-fourths of wheat acreage and production in the base periods chosen signed two-year contracts to reduce their sown acreage for 1934 and 1935 by not more than 20% of their approved base acreage. For the most part this sign-up was obtained through the offer of benefit payments, although educational efforts and mild propaganda were employed. Adjustment payments in the first year (1933-34) fell just short of \$100,000,000, totalling \$98,600,000. In 1934-35 benefit payments exceeded \$100,000,000.

The reduction in sown acreage in 1934-35 was only about 8.4% of the 1930-32 average, and fell short of the A.A.A. goal of 15%. Reduction in harvested acreage, however, substantially exceeded the goal set. A large amount of this reduction must be attributed to the weather, and it is impossible to tell the exact amount. Davis estimates that ^{of} the net reduction in the

1934 crop compared with the 1930-32 average (about 360 million bushels) less than 10% can be ascribed to the A.A.A.* Had weather been more favourable, however, the programme might have resulted in larger reductions than it can properly take credit for.

The processing tax was fully passed on to consumers. The income of wheat growers was substantially raised by some \$120,000,000 in 1933-34 and \$100,000,000 in 1934-35.** The programme had little effect on wheat disposition.

Other elements were involved in the wheat programme besides acreage adjustment. One was the facilitation of exports from the Pacific Northwest by a subsidy derived from the processing tax. Another was the regulation of the grain exchanges in 1934 and the establishment of minimum trading prices. American participation in the International Wheat Agreement was considered as a necessary supplement to the domestic programme.

Under the Soil Conservation Act which has been passed as a substitute to the A.A.A. since its upheaval, the Government hopes to be able to reduce acreage sown to wheat in a manner which will be constitutionally valid. It is proposed to pay farmers to retire some 30 million acres of land from intensive cultivation as a soil conservation measure, and to utilize it in growing grasses and legumes. This will remove high-cost and sub-marginal land from cultivation, and should improve the farm situation by getting much surplus production out of the way. In the respect that it will remove the sub-marginal land, this programme has more in its favour than the A.A.A. which treated all producers alike and reduced acreage equally on good and bad land.

* Davis op.cit. page 351

** ibid. pages 367-8.

THE WORLD WHEAT MARKET 1930-1935

It is my purpose to examine some of the major trends in wheat production, exports, consumption and prices since 1930. For the past five years the world has been suffering from a condition of wheat superabundance in relation to effective demand. We have earlier traced the evolution of the surplus problem; since 1930 it has become intensified. It is true that in the past two years supplies have been reduced somewhat due to a series of short crops, but once production becomes normal again we can expect an intensification of the surplus problem. Economic nationalism as we have shown is one of the major forces in prolonging and intensifying wheat superabundance. Another factor has been the very small increase in world wheat utilization. Low prices in exporting and free import markets have had the effect of increasing the utilization of wheat via surplus channels, notably as feed and as exports to the Orient, but these have merely had the effect of making the surplus less burdensome than it might otherwise have been; they have in no way solved the surplus problem.

Let us begin our discussion with an examination of consumption trends since 1930. The following figures illustrate the significant features:

<u>CONSUMPTION DURING THE DEPRESSION *</u>				
(In millions of Bushels)				
	<u>TOTAL</u>	<u>FOOD</u>	<u>SEED</u>	<u>FEED</u>
<u>World ex-Russia</u>				
1927-30 (av.)	3,550	2,950	400	200
1932-35 (av.)	3,600	2,880	390	330
 <u>Europe ex-Danube</u>				
1927-30 (av.)	1,670	1,440	115	115
1930-35 (av.)	1,675	1,370	128	177

*"World Wheat Situation" 1934-35" Wheat Studies Vol. XII No. 4 p.136. These figures are, naturally only "guestimates".

Per capita wheat consumption (for food) has declined since 1929 in most countries, and in many countries consumption has declined in absolute amounts. The per capita decline has occurred not only in most European countries, due to high prices and lower quality, but also in the United States, Canada, Australia, Egypt, South Africa, Japan and Brazil. In 1934-35 the per capita consumption of wheat for food in the importing countries of Europe was probably the lowest in a decade. The causes of this general decline can be traced to many factors: decreased physical needs for food due to lessened physical labour caused by mechanization, unemployment and part-time employment; relative dearness of wheat products compared with alternative foods; reduced incomes and import restrictions notably in countries with a low standard of living as Italy, and much of ex-Europe; and to some degree lessened palatability of baked products caused by the use of lower-grade flours.

The figures given above show that the use of wheat as feed since the depression has increased. This is the result of extremely low prices for wheat, and the rather tight international feed position in the past few years, notably in North America. In the world as a whole (ex-Russia) seed utilization has decreased somewhat, although in Europe it has increased, the inevitable result of nationalistic policies.

Following are some of the significant figures for the production of wheat in the past few years:

<u>YEAR</u>	<u>WORLD</u> <u>ex-R.</u>	<u>U.S.</u>	<u>CAN.</u>	<u>AUST.</u>	<u>ARG.</u>	<u>INDIA</u>	<u>EUROPE</u> <u>ex-Rus.</u>	<u>U.S.S.R.</u>
1930	3,705	890	421	214	232	391	1,359	989
1931	3,669	932	321	191	220	347	1,434	753
1932	3,703	746	443	214	241	337	1,490	744
1933	3,616	529	282	177	286	353	1,746	1,019
1934	3,295	497	276	133	241	351	1,532	1,117
1926-30	3,599	861	436	156	251	333	1,343	838

Significant in the above table are the rapid expansion in Russian production, and the succession of extremely short crops in North America, the result chiefly of unfavourable climatic conditions. It will be noticed that world production ex-Russia with the exception of 1934-35 has been larger than the 1926-30 average. This, coming at a time of low prices, should do much to show that the law of supply and demand, like many other things, is not what it used to be. We must admit, however, that a good deal of this is the result of Government policy, which has by supporting prices in most of the exporting countries and substantially raising them in most of the importing countries, helped to maintain and even increase production. Nevertheless, prices in the exporting countries, at least, have been decidedly unremunerative in the past five years, and it thus appears that the major reason for the maintenance of production in these countries (except when unfavourable weather, has intervened) is the fact that it is very difficult to curtail production, and the tendency is to maintain and even increase it due to the desire of obtaining a higher income by selling more units.

Bringing figures for world production, consumption and carryovers together, we get the following:

<u>WORLD WHEAT SUPPLIES AND DISAPPEARANCE</u>					
<u>(Ex-Russia)</u>					
	<u>Initial</u>	<u>Crops</u>	<u>U.S.S.R.</u>	<u>Total</u>	<u>Disapp-</u>
	<u>Stocks</u>		<u>Exports</u>	<u>Supplies</u>	<u>earance</u>
1929-30	976	3,424	9	4,409	3,488
1930-31	921	3,705	114	4,740	3,730
1931-32	1,010	3,669	65	4,744	3,742
1932-33	1,002	3,703	17	4,722	3,622
1933-34	1,100	3,616	34	4,750	3,597
1934-35	1,158	3,295	2	4,455	3,570
1935-36	885				

It will be noticed that world stocks on August 1, 1935 were substantially reduced from the figure of the previous year.

This was the result of an extremely short world crop. It will be noticed, however, that this figure is still an abnormal one. It appears that on August 1, 1936 world wheat stocks will be further reduced, and may be near normal levels. But we cannot hope for poor harvests to continue indefinitely. The mere elimination of the surplus carryover will not mean that the underlying world wheat problem is solved, for as the Food Research Institute has expressed it, "...world wheat producers are still "geared" to raise more than the market is likely to absorb at prices that growers regard as remunerative."*

The record of world wheat prices since 1930 has been an extremely gloomy one. Under the terrific burden of unsold surplus stocks the price of wheat had fallen by the end of 1932 to the lowest level in the last four hundred years. It would, of course, be incorrect to assume that wheat prices have fallen merely because of the statistical position; the general price deflation after 1929 was also a very important factor.** The following table gives the general trend of wheat prices since the depression:

	* AVERAGE ANNUAL PRICES 1929-35			
	U.S. Pre-Devaluation Gold Cents Per Bushel			
	U.S.A. All Classes	Winnipeg Wtd. Aver.	Buenos Aires 78-kilo	Melbourne f.a.o.
1929-30	116	121	108	115
1930-31	75	61	56	53
1931-32	58	50	44	43
1932-33	53	44	40	40
1933-34	57	41	34	33
1934-35	65	46	34	34
	U.S. current cents per bush.			
1932-33	56	47	43	43
1933-34	90	65	53	51
1934-35	109	78	58	57

*"World Wheat Situation 1934-35" Wheat Studies Vol. XII No. 4 page 102.

** W. Sanford Evans "Present World Wheat Situation and Prospects" World's Grain Exhibition and Conference Regina 1933 pages 107-108.

Expressed in terms of Canadian currency the price of No. 1 Northern wheat basis Ft. William since 1928 has been: *

1927-28	\$1.43	1932-33	\$0.54
1928-29	\$1.27	1933-34	\$0.68
1929-30	\$1.24	1934-35	\$0.80
1930-31	\$0.64	1935-36	\$0.86 (six months)
1931-32	\$0.59		

These figures speak for themselves. If we deduct an average of from 15¢ to 20¢ a bushel for handling and transportation charges etc., it can be seen that the net price received by the Canadian wheat grower has been extremely low, and, at least, until recent months well below the cost of production. These reduced receipts ".....have resulted in bringing the present economic status of wheat growers to a subsistence level."**

The price of wheat in export and the British markets fell, with minor interruptions, almost steadily from January 1930 to March 1933. This decline occurred despite the depreciation of sterling in September 1931 and the depreciation of the Canadian, Australian and Argentine currencies. In fact, it appears that depreciation has exerted a depressing effect on the international price level of wheat.

The depreciation of the American dollar in March 1933, the prospect of Government legislation to raise prices, and prospects of extensive crop damage, had the effect of starting a bull movement in the United States late in March 1933 and the price rise was sensational until the beginning of May. About the middle of June the rise became accentuated, and soon spread to other markets. On July 18th the speculative movement was halted and the public which had been brought into the market began to sell out, and prices fell drastically. In the summer of 1934 a second

*Monthly Review of the Wheat Situation (Dom. Bureau of Statistics)

**W. Allen "Economic Status of Wheat Production in Western Canada" (World's Grain Exhibition and Conference Regina 1933) page 302.

upward price movement occurred, caused by another extensive North American crop failure, and by the prospect of short European crops. The high point was reached early in August, followed by a subsequent decline in which a good deal of the advance, although by no means all of it, was wiped out.

In the summer of 1935 another price rise was initiated. Many factors were responsible for this. Fully 300 million bushels of the world wheat surplus had disappeared during the year 1934-35; prospects of short crops in North America, especially the United States, were very good; Argentine acreage had already been cut down some 25%; and the Italo-Ethiopian crisis brought the possibility of increased demands for wheat for military purposes and of a general inflation of prices. Despite these unusually favourable factors, the rise in price was not as sharp as might have been expected.

Let us now turn to the course of international trade in wheat since 1930. As might be expected, it has been progressively downwards. The following figures illustrate the trend:

YEAR	INTERNATIONAL TRADE IN WHEAT AND FLOUR							NET IMPORTS OF EUROPE		
	NET EXPORTS OF NET EXPORTING COUNTRIES							EX-DANUBE, EX-RUSSIA		
	Total	U.S.	Can.	Arg.	Aust.	Russia	Dan.	Total	Brit. Isles	France, Italy, Germany
1928-29	947	154	406	222	109	(6)	37	667	219	232
1929-30	629	145	185	151	63	9	56	505	224	95
1930-31	836	116	258	125	152	114	46	609	245	174
1931-32	794	115	207	140	156	65	82	606	261	135
1932-33	629	33	264	132	150	17	12	441	234	47
1933-34	553	29	194	147	86	34	35	386	238	20
1934-35	532	(4)	165	182	109	2	22	350	218	4

Certain figures in this table are especially significant. Notable is the sensational curtailment in the ^{im}ports of France, Italy and Germany, and the drastic decline in the imports of Europe ex-Russia and ex-Danube. This must be put down largely to the ~~the~~ policy of self-sufficiency practised so assiduously espec-

in the past six years in these countries. Another significant fact is the very sharp drop in the exports of the United States. In 1934-35 that country became a net importer for the first time since 1836-37. This was, of course, due to extreme weather conditions. In the past five years India has virtually disappeared from the export market, and it appeared unnecessary to list its export figures in the above table. Canada's exports also show a downward trend, and in 1934-35, for the first time since 1919-20, her exports were exceeded by those of Argentina. We shall have more to say about this later.

Probably the most outstanding event in international trade in wheat since the depression was the sensational re-entry of the U.S.S.R. into the export market on a major scale in 1930. In that year, much to the surprise and consternation of other wheat producing countries, it exported 114 million bushels at very low prices, and this had the inevitable effect of intensifying the surplus problem. The immediate cause was a bumper crop almost 300 million bushels larger than in the preceding year. This, coupled with an insistent need for foreign credits, had the effect of forcing huge volumes of wheat on the market. Since that date, however, the flow has subsided, due to two successive short crops in 1931 and 1932, and to the fact that the Soviet Government in the past two years has taken advantage of large crops to reconstitute depleted reserve stocks, and to facilitate increased domestic consumption.

In the year 1934-35 international trade was the smallest in the present century, with the exception of 1917-18. Whether this downward trend is to continue or not is a question of vital importance to such countries as Canada, which have for years come to depend on a large flow of wheat into export channels.

INTERNATIONAL WHEAT PLANNING : 1930-1935

In the above pages we have traced the collapse in the international wheat market after 1930. Prices had everywhere (except in the heavily-protected areas) fallen well below the cost of production, and farther than prices in general. We have shown how exporting and importing countries reacted to this condition by a host of Governmental expedients. In no case, however, did these devices eradicate the wheat surplus problem itself, but merely served to mitigate its worst effects. It was clear that some form of concerted international action was essential if the problem was to be solved. Continued subsidization either at the expense of the Treasury or of the consumers, or both, was undesirable. It is clear that the exporting countries had a greater interest in solving the surplus problem, because it was they that could not find broad enough markets for their product, and because price maintenance or relief to wheat growers were infinitely more expensive to the Public Treasury, than in importing countries.

As a result of this, a series of wheat conferences were held in the earlier years of the crisis, culminating in the London Conference 1933. In 1930-31 no less than 16 of these conferences were held.* Many of these were held between the wheat-producing countries of Central and Eastern Europe, and centred around the idea of a Pan-European Alliance. These need not concern us here. A brief examination of some of the other conferences appears necessary in order to trace the evolution of the idea of international wheat control..

The London Imperial Conference in October-November 1930 while not specifically a wheat conference, did devote some of its sessions to it. Questions of imperial preference, and an Empire

*"International Wheat Conferences during 1930-31 Wheat Studies Vol. VII No. 9.

quota as applied to wheat were actively canvassed, but Britain as yet was unprepared to accept either. Mr. Bennett had come over for the purpose of getting a better market in Britain, and he expressed his sentiments as follows: "The primary concern of Canada today is profitably to sell its wheat. We believe that we shall be reaching towards a solution of the problem if we can establish a better market in Great Britain. This market we want, and for it we are willing to pay, by giving in the Canadian market a preference for British goods.....And so I propose that we of the British Empire.....do subscribe to the principle of an Empire preference....."* The Conference, however, broke down, but arranged to reconvene the following year in Ottawa.

An important wheat conference was held at Rome in March 1931, attended by 48 wheat-producing countries (excluding the United States). The Conference, apart from a few grandiose resolutions, concurred in by all the delegates, of the necessity of increased wheat consumption, and a reorganization of the international marketing of wheat, was a conspicuous failure.

The chief cause of the failure of most of these earlier conferences was that European countries would not countenance the suggestion of acreage restriction. European exporting countries, however, pressed for a world-wide system of export quotas. However, the success of such a scheme would depend on the adherence to it of the United States. As a result, that country was urged to attend the London Conference held in May 1931, and it accepted. The representation at the Conference was limited to net exporting countries.

* Imperial Conference 1930. Part I Summary of Proceedings. King's Printer Ottawa. 1931 page 76.

Early in the Conference the Danubian countries presented the proposal of export quotas, which was accepted in principle by all the countries, except the United States and Russia. The United States opposed it because of constitutional difficulties at home, while Russia agreed to adhere to such a scheme only if the quota allotted it equalled its pre-War exports. But such a suggestion could not be countenanced by Canada, Australia and Argentina, who felt that the quotas should be based on their post-War performances. To give Russia a quota equal to its pre-War exports, would obviously mean that these countries would have to severely contract their quotas, and at a time of huge surpluses they could not agree to such an idea. The Danubian countries also had the idea that when the quotas were allotted, they were to be given a figure equal to their pre-War exports. Herein lay the fundamental dilemma that faced the Conference.

The United States proposed acreage contraction as the logical solution to the surplus problem, but this was unacceptable to practically all the countries represented. They did not seem to realize that export quotas would ultimately imply acreage contraction. Inasmuch as neither quotas nor acreage contraction could get the unanimous consent of all the delegates, the Conference went on the rocks.

All these Conferences, though conspicuously unsuccessful, had promoted a common understanding of the wheat problem, and had stimulated a growth of sentiment in favour of certain forms of international action. The difficulty lay in getting the common consent of all wheat-producing countries on a definite line of action. It was not until August 1933 that anything approaching a definite agreement was reached.

The election of Mr. Roosevelt in November 1932 implied "a change in official attitude toward international action on wheat,"* and shortly after, a representative was sent to Canada to discuss the possibility of export quotas with leaders in the Prairie Provinces. Before the World Monetary and Economic Conference assembled in June 1933, a commission of experts had discussed the possibility of international wheat control, and representatives of the four major exporting countries had held sessions on this matter. By the end of June these countries had reached a tentative agreement in a "Note of Agreement between the Overseas Wheat Exporting Countries" which is said to have been concluded on June 30, 1933, and under which tentative export quotas for 1933-34 and 1934-35 were specified. After the World Monetary and Economic Conference had adjourned, the collapse in wheat prices, following the mid-summer boom, forced action, and an International Wheat Conference was convened by the League of Nations on behalf of the four exporting countries. Twenty-two exporting and importing countries attended this Conference which was held in London on August 21st to August 25th. An agreement was drawn up. On August 30th a memorandum was initialled by representatives of the four major exporting countries specifying export quotas for the years 1933-34 and 1934-35.

The general objective of the London Agreement was "to adjust the supply of wheat to effective world demand and eliminate the abnormal surpluses which have been depressing the wheat market and to bring about a rise and stabilization of prices at a level remunerative to the farmers and fair to the consumers of breadstuffs!"**

*J.S. Davis "Wheat and the A.A.A." (Institute of Economics of the Brookings Institution 1935) page 310-311

**Final Act of the Wheat Conference - Treaty Series No. 38 (1933) London August 25th, 1933.

This it hoped to achieve by the following methods: The four major exporting countries agreed to limit their exports in 1933-34 to certain specified amounts on the assumption that the world demand for wheat would amount to 560 million bushels. These quotas were later agreed on as follows: Canada 200 million bushels; United States 47 million bushels; Argentina 110 million bushels; Australia 105 million bushels. In the Agreement itself, the four Danubian countries agreed to an aggregate quota of 50 to 54 million bushels, while the U.S.S.R. agreed to limit its exports to a figure to be arrived at on the completion of negotiations with the overseas countries. (These negotiations later proved fruitless).

As for 1934-35, the four major exporting countries agreed to limit their exports for that crop year to maximum figures of 15% less in the case of each country than the average outturn * on the average acreage sown during the period 1931-33 inclusive after deducting domestic requirements. The Danubian countries agreed to accept 50 million bushels as their export quota for 1934-35, but it was stipulated that such was not to allow any extension of the acreage sown to wheat. The U.S.S.R. agreed that the question of their exports during 1934-35 was to be "the subject of further negotiations with the wheat-exporting countries represented upon the advisory committee." In the supplementary note of agreement to which we have referred, the four major exporters agreed to bring into effect a reduction of production to the extent of 15%.

The importing countries agreed henceforth not to encourage any extension of acreage sown to wheat; to adopt every possible

* A ten-year average was used.

measure to increase the consumption of wheat and to bring about the progressive removal of measures tending to lower the quality of breadstuffs; to lower their customs tariffs on wheat when the duty-free gold price c.i.f. on the world market should be maintained for a period of 16 weeks at or above 12 gold francs per quintal (63.02 gold cents per bushel). They further accepted the principle of the desirability of a modification of the general regime of quantitative restriction of wheat imports. They agreed to make effective alterations in 1934-35 if world prices took a definitely upward turn from the average price of the first six months of the calendar year 1933.

The signatory nations agreed to set up a Wheat Advisory Committee to watch over the working and application of the Agreement.

It will be seen that the Agreement was based on the theory of export control primarily. It was felt that if exports were restricted to what importing countries as a group were willing to take, and if each exporting country exported its allotted quota and no more, wheat prices on world markets would rise. It was also felt that this would ultimately force production control in the exporting countries.

Let us quickly trace the subsequent events. A quota of 44 to 48 million bushels was allotted to Russia and other minor exporters, this being obtained by subtracting the other quotas from the total anticipated demand of 560 million bushels. This was in no way a quota accepted by these countries. When the Agreement was signed, the world price of wheat was about 50 gold cents, and 63 gold cents appeared a reasonable figure to aim at. But actually in the crop year 1933-34 that price was never attained, for

after September Liverpool prices began to fall, and for the greater part of the year fluctuated between 40 and 45 gold cents. This meant that the importing countries were under no obligation to lower tariffs. Other unfavourable factors were at work. The European crop of 1933 was a bumper one, and exceeded the estimates in August. This cut down the demand for imported wheat, though not substantially. A third disconcerting feature of the year was the huge Argentine crop which was forced on the market due to inadequate storage facilities, and the pressing need for foreign exchange. Early in April Argentina asked for an enlargement of its quota, but negotiations proceeded very slowly, and by June its exports had exceeded the quota. The following figures give the actual exports of the various exporting countries and the

quotas:	<u>Country</u>	<u>Net Exports</u>	<u>Quota</u>
	Canada	194 m.	200 m.
	U.S.A.	29 m.	47 m.
	Argentina	147 m.	110 m.
	Australia	86 m.	105 m.
	Danube	35 m.	50-54 m.
	U.S.S.R.	34 m.	
	Others	28 m.	44-48 m.

It will be seen that Argentina exceeded its quota by over 35 million bushels. The U.S.S.R. and "others" likewise ^{exceeded} the quota anticipated, but not allocated, under the Agreement. Canada appears to be the only country that approximated its figure. Australian exports fell substantially below its quota because of the tendency which developed among its farmers to hold their wheat.

The Wheat Advisory Committee at its many meetings strove to save the Agreement, and to devise new instruments of control, including minimum prices. But it was all in vain. The Agreement was doomed. When the 1934-35 crop year opened no satisfactory agreement for the coming year had been devised. Since prices were

rising due largely to very poor crop estimates in North America, it was generally felt that nature had corrected the situation and that the contemplated export control for 1934-35 was unnecessary. Hence at the meeting of the Advisory Committee in August 1934 it was decided to postpone the revision of the export quotas for 1934-35. By November prices had fallen again and the Committee tried to reach agreement on export quotas, but Argentina refused to concur. Hence in 1934-35 the Agreement was virtually a dead letter. On July 31, 1935 it officially came to an end.

In concluding this chapter, I should like to add a note on what Canada did to "implement" the London Agreement. No action to control exports in 1933-34 was taken, because it was generally felt that the Canadian quota would not ~~be~~ in any case be reached.* The Pools supported the Agreement strongly and pressed for legislation to implement it, including a Wheat Board.

Early in 1934 legislation was passed in the three Prairie Provinces empowering the Lieutenant-Governor in Council to set up a Wheat Control Board in each province to license and restrict within the province sales and deliveries of wheat, and in general, to carry out Canada's undertaking under the Agreement. In addition to such Boards, or in lieu of such, it was provided that a Joint Board might be established by the three provinces, or by one or more of them in conjunction with the Federal Government, in order to bring deliveries into proper alignment with export demand. The Natural Products Marketing Act passed by the Federal Government was supposed to give the necessary authority to implement the Provincial legislation. It was never applied to wheat, however, nor were the Wheat Control Boards ever set up.

*cf. Mr. Bennett: "... until there is some indication that the two hundred million will be exceeded, business goes on in the ordinary way. There has been no restrictions of any kind because the demand has not been such as would require it." (House of Commons debates 1934) p. 79.

CHAPTER FOUR MR. McFARLAND'S OPERATIONS

The world wheat crisis, such as we have just described it, has naturally had serious effects on Canada in view of the important position which this country holds in the international wheat market. It is our purpose in the present chapter to discuss the measures which the Canadian Government adopted to meet the problem of falling wheat prices. The Western wheat grower was seriously hit when the price of his commodity sagged sharply after January 1930. Not only did the price fall substantially below the cost of production, but it fell farther and faster than the price of those goods and services which he had to buy. This was aggravated by the fact that Western wheat growers were burdened with a huge volume of debt which, inasmuch as Prairie agriculture is a development of recent years, was contracted during a period of high-cost commercialized agriculture.*

Earlier Governmental assistance had been of a rather negative character. As we have seen, the three Western Governments had guaranteed repayment of loans made to the Pools, while the Federal Government extended similar assistance late in 1930. These guarantees had the effect of preventing a forced liquidation of Pool stocks and the consequent further disorganization of the market. These measures had merely prevented a more rapid decline in wheat prices; they had in no way stemmed the decline itself. It was soon obvious that some more positive form of assistance was needed. Insistent demands had been made to Mr. Bennett for

* J.F.Booth "The Farmers' Interest in Prices" (Economic Annalist Ottawa) February 1931 pages 5-6.

a fixed minimum price, but at first he would not countenance such a suggestion. His opposition to it can be explained in his own words:".....no Government of which I am head ever will.(peg the price). I have seen artificial prices placed upon commodities and whether that commodity be wheat or anything else, it matters not, I know the inevitable result. It cannot advantageously be done; it will not succeed."* It is interesting to notice that Mr. Bennett soon changed his mind in this respect.

The Premier realized^{however,} that mere guarantees were not sufficient, and, as a result, on June 1, 1931 he made an announcement in the House of Commons that he proposed "...to provide that the freight rate shall be adjusted by this country absorbing five cents per bushel on all wheat that is exported of the crop of this year."** He gave as reasons for this move the low prices for wheat and the distress caused thereby, the necessity of providing relief to the wheat grower, and the fact that price did not bear an adequate relation to the cost of production.*** "It is an endeavour on the part of all the people of this Dominion," he said in justifying his action, "to adjust the tremendous losses that are being made by the producers in Western Canada...to conditions that approximate...the cost of production.....it is a frank recognition by all the people of Canada of an obligation to the less-favoured part of our population under an extreme and emergent condition."****

Mr. Bennett's original intention had been to apply the five-cent bonus towards reducing freight rates, but there were certain difficulties and objections involved, including the bitter opposition of the Canadian millers who felt it might penalize them.

*House of Commons Debates April 21, 1931 page 781

**ibid. June 1, 1931 page 2171.

***ibid. July 24, 1931 page 4149.

****ibid. July 27, 1931 page 4188.

As a result, the freight subsidy idea was soon dropped, and the Government decided to pay the five-cent bonus directly to the farmer, and to apply it to all wheat grown in the Prairie Provinces and delivered either for export or domestic use. The Board of Grain Commissioners was put in charge of the administration of the bonus. * The bonus, however, only applied to wheat that was grown in the 1931 season, and not to old-crop wheat. Wheat growers on delivering their wheat to any licensed operator in the Western Inspection Division, were given bonus certificates, which could be turned into cash at any chartered bank. Other regulations concerning the bonus were made by the Board of Grain Commissioners under the authority of P.C. 2021 of August 18, 1931.

The original intention had been that the cost of the subsidy would not exceed \$6,500,000** but it actually approximated some \$12,734,689.** Inasmuch as the total value of the 1931 wheat crop of the Prairie Provinces amounted to \$112,480,000, this did not represent a particularly substantial bounty. One of the most conspicuous weaknesses of the whole plan was that it did not give any assistance to those many Western farmers who suffered from partial or total crop failures. The bonus was, however, welcomed by those farmers who had crops, although Westerners in general felt that a mere five cents a bushel was an inadequate offset to the burden of the tariff upon them.**** With this fact, most people must agree. One effect of the bonus was probably to cause more wheat to be delivered than usual. Normally, a certain amount of wheat is kept on the farm, but the spur of five cents caused most of

*Statutes of Canada 21-22 George V Chap. 60.

**Estimate of Mr. Bennett in the House of Commons Debates 1931 p.4152.

***Budget Speech of Hon. E.N.Rhodes (House of Commons Debates 1933)p.3213

****Mr. Young said that the bonus would only mean an addition of 8% to the farmers' income, while the burden of the tariff was 30% (H. of C. Debates 1931) p.4184.

it to be delivered by the end of the crop year.

Several motions were introduced in the House of Commons to continue the bonus for the 1932-33 crop year, but after prolonged discussion Mr. Bennett announced on October 25, 1932 that "the financial condition of the country will not permit the payment of a wheat bonus for the year 1932."*

Let us now return to Mr. John I. McFarland who, as we have seen, had been commissioned to dispose of the 1928 and 1929 Pool carryover and the unsold portion of the 1930 Pool crop. For several years his operations were cloaked in the greatest secrecy, (though their general nature was known), and it was not until June 1935 that figures covering his activities were finally disclosed. It is from this information, from pronouncements of Mr. McFarland himself, and from other official statements, that we are able to give an outline of what has transpired during the past five years.**

The Central Selling Agency, with the appointment of Mr. McFarland in November 1930, became a mere liquidating agency. It was his duty to dispose of the grain which he took over (most of it, of course, was wheat) without unduly depressing the market. Up to July 31, 1931 he continued to receive grain from the three Provincial Pools; after that a cut-off was declared. The Central Selling Agency went its way, and the three Pools, now in the process of reorganization, went theirs. In theory, however, the Central Selling Agency still remained the coordinating agency of the Pools, and had a Board of Directors appointed by, and representative of them.

From figures at our disposal, we know that the small 1928 Pool

* House of Commons Debates 1932 page 522.

** Minutes of Proceedings and Evidence of Special Committee on Canadian Grain Board Act 1935; also Minutes of Proceedings and Evidence, Banking & Commerce Committee 1934.

carryover on August 31, 1930 was 3,290,000 bushels; the 1929 Pool carryover on the same date was 39,981,000.* We do know that between that date and the end of November the Pool sold 2,744,000 bushels of the 1928 carryover and 18,548,000 bushels of the 1929 carryover.** This would imply that on the first of December when Mr. McFarland began operating, he had in his possession some 446,000 bushels of the 1928 crop and 21,433,000 bushels of the 1929 crop to dispose of. Besides this, he had, of course, the unsold portion of the 1930 Pool crop, deliveries of which he took up to July 31, 1931.

Up to the middle of 1931 Mr. McFarland sold cash wheat gradually from time to time, as conditions warranted, and as the market would take it. "If we had gone in and thrown our stuff on the market," he said, "the market would have been smashed."*** For this reason, the market was fed very gradually. Most of the holdings were soon converted into futures contracts because it was cheaper to handle wheat in that form. To carry the actual physical wheat costs about 15¢ to 16¢ a bushel for a year, whereas to carry wheat in the form of futures costs about 10¢ a bushel.****

The data on these early operations are scanty. We do know that by the end of June, 1931, the 1928 and 1929 carryovers had been disposed of, and on August 31, 1931 the Agency was holding 76,728,000 bushels of wheat from the 1930 Pool crop. (Total deliveries of wheat to the Pools in 1930-31 were 126,681,445 bushels.*****) These 76,728,000 bushels had been acquired at a cost (plus carrying charges) of 60.53¢ a bushel. The following figures show how the

*Directors' Report Canadian Cooperative Wheat Producers Ltd. 1929-30.

**Directors' Report Canadian Cooperative Wheat Producers Ltd. 1930-31.

***Minutes of Evidence, Standing Committee on Banking & Commerce 1934
p.244.

****ibid. page 219.

*****Directors' Report Canadian Cooperative Wheat Producers' Ltd. 1930-31.

liquidation of the 1928 and 1929 stocks were effected:

	<u>1928 Crop</u>	<u>SALES</u>	<u>1929 Crop</u>
Dec.1930	156,000		2,445,000
Jan.1931	(29)		844,000
Feb. "	13,000		4,118,000
Mar. "	191,000	Bushels	1,791,000
Apr. "	272,000		4,628,000
May "	....		4,060,000
June "	204,000		3,453,000 *

It soon became evident that this mere orderly merchandising of Pool stocks was insufficient to stem the price decline. Events soon occurred which brought with them the necessity of a radical change in the nature of Mr. McFarland's operations.

To be able to understand the cause which precipitated the change in the nature of these operations, a brief sketch of the workings of the futures system seems necessary. Future trading in grain (i.e. buying and selling grain by contract calling for delivery some time in the future) developed in the United States just prior to the Civil War. With its development came the growth of speculation in grain, inasmuch as between the date of sale and the date of delivery there was the possibility of price changes, which brought with them the possibility of profit. Organized grain exchanges soon grew up, providing a highly mobilized, continuous market characteristic of present-day future trading.

The possibility of price changes between the date of contracting and the date of delivery also led to the development of hedging. This practice became established in the United States in the decade 1870-80, and by 1890 had become general among grain merchants and exporters. The process of hedging is to shift the risk of price fluctuations on to a speculator, who stands to profit or lose as the case may be. It is based on the assumption that cash and futures prices will move together, making due allowance

*Directors' Report Canadian Cooperative Wheat Producers Ltd. 1930-31.

for seasonal trends in cash prices. This assumption is substantially accurate, as far as the broader price movements are concerned. A merchant, miller or exporter, who in the course of his business acquires a cash supply of wheat, and finds himself exposed to the hazard of a decline in price, may hedge by selling for future delivery an equal amount of the wheat. Since cash and future prices in general advance or decline together, any losses or gains due to unforeseen market changes from his cash position will be offset from equal gains or losses from his future position. If prices decline, he will lose on his cash holdings but gain equally on his futures; and if they should rise he will gain on his cash position but lose correspondingly on his futures. In short, hedging "is a device by which the holder of wheat, say, seeks to protect himself against the risk of loss from an actual sale or purchase, through fluctuations in price, by balancing against it an equivalent purchase or sale for future delivery."*

The hedge provides an admirable form of insurance and its utility to certain interests has long been recognized. Moreover, it provides the basis for bank credit. Banks will grant a much higher percentage of the value of the grain as a loan if it is hedged than if it is unhedged.

In Canada trading in cash and future wheat is concentrated in the Winnipeg Grain Exchange. In the Winnipeg futures market, as distinguished from the cash market, sellers of futures consist of buyers of unhedged grain moving into hedged position, hedgers of grain previously held unhedged in other markets, bear speculators selling in anticipation of a market decline and "spreaders". On

* Report of the Royal Commission to Inquire into Trading in Grain Futures. Ottawa King's Printer 1931 page 17.

the buying side there are those who buy for consumption, ultimately intending to convert their purchases into cash wheat, "spreaders" and bull speculators, consisting of those who buy for future delivery in the hope of a rise in the market. In this latter category belong the general public who are drawn into the market in the hope of making a profit.*

In time of a poor export demand, however, the market sags unless there is a strong speculative demand. When supply and demand are fairly well balanced, the futures system works well and provides a continuous market for wheat. When supply is heavy and demand light, unless there is a speculative interest to absorb the offerings of hedges which are not taken up by actual buying demand, the price will fall sharply. Moreover, if there is an insufficient purchase of hedges, the banks will not be afforded protection against their advances, and elevator companies will have difficulty in obtaining the necessary credit, which in turn means that many of them will be unable to buy wheat from the farmers. Thus, at such a time, if speculators are not present in sufficient volume, there is a tendency for the whole marketing machinery to get clogged. But it is precisely in abnormal times when supply greatly exceeds demand and prospects of rising prices are scanty that the speculative interest is removed from the market. It was this absence of speculators that soon brought about a great change in Mr. McFarland's operations.

In the early years of the depression, as we have seen, the Pools sold their wheat direct to purchasers without making use of the Winnipeg Grain Exchange. When Mr. McFarland was instated late in November 1930, he soon changed this policy to making all sales through the Winnipeg Exchange. This had the effect of putting an extra burden on the marketing machinery. When the Pools reorganized

*D.A. MacGibbon "The Canadian Grain Trade" (The MacMillan Co. 1932) p. 291.

in August 1931 all their sales were likewise made on the Exchange.

The long period of steadily falling prices, and the abnormal conditions in the world wheat market, had the effect of seriously diminishing speculative buying on the Exchange. This meant that when the new crop began to move on to the market in September and October, a heavy decline in prices was inevitable. Something had to be done to prevent such a further drop in wheat values. The situation was recognized in mid-summer, and members of the Exchange, the private trade and the Pools suggested that something might have to be done. Mr. James Richardson, prominent grain merchant giving evidence before the Select Standing Committee on Agriculture and Colonization in the middle of 1931 not only admitted the weakness of speculative demand, but offered a suggestion which was later adopted: ".....if the Government, in their wisdom, feel that a temporary economic situation is resulting in wheat selling for the time being below what it should sell for, and that that would right itself in six weeks or two months time.....if they want to put a little muscle in the market - inject a crutch under it for a while - if they think it wise to do that..... it has cost you nothing if you are right. If you are wrong, you have taken a limited loss and you are out...."* On being asked how the Government could inject this crutch in the market, he replied: "Mr. McFarland is operating for the general manager of the Wheat Pools, and it might be possible that his services and facilities would be utilized." Later he said, "...if it is thought desirable.....to protect the market - then let Mr. McFarland or whoever is in charge of the job, step into the

*Minutes of Proceedings and Evidence, Select Standing Committee on Agriculture and Colonization Ottawa 1931. page 151.

market and say buy ten million bushels of wheat to take care of the crop." Although he expressed his hope that the market would be functioning all right in the fall when deliveries would begin, nevertheless he frankly admitted: "There is no speculative interest. Speculative interest has been killed....."*

Andrew Cairns, the Pool statistician, was not as hopeful as Mr. Richardson. "...there is complete lack of speculative interest," he said, "and we are facing these coming months with a market without speculative interest.....It means that someone must be there to pass on the hedges. The banks....are insisting that somebody must hedge the grain...the power of the market to absorb shall I call it excess offerings of the farmer over what the consumer is willing to take is very limited indeed, and needs some support in order to do that."** He predicted that the price would fall to 45¢ a bushel in the absence of such support.*** Continuing he said: "If there were any bulls left in the country they must be killed now, because ninety-nine per cent of the statements before the Stamp Commission was that speculators lost their money on the market; everybody is scared stiff....."****

Other witnesses reiterated these ideas. Sidney Smith of the United Grain Growers' Ltd., admitted that "...the trend of speculation is at a much lower volume than it was formerly."***** He agreed with Mr. Richardson's suggestion of putting a "crutch" under the market, saying that "it would seem to fill the needs of the situation."

This, then, was the situation. If some "crutch" were not put under the market, prices would fall heavily under the burden of

* op.cit. page 162.

** ibid. page 165.

*** ibid. page 170.

**** ibid. page 179.

***** ibid. page 202.

surplus supplies. Not only would this mean heavier losses to wheat growers, but it implied a substantial clogging of the marketing mechanism, inasmuch as the banks insist on grain being hedged. It was clear that "some machinery had to be provided to take their (the speculators') place unless the wheat was to remain on the farms of the country."*

Mr. McFarland himself realized the gravity of the situation, and it appears that about June 1931 he suggested to Mr. Bennett that some purchasing on the open market to support the price be allowed.** When Mr. Bennett had given his guarantee to the Banks in January 1931 he had not contemplated such a contingency arising. But in an order-in-council passed on September 12, 1931 to implement this guarantee, it was provided that the guarantee would cover not only bank advances already made, but advances that might be made to purchase wheat or other grains deemed necessary "to secure the advantageous sale of such grains already delivered or to be delivered" to Canadian Cooperative Wheat Producers' Ltd.*** The implication here was that purchases were to be made in order to facilitate the sale of the existing Pool stocks, but this was later given a broad interpretation.

Mr. Bennett in justifying his action before the House of Commons on November 14, 1932 (the first official announcement of the operations) stated: ".....the speculator has practically disappeared.....I think I am correct in saying that, broadly speaking, the speculator is no longer in evidence as a purchaser of wheat.....Under the circumstances, Canadian Cooperative Wheat Producers' Ltd.....became the only available hedging

*Evidence of J.I. McFarland: Committee on Banking & Commerce 1934 p.212

**ibid. page 238.

***P.C. 2238, passed under the Farm Relief Act 1931.

organization left in Western Canada and the Government is faced at the moment with the issue as to whether or not----it would give its support as provided by the Relief Act passed in 1931 and 1932 as well, by guaranteeing to the banks such sums as might be necessary to enable these operations to be carried on by this organization."* Unless hedging operations could be carried on, continued Mr. Bennett, "...the price of wheat would fall back to less than forty cents a bushel. Therefore,.....to secure the orderly and regulated disposition of the crop....the Canadian Cooperative Wheat Pools Ltd. became the hedging agency in order to enable, with the assistance of the Government, sales to take place and the crop to be marketed".*

Mr. Bennett undoubtedly felt at first that the Government would not become seriously involved because in the House of Commons he reported: "...in respect of any obligations which might be incurred - it is not possible that any heavy obligations will be incurred unless something unforeseen occurs - the amount involved will be less than would be involved by the payment of the bonus requested."** The bonus that Mr. Bennett referred to was a continuation of the five-cent bonus of 1931, which as we have shown was not applied to the 1932 crop. It has been estimated that a five-cent bonus on the 1932 crop would have involved a payment of some \$17,500,000 to \$20,000,000***It would thus appear, then, that Mr. Bennett felt that this would be the maximum amount to which his Government would be committed, by its action in guaranteeing further advances to the Agency.

"Stabilization" purchases of wheat were not altogether a

*House of Commons Debates 1932 page 1093.

**ibid. page 1094.

***Financial Post November 19, 1932 page 1.

novelty in Canada. On several occasions, notably at the end of 1929 and in the first two months of 1930, as we have seen, the Pool purchased futures on the Exchange to support the price. This had never been done on an extensive scale, the total volume of such purchases being less than 20 million bushels.* It had been resorted to on only some six or seven occasions.

Up to June 1932 Mr. McFarland's purchases were not extensive, and were not conceived as being of a stabilization nature except in so far as they assisted the futures market to function normally in the absence of speculative buying.** It appears that Mr. McFarland began his purchase of "special" wheat*** in July 1931**** and at July 31, 1931 he had on hand 3,178,000 bushels of this wheat (apart, of course, from the 76 odd million bushels of the 1930 Pool crop that he held). This "special" wheat had been acquired at an average cost of 59.66¢ a bushel. In subsequent months Mr. McFarland continued his purchases, and also was able to sell a certain amount. In September and October when wheat was being delivered and hedging sales rather heavy, he made purchases of 6,450,000 bushels, and sold 166,000 bushels. In November he was able to dispose of 2,105,000 bushels. From December 1st to February 28, 1932 there were no purchases or sales at all, but these were made in subsequent months, and by the end of May 1932 the figures for his operations were: Total purchases 10,158,000 bushels; total sales 4,968,000 bushels, leaving a balance of 5,182,000 bushels. This with the 3,176,000

*Evidence of Andrew Cairns; Select Standing Committee on Agriculture and Colonization 1931. page 175.

**H.L.Griffin "Public Policy in Relation to the Wheat Market"(Canadian Journal of Economics & Political Science August 1935) page 485.

***This term applies to wheat purchased on the open market.

****Select Standing Committee on Grain Board Act 1935 page 327.

bushels on hand as at July 31, 1931 gave a total of 8,360,000 bushels of "special" wheat in Mr. McFarland's possession. This wheat had been bought at the market price of the nearby option. As can be seen, purchases up to this date had not been extensive. The 1931 crop had not been a large one, being some 100 million bushels less than the preceding crop, and export demand and hedging facilities were doubtless sufficient to absorb most of the offerings.

In June 1932, however, purchases increased considerably, in this month Mr. McFarland taking 7,649,000 bushels and disposing of 3,315,000 bushels. It would appear that the heavier purchases this month were due to heavier deliveries occasioned by the fact that farmers, hitherto holding some of their wheat in hope of a rise in price, decided to take advantage of the five-cent bonus which was to expire in a short time.

Before continuing to a discussion of subsequent operations, I would like to make a few points clear. After August 31st, 1931 all sales of the Agency were made from the "special" wheat, and the 76 odd million bushels were left, in general, untouched. The only occasion on which sales were made from the "Pool" wheat, as it may be termed, was in September 1932, the reason being that in that month all the "special" wheat purchased had been disposed of, and the Agency found that it could dispose of some of its original holdings. In the following month, however, purchases of "special" wheat were extensive, and for accounting purposes, the amount of "Pool" wheat was restored to its former figure. From then on, it remained approximately at a figure of 76 million bushels, and all sales were made from the "special" wheat, supplies of which were amply sufficient.

Mr. McFarland was at all times operating with Government credit, a series of orders-in-council being passed annually guaranteeing repayment of these loans to the Banks. But a limitation on the amount of credit was at all times stipulated; that is to say, Mr. McFarland could not buy an indefinite amount of wheat, because of these restrictions. However, on several occasions, notably in the latter part of 1932, and in October 1934, he ran out of credit, much to his chagrin, but he was able to get more credit after the permission of Mr. Bennett had been obtained. Mr. McFarland gave daily reports of his activities to the Banks, and from time to time, the Government got reports from them. The Government repeatedly insisted that it had nothing to do with the operations at all, and that it merely acted in the rôle of a guarantor.

Mr. McFarland, except for the limitation placed on the amount of credit available to him, appears to have been given a free hand in his operations. "I used my judgment in regard to when wheat should be bought to support the market", he said before the Standing Committee on Banking and Commerce in 1934.* He worked, of course, in conjunction with the Board of the Canadian Co-operative Wheat Producers' Ltd., of which he was General Manager. But inasmuch he was undoubtedly the dominant figure in shaping the Board's (or Agency's, as we have called it) policy, it is perhaps advisable to speak of the operations as those of Mr. McFarland.

The 1932 crop was an immense one, being about 445 million bushels. Beginning in September, deliveries were very heavy, in the five weeks from September 9th to October 7th reaching the record

* page 236.

total of 145 million bushels or an average of 29 million bushels a week. Mr. McFarland has described the occasion graphically: "The wheat had to move out of the country or the railways and elevators would have been congested. It was a choice between exports and chaos. The price dropped to 50¢, then to 45¢ and 40¢. Finally it was forced down to 38½¢ delivered at Fort William. This record low price occurred, despite enormous purchases under the Government guarantee. Purchases so large day after day as to be terrifying.....At the same time, despite the fact that prices were ruinously cheap, there were not nearly enough buyers to absorb the offerings. Speculators, investors and importing countries, believed values would be lower still."* In October Mr. McFarland made the enormous purchase of 63,598,000 bushels. In November purchases were 14,652,000 bushels, and in December pressure of supplies was so great that support was temporarily relaxed, purchases falling to 4,113,000 bushels. It was on this occasion that Mr. McFarland ran out of credit. At the end of December the Agency had accumulated 75,717,000 bushels of "special" wheat.

From January to the end of June 1933 operations practically ceased, in this period Mr. McFarland buying a mere 2,397,000 bushels and selling only 6,664,000 bushels. Events soon occurred which brought him back into the market again on a major scale. We have earlier shown how in June a "bull" movement started in the United States, which soon spread to other markets. Prices began to rise steadily in Winnipeg in June. There were very heavy deliveries at country elevators in this month as farmers delivered the balance of their 1932 crop in response to the improved prices.

*J.I.McFarland "Should Canadians have dumped their Wheat?" Address before the Winnipeg Canadian Club April 11, 1935. (Pamphlet issued by the Canadian Cooperative Wheat Producers Ltd.)

The hedging of this extra 20 million bushels was able to be absorbed by the market, and Mr. McFarland only had to purchase 300,000 bushels in this month, while he disposed of 200,000,000 odd bushels. During the first ten days of July the Winnipeg market continued to advance. Mr. McFarland felt that there was now an opportunity to unload a substantial amount of his holdings without affecting the basic trend in the market.* He fed wheat judiciously in the rising market, but it appears that "he had no doubt in his mind that there was an element of danger in the situation that was developing."** In the first ten days of July he was able to dispose of 4,376,000 bushels in the pit. On July 11th the Winnipeg market rose four cents and another 4,697,000 bushels were sold. Between July 12th and July 15th another 11,476,000 bushels were disposed of. With prices still continuing to rise, 6,332,000 bushels were sold on the 17th, making a total for the month to date of some 27 million bushels.

On July 19th the market in Chicago broke and fell from \$1.14 to \$1.05 for July futures and heavy sales were made in the Winnipeg market, with the result that Winnipeg prices fell $6\frac{3}{4}\text{¢}$. On the 20th the Chicago price fell 15 cents, and selling orders flooded Winnipeg with the result that prices fell 9¢ . Up to this point Mr. McFarland had been selling, but it now became obvious that unless there was some support the price would sink to very low levels. Inasmuch as the new crop was coming on the market within a short time, and a decent price would have to be maintained for it, if possible, Mr. McFarland decided to buy in order to support the market. On July 20th he bought 4,150,000 bushels. On the 21st the Chicago market was closed, but the

*Evidence of G.H. McIvor; Minutes of Evidence and Proceedings, Special Committee on the Canadian Grain Board Act pp. 366-68.

**ibid. page 366.

Winnipeg market remained open. Chicago traders and others began to sell heavily and on that one day Mr. McFarland bought 15,705,000 bushels. On July 22nd he bought another 3,303,000 bushels. The Chicago market opened on the 24th, but under strict regulations as to trading. In short, from July 2nd to July 29th Mr. McFarland had bought 27,560,000 bushels, and had sold 27,817,000 bushels. That is to say, he bought back practically an equal amount to what he had sold. Had this wheat not been bought, there is no doubt that prices would have fallen much heavier than they actually did. It appears that most of the wheat which Mr. McFarland sold in this period must have been taken up by speculators, for export figures show that not a large volume of wheat was sold for shipment abroad. At the end of July accumulations of "special" wheat totalled 69,085,000 bushels.

On August 15th a "peg" was driven into the Winnipeg market, and minimum prices, below which trading was forbidden, of 70 1/8¢ for the October future and 76 3/8¢ for the July future, were established. This was effected due to the minimum prices on the Chicago market which had the effect of shifting a lot of hedging to Winnipeg. Inasmuch as the Winnipeg market was too narrow to absorb these offerings, a peg was needed to prevent price declines.* It was removed on September 14th, and it appears to have done no harm, for during its existence exports were very liberal and prices were kept well above the minimum levels.

The 1933 crop was an extremely short one, and consequently Mr. McFarland did not have to make the extensive purchases which characterized his 1932 operations. In the four months from August

*Financial Post August 26, 1933 page 10.

to December he bought 71,754,000 bushels and sold 7,430,000 bushels. From January to June, 1934, there was another lull in his activities. From January to the end of May he bought only 731,000 bushels, while he was able to dispose of 35,388,000 bushels. In June, July and August he bought on a large scale in order to maintain a price for the crop that was soon to move on to the market. In these three months he purchased 20,377,000 bushels and sold 10,991,000 bushels.

In September the new crop began to move on the market, and though it was another distinctly short one, 23,974,000 bushels were bought and none sold. Early in October difficulties arose again, leading to more drastic forms of price control. Prices had been rising in all markets since May, and especially so after July. By mid-August a recession had set in, and by the beginning of October practically the whole advance had been wiped out, and prices drifted downwards. After mid-September the Winnipeg decline was especially rapid.

On October 1st Mr. McFarland issued a statement to the press alleging that a large volume of short selling had taken place in the Winnipeg market during the past few weeks. He demanded an investigation, and expressed the hope that similar investigations would be carried out in Liverpool and Buenos Aires.* He contended that in the past few weeks deliveries had been light, yet short selling had placed huge quantities of wheat on the market, and he asked who had "the moral right to sell such huge quantities at this time". On October 1st, 2nd and 3rd the volume of wheat placed on the market reached its zenith. On these three days Mr. McFarland

*Montreal Gazette October 2, 1934 page 1.

had to purchase almost 18 million bushels in an effort to support the price.* Yet on these three days total deliveries to country elevators amounted to less than $4\frac{1}{2}$ million bushels, which means that legitimately not more than 5 million bushels should have been put on the market.** Despite the huge purchases the price of the October future fell from $81\frac{3}{8}\text{¢}$ to $74\frac{7}{8}\text{¢}$, a drop of $6\frac{1}{2}\text{¢}$ in three days.

One explanation of the huge volume put on the market was that the Argentine wheat movement was being hedged through the Winnipeg market. It was pointed out that the Liverpool market, through which the Argentine movement is usually hedged, might have become too narrow to absorb all the offerings, with the result that the shipper turned to Winnipeg as the only other available hedging market. (The Chicago market was under strict regulation.)*** But even were this the case, it could not have accounted for more than $4\frac{1}{2}$ million bushels, which was the volume of Argentine shipments that week. **** In other words, there must have been a very large volume of short selling in Winnipeg.

On the strength of Mr. McFarland's allegations, the Dominion Government brought pressure to bear on the Winnipeg Grain Exchange, with the result that the latter announced that beginning October 31st futures trading would be prohibited below fixed limits, established as follows: December future 75¢ , May 80¢ and July $80\frac{1}{4}\text{¢}$. (When the May future ran out, the peg for the July future was lowered to 80¢ .) On December 29th the Winnipeg Exchange also decided to defer provisions for trading in futures beyond the July contract, this being done at the request of the Dominion Government.

*Oct. 1st 10,520,000 bus; Oct. 2nd 2,295,000 bus; Oct. 3rd 5,000,000 bus.

Oct. 4th 85,000,000 bus. (Evidence, Committee on Grain Board Act p. 320)

** Evidence, Committee on Grain Board Act, page 265.

*** Montreal Gazette Oct. 2, 1934 page 1.

**** Evidence, Committee on Grain Board Act. page 265.

In October, Mr. McFarland purchased a total of 29,716,000 bushels and sold a mere 292,000 bushels. In subsequent months operations were conducted on a much less extensive scale. By January 1, 1935, he was the holder of all but a very small fraction of Canadian wheat in store or transit.* That position remained unchanged until the conclusion of his operations. In April he was able to dispose of 7,627,000 bushels, but by the end of May 1935 he was in possession of 152,446,000 bushels of "special" wheat. This coupled with the Pool wheat still on hand gave a total of 228,562,000 bushels. Thus after four years of stabilization operations, Mr. McFarland found himself in possession, through futures and cash wheat, of the entire Canadian "visible" supply.

During his operations, Mr. McFarland dealt almost exclusively in futures, inasmuch as they were cheaper to handle than cash wheat. As we have seen, the wheat taken over from the Pools was soon converted into futures, and on certain occasions, wheat, of which delivery was taken, was similarly converted within a short time. In May 1935, however, delivery of some 50,000,000 bushels was taken. Except for these occasions, the procedure adopted was, when the date of delivery rolled around, to "switch" the contract to a more distant month, and in this way delivery was postponed, or, as Mr. McFarland expressed it, the wheat was "rolled over." The charge for "switching" amounts to about 1¢ per bushel a month. Conversion of cash wheat into futures was effected by selling the cash wheat and keeping the hedge which the purchaser of cash wheat had previously put on, or by merely making a corres-

*H.L.Griffin "Public Policy in Relation to the Wheat Market" (Canadian Journal of Economics & Political Science August 1935) page 489.

ponding purchase in the futures market.

Mr. McFarland made no stabilization purchases of coarse grains during the period of his operations, but when he became General Manager of the Central Selling Agency in November 1930 he found himself in possession of a considerable amount of oats, barley, flax and rye. He was able to sell this in subsequent months, and made profits on the rye, barley and flax (i.e. amount in excess of the initial payments on these grains) and losses on the oats (i.e. amount short of the initial payments). Of this, we shall have more to say later.

FINANCIAL ASPECTS OF THE OPERATIONS

In the preceding pages we have outlined what might be termed the "physical" aspects of Mr. McFarland's operations. In this section we discuss the financial aspects.

Mr. McFarland obtained the necessary money for his operations by borrowing from the seven Lending Banks, and repayment of these sums were guaranteed by the Federal Government. A series of orders-in-council passed under the various Unemployment and Farm Relief Acts gave the necessary authorization. These included: P.C. 2238 of September 12, 1931, P.C. 1576 of July 11, 1932, P.C. 685 of April 12, 1933, P.C. 890 of May 14, 1934 and P.C. 974 of April 12, 1935. These orders-in-council guaranteed payment of all advances made to the Canadian Cooperative Wheat Producers' Ltd. by the Banks, or to be made, with interest thereon, in order to enable it to secure the advantageous sale or disposal of all grain or contracts in its possession.* A special order-in-council, P.C. 975 of April 12, 1935 guaranteed payment of a loan to the Canadian Cooperative Wheat

*These orders-in-council are set out in full in the Appendices of Minutes of Proceedings and Evidence, Standing Committee on Banking and Commerce, and in Committee on Grain Board Act 1935 pp. 286-90.

Producers' Ltd. to enable it to purchase 5 million bushels of wheat and 8 million bushels of oats on behalf of the Province of Saskatchewan which desired to use such grain for agricultural relief purposes. At all times, limits as to the amount of credit were stipulated, although these were not specified in the orders - in-council.

Like all other traders in futures, the Agency had to keep margins with the Clearing House. These margins served the purpose of protecting that organization against loss in case of violent fluctuations of the market. If at any time during the course of the trading day these margins became endangered or insufficient, the Agency would get a "call to the market" and have to cover up any deficiency. If at the close of the day the market had reacted, and all this extra money proved unnecessary, it was returned. During the course of the day the Agency would buy or sell wheat, as the occasion arose, at varying, fluctuating prices within the range of the market; at the close of the day it would either pay to the Clearing House, or receive from it, an amount equal to the variation between the price at which that wheat was bought or sold, and the closing market price. *

On the margins (which were deposited with the Banks in the joint name of the Agency and the Clearing House) the Agency received interest at the rate of 4%; on its loans from the Banks it paid 5% interest.**If these margin deposits exceeded the loans, 4% was paid on the deposits up to the volume of the loans, and 1% on the balance above that.

*Evidence of R.C. Findlay; Proceedings and Evidence of Select Committee on Grain Board Act 1935 pp. 311-312.

**The 5% interest was paid monthly to the Banks; the interest coming to the Agency was computed once every six months.

The net liability of the Agency to the Banks at any one date was determined by subtracting the margin deposits plus the cash grain stocks on hand, valued at the closing market price for the day, from the total bank indebtedness. On several occasions, the Agency had actually made a paper profit, notably at the time of the bull market in July 1933, when substantial sales at a high price and a rapid appreciation in the value of holdings, had placed the Agency in the position of net creditor in relation to the Banks. This profit was, of course, largely a "paper" one, for had the Agency tried to realize on it, it would have meant flooding the market and seriously depressing the price. It appears that the maximum profit ever realized was on July 18th, when the Agency had a net credit balance of \$39,566,079.82. From the figures that are available, the Agency must have had a profit from July 1, 1933 to August 31st, 1933. We also know that on May 31, 1934, July 31st, August 31st and September 30th, profits existed, but as to the intervening days we have no information. (On June 30th there was a net liability of \$376,962). The profits on these days were less than those existing in 1933, the highest that we know of being some \$15,000,000 on July 31st. Complete figures are given in the Appendix. On April 30th, 1935 the Agency also showed a profit of some \$6,000,000, but this was soon converted into a net liability.

On May 31st, 1935 net liability to the Banks was \$10,295,925.63, and on June 22nd, the last date for which figures are available the figure was \$11,621,399.00.

On May 31st, the financial status of the Agency was as follows: Total Bank indebtedness \$80,301,741.78; Margin Deposits \$28,395,000.00; Value of grain stocks \$41,610,816.15;

Net Liability to the Banks \$10,295,925.63. At this date, as we have seen, the Agency was in possession of 228,562,000 bushels acquired and maintained at an approximate cost of 85.943¢ per bushel. Of this, 156,446,000 was "special" wheat, acquired and carried at an average approximate cost of 79.011¢ per bushel. The Agency was holding wheat which had cost it some \$197,000,000 (228,562,000 multiplied by 85.943). Its ultimate loss (or gain) would depend upon how much less (or more) than 85.943¢ per bushel it could sell this wheat.* As far as its current liability to the Banks at that date was concerned, it actually owed the Banks some \$52,000,000. (Total indebtedness - Margin Deposits). Current holdings of cash grain were valued at \$41,610,816.15 which theoretically reduced the net liability to the Banks to some \$10,295,925.63, but it was extremely doubtful if all that grain could be sold on that day at the ruling price, because the pressure of sales would depress the price.

Mr. McFarland's task during the period of his operations was to play the role of the speculative element that had largely disappeared from the market. As he described the situation himself: "...with the depression, the lack of purchasing power abroad, the increased production by former importing countries of wheat, there were no buyers in the Grain Exchange to purchase from the elevator companies the wheat they purchased from the farmers, except at sacrifice prices. Except as to purchases made by a very reduced number of speculators, and the purchases made for export and domestic use, I have during the last four years been buying the

* At this date, Mr. McFarland held some 50 million bushels of cash wheat and some 178 million bushels in future contracts. Inasmuch as the Canadian visible supply was about 200 million bushels, this would suggest a "short interest" in the market of some 25 millions. Mr. Bennett himself made this allegation in the House.

hedges on the wheat produced by the farmers of Western Canada."* Members of the Winnipeg Grain Exchange have frequently contended that the speculator had not disappeared, and that all the hedges offered could have been absorbed. But this clearly implies that the price would have had to fall low enough to make speculative purchases attractive.**The Government did not want the price to fall that low, and that is why, through its guarantees, it authorized Mr. McFarland to support the market at a level at which speculative buying was not present in sufficient volume.

A more frequent allegation has been that Mr. McFarland was gambling, that he was more interested in making a profit on his operations than in fostering the sale of Canadian wheat, and that he held too tightly on many occasions when he could have sold.*** It is often pointed out that he could have sold substantial quantities at a good price in the spring and summer months of the year. Critics have also contended that the "peg" imposed in October 1934 had the effect of seriously diminishing Canadian exports, and that had the price been lowered a few cents a large volume of business could have been done.

Mr. McFarland has consistently denied charges of "speculation" and attempting to make profits on his operations. "I wish to state most emphatically that we have not speculated in a single bushel of wheat in the operations which I have directed for the Canadian Cooperative Wheat Producers' Ltd. since November 1930....

* Quoted in Evidence, Select Committee on Grain Board Act 1935 p.356.

** cf. Mr. Bennett: "Do you think there would be enough purchasers of hedges....if all restrictions and controls were removed?"

Mr. Milner: "I do say that, but at a very much lower level." *ibid.* p. 39
 *** cf. Stanley Smith "...the idea has developed that these operations should be conducted without loss to the Government, and an attempt has been made to hold the markets on a higher level..than the importing countries....were willing to pay, with the hope that they would...pay these prices." *ibid.* page 154.

Our only object since undertaking the operations which I have directed has been to assist the farmer in marketing his wheat."* In order to test the truth of this statement, we must first examine the wheat viewpoint of Mr. McFarland.** From the day he took over the position of General Manager, he had certain ideas which he consistently maintained. He believed whole-heartedly in the fact that there was a world overproduction of wheat, and he felt that this situation could only be corrected by a restriction of production in the exporting countries. He reiterated this idea time and again in his addresses and public statements. He frequently quoted in support of it the fact that in 1932 when wheat prices were at their lowest level in 400 years, consumption was lower than in the two preceding years. This he believed was ample evidence that low prices do not increase consumption, and that there was a saturation point for even the most essential product. He saw that restriction of production could best be achieved, and to the least detriment of Canada, by an international agreement with other countries, and he was undoubtedly a powerful influence in Canada's adherence to the London Agreement. He undoubtedly realized that a mere stabilization policy on the part of Canada could not solve the surplus problem so long as production continued unrestricted, and that is why he so strongly favoured the London Pact. Its failure was a heavy blow to his hopes.

There can be little doubt that Mr. McFarland would have

*Evidence of J.I. McFarland, Proceedings of the Standing Committee on Banking and Commerce 1934 page 212.

**On this see: "My Wheat Viewpoint" (Financial Post Jan. 5, 1935 p. 11); "Our Wheat Position" (Maclean's Magazine June 1, 1935 pp. 15, 57); "Who said no Wheat Surplus?" (Canadian Business June 1933); "Page Mr. Raikes!" (Canadian Business March 1935); "Articles on the Wheat Glut" (Financial Post Feb 10th and Feb. 17th 1934); "Smaller Acreage for Wheat Urged" (Monetary Times June 1, 1935); Annual Reports of CCWP.

liked to cleared out with as small a loss to the Federal Treasury as possible. The crops of 1933 and 1934 were both distinctly short, and he felt that he would be able to dispose of his holdings with perhaps a profit, as a result of this. He doubtless realized, of course, that short crops could not be expected to continually recur, but he did hope that a succession of them would enable him to dispose of most of his holdings at profitable prices. For this reason he held tightly waiting^{for} prices to rise and demand to pick up. Why dump wheat when prices were weak, if the market was going to rise? He realized that in the long run losses were inevitable, but in the short run there might be a possibility of getting out of the market with as small a loss as possible, and possibly a profit.

That he was gambling heavily on short crops and higher prices can be best gauged from his own pronouncements. On returning from London about the first of September 1934 he said: "I always hesitate to offer advice but the present situation is so unprecedented that I venture the opinion that our farmers will do well to adopt a policy of orderly marketing by selling gradually during the coming months. The situation is such as to warrant higher prices than now prevail."* As late as February 1935 he still felt that Canada could get rid of much of its carryover by the end of the crop year, for speaking before the Saskatchewan School Trustees' Association at Moose Jaw he said: "It is therefore evident from whatever angle you approach the question of exports, our carryover will be well under 100 million bushels on August 1st next, which contrasts with the whispering campaign going around

*Financial Post September 8, 1934, page 2.

recently to the effect that Canada's foolish policy will leave us with a carryover of 200 millions."* Mr. McFarland must have been a man of unlimited optimism, for as late as April 11th, he still insisted:"....if our carryover next August 1st is 127 million bushels (and I confidently believe it will be considerably less)..."**

From such statements as these it would appear that Mr. McFarland was gambling heavily on being able to dispose of a substantial portion of his holdings at good prices. This seems to explain why he held so tightly, especially after January 1935. In this sense he was "speculating", although the allegation that his entire operations were based on the hope of making a profit is, of course, preposterous. Mr. McFarland was, above all, desirous of maintaining a decent price for the Canadian wheat grower, and he realized that he could not hope for such by selling wheat on a competitive basis with Argentina, which was flooding the market with liberal supplies of cheap wheat. For four years Mr. McFarland patiently waited for this flood to subside. He did hope, however, to "come out clean" if possible, and that is perhaps why he held more tightly at times than seemed entirely necessary. Mr. Bennett, with a General Election coming shortly, realized that the figures of Mr. McFarland's operations would have to be made public, and he doubtless hoped that his Government could show as small a commitment as possible. These hopes must have been conveyed to Mr. McFarland.

As events turned out, the "gamble" in 1934-35 proved unsuccessful for on August 1st, the Canadian carryover was some 200 million bushels, precisely the amount estimated by the "whispering campaign" condoned by Mr. McFarland.

*Montreal Gazette February 15, 1935 page 21.

**J.I. McFarland "Should Canada have Dumped its wheat?" page 7.

THE EFFECTS OF THE OPERATIONS:

I now propose to trace the various effects of these Government-guaranteed operations. I shall do so under the following heads:

I. PRICES

The primary purpose of the operations was to maintain if possible, a decent price for the Canadian wheat grower. To what extent were the operations able to affect prices favourably? A recent study of Mr. Sanford Evans, prepared for the Food Research Institute of Stanford University, brings out some interesting facts in this regard.* After a careful examination of the statistical data available, Mr. Evans concludes that the immediate effects of the Agency's buying and selling on the Winnipeg price at that point, in a rise, or decline or alteration of the trend, were negligible. "...the Agency did not participate in any elevation of price that occurred, and, indeed, was a net seller while prices were rising. There were forces in the market moving prices down and up which were more powerful than the resources at the command of the Agency."** As to the immediate effects of the impact of extra buying or selling at Winnipeg on the relationship between the Winnipeg and Liverpool price lines, Mr. Evans states that "such....do not appear."*** However, he points out that there was definite relationship between increased holdings by the Agency and Winnipeg-Liverpool spreads, and between Canadian exports and the premiums on Canadian wheat. "By bringing

*"Canadian Wheat Stabilization Operations, 1929-35" Wheat Studies Vol. XII No. 7. This brief publication came into my hands as I was completing this Chapter. It is merely an examination of the price-effects of the operations, and touches but sketchily on some of the other matters which I discuss in this Chapter.

** *ibid.* page 265.

*** *ibid.* page 267-8.

into operation a local application of the law of supply and demand through withholding large quantities from the market,..... (the Agency) undoubtedly influenced the appearance of domestic premiums, but these were at the expense of quantities sold and left large surpluses which, according to the same law, must inevitably tend to affect future prices unfavourably."*

It thus appears that the actual purchases or sales had little or no effect in altering a price trend, but the act of withholding increased supplies had the effect of keeping Winnipeg prices above those of competitive wheats, and of increasing the premium on Canadian wheat. All this, of course, as Mr. Evans admits, leaves untouched the question of how different developments might have been if the Agency had not entered the market. Whether the Agency had the power to bend the price level at its will or not, this much is certain. Its presence in the market had the effect of supporting prices above the level to which they would have fallen in its absence. It is, of course, impossible to make any statistical measurement.

One method of estimating the effects of the operations is to compare the spreads between the prices of Canadian and Argentine wheats. The Food Research Institute has devoted a special study to this question and I summarize its results:**

<u>Aug.-July</u>	<u>Number of Weeks</u>		<u>Average Premiums (Canadian Cents)</u>		
	<u>No.3 N.</u>	<u>Arg.Wheat</u>	<u>Can.</u>	<u>Arg.</u>	<u>Can.52 wks.</u>
1930-31	40	14	3.3	1.5	3.3
1931-32	39	12	3.5	2.0	2.8
1932-33	31	19	2.8	2.1	1.2
1933-34	52	0	7.1	-	7.8
1934-35	50	0	9.1	-	10.1

(On the Liverpool market)

*"Canadian Wheat Stabilization Operations" Wheat Studies Vol.XII No.7. page 271.

**"World Wheat Prices, Canadian-Argentine Spreads, and the Ottawa Agreements" Wheat Studies Vol. XLI No.2. page 46.

The above table shows the number of weeks in which No. 3 Northern wheat and Argentine wheat respectively sold over each other, and the arithmetic average premiums applicable to each wheat when it stood at a premium. The last column is the median premium of Canadian over Argentine wheat counting all the weeks in every year and assuming the absence of a high Canadian quotation as equivalent to a high Canadian premium. It can be seen that in the first three years the average premium was low and tended to decline. In the last two years, however, the changes were great, and can be attributed to the increased volume of holdings and the "peg" put in the market on October 31, 1934. The study concludes: "We are driven to the inference that the wide spread between the prices of Canadian and Argentine wheat in Great Britain has been demonstrably to Canadian tactics of price maintenance and has not been due demonstrably to the dumping of Argentine wheat at lower prices."*

Below I present a table, compiled from official figures, of the spread between No. 2 Northern, Rosafé, and Australian wheats (c.i.f. Liverpool) since November 1930. These again present the same facts.

	<u>AVERAGE PRICES</u>		
	<u>No. 2. Northern</u>	<u>Argentine Rosafé</u>	<u>Australian</u>
Nov/30--Mar/33	70.8¢	62¢	66¢
Apr/33--Jul/34	80.06¢	62.05¢	72.4¢
Aug/34--Jul/35	92.9¢	68.5¢	78.9¢ **

Normally, foreign millers will pay some 10¢ a bushel more for No. 2 Northern than for Rosafé. It can be seen that after April 1933 the spread greatly exceeded that.

* op. cit. page 50.

** These figures on a monthly basis since January 1930 were kindly supplied by Dr. T.W. Grindley, Chief, Agricultural Branch, Dominion Bureau of Statistics. I averaged them as shown above for certain periods which appeared to me most significant.

II. EXPORTS

Closely allied with the question of price maintenance is that of the Canadian export trade. What effects did the operations have on the volume of our exports? Mr. McFarland and Mr. Bennett have both insisted that the export trade was maintained during the period of the operations. It would perhaps be wise to examine the figures.

	<u>C A N A D A</u>			<u>A R G E N T I N A</u>			<u>A U S T R A L I A</u>		
	<u>Crop</u>	<u>Exp.</u>	<u>Car.</u>	<u>Crop</u>	<u>Exps.</u>	<u>Carryov.</u>	<u>Crop</u>	<u>Exps.</u>	<u>Carryov.</u>
1930-31	421	258		232	125		214	152	
1931-32	321	207		220	140		191	156	
1932-33	443	264		241	132		214	150	
1933-34	282	194		286	147		177	86	
1934-35	276	165		241	182		133	109	

(million bushels)

If we bring Canadian and Argentine exports to percentages of world total net exports for each of the years, we get the following figures (approximately):

	<u>CANADA</u>	<u>ARGENTINA</u>
1930-31	30%	15%
1931-32	27%	19%
1932-33	42%	21%
1933-34	35%	26%
1934-35	31%	34%

According to these figures, Canadian exports have been "maintained" but purely from the percentage point of view. Actually Canada's share in world trade has dropped, because the United States which exported 116 million bushels in 1930-31 and 115 million in 1931-32 virtually dropped out of the market after that date. In 1932-33 her exports were 33 millions, in 1933-34 29 millions and in 1934-35 she became a net importer of 4 million bushels. Had Canada "maintained" her share in world trade her percentage should logically have increased, as it did in Argentina. The fact that it showed little variation, in face of huge unsold stocks at home, gives clear proof that her exports have been retarded. The cause of this must lie in the stabilization policy pursued by

the Agency, which had the effect, especially in 1933-34 and 1934-35 of keeping Canadian prices above the level of those of competitive wheats. As a result, despite the higher quality of Canadian wheat, foreign purchasers bought as little of it as possible, and turned to cheaper wheats.

Inasmuch as the British market is the largest in the world, and Canada since 1932 had a preference of some 6¢ a bushel in it over Argentina, let us look at the records of exports into that country:

	EXPORTS INTO BRITAIN:1930-35*			
	<u>Total</u>	<u>Canada</u>	<u>Argentina</u>	<u>Australia</u>
1930-31	207.6	52.9	30.5	33.1
1931-32	227.6	58.9	47.0	50.5
1932-33	204.3	102.8	33.1	50.4
1933-34	200.1	68.6	53.8	41.8
1934-35	188.6	65.4	60.3	37.1

(millions of bushels)

It will be seen that in absolute figures Canada increased its exports into the British market. The increase in Argentine exports, however, is little short of sensational. Here, too, the very sharp drop in the exports of the United States would seem to imply that Canada could have increased its exports more than it did. Its percentage share was increased out of total exports into the British market, but this belies the true facts. Argentina was able to take greater advantage of the absence of the United States than Canada did.

Col. Ralston in figures presented in the House of Commons pointed out that an inverse relationship existed between Canadian exports, and the spread between No.2 N. and Rosafé. (I completed the 1934-35 figures):

	<u>Spread</u>	<u>Exports</u>
1930-31	8 1/8¢	258 million bus.
1931-32	8 5/8¢	207 million bus.
1932-33	7¢	264 million bus. (Over)

*Monthly Review of the Wheat Situation(Dom.Bureau of Statistics)

(cont'd.)	Spread	Exports
1933-34	18 1/8¢	194 million bus.
1934-35	24.4¢	165 million bus. *

I wish to make it clear that though Canadian exports were retarded to a certain degree, they in no way showed a serious diminution. This, in itself, is evidence of the high esteem in which Canadian wheat is held abroad. The 6¢ preference seems to have had little or no effect. Argentine wheat absorbed the duty at no competitive disadvantage to itself.

III. THE WHEAT GROWERS

To what extent did Canadian wheat growers benefit by the operations? Inasmuch as the operations were conducted primarily to maintain a decent price, it is important to know if the wheat growers received a substantial addition to the income they would have otherwise received. It is, of course, absolutely impossible to make an accurate estimate of this, inasmuch as we do not know what would have happened to prices in the absence of support. That the operations had the effect of keeping prices higher than they would have been; there can be no doubt; statistical measurement is impossible.

Whether the farmers' best interests were served by a policy which had the effect of restricting exports somewhat, is a question I shall discuss later. For the moment, I am merely interested in the financial benefits received. Here I use the scanty and unreliable information available. Mr. McFarland on several occasions estimated that the financial benefit of his operations amounted to "hundreds of millions of dollars", an estimate which is so vague as to be useless.** Mr. Bennett, in

* House of Commons Debates (June 12, 1935) pages 3593-34.

**cf. "My Wheat Viewpoint" (Financial Post Jan 5, 1935) page 11.

one of his Western pre-election speeches at Saskatoon in September 1935, said that the Government's wheat policy saved the wheat growers \$150,000,000.* Inasmuch as this was a pre-election speech we can be sure that the estimate was a liberal one.

George McIvor, Sales Manager of the Canadian Cooperative Wheat Producers' Ltd. (and now a member of the Wheat Board) stated before the Select Committee on the Grain Board Act in 1935 that the farmer received indirectly through the operations a subsidy of 15¢ a bushel.**

Whatever the actual sum was, and I personally feel it was a substantial one, it was borne by the foreign and domestic consumer to the extent that they paid the higher price. Part of it was, (or, at least, probably will be) borne by the Canadian Government. If all the holdings can be cleared out at a profit, the total subsidy will have been borne by the consumer. If a loss is incurred (and it appears that such will be the case) part of the subsidy will be carried by the Government. But we can be certain that the benefit received by the wheat grower will exceed any loss that the Government might incur.

IV. MILLING TRADE

The repercussions of the wheat policy on the milling trade can be briefly stated. To the extent that flour is exported, the milling trade was adversely affected by the higher price of Canadian wheat, which put it at somewhat of a competitive disadvantage in the export market. In fact, in recent years, a certain volume of British and Australian flour was imported into Canada, and sold at a cheaper price than the local product. It is

*Montreal Gazette September 27, 1935 page 1.

**page 408.

obvious, of course, that the decline in the flour trade cannot be attributed entirely to the premium on our wheat, although it played a part. The milling industry in Canada is notoriously over-capitalized, and the past five years have been difficult one. Most of the burden, however, has been shifted to the Canadian wage-earner and consumer.

V. TRANSPORTATION INTERESTS

We earlier pointed out the peculiar dependence of our transportation system on the flow of wheat and wheat products. The policy of "holding" wheat has undoubtedly aggravated our railway problem, because due to the heavy fixed charges involved, every bit of traffic is essential. That is why railway officials have so long stressed the need of a "sell-at-any-price" policy as applied to our wheat, although they usually express themselves in less indelicate terms.* I do not think, however, that the effect of the policy has been substantial.

VI. ELEVATOR COMPANIES

The wheat "holding" policy was, in general, favourable to elevator companies, in so far as it meant a greater utilization of their equipment. Since they, too, are burdened with heavy overhead costs, the increased volume of wheat remaining in their elevators helped to materially lessen this burden.** Earnings, however, were reduced by the action of the Board of Grain Commissioners in lowering the storage rate on grain from 1/30¢ to 1/45¢ a bushel a day, in November 1932.*** The rate was restored, however, on September 1, 1933,**** and earnings improved.

* cf. notably Sir Edward Beatty "Agriculture and Prosperity." May 20/35

** H.A. Innis "Notes of Problems of Adjustment in Canada" (Journal of Political Economy Vol. XLIII Dec. 1935) page 104.

*** Department of Overseas Trade: Economic Conditions in Canada. Report of F.W. Field, 1932. p. 52.

**** ibid. 1933-34 Report. p. 99.

VII. EXPORTING COMPANIES

Exporting companies were adversely affected by the stabilization policy. These firms make their profit on a volume rather than a price basis, and the premiums put on Canadian wheat restricted the volume of their business. The peg of 1934-35 was a severe blow to them, for it further curtailed their exports. "I was genuinely shocked when the peg was put in the Winnipeg market," said James Richardson, prominent grain merchant, before the Select Committee on the Grain Board Act. "If the peg had never been put in the market and some elasticity permitted," he continued, "...we would this year have no serious carryover of wheat."* He said he felt that 75 to 100 million bushels could have been sold had prices been a few cents less. This attitude is typical of all exporting firms.

VIII. CONSUMPTION OF CANADIAN WHEAT

It was long believed by Canadian farmers that their wheat was indispensable to foreign millers. The past five years have done much to disprove this belief. British and European millers, spurred on by the cheapness of Argentine wheat in relation to the Canadian product, have learned to adjust their mill mixes in such a way as to minimize the use of the latter. According to the Food Research Institute, European millers are now able "...to mill a satisfactory and uniform flour with the use of five or ten parts of hard Canadian wheat less in the hundred parts than they believed necessary a decade ago."**The resulting product is, however, of lower quality. Many writers have raised the point

* page 87.

** "World Wheat Prices, Canadian-Argentine Spreads and the Ottawa Agreements" Wheat Studies Vol. XII No. 2 Oct. 1935 page 50.

that British people are learning to like the taste of bread made with a minimum of Canadian wheat.* This view appears unduly alarmist, and seems to be controverted by the fact that consumption of bread in Britain is falling so seriously that British bakers have been forced to launch periodical "Eat More Bread" campaigns.

AN APPRAISAL OF THE OPERATIONS

I now come to the most difficult part of my subject - an evaluation of the stabilization operations. During the past five years, there have been two points of view regarding the Government wheat policy. For want of better terms, these may be designated as the "eastern" and the "western" points of view. Those who represent the former, are generally critical of the stabilization operations. They feel that the Government should never have got involved in the wheat market, and should retire as soon as possible. They feel that the operations have needlessly lost markets for our wheat, that overseas buyers have been antagonized, and that the Government has involved itself in a commitment of millions of dollars. They contend that Canada's volume of production demands entry into a wider market, and that our marketing policy should have been one of more liberal exports, of selling on a competitive basis with the wheats of other countries and that, in virtue of our (alleged) superiority as a wheat producer, we should never have allowed other countries to take markets from us. Granted, they say, (although by no means all of them say so) that the market for wheat is limited, why should not Canada have driven out her competitors? There are, of course, variations in this point of view. Some claim that we should sell our wheat at the "world price", and give the domestic producer a bonus. This, they say, gives the farmer a decent price, and at the same time

*F. Chalmers "Our Wheat Gamble" Macleans Magazine March 15, 1935 p. 15

permits a liberal export policy. Others do not seem to worry about the price at all. Another group feel that the market for wheat is unlimited, and they deny that price will be seriously affected if a free export policy is adopted. Others agree that some form of stabilization operations is necessary, but they feel that it should not keep prices at such extravagant levels.

The "western" point of view is best represented by the Pools. They contend that under the present condition of world surplus, a policy of cut-throat competition with Argentina would be disastrous. They feel that the stabilization operations had the effect of maintaining the price of wheat. They realize that the world wheat problem can only be solved by some form of international agreement, but that in its absence, official market support is necessary.

What are we to say of these two points of view? Should Canada have followed a policy of stabilization or not? Have we lost more than we gained? Such questions as these are, of course, extremely difficult to answer. However, certain facts seem clear.

It is my personal belief that, in the circumstances, the wheat stabilization policy was the only logical policy. There can be no doubt that during the past five years a world wheat surplus has existed, in the sense that more has been produced and is being produced, than can be sold at prices remunerative to wheat growers the world over. Inasmuch as the demand for wheat is inelastic, prices would have had to fall to calamitous depths before any appreciable increase in consumption would have taken place. As it is, prices did fall to ruinous levels but yet there was no substantial increase in

the amount consumed. The market for wheat has been decidedly limited. Europe has decided to become self-sufficient as regards wheat, and low prices merely have the effect of increasing its tariffs and other restrictive measures. It is true that lower prices for our wheat (as it is, they were extremely low) would have undoubtedly led to a certain expansion of our exports, but in general, the increase would not have been large in proportion to the drop in price.

Had all market support been abandoned, there can be no telling how far prices would have fallen. Mr. Sanford Evans would have us believe that stabilization operations can have but little appreciable effect in altering basic price trends. The experience of the Agency seems to give weight to this contention. But this further adds to my convictions that had there been no operations at all, matters would have been doubly worse. It is true that no operations in the world can alter the movement of a price trend if basic forces in the market are against such an alteration. But at least they are able to modify the intensity of the trend.

People do not seem to realize that had Canada cut her price (or sold at the "world price" as the expression goes) our competitors would have been forced to cut theirs, and a vicious circle would have set in, with exporters cutting prices, and sales showing no proportionate increase. Europe fears cheap wheat, and experience has proved that there is a tendency for it to raise its tariffs and increase its restrictions in proportion to the fall in price.* Moreover, a large part of the increased sales would not have gone into direct consumption, but would simply have piled

*The necessary transition to wider markets for agricultural produce according to the Economic Committee of the League of Nations "...might be more easily engineered if exporters could...organize themselves...to avoid...ruinous competition, which by flooding the market...tends to strengthen the protectionist policy of the industrial nations"

as reserve stocks abroad, or into the hands of speculators who would dump it when the market weakened.

Many people will say: "Granted that consumption will not substantially increase if prices are lowered. But why should not Canada drive her competitors out of the market? Why should we stand back and let Argentina sell, when we are more efficient in the production of wheat?" It may be possible for Canada to push Argentina out, but such would only occur after a competitive struggle which would have the effect of driving Canada out of the wheat-growing business altogether. Then, again, I have grave doubts as to Canada's ability to displace her competitor so easily. Argentina has much in its favour as a wheat producing nation. It has the advantage of cheap land, cheap labour, and a very economical use of machinery owing to the size of the farms. Canada, of course, has the advantage of higher yields per acre. But the average haul to the Argentine seaboard does not exceed 50 miles, as compared to the great distance in Canada. While it is true that the distance between Montreal and Liverpool is less than half that between Rosario and Liverpool, nevertheless Argentina enjoys a very favourable freight rate due to the sharp competition, in recent years, for cargoes.* According to a recent study it is "probable...that the over-all costs of production and transportation in the two countries approximate each other quite closely.....We can no longer blind ourselves to the intensity of the competition Canadian wheat is meeting from Argentine, nor can we dismiss it as a temporary phenomenon."**

It would thus appear that to "drive Argentina out of

*Monthly Commercial Letter of the Canadian Bank of Commerce,
May 1935 page 5.

**ibid.

the market" will not be as easy as it is commonly supposed. Argentina lacks adequate storage facilities, and she is continually pressed for foreign exchange. These causes make liberal exports essential. According to George McIvor, on several occasions, the Agency lowered prices, and this was followed by a similar move on the part of Argentina. Such gives an indication of what might have occurred had the policy been carried further. Mr. McFarland expressed this appropriately when he said: "Get into a dog fight on prices, and you can get any market where low price is the determining factor. We could be getting into more markets today if we wanted to fight it out with Argentina. We might sell a little more today but we would be setting up a vicious circle of cutting prices. It isn't really a vicious circle. It is more like a mountain trail leading down and around, down and around, and there is no bottom in sight."**

Many will say: "Why not sell in competition with Argentina and bonus the producer, to protect him against the low prices?" The people who so blithely suggest this seem to forget that this would entail a terrific charge on the Government, and the lower the price was forced, the greater would become the bonus. Even if no bonus was given, the relief problem would be tremendous.***

Those who favour a policy of competitive sales, and at the same time support the Canadian tariff, are clearly inconsistent. The loss of markets for our wheat are largely due to our tariff policy which has had the effect of forcing foreigners

*Proceedings, Committee on Grain Board Act 1935 page 377.

**Interview printed in the Montreal Gazette April 8, 1935 page 13.

***R. McQueen "Economic Aspects of Federalism" (Canadian Journal of Economics and Political Science August 1935) page 360.

to restrict their purchases from us. In many respects, the stabilization policy was the direct and inevitable result of the high tariff policy pursued by this country. So long as we pursue a protectionist policy on the scale which we have since 1930 we cannot hope to sell in the same volume as we did in the past. Thus, when the financial press and Eastern industrialists tell the farmer to sell his wheat, let them remember that a high tariff policy restricts exports by raising domestic costs and by giving foreign purchasers less of the wherewithal to buy from us. As one Westerner has appropriately put it: "Wheat cannot be sold without markets and the loss of markets was not the doing of the Prairie Provinces. Given that we are to continue the protective policy to the degree in which we have it now, Mr. McFarland has distinctly had the better of the argument with the editor of the Financial Post and those who think with him."*

During the past five years the world has been suffering from an over-production of wheat. Competitive disorganized selling would have merely intensified the decline in prices and further stimulated economic nationalism in Europe. Canada has, or should have, as the world's leading exporter, a definite interest in maintaining a decent price for wheat. I personally feel that the stabilization policy was, in the circumstances, the wisest course that could have been pursued. It did help, to a small degree, to lessen the burdens resulting from the collapse in prices. In the past five years Canada has still sold 1,730,000,000 bushels and in that period our carryover increased only some 100 million bushels. That does not seem to be such a bad record. As Mr. McFarland has said; "If, as has

been alleged, we have been holding an umbrella over the other countries throughout these years, then surely those who have made such accusations will have to admit that the same umbrella has protected nearly $1\frac{3}{4}$ billions of bushels of our own production, all of which have been sold at prices much higher than the so-called world prices." People are so obsessed with the idea of volume that they seem to forget the importance of price.** In the future, I believe that Canada's choice must lie between one or the other.

The Canadian wheat grower is entitled to a fair return for his labour. So long as tariff protection remains as part of the policy of this country, we cannot expect him to sell in the same volume as he did previously, and to obtain substantial prices, at the same time. Granted that the railways may lose a certain amount of business by a policy of "holding" we may ask the question: Are we running our country for the benefit of the railways, or the Western wheat growers? We must not look at our economy from the point of view of the railways, which are admittedly important, but of the economy as a whole, in which the railways form only one part.

Canada must squarely face the choice: exports or tariffs? If she chooses to maintain the latter, some form of "stabilization" policy is essential. The stabilization policy which this country pursued in 1931-35 was not only politically expedient, but economically inevitable. It had, however, one vital defect. It was not coupled with production control. The result was that increasingly burdensome stocks piled up. If we hope to maintain a premium on our wheat we must expect such. We cannot have our cake and eat it, too! We leave a discussion of what our future policy should be for Chap. 7

*"Should Canada have Dumped its wheat?" page 7.

**cf: "The sale of wheat is far more important than the price of wheat, far more important than the affairs of the wheat pools, or of other branches of the grain trade." (Financial Post May 7, 1931)
p.1.

I earlier expressed the opinion that on certain occasions Mr. McFarland held perhaps a bit too tightly, in the hope that he would minimize his losses. On these occasions he might have sold a larger volume of wheat, but I do not think that the situation would have differed greatly had he done so. Argentine competition was so vigorous throughout the entire period that greater elasticity on the part of Agency would have merely started the vicious circle of price-cutting. "Looking backward", stated Mr. McFarland a short time ago, "I confess to errors of judgment. But I believe such errors were minor only, and did not materially affect the final outcome of the major problem involved. The best was done from day to day and year to year. Adoption of any other policy would have imposed intolerable hardships on the people of the country, or, on the other hand, cost the public treasury large sums. Our designed control has operated to the great advantage of the Dominion, and to the benefit of Western Canadian producers."*

*Montreal Star February 14th, 1936. page 1. (Reporting a speech at Calgary).

CHAPTER FIVE : THE CANADIAN WHEAT BOARD

The operations which I have described in the previous chapter were at all times conducted in the name of the Canadian Cooperative Wheat Producers Ltd., although, as we have seen, its account was guaranteed by the Dominion Government. It had long been recognized that this position should be regularized. The Agency was a private corporation of a doubtful legal standing, over which the Government had no direct legal control.* Yet it had committed the Government to a huge contingent liability. Late in February 1935 Mr. Bennett served notice that he intended to propose the establishment of a Canadian Wheat Board. The bill, however, was not introduced until June 10th.

The establishment of a Board was not such to create alarm, inasmuch as the Agency itself had virtually been a Board. But the legislation proposed a Board on the 1919-20 model with wide compulsory powers over the handling and marketing of wheat. The obvious implication of the Bill was that the Winnipeg Grain Exchange would be closed. Every elevator in the country was to operate on behalf of the new Board, and it was given power to take delivery of wheat from the farmer producers. Severe penalties were to be imposed on those who contravened the Act. The constitutional basis of the legislation was given as Section 233 of the Canada Grain Act under which it is declared that elevators are works for the general advantage of Canada. To avoid other constitutional difficulties, the Board was to concern itself only with international and interprovincial trade.

*"Canadian Wheat Stabilization Operations" Wheat Studies Vol. XII No. 7. page 270.

The Bill gave no indication as to what the marketing policy of the new Board would be. Would it be one of orderly liquidation of accumulated holdings, coupled with a competitive sales policy, or would it be one of continuing to pile up stocks? Due to the opposition of the Liberal members in Parliament, the Bill was referred to a Select Committee of the House. It was before this Committee that most of our information on the stabilization operations was presented.

Various witnesses representing different interests were heard. These included Messrs. R.McKee, R.Milner, J.Richardson, R.S.Law and Sidney Smith, for the private trade, and L.C.Brouillette, P.F.Bredt, R.C.Findlay, G.H.McIvor and George Bennett for the Pool interests. The general ideas of the former group may be summarized as follows. They contended that Canada should sell its wheat at the "world price," or at least, not at the extravagant premiums at which it was held in 1933-34 and 1934-35. They all insisted that no policy should be followed which would adversely affect the export trade. They believed that the accumulated holdings should be liquidated gradually, so as not to unduly depress the price. Admitting that the wheat grower should be given some form of protection, at least in the transition stage, they favoured a policy of either direct subsidization, or of establishing a Board or Commission on the Argentine model, which would buy wheat at a fixed price. Above all, they contended that the trade should in no way be interfered with, and they expressed their faith in the futures system. They contended that the futures market would function correctly if the Government would remove itself from it. Their general theme song in this respect might appropriately be called, "Just One More Chance."

The Pool interests strongly favoured the proposed Board, and defended the stabilization policy. They claimed the futures system had proved its

inability to function without support.

The opposition of the politically articulate grain trade to the Bill was so strong, and the evidence submitted so revealing, that when it was introduced into the House of Commons again it was substantially changed. The compulsory clauses (9,10,11 and 16) were made not mandatory but permissive, and were to become operative only on the proclamation of the Governor in Council. Other important changes were introduced. Whereas the original Bill had said nothing about the marketing policy to be pursued by the Board, the amended Bill provided for a definite sales policy. It was to market from time to time all wheat or futures which it might acquire "for such price as it may consider reasonable, with the object of promoting the sale and use of Canadian wheat in world markets." The stocks of wheat and futures which it was to take over from Canadian Cooperative Wheat Producers Ltd it was to sell and dispose of "as speedily as may be reasonably possible, having regard to economic and other conditions," and it was "to offer continuously wheat for sale in the markets of the world through the established channels." Moreover, the Board was now to buy wheat only from producers, the obvious implication being that stabilization purchases were to be precluded. It was to deal only in wheat, and the provisions of the Act were to be made applicable to coarse grains only on the proclamation of the Governor in Council. The original Bill had included coarse grains in the operations of the Board.

In short, the new Bill provided for a radical change of marketing policy. Small wonder that even the Financial Post was surprised, although, of course, delighted.* The stabilization

*July 6, 1935 page 1.

operations were to be abandoned, accumulated stocks gradually liquidated, and a definite sales policy initiated. In short, marketing policy was to be completely reversed. The private trade was to be given complete freedom, as in the past, and the Winnipeg Grain Exchange was to get another chance to prove its worth. The evidence submitted before the Select Committee had shown that the operations of the past four years had led to a huge accumulated carryover, a heavy contingent liability on the part of the Government, and that Canadian exports had been adversely affected. These were undoubtedly the reasons for the change in the Government's attitude.

When the Act was finally passed, a furore was created in world wheat markets, for it was generally felt that the new policy was to be one of dumping accumulated stocks on the market. But Premier Bennett took it upon himself to spike this rumour. Speaking in the House of Commons, he stated in part: "...nothing is further from the government than that should be so.....as long as this government exists, there is no intention that this country should offer its surplus of grain at fire sale prices, or throw its surplus on the markets of the world."*

Let us turn to an examination of the major features of the new Canadian Wheat Board Act.** The Act, which became law on July 5, 1935, provides for the establishment of a Wheat Board to consist of three members appointed by the Governor in Council, one of whom shall be the Chief Commissioner. Each member is to hold office during good behaviour, but no Commissioner shall hold office beyond the age of 70 years. The Governor in Council is

*House of Commons Debates pages 4273-74 (1935)

**Statutes of Canada 25-26 George V 1935 Chap.53.

empowered to appoint an Advisory Committee to advise the Board, to consist of not more than 7 members, of whom 4 shall represent wheat producers.

The Board is given power to undertake the marketing of wheat in interprovincial and export trade, and for this purpose it is empowered to take delivery of wheat as offered by producers; to buy and sell wheat except that "no wheat shall be purchased by the Board except from the producers thereof"; to operate elevators, either directly or by agents; to pay producers delivering wheat a fixed price per bushel to be determined by it, and to issue to them certificates entitling them to share in the equitable distribution of the surplus, if any; and to acquire from Canadian Cooperative Wheat Producers Limited "upon terms to be approved by the Governor in Council, all wheat or contracts to purchase or take delivery of wheat in respect of which the Government of Canada has given a guarantee."

The duties of the Board are "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"; "to sell and dispose of stocks of wheat and contracts for the delivery of wheat acquired from Canadian Cooperative Wheat Producers Limited and the wheat represented by such contracts as may be reasonably possible, having regard to economic and other conditions"*; in selling and disposing of wheat to utilize without discrimination such marketing agencies as commission merchants, brokers, elevator men and exporters, as it may desire; "to offer continuously wheat for sale in the markets of the world through the established channels;

* In the amended bill as reported back to the House by the Select Committee were included the words: "as speedily as may be reasonably possible," etc., but they were stricken out of the final Act.

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." The Board is also given power to investigate the operations of the Winnipeg and Vancouver Grain Exchanges and the Winnipeg Clearing House Association as it deems advisable. The Governor in Council may make the provisions of the Act applicable to oats, barley, flax, and rye produced in the four Western provinces.

The following provisions are to become operative only on the proclamation of the Governor in Council. Every elevator shall be operated for and on behalf of the Board, and no person other than an agent of the Board shall operate any elevator unless it has been excepted from the operation of the Act by order of the Board. No railway company or other person engaged in transportation shall receive or deliver any wheat from or to any elevator after notice has been given it that such elevator is being operated in contravention of this Act. No certificate as to grade or weight shall be given by any inspecting officer in respect of wheat stored in any elevator after notice has been given that such is being operated in contravention of this Act. Those who commit breaches of these clauses will be guilty of an offence punishable by a fine not exceeding \$500 or by imprisonment for a period not exceeding 6 months, or by both. These are the clauses which were mandatory in the original bill.

It can be seen that the Canadian Wheat Board is similar to the Argentine Board of Control for Cereals. A fixed minimum price is guaranteed to wheat producers, who may deliver to the

Board at any time. Participation certificates are given, entitling them to further payments should profits be incurred. (As far as I know, participation certificates are not part of the Argentine Act). Should the market price exceed the Board's fixed price, farmers are given the choice of either selling on the open market or delivering to the Board. If the Board's price is equal to or above the market price, producers will deliver to the Board, which also ensures them of possible further receipts. The Board uses the ordinary channels of the grain trade in buying and selling. Western elevator companies act as its agents and buy wheat from the farmers at the fixed price (or, of course, at a higher price if the market price exceeds the Board's price and farmers should want to sell at that price.) In selling, the Board makes use of existing export firms, and the machinery of the Winnipeg Exchange. The Board may hedge its sales if it chooses to do so; but with its finances guaranteed by the Government it need not do so, and much of its holdings is carried unhedged.*

The Act was obviously a compromise. It was an attempt to satisfy the persistent demand of the Pool interests for a Wheat Board, and the claims of those who uphold the open futures market and believe in competitive selling.** By a very fortunate occurrence, the Board came into existence at a time when Canada was able to sell its wheat without the competition of cheap Argentine wheat. Because of this, it was able to initiate a vigorous selling policy without depressing prices. I shall have more to say about this significant fact later.

*H.L.Griffin "The Grain Trade of Canada" (Economist, London, Special Survey Number of the Dominion of Canada Jan.18th,1936) page 22.

**J.Bazin: "On voit que cette loi constitue une sorte de compromis et que le Parlement a voulu fournir aux partisans du commerce libre et a ceux de l'étatisme l'occasion d'éprouver par une expérience conjointe la valeur des prétensions de chacun."(Actualité Economique Oct.1935 p.432).

By May 1935, Canadian Cooperative Wheat Producers Ltd. had accumulated, as we have seen, some 228 million bushels of wheat. Of this, about 50 millions were in the form of cash wheat, and some 177 millions in futures. At this time the visible supply of Canadian wheat was 200 million bushels. This implied that the Agency had right to claim delivery of some 28 million bushels that did not exist, or, as the trade insisted, that were legitimately hedged but in positions not included in the Canadian visible. Even if the entire 177 million bushels represented by the futures held by the Agency existed and could be delivered, it was obvious that actual delivery would be impossible. Storage facilities at Port William and Port Arthur would not permit it. At the request of the Agency the Winnipeg Grain Exchange had deferred trading in October options, and though the July option had been on the Board for some time the Agency had not operated in them. In short, unless it switched the options it held to July or future months, all the wheat in the country would have to be delivered to it. In short, the trade was at its mercy. Had the Agency chosen to take delivery as stipulated in the future contracts, it would have put many operators and others in an extremely embarrassing position, and would have, at the same time, deprived grain firms of their stock in trade. Late in June, however, a Special August option was put on the board, and the Agency prevented a ludicrous situation by switching its hedges to this month.* The peg, however, still remained at 80¢ a bushel, basis No. 1 Northern.

There was considerable delay in setting up the new Board. For several weeks speculation was rife as to who would be the Commissioners, what the minimum price would be set at, and what would

*Financial Post June 29, 1935 page 17.

be done as to the shifting of wheat and futures contracts from one organization to the other. Inasmuch as no facilities were provided for trading in grain beyond the August option, the Agency with Mr. McFarland still at the helm, had an absolute corner in the market.* The trade was still in the Agency's hands, because all of the wheat in the country had to be delivered to it at the end of the month unless further switching were permitted. It was feared that the Agency would "pull a squeeze". Due to the tightly cornered position, the futures market was to all intents and purposes closed. The pegged price had the effect of clogging the export movement, and the whole marketing machinery was virtually at a standstill. During June, July and August the Agency did insist on a certain amount of wheat being delivered, and figures recently brought to light, show that stocks of wheat in its possession rose from 51,642,000 bushels at the end of May to 98,626,000 bushels at the end of August.** In this same period it was also able to reduce its total holdings from 228,562,000 bushels to 209,783,000 bushels.***

On August 14th the members of the Wheat Board and the Advisory Committee were announced. John I. McFarland became Chief Commissioner, and the other Commissioners were D.L. Smith, former Sales Representative of the Central Selling Agency in England, and Professor Henry C. Grant of the University of Manitoba. The Advisory Committee, as announced, were Robert McKee, Lew Hutchison, Louis C. Brouillette, B. Catton, Sidney Smith, Paul Bredt and C.G.C. Short. On August 15th the Board officially came into existence.

*Financial Post August 3, 1935 page 13.

**House of Commons Debates March 31, 1936. page 1772. These figures were taken from an Auditors' Report, of which I shall say more later.

***ibid.

About August 20th the October and December futures were posted on the board. Arrangements were made whereby the Agency took delivery of a certain amount of wheat,*and allowed the greater part of its hedges to be switched to the later months.**Trading in October and December futures, however, were put under strict regulation, and "spreading" was forbidden,while fluctuations in excess of 3¢ a day were not allowed. In a few weeks, the first regulation was removed, but the rule about fluctuations remained in force.***

On September 6th,Mr. Bennett,in an address broadcast over the Dominion, stated that the minimum price at which the Board would take delivery of wheat would be $87\frac{1}{2}$ ¢ basis No.1 Northern, Fort William. A few days later, the Board announced that the prices of Nos. 1,2 and 3 Durum wheat would be the same as Nos.1,2 and 3 Northern wheat, and that the basic price of $87\frac{1}{2}$ ¢ per bushel would also apply to wheat shipped to Vancouver. On September 17th the Board published the prices at which it would purchase all grades of wheat.**** On the 23rd a minimum price of 50¢ a bushel, basis carlots in store Fort William or Vancouver, was announced for "Feed" wheat. On September 25th the Board began taking delivery of wheat from producers.

The price of $87\frac{1}{2}$ ¢ for No.1 Northern was unexpectedly high. It had been generally felt that the price set would be about 80¢. Mr. Bennett undoubtedly set the price that high as a pre-election move. Moreover, he was gambling on bullish prospects to push the price up. A drought in Argentina gave promise of a short crop, while the

* In August 32,439,000 bushels were delivered to the Agency.

** Financial Post August 24th page 13.

*** Financial Post September 14th.

**** The Canadian Wheat Board - Monthly Summary of Statements Issued September 1935.

Italo-Ethiopian campaign had the effect of strengthening the demand for wheat. His hopes were realized when on September 20th the price rose to \$1.00, and although a set recession set in, \$1.00 wheat was reached again on October 2nd, 3rd and 5th. From then on, the trend was downward. Inasmuch as the market price at this time was higher than the Board's fixed price, most of the deliveries of new-crop wheat were sold on the open market. However, after the recession, practically all wheat was delivered to the Board. By October 26th the Board's prices on all grades exceeded the market prices.*

Early in October the Agency, which had not as yet delivered its stocks to the new Board as provided in the Act, switched most of its October hedges to later months. After August a large part of the cash wheat of which it had taken delivery was converted back again into futures for distant months.**

After the election of the Liberal Party into power about the middle of October, a sub-committee was appointed to deal with the whole wheat problem, and consisted of Hon. W. D. Euler, Minister of Trade and Commerce, Hon. C. A. Dunning, Minister of Finance, and Hon. J. G. Gardiner, Minister of Agriculture. In November it reported to the Cabinet that there was a definite sales resistance to Canadian wheat, that the cause of it was antagonism to the existing personnel of the Board, and that Messrs. McFarland, Smith and Grant should be replaced. When these three gentlemen learned of this, they sent a telegram to Mr. Euler, in which they said in part: "We deny that a sales resistance ever existed or now exists in world

*Financial Post November 2, 1935. page 13. cash

**By the end of October 27,591,000 bushels of wheat had been disposed of, and the option position of the Agency had increased by 23,140,000 bushels. (House of Commons Debates 1936) page 1172.

markets based on antagonism to the present Board...in fact, all statistical evidence points to the contrary."* They said they would be prepared to resign for political reasons, but only if the statement about sales resistance was withdrawn, which they considered a "serious reflection" on their "ability and integrity." Evidently the Government was not prepared to make any withdrawals, for on December 3rd, the following day, an order-in-council was passed which made their removal legal.** On that day Mr. Euler made a statement to the press in which he announced that a new personnel had been appointed, consisting of J.R.Murray, General Manager of the Alberta Pacific Grain Company, as Chief Commissioner, George H.McIvor, of the Canadian Cooperative Wheat Producers Ltd., and Dean A.M.Shaw of the University of Saskatchewan. The Wheat Advisory Committee set up under the Act was abolished, and was replaced by a Committee of the Cabinet, consisting of Mr. Euler, Mr.Dunning, Mr. Gardiner and Mr. Crerar (Minister of Mines.) Mr. Euler, in making these announcements, added: "...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 cooperation of the grain and milling trade 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."***

On December 5th Mr. McFarland issued a statement to the press in which he asserted that he was "...not at this time voluntarily deserting the ship, when we are so near the conclusion

*House of Commons Debates 1936 page 62.

**P.C. 3756.

***Montreal Gazette December 4th, 1935. page 1.

of a successful voyage....I express my one and only regret, namely that events over which I had no control now prevent me from completing this year's operations as chairman of the Wheat Board."* There is a certain note of pathos in this statement. For four years he had waited patiently for the flow of cheap Argentine wheat to subside, and now that it had, he was unable to realize his long-awaited objective of being able to dispose of his holdings without fear of depressing the market.

Although the Government have insisted that he was removed due to a sales resistance which had developed because of antagonism against him and the other Commissioners, there is little doubt that the political element played a strong part. The Government was out to "get" him, and awaited the first opportunity to do so. In the House of Commons Mr. Bennett contended that the charge of "sales resistance" was merely a blind, and that the Government had removed Mr. McFarland in order to please the private trade and a few "big shots" in England. He charged that the new Board was dominated by the Winnipeg Grain Exchange, and that Mr. Murray "...represents, if any man does, opposition, violent, unquestioning, to what are known as the pool interests in Western Canada."**

On January 22nd, 1936 an order-in-council was passed authorizing the payment of \$9000 to each of the deposed Commissioners as salary for their services. Mr. McFarland quickly sent his cheque back to Mr. Euler contending that he could not accept it because he had been retired for "...a cause which was clearly established as unwarranted."***

*Montreal Daily Star December 5th, 1935 page 1.

**House of Commons Debates 1936 page 62.

***ibid. page 155.

Before turning to a discussion of the policy of the Wheat Board under both Mr. McFarland and Mr. Murray, I should like to outline the arrangements made by it and the Canadian Cooperative Wheat Producers Ltd. concerning the transfer of wheat and futures from one organization to the other. Under the Wheat Board Act, Section 7 (f), the Board was given power "to acquire from Canadian Cooperative Wheat Producers Limited, upon terms to be approved by the Governor in Council, all wheat or contracts to purchase or take delivery of wheat in respect of which the Government of Canada has given a guarantee."

The Board was thus to acquire all the existing stocks and futures held by the Agency. On what basis was the transfer to be effected? As far as the "special" wheat was concerned, there was no difficulty involved. The Government had guaranteed this account which, as we have seen, amounted on May 31, 1935 to 152,446,000 bushels. The Agency had absolutely no equity in this wheat, and consequently its transfer involved no questions of compensation. The Government guarantee would still remain although the wheat would be in different hands. The contentious point, however, was the "Pool" wheat, which amounted to some 76,000,000 bushels. On this wheat, delivered to Canadian Cooperative Wheat Producers Ltd. during the 1930-31 season, initial payments varying from 70¢ and 60¢ to 55¢ and 50¢, basis No. 1 Northern, Fort William, had been paid. Did the Pool have the right to claim any compensation on turning this wheat over to the Board, and if so, how much? Up to May 31, 1935, this wheat, plus accumulated storage charges, had cost some \$1.05 a bushel, and it would have to be sold at that price if the Government were to break even. To date, price has never approached that point, or even near it for any length of time. On a strict

basis of valuation, it would appear that the Pool had no claim for compensation on turning these stocks over to the Board. But in other respects, it had a strong claim. The Pool contended that the 76 million bushels had been taken off the market, put into a separate account, and used as a base for the stabilization operations. In other words, this Pool wheat was used to maintain the price of wheat for all farmers. On this ground, and on the ground that the Pool could have sold all of the wheat at prices above what was paid out as initial payments, it demanded compensation.*

Negotiations commenced in October for a transfer of the stocks between the two organizations. The Wheat Board was anxious to take over the wheat in order to enable it to commence operations on an extensive scale. An agreement was drawn up between Mr. L.C. Brouillette, as President of the Canadian Cooperative Wheat Producers Ltd. and Mr. McFarland as Chief Commissioner of the Canadian Wheat Board, whereby the former agreed to transfer all stocks held by his organization on the following conditions: (1) The Board was to assume all the liabilities of Canadian Cooperative Wheat Producers Ltd. to the Banks for advances made to acquire and hold wheat and contracts for future delivery. (2) The Board would pay to Canadian Cooperative Wheat Producers Ltd. the sum of \$8,262,415.37, "being the sum total of balances due to the primary producers and expenses and other charges in connection with the holding and handling of the wheat". Mr. Brouillette had listed these conditions in a communication sent to Mr. McFarland on October 8th, and Mr. McFarland had replied on the same day that the Wheat Board was

* This discussion is drawn from House of Commons Debates 1936. pages 1587-1619;1656-1680;1737-1756;1824-1833.

prepared to accept these conditions. On October 10th an order-in-council was passed giving approval on the condition that the sum of \$8,262,415.37 be verified by Auditors' Certificates.* This order-in-council was in keeping with the clause in the Wheat Board Act to the effect that wheat was to be acquired from Canadian Cooperative Wheat Producers Ltd. "upon terms to be approved by Governor-in-Council. On November 5, 1935 the Hon. C. A. Dunning, Minister of Finance sent a communication to the firm of Price, Waterhouse & Co., asking them to verify the figure.

Before the Auditors' report was forthcoming, however, the actual transfer of stocks was effected. On November 12th the Hon. W. D. Euler had written to Mr. McFarland asking him to take transfer of the stocks at once, the actual sum that would be paid to the Canadian Cooperative Wheat Producers Ltd. to depend on the Auditors' report. Mr. McFarland replied that that organization was debating the matter. Mr. Euler, in turn, replied that the transfer was essential in the "public interest", and that unless Canadian Cooperative Wheat Producers would agree to such at once, he would apply coercive measures under the terms of P.C. 974 of April 12, 1935 under which the Government had the power to force it to sell or dispose of its stocks at once. The delay had been caused by the fact that that organization feared that the Auditors' Report might lead to a scaling down of the sum of \$8,262,415.37, and they were not particularly anxious to deliver their stocks until they were given some definite assurances as to the actual compensation they would get. Mr. Euler's threat, however, forced action.

* P.C. 3199. Mr. Bennett and Mr. Euler got into a lively tussle in the House of Commons over this order-in-council. Mr. Euler accused, or, to be more exact, made the delicate insinuation, to Mr. Bennett that after the order-in-council had received the Governor-General's approval, the reference to an Auditors' Report had been added. Mr. Bennett vigorously denied such an allegation.

On December 2nd, the organization sent a wire to Mr. Euler in which they stated: "We, the Canadian Cooperative Wheat Producers Limited, hereby assign absolutely to the Canadian Wheat Board all our right, title and interest in and to all wheat contracts to purchase or sell for future delivery carried upon our account with the Winnipeg Grain and Produce Exchange Clearing Association to our credit in the form of margins in connection therewith." Delivery commenced at once, and on December 14th Mr. Euler was notified that the final transfer had been effected.

Canadian Cooperative Wheat Producers Ltd. was now an organization without a purpose. It was now neither the direct selling agency of the three Pools nor the stabilization agency of the Government. However, it is to be retained as a legal entity and as a medium unifying the three Pools. Its purpose will be to "promote a uniform marketing policy, maintain cooperative principles and practices, give weight and strength to organized grain growers and mutual support to efforts for the improvement of the conditions of the man on the land."*

On January 25, 1936 the Auditors presented their report. It was disclosed that the figure of \$8,262,415.37 arrived at by the Pool was made up of the following items:

To equalize payments on wheat at 60¢(No.1 N.)	\$6,509,269.36
Payments on coarse grains	\$ 890,658.44
Expenses of Pool organizations in 1930-31	\$ 862,487.57
	<u>\$8,262,415.37</u>

That is to say, as far as wheat was concerned, the Pool felt that it deserved enough money to equalize payments on all the wheat delivered to it in 1930-31 at 60¢ a bushel, on the basis of No.1 Northern at Fort William. That is, those who had been paid 55¢ and 50¢ were to be

*Directors Report, Canadian Cooperative Wheat Producers Ltd. 1934-35.

given enough to make up the full 60¢ a bushel. Why was the figure of 60¢ a bushel chosen? On February 29, 1932 the Pool had made an estimate of what was logically coming to them on account of their 1930-31 wheat. At that date the price of wheat was about 60¢, and it felt that had it been allowed to sell the 76 million bushels at any time up to that date, it could have realized at least 60¢ a bushel on all of it. It therefore contended that the amount logically coming to it on account of this wheat should be sufficient to equalize all payments on the 1930-31 crop at 60¢ a bushel, basis No. 1 Northern Fort William.

The item for the coarse grains is somewhat puzzling. The agreement between Messrs. Brouillette and McFarland had specifically applied to a sum of money, being the "sum total of balances due to the primary producers and expenses and other charges in connection with the holding and handling of wheat." (underlining mine). The order-in-council which ratified this agreement subject to an Auditors' certificate, had likewise made no mention of coarse grains. The Pool had undoubtedly given this clause a broad interpretation for it included certain payments which it felt it deserved on account of coarse grains, in the figure of \$8,262,415.37. Mr. McFarland on taking office in December 1930 had, as I earlier remarked, taken over a certain volume of barley, flax, rye and oats from the Saskatchewan and Manitoba Pools. (The Alberta Pool had dropped its coarse grains pool in 1930-31). This was sold over the course of the next four years, the rye being disposed of on August 31, 1933, the flax by July 31, 1933, the barley by the end of October 1935 and the oats by December 2, 1935. The results of the sales of these grains had resulted in a net profit, (i.e. an amount over the total initial payments which had been paid out on account of them). On

barley a profit of \$15,482.58 had been realized; on flax a profit of \$210,926.05; on rye a profit of \$124,276.02; while on oats a loss of \$200,037.90 was incurred. Now the Pool, as in the case of wheat, tried to justify the payment of the sum of \$890,658.44 to it on account of coarse grains, and this figure had been arrived at on the basis of certain theoretical calculations. This figure was arrived at on February 29, 1932, on which date the Pool had estimated that it was the amount that was owing to them. In the figure of \$8,262,415.37 there was also included the sum of \$862,487.50 on account of the expenses of the three provincial pools in 1930-31. The Pool felt that in the transfer this sum should also be given to them. In short, the Pool based its total claim on the fact that the Government had used its facilities as a stabilization agency, that some 76 million bushels were taken off the market in order to assure the success of the operations, and that expenses of the three provincial organizations for 1930-31 year, as well as certain payments for coarse grains should be met.

On the receipt of the Auditors' Report, the Government saw and recognized the justice of the claim for wheat equalization payments, but it did not accept the claim for the other two items. It contended that the coarse grains had formed no part of the stabilization operations, as did wheat; and that they were not held off the market for any such purpose. Consequently, it did not feel itself justified in making the payment of \$890,658.44 specified by the Pool. That figure had been arrived at before all the coarse grains had been sold, and took no account of carrying charges that were later incurred, and of lower prices that were later realized. Inasmuch as a credit balance of \$350,684.65, however, had been realized on the sale of barley, flax and rye, the Government decided

to return it to Canadian Cooperative Wheat Producers Limited for distribution to the provincial pools. The Government did not recognize the claim of \$862,487.50 for expenses of the three Pools.

Legislation was therefore introduced into the House of Commons to equalize payments on the 1930-31 Pool wheat crop on the basis of 60¢ basis No. 1 Northern, Fort William, and in the case of durum wheat on the basis of approximately 66¢ a bushel, basis No. 1 Amber Durum, Fort William. That is, those who received payments below these figures were to be given an amount necessary to bring them up to the established level. Under the Act as finally passed, the "1930 Wheat Crop Equalization Payments Act",* authority was given to the Governor in Council to authorize payment out of the Consolidated Revenue Fund of sums not exceeding in the aggregate \$6,600,000 for distribution to primary producers who delivered wheat to the three Pools in the crop year 1930-1931, so that payments might be equalized on the basis of 60¢, No. 1 Northern, Fort William or approximately 66¢, basis No. 1 Amber Durum, Fort William. The Governor in Council was also empowered to authorize the Canadian Wheat Board to pay Canadian Cooperative Wheat Producers any net credit balances in its favour in respect of transactions in barley, flax and rye delivered to it by primary producers through their respective Pool organizations in 1930-31. Before any money is disbursed, however, "a final release and discharge in a form to be approved by the Governor in Council shall be obtained of all claims which Canadian Cooperative Wheat Producers Limited may have against the Canadian Wheat Board arising out of the transfer of wheat or contracts to purchase or take delivery of wheat by Canadian Cooperative Wheat Producers Limited, to the Canadian Wheat Board under

*Statutes of Canada. Bill 22, passed April 1, 1936.

authority of paragraph (f) of section seven of the Canadian Wheat Board Act 1935." In short, the cut-off between the two organizations will be complete and final. The expenses involved in the carrying out of the provisions of the Act will be met from the appropriation of \$6,600,000. It is estimated that the expenses will not exceed \$20,000.

Many non-Pool farmers who sold their wheat on the open market in 1930-1931 and received less than 60¢ for it felt that they, too, should be entitled to equalization payments. They petitioned the Government in this respect, but they were refused, as the Government felt they had no just claim.* About the same time, those farmers who had sold their wheat of the 1935 crop before the 87½¢ minimum price had been established, and had received a lower price for it on the open market, felt that they should be given enough to bring their receipts per bushel up to the 87½¢ level. The Government likewise refused this claim**

POLICIES OF THE WHEAT BOARD

The available information as to the activities of the Wheat Board since its inception is scanty. At the moment of writing, a Special Committee of the House of Commons is investigating its operations,** and a certain amount of data has been revealed. It is from this, and other available facts, that one is able to present a brief picture of the policy and activities of the Board.

The Board came into existence on August 15th, and for several months it was operated in close conjunction with the

*Montreal Gazette March 3, 1936. page 1.

**ibid.

***Special Committee on the Marketing of Wheat and Other Grains Under Guarantee of the Dominion Government.

Agency still under the control of Mr. McFarland, who was also Chief Commissioner of the Board. From August 15th when the Board was set up, until December 4th when its personnel was changed, Mr. McFarland was operating with the stabilization wheat and the new crop wheat delivered to the Board. The old Board never took title to the stabilization holdings, and, as a result, Mr. McFarland acted in a dual capacity, as General Manager of Canadian Cooperative Wheat Producers Ltd., and as Chief Commissioner of the Wheat Board.

The details of the buying and selling of the old Board are not matters of public record, and other information is scanty. There is reason to believe that much of the new crop wheat was converted into futures, while the same applies to the stocks of cash stabilization wheat on hand. Under the terms of the Canadian Wheat Board, the Board is forbidden to buy wheat from anyone but a producer of wheat, the purpose of this being to prevent any "stabilization" purchases, or, as a matter of fact, any futures at all. The old Board, however, only purchased futures in connection with its sales of cash wheat. That is, it would accept futures in exchange for cash wheat, and inasmuch as its total holdings were unchanged by the transaction, it undoubtedly did not regard this as a violation of the Act.

The first official figures covering the operations of these four months were made public by the Hon. J. Gardiner in an address at Hirsch, Saskatchewan, on December 28th, 1935.* He stated that in the sixteen weeks of its existence, the old Board had taken delivery of 108 million bushels of new crop wheat and sold 18 million. This apparently included sales of some of the stabiliz-

*Montreal Gazette. December 30, 1935. page 3.

ation holdings. Mr. Gardiner further stated that when the old Board retired, its holdings, including the stabilization stocks and future contracts, amounted to 298 million bushels. This amount was taken over by the new Board, which commenced its operations on the 9th of the month. According to the recent evidence of Mr. J.R. Murray, the present Chief Commissioner of the Board, this sum of 298 million bushels was made up of the following items:

<u>1935 Wheat</u>		<u>Old Account</u>	
	93,295,000 bushels		205,060,000 bushels
(Cash)	69,263,000 bushels	(Cash)	53,600,000 bushels
(Futures)	24,032,000 bushels	(Futures)	151,460,000 bushels *

What are we to say of the marketing policy pursued by the old Board? According to the present Government, its sales were definitely restricted, although the personnel vigorously denied this allegation, as we have seen. Accepting the seasoned advice of the Food Research Institute, it does appear that the old Board (as well as Mr. McFarland as General Manager of the Agency) did not follow a free selling policy.** It is possible that Mr. McFarland was hoping ~~for~~ ^{that} the short Canadian, and distinctly short Argentine, crops would jack up the price, and that he held in anticipation of such an occurrence. Whatever the cause or causes may have been, the effect of the policy pursued was to hold Winnipeg futures higher in relation to Liverpool prices than they would have been under a free selling policy, and to hold the c.i.f. British price of Canadian wheat higher in relation to c.i.f. prices of competing wheats than they would otherwise have been.***

Sales policy was completely changed when the new Board took office. At once an aggressive selling policy was initiated, in contrast to the somewhat retarded movement of Canadian wheat under

*Minutes of Proceedings and Evidence, Special Committee on the Marketing of Wheat and other Grains". page 37.

**"World Wheat Survey & Outlook". Wheat Studies Vol. XII No. 5 (Jan/36 p. 201)

***ibid. page 202.

the regime of the old Board. In the first two weeks of its existence it sold some 43 million bushels, acquired 8 million bushels, and thus reduced its net holdings by 35 million bushels. At last, after nearly five years of "holding", Canada went out to sell its wheat on a competitive basis.

Before continuing further, I wish to list below the sales figures of the new Board up to January 31, 1936:

	<u>DATE</u>	<u>BUSHEL</u> S	
	December 9th	820,000	bushels
	10th	2,779,559	"
	11th	581,500	"
	12th	1,776,000	"
	13th	22,025,445	"
	14th	2,934,827	"
	16th	2,263,000	"
	17th	2,523,077	"
	18th	2,713,391	"
	19th	3,072,332	"
	20th	1,109,707	"
	21st	813,000	"
	22nd	333,489	"
	24th	371,775	"
	27th	533,000	"
	28th	51,000	"
	30th	2,076,561	"
	31st	2,694,045	"
	<u>Total Sales Dec. 9th to 31st</u>	<u>49,471,713</u>	"
<u>1936</u>	January 2nd	8,833,480	"
	3rd	477,500	"
	4th	1,021,500	"
	6th	1,463,441	"
	7th	715,427	"
	8th	449,500	"
	9th	461,019	"
	10th	1,281,000	"
	11th	558,500	"
	13th	483,500	"
	14th	687,746	"
	15th	2,032,297	"
	16th	825,963	"
	17th	1,065,000	"
	18th	746,300	"
	20th	618,124	"
	22nd	1,376,505	"
	23rd	1,054,792	"
	24th	527,000	"
	25th	633,625	"
	27th	323,950	"

(continued)

<u>DATE</u>	<u>BUSHEL</u>
January 29th	50,196 bushels
30th	224,024 "
31st	547,696 "
<u>Total Sales for January</u>	<u>26,458,092 bushels</u> *

In short, in two months of operations, the new Board sold 75,929,805 bushels. In the same period it took deliveries of new crop wheat to the extent of 15,074,903 bushels.**

It will be noticed that on December 13th, the Board sold the amazing quantity of 22,025,445 bushels: This requires a certain amount of explanation. On the night of December 12th the Argentine Board of Control for cereals raised its basic minimum price to 90¢ in Canadian currency. This amounted to an increase in the price of Argentine wheat to the extent of 20¢. The reason for this sensational move, coming from a country that for the past five years had been the exponent par excellence of "cheap wheat", appears to be that the Government felt that the crop was so small that there was little fear of having to take bargain prices for it.***

On the morning of the 13th the Winnipeg price rose the full 3¢ allowed under the regulations which had been imposed a few months previously. This proved to be substantial protection to "short" interests and to exporters who had contracted the previous evening to sell wheat abroad at the closing Winnipeg price. To add insult to injury, these interests were further allowed to cover their commitments at $2\frac{3}{4}$ ¢ below the market price. Thus, whereas Argentine prices had risen some 20¢, prices in Winnipeg, as far as "shorts" were concerned, had risen only $\frac{1}{4}$ ¢. Small wonder that

*Minutes of Proceedings and Evidence, Special Committee on the Marketing of Wheat and Other Grains 1936. pages 45-47.

**ibid. page 47.

***Montreal Daily Star. December 13th, 1935 page 1.

Mr. Bennett demanded an investigation into the Board's activities! Before the Committee on the Marketing of Wheat and other Grains, Mr. Murray denied that there was anything improper involved, and stated that a previous arrangement had been made with exporters promising them that they could cover their commitments by buying from the Board at not more than $\frac{1}{4}$ ¢ a bushel over the previous day's close in the case of export sales made between the close of the market one day, and the opening of it on the next day. Mr. Murray stated that this arrangement had been made in order to facilitate the sale of Canadian wheat. The burdensome surplus had to be cleared at once, and a vigorous selling policy was needed. Exporters and millers, the salesmen of our wheat, said that they would only push their sales if the necessary protection was given them. Therefore, about December 10th or 11th, Mr. Murray gave them the assurance that they would be protected against overnight fluctuations. In justifying his action, Mr. Murray stated: "We felt that it was absolutely necessary. We felt that it was necessary to instill confidence into these exporters so that they would not be afraid to offer wheat freely..."* Later, he continued: " We considered...that it was absolutely necessary ,because they are operating from a market in which almost the only seller left who can sell their hedges against their sales abroad when they want to buy their hedges is the Canadian Wheat Board. If it were an entirely open market with no one big concentrated holding.....they would have no protection. But when there is a large concentrated holding such as there is in our hands...they are at the mercy..of the big holder of wheat."**

On December 20th the practice was discontinued because "the

*Evidence of Mr.Murray op.cit. page 69.

**ibid.

market in the pit itself was being killed." People having done an export business, instead of going into the pit to buy their wheat in the morning, would go direct to the Board. As a result, Mr. Murray notified the exporters that the $2\frac{1}{4}$ ¢ below the market rule would be discontinued.

Evidence was also brought out before the Committee as to the manner in which the Board effected sales. Mr. Murray admitted that all cash wheat was sold on what is termed the basis of the option. That is, when the Board sells its cash wheat, it buys back a future contract to an equivalent amount of the cash sale. These futures were later disposed of in the pit. The reason for effecting sales in that manner was that the buyer of wheat wanted to trade on that basis, inasmuch as it amounted to a "hedge" on his purchase during the time it had to be carried. In short, the policy was specifically for the benefit of the middleman. The question was raised in the Committee that such a policy of buying futures against sales of cash wheat constituted a violation of the Wheat Board Act, inasmuch as purchases of wheat from non-producers ^{were} ~~was~~ forbidden. Mr. Murray stated that actually it was merely the exchanging of a supply of cash wheat for futures, and not a purchase. However, he insisted that "if the statute says that we cannot do it, then I would say that the statute was most villainously drawn, if it was going to be used for the marketing of 298 odd million bushels of wheat, because there is no other way that you could utilize the facilities that are existing."*

From these incidents, such as the protection of shorts and the method of sales, it would appear that the present Wheat Board is acting specifically in the private trade's interest. It is true that exports under its regime have been liberal, but its policy is one which does not seem to take account of the farmers' interests.

*Evidence, op.cit. page 74.

is
 Although the present policy designed to reduce Canada's huge surplus, it has only been successful to date due to the unusual conditions which prevail in the world wheat market. This year Canada and Australia are practically the only sources of supply; in fact to a large degree selling has reached the 'picnic' stage. But can we continue the present policy indefinitely? By a strange coincidence, the reversal in our marketing policy came at a time when it was actually possible. We cannot hope, however, that our problem will be over merely because our carryover might be down to 100 million bushels on the first of August. The Liberal Party seems to think it will. When world surpluses start to roll up again, the Board will face another and different task. Will it continue to sell as it is now, and continue to grant special favours to the private trade, or will it have to reverse its policy? I have every reason to believe that its marketing policy will have to be revised. That is the issue facing us: What is the most desirable policy for us to adopt?

There are two conflicting principles involved in the present policy, and one or the other must go; they cannot continue to exist together. The Board has its hands tied and the trade is restricted, although given plenty of protection. Either the Board must be a compulsory one, or nothing at all.

The loss that the Government will bear on the stabilization operations cannot be determined until all the holdings are disposed of. It has been estimated that it will ultimately bear a loss of perhaps \$20,000,000, while as far as the present crop is concerned, present price levels suggest a probable loss of \$10,000,000.* The manner of distribution of sales as between the stabilization holdings and the 1935 crop is not a matter of public record, as yet.

*Financial Post February 15, 1936. page 21.

CHAPTER SIX THE WHEAT POOLS : 1931-1935

In this Chapter, I propose to trace the history of the Pools since their reorganization in 1931. As we have earlier seen, on August 7th, 1931, Premier Bennett announced that, after protracted negotiations, the Pools had agreed to release their members from their contracts, and to give them the option of selling their wheat on the open market at the ruling prices, or of pooling it, as they so desired. The Pools were to reorganize on the basis of their subsidiary elevator companies, and were henceforth to operate on the Winnipeg Grain Exchange, hedging as other grain firms do. The Dominion Government, at the insistence of the three Western Governments, agreed to guarantee the Banks against loss on loans to be advanced to the Pools to carry on. Their elevator assets had already been pledged to their respective Governments on account of the 1929 overpayment, and they needed guarantees before they could get credit.

The necessary guarantees of the Federal Government were authorized by three orders-in-council, passed under the Unemployment and Farm Relief Act 1931. The first, P.C. 2239 of September 12th, 1931 fixed certain conditions relative to the maximum amount of these advances. The proposed basis was later found unsatisfactory, and P.C. 2403 of September 28, 1931 amended it, and in this connection a certificate of auditors, Messrs. Price, Waterhouse and Co. was to determine the maximum amount of the advances that could be given. P.C. 2977 of November 30, 1931 affirmed the maximum amounts which the Government would guarantee, as follows:

Manitoba, \$1,250,000; Saskatchewan, \$12,000,000; Alberta, \$7,500,000.

In February 1930 the three Western Governments had guaranteed the Banks against loss on advances made to their respective Pools. These guarantees covered not only loans on the 1929-30 crop, up to August 1, 1930, but likewise the unpaid advances on the 1928-29 crop, which had not at that time been completely disposed of. As we know, by June 1931, the 1928 and 1929 crops were finally disposed of, and the exact liability of the three Governments was now able to be determined. On the 1928 crop, a small surplus was realized, which would normally have amounted to a final payment of 1 1/8¢ a bushel. But inasmuch as the 1929 overpayment in the case of each Pool was so large, the small surplus on the 1928 crop was applied against it, in order to obtain the final liability of each Government to the Banks.*

The final liability of each of the Governments to the Banks as at September 30, 1931 was declared to be as follows:

Manitoba	\$ 3,374,939.73	
Saskatchewan	\$13,305,654.98	
Alberta	\$ 5,536,707.49	**
	<u>\$22,217,302.35</u>	

This figure included, of course, interest up to that date. The three Governments soon deposited debentures with the Banks to cover their liability plus accrued interest. These were issued at a discount of 2% and the rate of interest was set at 4½%. The actual liability of the Governments, then, including the interest on the debentures and small sums distributed to the Pools to cover payments to their members on the 1928 surplus*** amounted to:

*The subject matter of this Chapter has chiefly been drawn from the annual Directors' Reports of the Canadian Cooperative Wheat Producers' Ltd, and the annual Reports of the Manitoba Pool Elevators Ltd., the Saskatchewan Cooperative Wheat Producers" Ltd., and the Alberta Pool.

**These sums were ratified by Chap.53, 1932 (Statutes of Man.); Chap.76 1932 (Statutes of Sask.); Chap.17, 1932 (Statutes of Alberta)

***vide infra.

Manitoba	\$ 3,491,000
Saskatchewan	\$13,752,000
Alberta	\$ 5,649,000.

Let us now examine each Pool in turn. The Manitoba system was in the worst financial condition of the three. Its assets, which it had pledged to the Manitoba Government, were less than the amount of its liability to it. The Manitoba Pool Elevators, Ltd. the subsidiary of the Manitoba Pool, was not a single unified elevator system. It was a federation of some 150 local associations, each one a separately incorporated unit, and having its own Board of Directors. Each of these local associations operated an elevator for its members. Manitoba Pool Elevators, Ltd. had constructed or acquired these elevators, and had "leased" them to the various associations, the intention being that they would become the property of the associations after ten years, when the purchase price would be paid off. When the Manitoba Pool pledged its assets to the Government after the guarantee in February 1930, the assets in question were the annual payments to the system from each of the 150 local associations.

Many of these elevators had been expensively built, and had been located in places where the volume of deliveries did not merit an elevator. Early in March 1931, J.R. Murray, formerly of the United Grain Growers Ltd. (and now Chief Commissioner of the Canadian Wheat Board), had in a letter addressed to Premier Bracken, laid charges against the system, asserting that these elevators were the most expensive ever built in the West, that their members were taxed through excessive overages and undergrading to meet the high expenses, and that many of the local associations could only meet their obligations by charging more for their services than competing elevators did.

Premier Bracken decided to appoint a Commission to investigate these charges, and Mr. E.K. Williams was chosen to head it. The Manitoba Government, already facing the prospect of a heavy loss, inasmuch as the assets of the Pool did not cover its liability, had at first intended to put through legislation to make individual members of the Pool responsible for the overpayment. This idea was soon dropped, for it would have meant political suicide.* The Government, therefore, decided to wait for the Report of the Commission before taking any action.

On June 19, 1931 the Commission submitted its Report and substantially upheld the charges levelled by Mr. Murray. It was stated that due to over-enthusiasm, the Pool had invested over \$3,000,000 in elevators, many of which had been built at points where traffic did not warrant such construction. It also upheld the charge that members were taxed through excessive overages and undergrading. In short, it blamed the financial crisis of the Pool on its extravagant elevator policy.**

On June 25th, Premier Bracken announced his Government's decision as to the Report. (1) Individual members were to be relieved of any financial obligation to the Government on account of the 1929 Pool overpayment, (2) Pool indebtedness to the Government was to be reduced to an amount equal to such a valuation of the elevators as would permit the system to operate on a business basis, (3) interest on the elevator purchase contracts was to be lowered from 7% to 5% per annum (4) the period of payment was to be extended from 10 to 15 years or more on an amortization basis, and (5) steps were to be taken to reorganize the Pool elevator system as to promote efficiency.***

*Financial Post April 22, 1931 page 22.

**Financial Post July 2, 1931 page 9.

***Canadian Annual Review of Public Affairs. 1930-31 page 246.

Following the announcement, special meetings of delegates of the Local Associations were held at Winnipeg on July 3rd and 4th, at which the Premier was present. An Agreement, since designated as the Four Party Agreement, was drawn up, the four parties being the Manitoba Government, the Manitoba Wheat Pool, Manitoba Pool Elevators Ltd., and the Local Elevator Associations. The chief features of the Agreement were as follows:*

The Manitoba Pool system owed the Government, as we have seen, as at September 31, 1931, some \$3,374,939.78 on account of the 1929 overpayment. (At the time of the Agreement the figure was somewhat less, for interest for the intervening months had not accrued yet.) The "assets" which the Government had as security against this were the payments yet to be made to the Pool system by the Local Elevator Associations on account of the elevators which they had purchased from it. The amount still owing was \$2,400,000. The Government, therefore, agreed to write down the Pool indebtedness to this figure. Since it appeared highly doubtful that the Associations could pay this amount in their weakened financial condition, the Government agreed to further write down the indebtedness to \$2,100,000. In short, the Government had absorbed a loss of some \$1,300,000. It was further agreed that payment could be spread over a period of 20 years. That is, the Associations were given twenty instead of ten years in which to liquidate their indebtedness. The rate of interest was *lowered to* ~~set at~~ 5%.

In return for these concessions, the Associations were asked to agree to cancel the existing lease-purchase agreement

*I am indebted to Manitoba Pool Elevators Ltd. for sending me a complete copy of this Agreement. It is also quoted in full in Chapter 52, Statutes of Manitoba 1932, which validates it.

and sign a new agreement of sale with Manitoba Pool Elevators' Ltd, and to agree to Government representation on its Board of Directors.

Under the Agreement, Manitoba Pool Elevators Ltd. became reorganized. It was to issue enough capital stock to bring the total capital stock of the Company up to 2,800,000 shares, and it was to divide 700,000 of these among the Local Associations so that each Association would hold shares up to the amount paid so far by it in payment for its elevator. The remainder of the shares (2,100,000 or equivalent to \$2,100,000) was ^{to be} transferred to the Government. From year to year as payments are made by the various Associations on account of the purchase price of the elevators, the Government will transfer shares to them in proportion to the amount of their payments. Thus when the Associations have completed their payments, all the shares held by the Government will have been transferred to them. When the payments are completed, not only will the Government have been paid in full the amount of its liability to the Banks, but the Associations will be full owners of their respective elevators.

Under the Agreement, it was also provided that, as protection to the Government in case any of the Associations were unable to meet their annual payments, a Special Reserve Fund was to be set up contributed to by the various Associations. This was to be drawn on to reimburse the Government in case of such a contingency. When the Government, however, is paid in full, the Fund shall be given back to them. It was agreed that no proceedings would be taken against any member of the Pool who was overpaid in respect of the 1929 crop, but no such member was to be entitled to receive any distributive share of the earnings of the system until the Government was paid in full.

The Agreement was submitted to each of the Associations in 1931 at meetings of its shareholders, and with one exception, was approved by all of them. At the first meeting of the reorganized Manitoba Pool Elevators, authority was given the Directors to carry on a voluntary pool for wheat for 1931-32.

As we have seen, the Dominion Government guaranteed the Banks against loss on loans to be granted Manitoba Pool Elevators, up to a maximum of \$1,250,000. It appears that the Dominion Government agreed to do this only if the Pool Elevators deposited \$300,000 with the Banks. Inasmuch as it had no funds of its own, it appealed to the Manitoba Government. In a Special Trust Fund deposited with the Bank of Montreal, was some \$361,000 representing balances standing to the credit of the Local Elevator Associations against the purchase price of their elevators. The Manitoba Government authorized the withdrawal of \$300,000 of this,* which enabled the Pool Elevators to get its line of credit from the Banks.

I earlier mentioned that on the 1928 Pool there had been a small surplus, amounting to some 1 1/8¢ a bushel. This surplus had been applied against the 1929 overpayment in determining the final liability. Those members who had participated in the 1928 Pool and not in the 1929 Pool, however, clearly deserved to be paid what was logically coming to them on account of the 1928 Pool. The same applied to those who had participated in both Pools, but whose surplus due them from the 1928 Pool exceeded their overpayment on the 1929 Pool. Inasmuch as the Pool did not have the requisite funds, the Manitoba Government agreed to guarantee the repayment to the Banks of the small sum

*Statutes of Manitoba Chapter 52, 1932, ratified this.

necessary to pay 1 1/8¢ per bushel to those who had participated in the 1928, but not the 1929, Pool, and the difference between the 1928 credit and the 1929 debit to those who had participated in both, and whose credit exceeded their debit.*

The Manitoba Pool itself was now devoid of funds or assets, and it was clear that it could not survive. Moreover, it was no longer needed now that the direct sales policy had been abandoned and the Manitoba Pool Elevators had reorganized. On June 27, 1932 counsel for the Gillespie Grain Terminal Company filed application to have it declared bankrupt, inasmuch as it had refused to pay according to a certain agreement, and had no assets which could be seized.**On November 5, 1932 a winding-up order was issued by the Court.***

A supplementary agreement drawn up between the Local Associations and Manitoba Pool Elevators at the annual meeting in December 1932 introduced further changes in organization. Under this agreement it was decided to abandon the unit method of operation for a system of pooling resources. It was provided that all revenues of the various Associations and of Manitoba Pool Elevators would be pooled to constitute one general fund, which would be used to pay principal and interest to the Government as arranged in the Four Party Agreement. It would also be used to make contributions to the Special Reserve Account. Any balance would be used as working capital or reserves. After the indebtedness to the Government had been liquidated, it was provided that any money so available would be used in payment of growers' equities. The Directors were given power to pay out patronage

*Statutes of Manitoba 1932 Chapter 52.

**Canadian Annual Review of Public Affairs. 1932 page 256.

***Directors' Report Manitoba Pool Elevators Ltd. 1932 page 5.

dividends after \$400,000 of working capital had been accumulated.*

This Agreement was submitted to the 150 Local Associations for approval. It was approved by all but four, who chose to continue to operate outside its scope.

The new agreement in no way invalidates the Four Party Agreement. The obligations to the Government as provided by that agreement remain. The Local Associations, however, instead of operating independently and meeting their obligations independently, pool their resources and work collectively.

Thus, Manitoba Pool Elevators, Ltd., formerly a mere subsidiary of the Manitoba Pool, is now the major organization, and its parent body is no more. Before discussing the operating results of the reorganized system, I shall examine the readjustments effected in the two other Pool systems.

The Saskatchewan Pool had elevator assets worth some \$17,455,190.64. These were pledged to the Saskatchewan Government as security against the Pool liability, which amounted to \$13,752,000. It can be seen that the assets substantially exceeded the liability. As a result of this, there was no necessity of any writing-down of indebtedness, such as characterized the agreement between the Manitoba Pool system and the Manitoba Government. To liquidate its indebtedness to the Government, the Saskatchewan Pool transferred the sum of \$13,752,000 to it in the form of bonds, at 5% interest, on a 20 year amortization basis.

As in the case of the Manitoba system, the Saskatchewan Pool decided to return the small 1928 surplus to those members who had participated in the 1928, but not the 1929 Pool, and to those whose credit on the one exceeded their debit on the other. Inasmuch as

* A copy of this Agreement was supplied by Manitoba Pool Elevators Ltd.

it had not the necessary funds to do this, it appealed to the Saskatchewan Government, which agreed to advance up to \$300,000 for this purpose.* Actually, only \$175,000 was distributed.** This sum is included in the liability of \$13,752,000 to which I have already referred.

The payment of obligations to the Government is met from earnings on the Pool elevator system. Individual members who were overpaid on the 1929 crop have not been called on to pay back the excess payment, but their liability is to be worked off in the following manner. They are to be credited with their patronage share of excess elevator earnings, and with the interest due them on previous elevator reserve deductions. Patronage earnings, however, will not be distributed, until the liability to the Government has been liquidated.

Of the three Pools, the Alberta system was in the strongest financial position when the crisis came. Its assets, which it pledged to the Alberta Government as security, were estimated at some \$9,229,484,** which was well in excess of its liability of \$5,649,000. Moreover, it was the only Pool that had any cash on hand. It had some \$1½ to \$2 million, which it was able to use in partly financing the year's operations.**** Like the Saskatchewan Pool, it issued bonds to the Province of Alberta to the extent of its liability, at 5%, on a 20 year amortization basis. These were sold at a price of 98. Since the spring of 1933, there has been a slight variation in the method of payment.

* Ratified by Chapter 77, Statutes of Saskatchewan, 1932

** Directors' Report, Saskatchewan Cooperative Wheat Producers Ltd 1931-32.

*** Budget Speech of Hon. R. Reid, Provincial Treasurer on Feb. 25, 1932. Quoted in Canadian Annual Review of Public Affairs. 1932.

**** Financial Post Nov. 14, 1931 page 10.

The Provincial Government has agreed to accept its own Bonds of the issue maturing 1951 from the Pool in payment on account of principal and interest. Thus, the Pool has been purchasing 1951 bonds at a considerable discount under 98 and turning them over to the Government.*

The Alberta Pool has also reimbursed its members who participated in the 1928 but not the 1929 Pool, or whose surplus on the one exceeded its overpayment on the other. In all, it paid out some \$200,000, at the rate of 1 7/8¢ a bushel. Theoretically only 1 1/8¢ was available for distribution as in the case of the other two Pools, but it was able to pay the extra 3/4¢ a bushel due to the premium it received for shipping its grain through Vancouver.** It was able to make this payment out of its own resources.

As yet, it appears that no definite arrangements have been made with individual members who were overpaid in 1929, but this matter is to be discussed at the next General Meeting. As in the case of the Saskatchewan ^{Pool,} these sums will undoubtedly be worked off by being debited against excess elevator earnings accruing to the members.

In the case of all three Pool systems, it can be seen that their ability to liquidate their liability to their respective Governments, depends on the earning capacity of the elevators. These, which were formerly auxiliaries to the Pooling system, are now the essential features of the Cooperative Associations. Had the Pools never acquired them, they could not have survived the crisis.***

*Personal letter from Mr. L. D. Nesbitt, Superintendant, Publicity Department, Alberta Wheat Pool.

**Financial Post January 16, 1932. page 10.

***H. S. Patton "The Canadian Wheat Pool in Prosperity and Depression" in "Economics, Sociology and the Modern World" (Harvard Univ. Press 1935) p. 39.

Although the three Pools released their members from their five-year contracts, they appealed strongly to their loyalty and cooperation. They also made a strong bid for non-member patronage as well, and have had their elevators licensed as public instead of private warehouses. The great majority of members have responded by putting their grain through Pool elevators and using the Pool sales departments.

I mentioned earlier in this Chapter that in 1931-32 the Dominion Government guaranteed the Banks against loss on the lines of credit which they advanced to the Pools for working capital purposes. These guarantees resulted in no loss to it. In 1932-33 Dominion Government credit was invoked again to enable the Pools to complete their financing with the Banks. The necessary guarantees* were authorized by order-in-council P.C. 2077 of September 20, 1932, passed under the Relief Act 1932. As in 1931, a maximum limit was stipulated in each case as follows:

Manitoba Pool	\$ 1,395,000
Saskatchewan Pool	\$15,000,000
Alberta Pool	\$ 9,000,000.

P.C. 508 of March 20, 1933 guaranteed the Banks against loss on such further advances as might be needed in connection with an additional payment of 5¢ a bushel in respect of wheat delivered under the voluntary Pool plan. This was an interim payment, and was necessary at the time to help farmers with their seeding.

P.C. 746 of April 20, 1933, passed under the Relief Act 1933, having regard to the fact that a large part of the 1932 crop had not been marketed and was still in the farmers' hands, and as the Relief Act 1932 had expired, guaranteed such further advances as might be required for the marketing of the 1932 crop.

* These orders-in-council are published in full in the Appendices of Minutes of Evidence and Proceedings, Select Standing Committee on Banking and Commerce 1934.

As in 1931-32, the Government sustained no loss on its guarantees, for the Pools repaid their Bank loans in full. In his Budget Speech on April 18, 1934, the Hon. E. N. Rhodes was able to report that for the 1933-34 season the Government did not have to guarantee the Bank loans to the Pools, for they were able, in virtue of their improved financial position, to negotiate with the Banks for credit without the need of guarantees.*

RESULTS OF POOL OPERATIONS 1931-1935

When the Pools reorganized into elevator companies, they gave their members the option of selling their wheat on the open market, or pooling it. During the past four years of operations, practically all wheat has been sold on the open market basis, and very few farmers have taken the opportunity of pooling their wheat.** The reason is that with prices as low as they were, the average farmer could not afford to wait for interim and final payments. He needed cash at once. It appears that the only farmers who have pooled their wheat are those who have the necessary financial resources to wait.***

I present below a table showing the amount of wheat pooled in each province for the past four years, and the total price received per bushel, on the basis of No. 1 Northern Fort William or Vancouver, as the case may be:****

	MANITOBA		SASKATCHEWAN		ALBERTA	
	Volume	Price	Volume	Price	Volume	Price
1931-32	109,313	58.94¢	1,082,054	57.24¢	1,761,568	56.42¢
				52.87¢	76,242	52.08¢
1932-33	615,970	51.40¢	6,504,169	49.70¢	5,461,569	46.55¢
				51.43¢		
				67.98¢		
1933-34	98,276	69.01¢	1,298,447	68.78¢	353,000	65.06¢
1934-35	101,680	82.50¢	1,639,265	80.00¢	703,767	77.71¢

*House of Commons Debates 1934 page 2288.

**No coarse grains have been pooled.

***Evidence of P.F.Bredt; Committee on Grain Board Act 1935. page 260.

****Compiled from the Annual Reports of the Alberta Pool, Manitoba Pool Elevators Ltd. and Saskatchewan Cooperative Wheat Producers Ltd.

From the above table it will be seen that in both Alberta and Saskatchewan in 1931-32 two separate pools were conducted, and in Saskatchewan in 1932-33 three pools were conducted. In 1935 the voluntary pools were discontinued, inasmuch as the Wheat Board offers the necessary facilities for those who wish to pool their wheat.

The price received for pooled wheat in all cases approximated very closely to the average market price for the year. We must not confuse the pooling policy with the direct sales policy formerly pursued by the Pools. All "pooled" wheat is sold on the Winnipeg Grain Exchange, but sales are spread gradually throughout the year in an endeavour to realize the average annual market price.

During the year 1932-33 the Saskatchewan Pool found it necessary to put certain restrictions on voluntary pooling. In December 1932 when prices were falling precipitously, many farmers holding their wheat in store transferred it to the pool. This made orderly marketing difficult, and obviously penalized those who had delivered their wheat for pooling earlier in the season. As a result, it was declared that at the time of delivery at country elevators, or of loading over the platform, farmers had to declare whether or not they wished to pool their wheat.

What have been the operating results of the elevator systems of the three Pools? The Alberta Pool at present operates some 438 country elevators throughout the province and is also the owner of a terminal at Vancouver (some \$500,000 still outstanding). It leases terminals at Prince Rupert and Vancouver. Practically all the wheat and coarse grains handled by the system is shipped through Pacific Coast ports. A small volume is shipped east annually, however,

and this is directed, under special arrangement, to terminal elevators controlled by the Manitoba and Saskatchewan Pools, or as an alternative, to terminal elevators of line companies, for payment for a diversion premium.

Saskatchewan Pool Elevators Ltd., the subsidiary of Saskatchewan Cooperative Wheat Producers Ltd., owns and operates some 1,082 country elevators in all parts of the Province. It also operates 4 terminal elevators at the head of the Lakes, one of which it leases. Its terminal at Buffalo it leases to the Cargill Grain Company.

Manitoba Pool Elevators Ltd. at present operates 153 country elevators. These are controlled by the 150 Local Associations which comprise the system. It also owns and operates a terminal elevator at the head of the Lakes. Last year (1935) it leased another from the Gillespie Grain Company.

In the following table I give the receipts of grain by the Elevator systems, as well as that handled over the platform by them, for the years 1930-31 to 1934-35, and the percentage which such bears to the total amount so delivered and handled in each Province: (in bushels)

	<u>MANITOBA</u>		<u>SASKATCHEWAN</u>		<u>ALBERTA</u>	
	<u>Volume</u>	<u>%</u>	<u>Volume</u>	<u>%</u>	<u>Volume</u>	<u>%</u>
1930-31	20,146,851	27	85,966,655	41.5	36,532,841	22.5
1931-32	8,695,282	25.5	56,671,868	40.5	41,591,781	26.5
1932-33	13,816,534	28.3	91,370,045	43	48,390,660	28
1933-34	10,034,359	26.9	60,367,631	43.5	27,090,444	26.6
1934-35	10,908,637	25.4	55,138,030	44.4	30,977,232	27.3

It will be seen that the percentages are fairly steady in all cases, tending upwards somewhat in the case of the Saskatchewan system, and downwards in the case of Manitoba Pool Elevators. The percentage in each case is in consonance with the percentage which the storage capacity of each system bears to the total storage capacity in each Province.

Let us now turn to an examination of the financial results of Pool operations in the past four years. The record in all cases is conspicuously successful. The three systems have to date met their obligations as to the 1929 overpayment in full. The elevators all show substantial earnings, and have made enough to not only provide for the payment to the Government, but for depreciation and other charges as well. Excess earnings above this have gone to build up working capital and reserve funds.

The following figures illustrate the situation as regards Manitoba Pool Elevators:

	<u>Net Operating Surplus Of Local Associations</u>	<u>Contributions To Working Capital</u>
1932-33	\$300,834.66	\$ 55,489.86
1933-34	\$361,046.22	\$103,876.78
1934-35	\$308,524.15	\$ 47,308.21 *

(I did not list the 1931-32 figures, inasmuch as in that year the Local Associations operated separately, and earnings were not pooled.) From the "Net Operating Surplus" were paid interest and principal to the Government as provided by the Four Party Agreement, contributions to the Special Reserve Fund, interest on growers' equities, etc.

In the case of the Alberta Pool I list the operating results as follows:

	<u>Operating Earnings Of Elevators</u>	<u>Net Earnings</u>
1931-32	\$1,123,282.40	\$375,738.63
1932-33	\$ 997,948.68	\$179,054.64
1933-34	\$ 877,517.17	\$ 78,029.64
1934-35	\$ 746,084.62	\$ 47,788.40 (deficit) **

From the first figure were paid principal and interest to the Alberta Government, and full depreciation reserve on all equipment.

*Annual Reports, Manitoba Pool Elevators Ltd.

**Annual Reports, Alberta Pool. The 1934-35 deficit appears to have been due to very poor crop conditions in large areas of the Province where the Pool operated elevators (1934-35 Report page 6.)

The Saskatchewan Pool Elevators Ltd. shows the following results:

	<u>Operating Earnings</u>	<u>Net Operating Earnings</u>
1931-32	\$1,803,874.98	\$375,916.44
1932-33	\$2,797,387.09	\$814,030.19
1933-34	\$2,339,082.31	\$348,153.21
1934-35	\$2,117,153.59	\$171,090.20 *

In 1933 the Saskatchewan Pool was able to finally complete its purchase of the old Saskatchewan Cooperative Elevator Company which it first acquired in 1926. In 1933 the final payment to the Liquidators of the Saskatchewan Cooperative Elevator Company and to the Saskatchewan Government, was effected. The total payment during the seven years was: Principal \$11,061,268.65; Interest \$2,150,331.29. Total \$13,211,599.94. This sum was divided between the two creditors as follows: Liquidators: \$10,633,569.60 Saskatchewan Government \$2,578,030.34.**

The above records are all noteworthy. Despite several years of very poor crops, the three elevator systems have showed substantial earnings. "The depression record of the Pool elevator organizations", remarks Patton*** "affords an impressive demonstration, on the one hand, of efficiency and adaptability of organization and management, and on the other hand, of patronage loyalty and of financial integrity of the membership in fulfilling contractual debt obligations, however burdensome."

As at August 1, 1935 the membership of the three systems was

as follows:	Manitoba	10,142.
	Saskatchewan	105,001.
	Alberta	40,000.

* This does not really give the complete picture, as I do not include the earnings of Saskatchewan Cooperative Wheat Producers' Ltd., the parent body, which for accounting purposes, is a separate organization. Unfortunately I had not all the figures. The above figures, however, substantially present the main facts.

** Directors' Report Sask. Cooperative Wheat Producers Ltd. 1932-33.

*** "The Canadian Wheat Pool in Prosperity & Depression."

SOME ASPECTS OF POOL POLICY

Ever since 1919 cooperative wheat growers in Western Canada have had one dominant objective in mind - the establishment of a National Wheat Board with compulsory control over the handling and marketing of wheat. This implies, of course, the closing of the Winnipeg Grain Exchange and the abandonment of futures trading. The establishment of the Pools in 1924 was the result of the failure to have the Board of 1919 re-established. Since that date, the Pools have consistently pressed for the establishment of such a Board. Many still feel that the difficulties of the Pool since 1929 have been the direct result of it having inadequate control over the marketing of Canadian wheat. Had a single agency control of all the supply, it is contended that no difficulties would have arisen.

With the coming of the wheat crisis, it was inevitable that the agitation for a Board would be multiplied. Since 1930 the Pools have passed resolutions annually at their Meetings favouring its establishment, and innumerable representations have been made to the Federal Government. Even the three Western Governments have lent their support to the movement. The passage of the Canadian Wheat Board Act marked the culmination of an agitation that had been going on, more or less intermittently, since 1920 when the Wheat Board established in 1919 was discontinued. The new Board substantially realizes the objective of the Pools, although the compulsory features do not become operative until proclaimed by the Governor-in-Council.

An offshoot of the Wheat Board movement was the "100% Pool" idea. This was the product of the fertile brain of Aaron

Sapiro, veteran cooperative expert. The 100% or Compulsory Pool, as it has been called, was to be a compulsory Provincial organization to which all wheat would have to be delivered. The movement for such has chiefly centred in Saskatchewan. It was first mooted in 1927 by Sapiro, and quickly adopted by the United Farmers of Canada, Saskatchewan Section, who pressed for the necessary legislation. By 1929 it had become a controversial matter. The general idea was that if the consent of 75% of the farmers in the Province could be obtained, legislation would be forced through the Legislature bringing the Compulsory Pool into being.

In June 1930 delegates at the annual meeting of the Saskatchewan Pool passed a resolution favouring a vote of their members on the subject. This took place in September, and 34,621 voted in favour, and 13,645 were opposed.* Inasmuch as the total vote was so small, it was decided to temporarily drop the matter. Early in January 1931 agitation revived, and the Saskatchewan Government finally decided to obtain the opinion on the matter of the farmers in the Province. As a result, two Acts were passed. The Saskatchewan Grain Marketing Act set up a company to which all wheat in the Province was to be delivered, and which was given wide powers over the marketing, handling, sale, transportation, financing and warehousing of wheat.** The Referendum (Grain Marketing) Act provided for the holding of a referendum on the subject. If 2/3 of those who voted favoured a Compulsory Pool, the first Act would be brought into force.*** The validity of the Act, however, was referred by the

*Financial Post September 11, 1930 page 17.

**Statutes of Saskatchewan 1931 Chapter 87.

***ibid Chapter 88.

Government to the Saskatchewan Court of Appeal. In the decision rendered on April 27th, it was declared that the legislation was ultra vires of the Provincial Legislature. On May 7th the Pool appealed to the Court of Appeals for leave to appeal direct to the Privy Council. Although leave was granted, the appeal was never made, and the 100% Pool movement died.

The Pools vigorously championed the International Wheat Agreement. They had long realized the folly of ruinous competition among the exporting countries, and had appealed to the Federal Government on several occasions to call an international conference of these nations in order to frame some form of agreement. When the Pact was signed they lent their whole-hearted support to it. They stressed the fact that the success of the Agreement depended on the establishment of a National Wheat Board. They also devised a scheme whereby production could be lowered to the level of the quotas assigned. This was to be effected not by compulsory restriction of acreage, but by a system of marketing quotas to be assigned to individual growers. These would have the effect of forcing the growers to adjust their production downwards, as the case might be.* The failure of the Agreement was a heavy blow to the Pools.

Inasmuch as the Pools have realized one objective, a Wheat Board, they are now turning their energies towards another International Agreement, which they believe to be the necessary supplement to the Board. The following quotation from the 1935 Report of the Alberta Pool represents the aspirations of cooperative wheat growers in Western Canada: "...we are inclined

*W.A. MacLeod "Birth Control for Wheat" (Maclean's Magazine December 1st, 1933) page 50.

to the belief that the long range objective towards which we should strive with all the energy of our organized and collective strength is towards International cooperation between wheat exporting countries.....Is it not reasonable to assume that this spirit of cooperation....can make possible the establishment of an International Council by and through which the world's wheat requirements could be supplied at prices fair alike to producer and consumer and the markets allotted to various exporting countries on a mutually satisfactory basis?.....The seed has been sown at previous International Conferences. Let us continue to cultivate that soil. No one else will do it for us....We must accomplish it ourselves."*

While there is undoubtedly much idealism in this, we cannot doubt its sincerity. It appears to me that only in this way can any permanent solution be reached. The idea of cut-throat competition so prevalent today, is no way out. But the question arises: Can we hope for any international accord along these lines? Is not perhaps isolated, national action the only practicable policy?

The past five years have been difficult ones for the Pools. Cooperation has reverted to the pre-1924 phase. The Pools today are merely cooperative elevator companies. Yet in crisis, they showed themselves extremely adaptable to altered conditions.

What of the future? The role of prophet is always a difficult one, but I believe that the cooperative movement, despite its temporary set-back, is far from finished. Rather will it be stronger in the future. Adversity has certain benefits, and the past five years have done much to stimulate maturer thought on the part of the Pools. Gone is the excessive optimism of youth, and in its place has come a more chastened and sober outlook.

The foundations of agricultural cooperation in Western Canada are broad and deep, and it has become "the most distinctive and cherished possession of the farmers on the plains."* It will not be so easily abandoned.

I cannot help but agree with the wise words of Dr. Mackintosh: "...the underlying economic conditions are such that cooperative marketing is likely to play a larger rather than a smaller part in the future."** I feel that the farmers will do well to hang on to the Pools. In them lies the real future of Western agriculture.

*A. Brady "Canada" (The MacMillan Co. 1932) page 193.

**W.A. Mackintosh "Economic Problems of the Prairie Provinces" (Canadian Frontiers of Settlement Vol. IV) page 54.

CHAPTER SEVEN : CONCLUSIONS AND RECOMMENDATIONS

In the preceding pages I have treated the wheat problem chiefly from the Canadian point of view, and I have traced the various phases of our marketing policy. It must not be forgotten, however, that the wheat problem is a world-wide problem in every sense of the word. The solution to it can only lie along international lines. It may so happen that the necessary international action will not be forthcoming. In that case we will have to devise a method of dealing with the problem from the specifically Canadian point of view. In the following pages I offer the various solutions which have been presented, both from the international and national side.

What is the world wheat "problem"? It is essentially one of an over-production in relation to effective demand. "More wheat has been produced, is currently available and is being produced, than wheat markets will absorb except at prices that are unremunerative to large groups of wheat producers and ruinous to many of them."* From the specifically Canadian point of view the problem is how to market all our wheat at profitable prices.

There are two views current concerning the world wheat problem. On the one hand, we have those who tell us that low wheat prices are merely a manifestation of the general economic depression and that the return of better times will automatically mean the end of the world wheat problem. On the other hand, there are those who attribute low wheat prices to a specifically abnormal relation

*"The World Wheat Problem" Wheat Studies Vol.VIII No.8. page 409.

between supply and demand, and who contend that the mere lifting of the depression will not solve the problem.* In the former category, we have no less an authority than Dr. W.W. Swanson, who has said: "It is my opinion....that there is in the strict economic sense no overproduction of wheat, and that if a return to something approximating normal business conditions in the world can be achieved, wheat will rise to its former level of production and sale with them."** Elsewhere he tells us:"The world is quite able to buy all the wheat which Western Canada will produce in the future, as in the past, at prices such as have prevailed in recent years. That is my opinion, and I may be wrong."*** (This was written in 1931). According to the views of the great majority of authorities, Dr. Swanson is most assuredly wrong. Rising carryovers and falling prices in the years before 1929 give ample proof of a fundamental maladjustment between supply and demand, a maladjustment which has since 1929 become intensified. We cannot hope for a mere return of "normal" times to correct this disequilibrium, although it is true that it will materially lessen it.

The proof of the existence of a disequilibrium lies in the following features of the wheat crisis: extremely low prices, even after we have taken account of changes in the value of money; abnormal carryovers (over 500 million bushels); large excess of carryovers plus new crops over prospective disappearance; large excess of exportable surpluses over import needs for the season; and heavy diversion of wheat to "surplus outlet" channels (the Orient and feed utilization.) These indices all give ample evidence

*W.M. Drummond "The Wheat Problem and the World Wheat Agreement" ("The Canadian Economy and its Problems" Eds. Innis & Plumptre 1934) page

**"Grain Farming in West not Permanently Imperilled." (Monetary Times Annual Jan. 13, 1933.)

*** "Depression and the Way Out" (Ryerson Press Toronto 1931)

of the existence of a "surplus." By a "surplus" we mean the amount by which available supplies exceeds the supply that can be disposed of at prices that would in the long run maintain production at such levels as changing demands may call for.* It cannot be specifically calculated, or located - it is merely the imperfectly measured excess of wheat over a normal supply under the prevailing conditions of demand.

In general, it appears that our problem in the future is going to continue to remain one of surplus. The world today is "geared" to produce far more than it can consume. Bad harvests may materially reduce the surplus, and even create regional shortages, as they have in the past few years. But we cannot hope for these to continue to recur indefinitely. We must thus accept the fact that, if things are left as they are, "...the vast increase in the world's available productive capacity and the slackened rate of population growth make it probable that in most of the world of commerce, apart from war, the major economic problems will remain those of relative surplus, not of scarcity."**

In the true sense of the word, there is in reality no over-production. There are millions of people in the world who could eat more wheat if they had the means of buying it. To talk of an over-production at such a time is, of course, preposterous. We must in no way confuse real demand with effective, or monetary, demand. Under our present form of economic organization it appears that demand can never be made fully effective. The question of whether our society should be so altered as to make it so, raises problems which would carry me into fields I do not wish to tread. Whether it is desirable or not, the present system is

*"The World Wheat Problem" Wheat Studies Vol.VIII No.8 page 414.

** *ibid.* page 411.

going to remain, at least for many years to come, and we must devise a solution to the problem with this in mind.

It has been frequently asserted that the wheat surplus should have automatically corrected itself. According to classical economics, a surplus of a commodity, by causing low prices, leads to a diminution of production. But certain conditions were postulated which do not obtain today, such as substitution, mobility, a free competitive market and elastic demand.* These desiderata are sadly lacking. On the consumption side, when prices fell, demand did not appreciably increase. One reason for this is the fact that the demand for wheat is generally inelastic. Another is that in many countries, as we have seen, prices were artificially sustained and even increased by Governmental measures. This, coupled with shrunken incomes resulting from the depression, led to a diminution of consumption. On the production side, the working of the law of supply and demand was similarly invalidated. As prices fell, wheat growers the world over did not decrease, but actually tended to increase, production. The reason for this is that it is extremely difficult to curtail agricultural production. Due to the large proportion of fixed costs involved in the farm business, when prices fall farmers tend to increase their output in the hope of selling a larger number of units to enable them to meet these obligations. This, in turn, further lowers price due to the increased supply, and a vicious circle ensues.** Moreover, there are usually few alternative occupations to which farmers may turn, and they are forced to stay on the land and continue to produce. It is also extremely difficult to move elsewhere, as the expenses involved

*See V.W. Bladen "The theory of Cost in an Economy Based on the Production of Staples (The Canadian Economy & its Problems 1934).

**W.M. Drummond "The Agricultural Cost-Reduction Policy during the Depression" (Commerce Journal Toronto March 1935)

are heavy. The farmer is, as a result, usually forced to remain on the land, and to live he must continue to produce. This is much in contrast to the manufacturer who through combination, or otherwise, is able to restrict output when prices fall. Moreover, in many cases, the farmer has been encouraged by Governmental action, to increase production. Under the stimulus of economic nationalism in Europe and elsewhere, importing nations have increased their output. In many exporting countries farmers have maintained their production or increased it, due to Governmental assistance. A notable case is Australia, where in 1930 acreage expanded greatly under the spur of an anticipated bounty.

Thus we can see that the law of supply and demand has been effectively thwarted. We cannot hope, therefore, for the surplus to be removed by natural "laws." It must be removed by human action. The problem facing us, then, is to remove the surplus, and to prevent its recurrence. This can be achieved by decreasing production or/and increasing consumption. How are we to accomplish this?

Can we expect any substantial increase in consumption if we leave things as they are? I quote rather fully from the authoritative words of Dr. Carl Alsberg of the Food Research Institute: "There is little prospect for the expansion of wheat consumption at a rate faster than population growth in the United States, Canada, the United Kingdom and most of western Europe, excepting perhaps, the Iberian peninsula, Italy and Germany. In most western European countries, in which the trend of consumption is about stationary, the trend will probably turn upward whenever the trade in wheat is freed from the government regulations which now limit it. In Australia and Argentina the trend may continue upward for

some time. In other countries, with a very low standard of living now subsisting on coarse grains or rye, like the countries of the Danube Basin, we may look for an upward trend in wheat consumption as their standard of living improves. This will probably be true in general also in tropical and sub-tropical countries, where the present per capita consumption of wheat is low. With the rise in standard of living, they will tend to absorb more wheat, but per capita consumption may never become large.

.....In general, countries with a high standard of living, with a few exceptions, have stationary or declining trends of consumption, whereas countries with a low standard of living, for the most part, exhibit an upward trend. There is no scientific method of weighing one set of countries against another. I can merely record my impression to the effect that in the near future there is little prospect that the total consumption of the world will rise faster than the population increases.* (Underlining mine.)

If we accept these conclusions, it would appear that there is little prospect of consumption overtaking our present productive capacity in the near future. What, then, are we to do? Can we, perhaps, force more consumption? "Eat More Bread" campaigns have already proved themselves worthless, while a policy of diverting wheat into industrial uses through interior dumping offers no promise in view of the abundance of still cheaper competing raw materials.

In my opinion, there is one logical solution to the world wheat surplus problem. That is to remove all the measures which now tend to increase production and restrain consumption.

*C. Alsberg "Wheat Consumption During the Depression." (World's Grain Exhibition and Conference Regina 1933 Vol. I) pages 146-147.

If we could remove or lower tariffs on wheat (and other commodities) as well as other restrictive measures as quotas, milling regulations, price-fixing, etc., we could expect not only a substantial diminution of wheat production in the importing nations, but an expansion of consumption as well. This, of course, implies that exporting nations must lower or remove their tariffs themselves, and abandon all forms of assistance which have the effect of maintaining the price and production of wheat. In this way the channels of consumption and trade could be deepened, and the production and export of goods as in earlier days would be again determined by costs and qualities, and by elasticities of supply and demand. Importing Europe would give up its self-sufficiency philosophy and be prepared to purchase wheat in substantial quantities from abroad. Exporting nations would likewise be prepared to purchase large quantities of manufactured goods or otherwise from the wheat importing nations. By allowing the law of supply and demand to function without restraint the price mechanism would be enabled to bring about a more rapid adjustment between supply and demand.

It is precisely some such policy as this that is so urgently desired by Professor Lionel Robbins* and other "equilibrium" economists. "Back to the market", the cry. Away with all artificial impediments! Let your surplus be cleared away by the working of the price mechanism!

There can be no doubt that Governmental measures, although they have materially lessened the burdens resulting from the wheat crisis, have in no way solved the crisis itself, but have

*"The Great Depression" (The MacMillan Co, London 1934) page 134 et seq.

rather intensified it by tending to maintain production and restrain consumption, notably, of course, in the importing countries.* Were all these impediments reduced or removed, we could expect a disappearance of the surplus and a prevention of its recurrence.** All this implies, of course, a painful readjustment. To lower tariffs would mean the displacement of millions of workers and farmers, but theoretically these should be reabsorbed into other occupations. Countries such as Canada, Argentina and Australia would expand their wheat exports, while the industrial wheat importing countries of Europe would increase their sales to them. It would also be necessary to repair the world's financial structure, to stabilize currencies, to make a satisfactory arrangement concerning the huge volume of international indebtedness, and to resume the free flow of international investment.

The real problem is: Can we expect for any substantial reduction of tariffs and restrictive measures? Will Europe be prepared to abandon its self-sufficiency philosophy? Will the wheat-exporting nations be willing to lower their tariffs? My own belief is that we can hope for no appreciable change in the present surge of economic nationalism. It is here to stay, and for a very long time. As far as the importing countries are concerned, we must accept agricultural protectionism as permanent. For social, historical and military reasons, Europe is determined to protect its peasantry, and is prepared to go to any limits to accomplish this. The universal experience with tariffs everywhere has been that once they are imposed it is extremely difficult to

*"The World Wheat Problem" Wheat Studies Vol.VIII No.8. Also J.S.Davis "Wheat, Wheat Policies and the Depression" (Review of Economic Statistics April 15, 1934) This appears to be the official opinion of the Food Research Institute.

**When we talk of "surplus" we mean the amount over 500 million bushels, which is the normal and necessary volume of world stocks.

remove them. Not only is the peasant the object of solicitude on the part of the Government, but he is also politically articulate, and would vigorously oppose the progressive lowering of the barriers which now protect him. The Economic Committee of the League of Nations recently admitted this fact when they stated that if Europe is to lessen its protective policies no time must be lost for "each year that passes creates vested interests which become more and more difficult to uproot."* I fear it is already too late. So cautious an observer as Sir Arthur Salter, although he feels that ultimately economic nationalism must go, admits that the immediate future in this regard is extremely doubtful.**

Many people believe that when world recovery comes and prices rise, the European countries will reduce their trade barriers to more normal proportions. While this may be true (and there are reasons for doubting it) these people fail to grasp the fundamental fact that world recovery in itself is dependent on the lowering of restrictions, and cannot come independently of it. In short, theirs is a case of inverted reasoning.

As far as the exporting countries are concerned, it is equally hopeless to expect any substantial downward revision of tariff policy. Those interests who gain by tariffs are far too powerful economically and politically, to admit of such a change. Here, too, economic nationalism has come to stay.

When on all sides of us we see increasing restrictions on the exchange of goods and services, the plea for a return to more normal

*"Considerations on the Present Evolution of Agricultural Protectionism" page 35.

**"The Future of Economic Nationalism (Foreign Affairs October 1932).

trading conditions seems a cry in the wilderness. We must accept these restrictions as part and parcel of our present capitalistic system, and we must abandon the idea of a "return to the market". The fact that the rest of the world is nationalistically inclined, however, is no reason why this country should pursue a high tariff policy. We would be substantially helping our export industries if we followed a more liberal policy. If we cannot remove the tariffs of other countries, there is no reason why we should impose further burdens on ourselves.* There is little likelihood, however, that our legislators will pay any attention to this fact.

At this point, many will interject: "Granted that economic nationalism is here to stay, and that the wheat market is strictly limited. Why should not Canada capture this market at the expense of its competitors? The market is a **highly** competitive one. Let Canada be prepared to compete." I have already recorded my objections to such a policy. The market is too competitive. That is where the difficulty lies. A competitive struggle would mean disaster.

If we cannot hope, then, for a reduction of production in importing Europe through a reduction of restrictions, what then are we to do? The only alternative appears to be a reduction of production in the exporting countries, in order to bring supply and demand into harmony once again. From the point of view of economics, this move would be decidedly uneconomic, inasmuch as the exporting countries are more efficient producers. But there may be no other choice. It would thus appear that an international agreement would offer a "solution" to the wheat problem. At once

*"Canadian Trade Policy in a World of Economic Nationalism" by the Queens' University School of Commerce. (Queens' Quarterly Spring 1934 p.98)

we hear the cries of protest of those who assert that restriction of production is unethical and anti-social while millions of people are starving. When the London Agreement was signed, there was a howl set up in Canada by the press and industrial interests in general, who claimed that it was a violation of the "laws" of nature. All this is absolutely true. Restriction of production is anti-social. It is the final condemnation of the present system. But assuming we are to maintain the system, it becomes an inevitable corollary.

Why should there be such opposition to restriction as applied to agriculture, when in industry it is an established and respectable principle? For years monopolies have restricted output, and when prices fall, they practise the policy further. The farmer has just as much right as the industrialist to restrict production if it is a means of bringing him higher prices. When millions of farmers are living on a subsistence level it appears excessively cruel to allow them to continue to produce on the same scale, if some restriction could alleviate their lot. Granted that it is anti-social, would leaving things as they are help the case any? Millions of people would still be starving, and would still be unable to buy bread. Had farmers reduced their production due to low prices, it would have been called an appropriate economic readjustment. What is the difference if they are forced to do so by other methods?

An international agreement could conceivably arrange for the reduction of exports and acreage in the different exporting countries. Were certain promises elicited from the importing countries to the effect that they would not take advantage of this by increasing production, or that they would lower tariffs

when prices reach a certain level, it would appear that supply could once more be brought into relationship with demand.

An ingenious plan for an international agreement has recently been drawn by M. Paul De Hevesy.* He suggests the establishment of Wheat Boards in individual producing countries, and a world Wheat Board. The national Boards will have a complete monopoly of purchases and sales of wheat, and these will in turn buy or sell only through the world Board. That is, all exports and imports will have to be made through the world Board, which will determine import needs, assign export quotas, and fix minimum world prices for different grades of wheat. Exporting countries will have to adjust their production to the level of the quotas assigned them. This will be accomplished by the national Boards assigning quotas to individual members, on which they will be guaranteed the world price. If they produce more than their allotted quotas they will be paid somewhat less. The surplus must be disposed of, however, and the national Board will ask the world Board if it is able to dispose of it due to unforeseen shortages elsewhere. If this is not possible, the country in question will have to build up its domestic stocks and in the following year either reduce its acreage further, or dispose of the surplus domestically. If all exporting countries have good crops, it may be necessary to lower the world price or to assign exporting countries lower quotas for the following year.

The world price will be fixed at a "reasonable" rate, and if the necessary acreage adjustments take place, it will be able to be maintained. Tariffs will no longer be necessary in the

*"Le Probleme Mondiale du Ble" (Librairie Felix Alcan:Paris 1934)

importing countries as each of them through its Board has a monopoly over imports, and can sell them at the price it wishes. Grain Exchanges will, of course, be abolished. The maintenance of a decent price would prevent the necessity of bounties and subsidies.

The ingenuity of the plan is clearly apparent. There is one fundamental difficulty. It will not work. The necessary international cooperation could never be forthcoming. Experience not only with the past Wheat Agreement but with all attempts at international collaboration has clearly shown that they cannot succeed. Besides the virtual impossibility of obtaining the necessary international cooperation, there are a host of other difficulties which make international wheat planning an extremely complicated task.

The greatest difficulty would be a satisfactory allocation of quotas between the various exporting countries. The cause of this lies in the great change in the pre-War and post-War situations. Before the War, Russia, the United States and the Danube Basin were the major exporters of wheat, and Canada, Australia and Argentina were still adolescent. Following the War Russia and the Danube Basin virtually dropped out of the export market, and their place was taken by the three overseas countries. Russia, at present pursuing an expansionist policy, feels that in any allocation of quotas it deserves recognition of its pre-war status. The overseas countries, however, are unwilling to make such a concession. They feel that quotas should be based on post-War performances. As we saw, on account of this dilemma, Russia refused to accept a quota at the London Wheat Conference.

Even the newer exporting countries cannot agree among themselves. Argentina, although accepting a quota at the last Agreement, soon exceeded, and has since been unable to agree on proposed revisions of the quotas. It feels that inasmuch as Canada expanded faster than it did, past performances should not be the determining factors in quota allocation. Australia takes somewhat the same attitude.

A successful international agreement would also necessitate international control of prices. This immediately presents problems of great magnitude. Inasmuch as wheat is not a unity but a group of commodities, of different qualities and grades, this would necessitate a wide range of minimum and maximum prices.* How these could be adjusted would offer an almost insuperable problem. The price of each wheat within the range would be the subject of endless controversy. Discussions of the Wheat Advisory Committee on this matter give ample evidence of the difficulties involved.

Again, it would be necessary to control flour exports to make the Agreement fully effective, and this would imply quotas, and minimum prices for flour. The latter is an impossibility due to the fact that flour is blended from many and varying varieties of wheat.

Full cooperation of all the exporting nations would be essential. Years of experience with schemes of international price control of raw materials have clearly^{shown} how easy it is for a non-adhering country to break the plan. Notable^{are} ~~is~~ the failure of the Stevenson Rubber restriction plan and others.** This

*"International Wheat Policy and Planning" Wheat Studies Vol. XI No. 10. page 386.

**R.F. Martin "World Stocks, Prices and Controls of Foodstuffs and Raw Materials." (Harvard Business Review July 1932).

would mean that the adherence of small, irregular exporters like North Africa, France, Spain, Poland, Uruguay, etc. would have to be obtained and quotas assigned them, or else bootlegging would inevitably occur. The allocation of quotas to all these countries, if their participation could be obtained, would involve cuts in the quotas of the major exporters, which they would undoubtedly not relish.

Finally, the success of any international wheat plan would involve the cooperation of the importing countries. If these could not be persuaded to reduce their acreage, they would have, at least, to promise not to increase acreage, and not to raise barriers further.

These difficulties, coupled with the fact that many of the exporting countries would not agree to any acreage reduction, make the international planning of wheat virtually impossible. Of all raw materials wheat lends itself least to control, due to its widespread character, and its great variety of forms. In view of all these facts I am forced to agree with the Food Research Institute when it concludes: "...it seems quite impossible.....for a realist in international affairs to have faith in a planned adjustment of production to consumption of wheat through international accord....."*

Solutions to the world wheat problem through either a lessening of restrictions on the production and consumption of wheat, or through an international agreement, both appear impracticable. What then are we to do? I am forced to the conclusion that Canada must adopt a policy of her own. We must "solve" the wheat problem from the specifically Canadian point of view.

* "International Wheat Policy and Planning" Wheat Studies Vol. XI No. 10. page

Many will say that there is no need for any action inasmuch as the world wheat problem has already been solved. It is true that by the end of the present crop years world stocks will be undoubtedly down to normal proportions. But this in no way implies that our troubles are over. The abnormal surplus will soon arise again, because the world is "geared" to produce more than can be consumed under present conditions. Thus, although the present year may afford Canada a welcome respite from its troubles, there is no cause for optimism. The same problems will arise all over again in the future, and we must be prepared to meet them in a different way, unless we wish to repeat the experience of the past five years once more. We must devise a marketing policy which will serve us in the future. What must this be?

I have already expressed my opinions as to the wheat stabilization policy. I feel that under existing circumstances it was the wisest course adopted. But it had one fault. It was not coupled with a certain amount of production control. Consequently, it was inevitable that stocks would pile up at home. If Canada was to get a higher price for its wheat, it would have to be at the expense of sales. If in the future we should have to continue a stabilization policy, we must avoid burdensome carry-overs by some form of production control. The experience of the past five years has conclusively shown that despite the premium on our wheat, foreign purchasers are still willing to buy large quantities. Our exports have hovered about the 200 million bushel level. That is not such a bad record. Our fault is that we want too much. It was a sense of mistaken optimism that led to the great expansion of our wheat acreage, and now that world markets

are narrowing and slowly increasing population offers little hope of a rapid expansion of consumption, we must accept the fact, however lamentable, that we cannot hope to sell on the same scale as we did in the years up to 1928, especially if we expect to obtain anything approaching a decent price. During the present year the Wheat Board is following a selling policy on a major scale, but it is doubtful if it will be able to do so for long. In the future, it will have to face the problem: How about prices? I am forced to the conclusion that we must grow less wheat, unless we are to keep our farmers and our Government continually in hot water. This does not imply, however, mere production curtailment. It involves the expansion of other lines of agricultural endeavour.

POSSIBILITIES AND NECESSITIES OF DIVERSIFICATION

Wheat has always been the mainstay of the Prairie economy. Admirably suited to a frontier economy characterized by an abundance of land and a scarcity of labour and capital, it was the first crop grown by the early Western pioneers. Other characteristics fitted it to pioneer necessities. It was easily sold and convertible into cash in a comparatively short time; its production did not, as a rule, call for a large capital investment; it could be easily transported over long distances; it was the main part of the settlers' diet; and a very small area could produce enough for domestic needs and yet leave a surplus. Above all, soil and climatic conditions were eminently adapted to wheat growing.

As settlements gradually passed out of the pioneer stage into comparative maturity, agricultural operations were, to a certain degree, diversified. Livestock was taken on, and a

rotation of crops initiated. But except for Manitoba diversification never went very far. Wheat continued to be overwhelmingly the basic product of the Prairie West. The chief reason for this apparent anomaly is that Nature has destined the West to be a wheat-growing region. Secondary causes, however, explain the continued insistence on this grain. These include institutional and governmental help; lack of stable markets for alternative products; War and post-War prices; a liberal pre-emption policy which favoured an extensive type of agriculture; and the improvement of agricultural machinery suitable for large-scale production.* The coming of the depression, however, has strengthened the trend towards diversification.

In order to understand where mixed farming is at present carried on, and where its possibilities are greatest, a brief discussion of the major soil and climatic zones in Western Canada appears necessary. According to Mackintosh, these zones may be classified as follows:**

Red River Valley

This region lying in the Province of Manitoba, is very fertile and favoured with an abundant rainfall. The climate favours the growth of all classes of grasses and cereals. It is still a wheat country but wheat is rapidly giving place to other grains, notably barley, flax and rye. Livestock, although relatively more important than in other parts of the West, still yields only a fraction of the total agricultural revenue. The gradual shift to these other forms of agricultural endeavour can be best explained by the pressing problem of weeds, the result of continued wheat

*T.W.Grindley "Wheat in the Canadian West" (Queens' Quarterly Spring 1930) page

**W.A.Mackintosh "Prairie Settlement - the Geographical Setting" (Canadian Frontiers of Settlement Vol.1. 1934)

growing. The urban area of Winnipeg offers a substantial market for meat, dairy products, etc. The area is the most humid part of the Park Belt, and, in short, is admirably suited to mixed farming operations. In fact, this applies to the greater part of occupied land in Manitoba.*

Park Belt This zone, which stretches throughout the three Provinces, is a sub-humid belt, and is bounded on one side by the humid forest belt and on the other by the semi-arid prairie plains. The rainfall is favourably distributed. Although a part of the spring wheat region, the hazard of frost (met in part by the use of early-maturing varieties) has led to greater diversification to which this whole region is admirably suited. Livestock is growing in importance, as is mixed farming in general. The presence of ample supplies of water increases the comparative advantage of livestock. Barley, oats and forage crops are relatively more important here than elsewhere, and in certain sections, such as Manitoba and southeast Saskatchewan, wheat has declined rather sharply. Wheat is, however, still dominant throughout the whole belt.

Prairie Plains This region, a semi-arid zone, constitutes the heart of the wheat growing district. In southwest Saskatchewan and southeast Alberta lies the almost arid centre of the zone, stretching north from the boundary to the 51st parallel. Irrigation has been a very important factor here. Only 20% of the land in this arid section is occupied. Throughout the whole area wheat remains dominant, although to some degree fodder crops for the winter feeding of cattle have been substituted for wheat. Livestock is kept on most farms, and in the Lethbridge area beet sugar cultivation has made some progress. Over the whole area

* Mixed Farming in Western Canada" (Etudes Economiques Vol. III) page 214.

rainfall is very scanty. During the past five years the southern part of the region has suffered from drought, which has led to a trek northward into the Park Belt where water supplies are more ample and crop failures much less frequent. In most arid districts wheat, unassisted by irrigation, becomes so precarious that it is replaced by grazing. Certain areas, as the less humid parts of the region, favour ranching. The drought is a problem which is increasingly engaging the attention of agricultural experts. Much of the land here is definitely sub-marginal, and it would appear that the only solution would be to break it up and reseed it with grass. If we do not do this, it appears that we may face the problem of a "Canadian Desert" approaching the situation in much of the American Middle West.* The drought has also led to the recurrence on a major scale, of soil drifting, which I shall discuss later.

Forest Belt North, northwest and northeast of the Park Belt lies the wooded area where climatic conditions promote a forest rather than a grass cover. Here settlement has been very slow. Wheat diminishes rapidly in importance as we enter this zone, this being occasioned by low yields, frost, small fields hindering machine farming, and great distances from markets. Livestock is very important here.

Peace River Country. This area lies east of the Rockies between latitudes 54 north and 59 north, and extends east to longitude 113 west. The greater part of it lies in Alberta, with a small strip in British Columbia. Here some 40% to 70% of the field crop acreage is devoted to wheat and 20% to 40% to oats, but on the wooded soils of the zone the percentage of oats rises to

*W.J. Brown "Canada's Drought Area" (Municipal Review of Canada December 1935) page 18-19.

40% to 100%. Here mixed farming is relatively important.

What are the possibilities of extending diversification in the West? Despite the insistence of Canadian bankers mixed farming is no panacea. Nature has destined the West to be a grain growing, and especially a wheat growing country, and room for substantial expansion of other lines of agricultural endeavour is limited. Moreover, in those very regions where diversification is most urgent, the possibilities are least. In the arid and semi-arid parts of the Prairies drought has seriously affected the fortunes of farmers. But it is here that a livestock industry would be most difficult to maintain, due to the absence of sufficient water supplies. Moreover feed supplies would be very uncertain, for when the wheat crop fails, the feed crop usually does also. To hope for a substantial livestock industry in this part of the country is entirely out of the question.

Despite the fact that alternatives to grain growing in this section of the West are limited, there is no reason why more livestock cannot be kept where water supplies are sufficient.* There are also quite a few scattered areas throughout the southern part of the zone which because of soil and topographical conditions suggest the alternative of grazing. According to MacGibbon** the area running down to the United States boundary along the Alberta Saskatchewan line should have never been taken out of ranching. But it is not easy to turn this land back to range as the soil has been broken and native grasses are not there. There is a real possibility that much of this area may go out of cultivation altogether. The present rotation of fallow, wheat, wheat

*W.A.Mackintosh "Prairie Settlement" (Canadian Frontiers of Settlement Vol.I 1934) page 134-135.

**D.A.MacGibbon "The Future of the Canadian Export Trade in Wheat" (Contributions to Canadian Economics Vol.V 1932 University of Toronto Press) page 34.

or oats, and fallow is uneconomical and should be modified by the introduction of forage and inter-tilled crops wherever possible.* Although ranching may be expected to increase in this region, "...there is no possibility," as Mackintosh has said "...that over any large proportion of the semi-arid plains of Canada ranching will supplant grain farming."**

In the Park Belt mixed farming is possible on a large scale. Here rainfall is ample and crop failures infrequent. If there is to be a substantial change in agricultural practice out West, we must expect it to occur here, where the comparative advantage of wheat is less. Here at present wheat still predominates because until recent years, at least, wheat prices have been most attractive. In general, the Peace River Country is also suitable for mixed farming. Beyond the Park Belt wheat growing is considered impracticable.

Before turning to the discussion of a definite programme, I wish to examine certain menaces which have threatened western Canadian agriculture for several years. The first of these is gradual soil exhaustion. It has already been proved that under a system of continuous grain growing and summerfallowing sooner or later soils show the effects of depleted fibre and plant food reserves, notably nitrogen. The gradual declines in yields per acre in various parts of the West, especially the southern part, give evidence of the gradual loss of nitrogen. Unless this can be put back into the soil, and cropping methods be changed, we may in future years be faced with a very serious problem. As yet, due to the high fertility of Prairie soils and their

*Mackintosh op.cit. page 134.

**ibid page 135.

richness in plant foods the problem has not become particularly pressing. But it would appear that now is the time to act. What are we to do? Changes in agricultural practice are necessary. Writing as early as 1923, F.T. Shutt, Dominion Chemist stated: "...exclusive grain growing and fallowing, now so common, must give place to more rational farming methods if the soil is to be maintained at its present high standard of productiveness. For the continued supply of available plant food, for the conservation of the necessary soil moisture and for the preservation of good tilth, the store of humus with its concomitant nitrogen must not be allowed to become depleted, and to this end the means are the adoption of a rotation, more particularly one containing a legume, and the keeping of livestock".*

Another serious menace is soil drifting, which since 1931 has assumed large dimensions. Few areas in the Prairies are entirely immune from this phenomenon, although the regions most susceptible to it are the open plains which permit the unhindered passage of wind from every direction. This, more specifically, applies to Southern Alberta, Southern Saskatchewan and Southwestern Manitoba.** The causes of soil drifting appear to be attributable to the action of the wind on loose dry soil, unprotected by vegetation. In time of drought, such as we have had for the past five years in the southern part of the Prairies, the problem becomes more pressing. A significant fact is that newly-broken virgin soil rarely drifts, because the fibrous material of the original vegetation acts as a binder to the soil particles. But with continuous cropping this fibrous material decomposes. The losses occasioned by soil drifting are enormous.

*"Western Prairie Soils: Their Nature and Composition". (Department of Agriculture, Ottawa. Bulletin No. 22).

**"Soil Drifting Control in the Prairie Provinces." (Department of Agriculture, Ottawa. Bulletin No. 179. 1935).

In many cases, crops are completely wiped out, and the fertility of the soil seriously impaired, certainly for many years, and perhaps permanently.

There are various methods of checking soil drifting, including strip farming and the planting of a cover crop on the summer-fallow about the middle of August. Probably one of the most effective methods, where moisture conditions permit, is a modification of the strictly grain rotations and the introduction of mixed farming rotations, containing crops other than grain. Such allow for a certain proportion of the land to be seeded each year to hay or pasture crops, and in warmer and moister regions to corn and other summerfallow substitutes. Full advantage of these should be taken where they can be grown successfully.*

Finally, the growing extent of weeds presents another menace to Western agriculture. These seriously reduce yields and add to the cost of production. They consume large amounts of soil moisture during their growth and thus reduce the moisture content of the soil, which in most cases is barely sufficient for the production of crops. Weeds are largely the result of continuous wheat growing, and their solution depends to a large extent on more rational farming methods.

It can be seen that for checking the development of these three menaces, greater diversification of farm practice is essential. Thus, for purely agricultural reasons, there is a strong case for lessened insistence on wheat growing.

Granted, then, that the possibility for increasing mixed farming operations is possible, especially in the Park Belt, will not we be faced with a new problem - that of disposing of the resulting meat and dairy products? In many respects, we will.

*"Soil Drifting Control in the Prairie Provinces". page 23.

But it is my contention that there is a greater possibility of expanding the exports of these products than there is for wheat. At this point it seems advisable to discuss the suggestions of Dean A.M. Shaw as to the alternatives to grain growing in Western Canada.* He believes that much of our surplus grain, including, of course, lower grades of wheat, could and should be converted into livestock and dairy products. Every year, he contends, we produce millions of bushels of coarse and feed grains of this nature which we sell with difficulty and at very low prices on world markets. Why do we not market these in a form more acceptable and saleable to foreign consumers? Dean Shaw confesses that in many parts of the West an extensive livestock industry is not possible due to climatic conditions, but he contends that in Eastern Canada there are ample possibilities for such. Why not build up a large livestock industry in the East, and support it with Western feed grains? At the present time, the Eastern farmers import most of their feed from the United States and Argentina, due to the fact that the domestic rate on grain is higher than the export rate, making purchases from Western Canada expensive. Were the domestic rate made at least as favourable as the export rate, there would be a substantial expansion in the market for western low-grade wheat, and at the same time the livestock industry would be given a decided fillip.

The ideal situation would be for the livestock industry to expand out West, and to utilize the ample supplies of feed grains on hand. Where this is possible, it should most assuredly

*See "Alternatives to Grain Growing in the Prairie Provinces" (Address before the Western Canada Live Stock Union Meeting at Moose Jaw, January 18, 1934); "Canadian Agriculture" (Address before the Saskatchewan Agricultural Societies Annual Convention, Saskatoon, January 14-16, 1931); copies supplied by Dean Shaw. Also see "Marketing Grain Through the Livestock Route" (World's Grain Exhibition & Conference).

be facilitated. Where it is not possible, the Eastern market could be utilized. In short, the West would concentrate on its high-grade wheat for the export market, and market its low-grade wheat and feed grains through the livestock route. It is interesting to notice that this is the identical point of view of Dr. J.E.Lattimer of Macdonald College.*

There would still be, of course, the problem of finding or expanding markets for the meat and dairy products. But this offers more hopeful prospects than in the case of wheat. Under the Ottawa Agreements, Canada was given preferential treatment in the greatest food importing market in the world - Great Britain. Already there has been a considerable expansion in exports of notably bacon and poultry products, as well as other agricultural products. Our exports of cattle have greatly increased in recent months under the Reciprocity Agreement with the United States. It will be hard to capture many of these markets, but there is every prospect of it being possible.

There are many benefits derived from diversified agricultural exports. For one thing, it would tend to stabilize the returns of Western farmers, and this is especially desirable, inasmuch as the Prairie economy is a region of heavy fixed costs, characteristic of most regions of rapid development. At the same time, diversified production would, by making individual farms more self-sufficient, tend to lessen the cash costs of farmers. There are others dangers involved in a specialized agricultural economy which diversification would help to redress. These include, besides soil exhaustion, soil drifting and the weed menace, a poor

*J.E.Lattimer: "Broadening the Base of Export Trade." (Macdonald College Technical Bulletin No. 8. March 1931). Also "Intra-Empire Trade". (Scientific Agriculture January 1933).

utilization of the factors of farm production, a serious labour problem in the winter caused by lack of employment of wheat growers, the utilization of our marketing and transportation structure for only a short period of the year, and serious fluctuations in exchange rates caused by a rush of exports at one season.*

Apart from these benefits, diversification is essential if we are to solve the plight of our wheat growers. If we are able to reduce wheat production in this manner, or at least, reduce wheat exports, it will mean that the serious burden of rising carry-overs can be obviated. I do not like to think of these suggestions as a restriction of production. What I favour is rather an adjustment or a change to other forms of agricultural endeavour. We must not confuse the two, as Professor Grant has pointed out.* Canada has had a lop-sided agricultural development; we are "standing on one leg" and have "all our eggs in one basket." We must endeavour as far as possible to remedy this situation, and try to produce products which are in greatest demand and most readily saleable.

The greatest difficulty is, of course, how to effect this necessary readjustment. As I have pointed out, over much of the West, diversification is a physical impossibility. Our task is to find those regions where it is possible. At best, I can only offer suggestions. It would appear that a careful analysis and investigation of Prairie soils are essential. Much land out West is definitely of a sub-marginal variety, and it would be wise to remove these from cultivation altogether, and turn them, where possible into grass land and pasture range. Many of these areas should never have been settled, and give ample evidence of the heavy financial and human costs involved in an injudicious and planless

*T.W.Grindley: "Wheat in the Canadian West".(Queens' Quarterly Spring 1930) pages 384-5.

**H.C.Grant "Some Aspects of Agricultural Policy".(Can.Forum Ap.'35)p.261

settlement policy. Wherever possible, the people subsisting on this type of land should be removed to other areas, notably the Park Belt, and set up in mixed farming. Such a policy is, of course, extremely expensive, and above all, the amount of wheat production would not be appreciably diminished, for these areas have very low yields. In his "New Frontiers", Secretary of Agriculture Wallace admitted that if the United States Government bought up 100,000,000 acres of the poorest land, the crop output of the country would probably not be reduced as much as 5%.* We can feel certain that somewhat the same situation would apply to the submarginal land in Western Canada.

Livestock operations should be encouraged wherever they are possible, and the Government should extend financial aid in order to assist farmers in the necessary transition. Railway rates on domestic feed grains should be equalized with the export rates, so as to expand the market in the East for these products. Probably the best suggestion offered is that of the Pools advanced in reference to the World Wheat Agreement. Each farmer would be allotted a quota of deliveries, on which he would be guaranteed a minimum price per bushel. This would force him to stock his surplus wheat on the farm, and to eventually turn his attention to other crops and operations, or simply to grow less wheat. The allocation of quotas would naturally be a difficult matter, but not an insuperable one. The quotas for each farm or area should be based on the possibilities of diversification.

These are merely suggestions. It is impossible for me to present any comprehensive programme. The essential fact is that we must grow less wheat. While this may involve a considerable amount of statism, such is essential. All over the world nations have initiated

*Quoted in A. Taylor: "The New Deal and Foreign Trade" page 71.

a plethora of measures designed to protect the farmer, and Governments have become involved in the farm business on an extensive scale. It would be excessively cruel for the Canadian Government to leave agriculture to the play of the law of supply and demand. Our future lies not in laissez-faire, but in systematic planning. Government intervention is essential in the interests of a healthier and sounder economy.

A POLICY FOR THE FUTURE

What, then, must be our future marketing policy? Now is the time to decide. In the first place, I favour the continuance of the present Wheat Board, and the policy of a minimum price. But will it be able to continue its present policy of offering wheat continuously for sale at competitive prices? I do not think so, unless it wishes to court disaster. When Argentina returns to the market, and world crops become plentiful once more, the "picnic stage" will be over. A definite policy will thus have to be devised.

I favour the scrapping of the futures system. Like many other things, it is not what it used to be. The abnormal conditions prevailing during the past five years, and which will in all probability continue to prevail, have clearly revealed its weaknesses and limitations. For one thing, the public speculator has, to all intents and purposes, vanished, and has largely removed with him the continuous market which formerly characterized the futures system. As a result, it needs a "crutch" or some "muscle" to support it. Had this not been forthcoming, there is no telling how far Winnipeg prices would have fallen. The big foreign milling firms no longer speculate in their purchases, but follow a hand-to-mouth buying policy. With a host of Governmental restrictions in evidence on all sides, such as tariffs, milling

regulations, etc., the free market no longer exists. Buying is becoming more and more concentrated in the hands of a few powerful firms. In England, three milling firms, Joseph Rank, Ltd., Spillers Ltd. and the Cooperative Wholesale Society, control over 62% of the flour produced.* In France two powerful firms control the trade, while in the rest of Europe the process of concentration is proceeding rapidly. More significant is the fact that a few international concerns, the Bunge, Dreyfus and Continental Grain Companies, control a very large percentage of the grain moving into international trade. The entire Argentine export movement is in their hands. The free, competitive market as a result no longer exists, and the price of wheat is no longer a reflection of world supply and demand, but a reflection of the thoroughly disorganized selling by exporting countries.

In the past five years short selling has reached gigantic dimensions, and wheat has become a playball in the hands of a few powerful international speculators, whose sole interest lies in driving the price down. I believe that Canada must meet this menace, and the force of concentrated buying, by concentrated selling. In that much abused term, "orderly marketing" lies the solution to many of our problems. There is no reason why wheat should not be sold directly by the farmers themselves, or through a Board representing their interests, in the same manner as say, Henry Ford sells his cars. The firms which at present control the export of our wheat are interested solely in volume and margin of profit; the absolute price means nothing to them. Under such

*A.H. Hurst: "The Bread of Britain". (Oxford University Press. 1930). page 27.

conditions, there is little protection afforded the wheat grower.

For these reasons, I favour a compulsory marketing policy through the present Wheat Board. All deliveries will be made to the Board which will market it to domestic and overseas millers and grain merchants. A minimum price will be guaranteed to domestic wheat producers, and the Board will sell the wheat at such prices as it deems necessary. The experience of the past five years has amply shown that there will always be a strong demand for our wheat, and that it will be purchased at substantial premiums over competitive wheats. Not that I favour a policy of holding price at excessive premiums, but I feel that the Board should not enter into a hopeless price-war with competitors, unless, of course, it wants to take a heavy loss. It is conceivable that it may have to sell at a price below its minimum price, and that this may involve a certain loss, which will amount to a subsidy to wheat producers. I see no objection to this. For several years Canadian economists have been debating the question of the "economics of federalism",*and most of them will undoubtedly agree that the farmer is one of the groups which has borne a disproportionate share of the burdens resulting from the depression in view of its unsheltered position. Eastern industrialists have largely been sheltered from the blast by tariff protection, which, while amounting to a subsidy to them, is a tax on the rest of the population, and a definite hindrance to exporting interests. It is the duty of the State to adjust these burdens equitably on all classes and groups, and the Western wheat grower is definitely one of the first deserving compensation.

*See any number of the Canadian Journal of Economics and Political Science. (University of Toronto Press. Published Quarterly). See also "The Canadian Economy and its Problems". Edited by H.A. Innis and A. Plumptre. (Can. Institute of Internat'l Affairs 1934).

I see no reason why this new policy should result in a serious loss to the Government. If greater diversification of agricultural production can be achieved by some of the methods which I have suggested, Canada should be spared a recurrence of the huge carryovers which have accumulated during the past five years. If the experience of the past five years amounts to anything, we have reason to believe that Canada should be able to export some 200 million bushels annually. MacGibbon has suggested that he does not think our exports will fall below that figure in the future.* And we have reason to feel that this amount can be sold even though our price be held at a premium over that of competitive wheats.

It can be seen that these suggestions are based on one consideration, namely, that the loss to the Government be kept at a minimum. We could, of course, have the Government guarantee the producer a minimum price, and then sell the wheat at the "world price." This, however, would involve it in a heavy loss. Under my suggestion, the Government can pursue a policy of "orderly marketing", and still dispose of most of its stocks, inasmuch as I assume that the supply of wheat forthcoming will be lessened.

All this involves certain modifications in traditional marketing policy and machinery. For one thing, the Winnipeg Grain Exchange will be closed. Country elevators, however, will still receive fixed rates as determined by the Canada Grain Act, for their services, although they will act merely as agents for the Board, and will not be allowed to sell themselves. It is conceivable that exporting firms may still be allowed to function on behalf of the Board, in view of their established connections abroad, but they, too, will merely get commissions for their efforts.

I do not offer these suggestions in the nature of a panacea. They in no way will solve the underlying world wheat problem of a surplus in relation to effective demand. At best, they only promise to mitigate the ramifications of that problem on Canada. The solution to the world problem can only come when nations are willing to cooperate with one another, and will revise their policies of national self-sufficiency. But I feel that for many years to come there is little hope of such occurring. In fact, this thesis is based entirely on that assumption. I in no way look upon "mixed farming" as an ideal solution. It has many limitations and shortcomings. But yet, it appears that it is essential, and is the inevitable result of existing conditions. I would much rather see a general lowering of tariff and other trade barriers throughout the world, or in the absence of that, some form of international agreement among wheat producing countries, which would have the effect of bringing order to a chaotic and disorganized market. In the absence of these, Canada faces two alternatives: the jungle law of the "devil take the hindmost" and competitive, destructive price-cutting for the limited markets that remain, or some form of stabilization and "orderly marketing." Without hesitation, I choose the latter. I am interested primarily in two things: a decent remunerative price for the wheat grower, and a minimum loss to the Government. The latter policy promises both. The former promises neither.

With Dr. Joseph Goldstein, I believe that the present agricultural crisis is more than a temporary phenomenon.* It gives every prospect of being a permanent feature of our present society. For these reasons, not only must the necessary adjustments which I have suggested be effected, but the Government must do all in its

*"The Agricultural Crisis". (John Day, New York. 1935). pages 240-1.

power to lower the farmers' cost of production, so that if a low minimum price is necessary in the interests of Government finance, wheat growing may be able to remain on a paying basis. This should involve a substantial writing-down of farm indebtedness, revision of freight rates, etc., wherever and whenever such is possible. If Canadian wheat growers are destined to face a long period of low prices, they should at least be properly equipped for the struggle.

There are some who will undoubtedly claim that the policy I have outlined in the preceding pages will lead to increased production in other exporting countries, which will want to take advantage of the adjustments effected in Canadian agriculture. I see absolutely no reason for this belief. We will still sell as much wheat as we have in the past five years. The Board will endeavour to dispose of the same volume of wheat as has passed into the channels of international trade since 1930. The only difference will be an internal one. We will not be piling up carryovers at home. My suggestion in no way implies a diminution of our exports. For that reason, I do not see why other exporting countries should find an opportunity to want to increase their production. If they do, let them go ahead. It will mean a further degradation of their producers. Others will say that the policy is an admission that we are not as efficient as other exporting countries. It is not; it is an admission that we want to maintain a better price for our wheat producers. Finally, it will be contended that this policy will adversely affect the railways as did the stabilization policy. Apart from the fact that the effect will in no way be substantial, I raise the question once more: Are we to give greater consideration to the railways or to our wheat producers? Under existing circumstances, it must be to one or the other. I have no hesitation in choosing the latter.

The period of rapid expansion and extensive exploitation which has hitherto characterized our expanding frontier economy is gone. From now on, Canadian agriculture faces a long period of adjustment. It is the duty of the Canadian Government to give active assistance and lend financial support to Western wheat growers in order to mitigate the effects of this transition. Only in this way, and along the lines which I have laid out, do I think that the wheat industry in the Prairies can be put on at least a paying basis. That is the best that I can hope for.

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Holdings of Canadian Cooperative

Wheat Producers Ltd.

August 1931 - June 1935

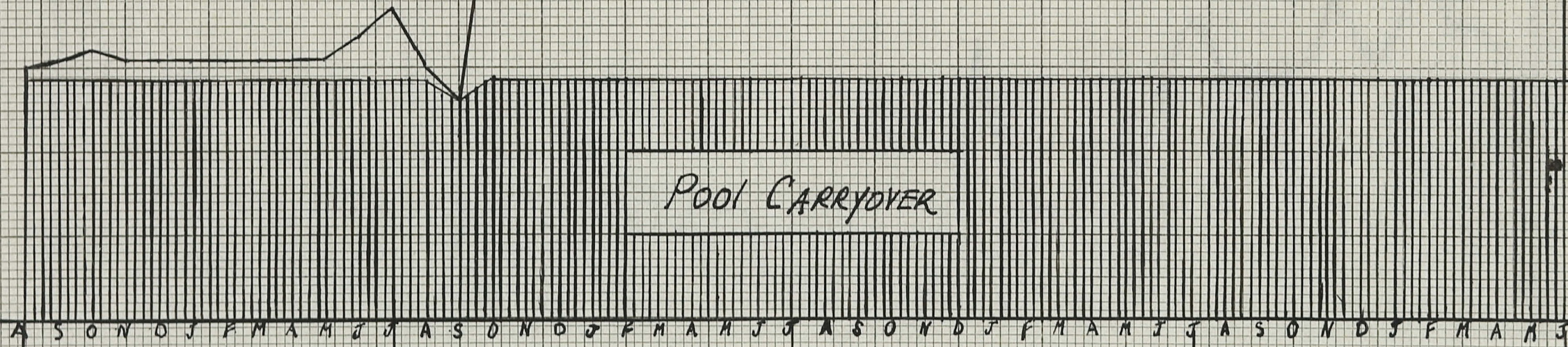
Million Bushels

200

75

On Stabilization Account

Pool Carryover



1931-1932

1932-1933

1933-1934

1934-1935

MONTHLY AVERAGE PRICE (CASH)
OF
NO. 1 NORTHERN WHEAT AT
WINNIPEG MARKET-BASIS
FT. WILLIAM
1929-1936

Cents

160
 150
 140
 130
 120
 110
 100
 90
 80
 70
 60
 50
 40

J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M
 1929 1930 1931 1932 1933 1934 1935

AB

MANUFACTURED BY, RENOUF PUBLISHING CO., MONTREAL

FORM 100

CHART II

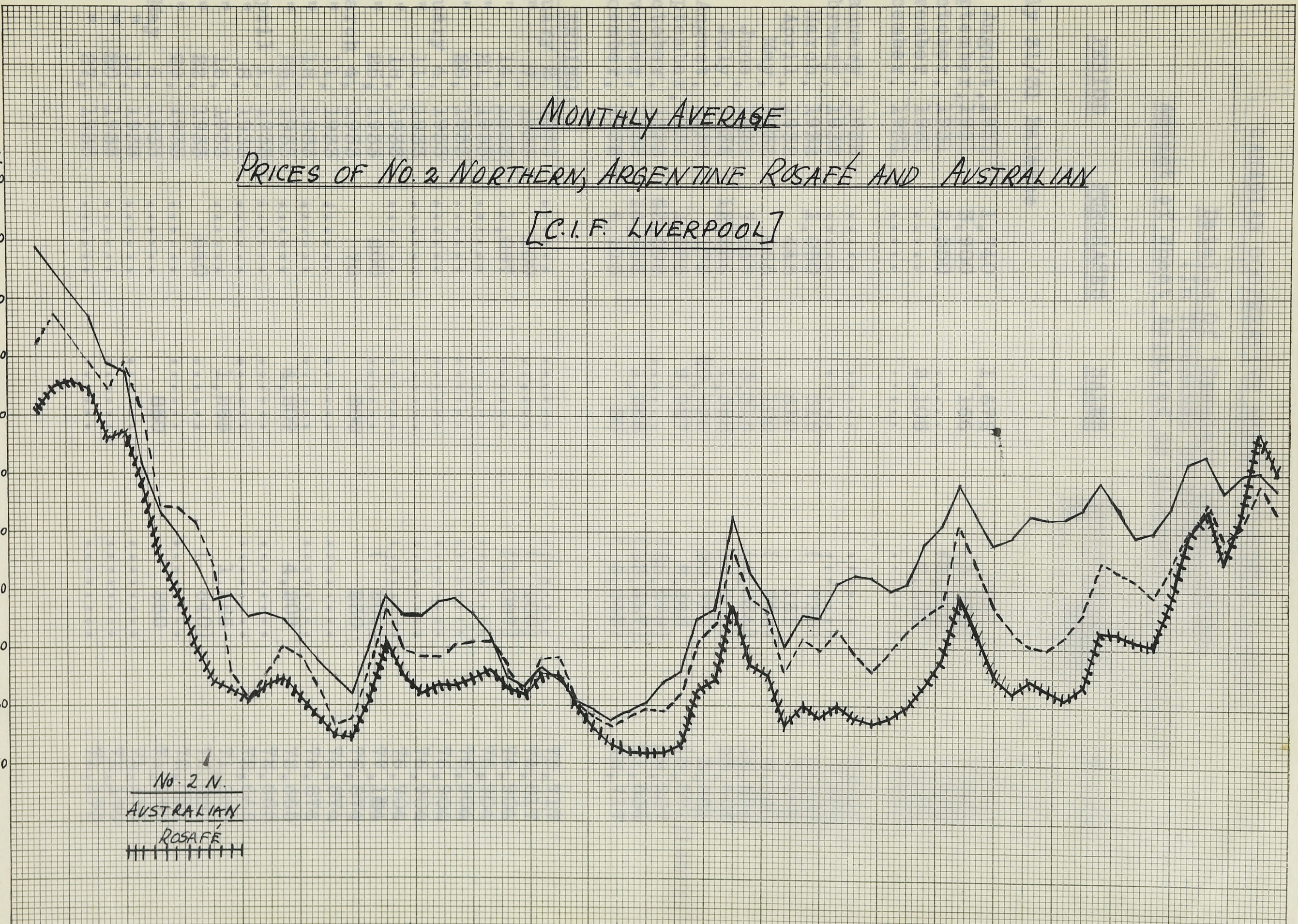
MONTHLY AVERAGE
PRICES OF NO. 2 NORTHERN, ARGENTINE ROSAFÉ AND AUSTRALIAN
[C.I.F. LIVERPOOL]

Cents

150
140
130
120
110
100
90
80
70
60
50

1930 1931 1932 1933 1934 1935

No. 2 N.
AUSTRALIAN
ROSAFÉ



MANUFACTURED BY: RENOUF PUBLISHING CO., MONTREAL

FORM 100

CHART III

AB

APPENDIX I

CANADIAN COOPERATIVE WHEAT PRODUCERS LIMITED

Details Of 'Special' Option Trades
(In Thousands of Bushels)

Amount of Wheat Acquired or Disposed of by Periods

<u>PERIOD</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>NET (PURCHASES)</u> <u>OR SALES</u>	<u>ON HAND</u>
July 31/31 Balance				3,178
August, 1931	1,740	1,672	(68)	3,246
September, 1931	3,900	166	(3,734)	6,980
October, 1931	2,550	.....	(2,550)	9,530
November, 1931	.....	2,105	2,105	7,425
December, 1931	.....	.....	.....	7,425
January, 1932	.....	.....	.....	7,425
February, 1932	.....	.....	.....	7,425
March, 1932	1,050	315	(735)	8,160
April, 1932	445	610	165	7,995
May, 1932	465	100	(365)	8,360
June, 1932	7,649	3,315	(4,334)	12,694
July, 1932	12,266	1,358	(10,908)	23,602
August, 1932	175	20,926	20,751	2,851
September, 1932	1,685	9,927	8,242	(5,391) (short)
October, 1932	63,598	.....	(63,598)	58,207
November, 1932	14,652	1,225	(13,427)	71,634
December, 1932	4,113	30	(4,043)	75,717
<u>WEEK ENDING:</u>				
January 2, 1933	.....	.....	.....	75,717
" 7, 1933	100	.....	(100)	75,817
" 14, 1933	1,087	.....	(1,087)	76,904
" 21, 1933	.....	.....	.....	76,904
" 28, 1933	.....	.....	.....	76,904
February 4, 1933	.....	.....	.....	76,904
" 11, 1933	.....	.....	.....	76,904
" 18, 1933	.....	.....	.....	76,904
" 25, 1933	200	.....	(200)	77,104
March 4, 1933	70	300	230	76,874
" 11, 1933	.....	.....	.....	76,874
" 18, 1933	.....	.....	.....	76,874
" 25, 1933	.....	4,209	4,209	72,665
April 1, 1933	.....	.....	.....	72,665
" 8, 1933	.....	.....	.....	72,665
" 15, 1933	.....	1,285	1,285	71,380
" 22, 1933	640	.....	(640)	72,020
" 29, 1933	.....	.....	.....	72,020
May 6, 1933	.....	850	850	71,170
" 13, 1933	.....	.....	.....	71,170
" 20, 1933	.....	.....	.....	71,170
" 27, 1933	.....	.....	.....	71,170

'SPECIAL' TRADES (CONTINUED)

<u>PERIOD</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>NET (PURCHASES)</u>		<u>ON HAND</u>
			<u>OR</u>	<u>SALES</u>	
June 3, 1933	.....	.....	.....		71,170
" 10, 1933	.....	.....	.....		71,170
" 17, 1933	.....	.....	.....		71,170
" 24, 1933	300	200	(100)		71,270
July 1, 1933	.....	1,928	1,928		69,342
" 8, 1933	.....	4,004	4,004		65,338
" 15, 1933	.....	16,545	16,545		48,793
" 22, 1933	23,158	6,332	(16,826)		65,619
" 29, 1933	4,402	936	(3,466)		69,085
August 5, 1933	4,324	300	(4,024)		73,109
" 12, 1933	4,085	215	(3,870)		76,979
" 19, 1933	823	1,327	504		76,475
" 26, 1933	27	433	406		76,069
September 2, 1933	156	401	245		75,824
" 9, 1933	8,351	559	(7,792)		83,616
" 16, 1933	11,696	.....	(11,696)		95,312
" 23, 1933	6,225	589	(5,636)		100,948
" 30, 1933	2,625	.....	( 2,625)		103,573
October 7, 1933	5,720	.....	( 5,720)		109,293
" 14, 1933	14,332	.....	(14,332)		123,625
" 21, 1933	2,600	56	(2,544)		126,169
" 28, 1933	3,186	730	(2,456)		128,625
" 31, 1933	1,100	.....	( 1,100)		129,725
<u>BY MONTHS:</u>					
November, 1933	5,490	2,205	(3,285)		133,010
December, 1933	1,014	615	(399)		133,409
January, 1934	554	773	219		133,190
February, 1934	1,120	3,631	2,511		130,679
<u>WEEK ENDING:</u>					
March 3, 1934	35	626	591		130,088
" 10, 1934	696	916	220		129,868
" 17, 1934	.....	2,113	2,113		127,755
" 24, 1934	.....	3,135	3,135		124,620
" 31, 1934	.....	3,101	3,101		121,519
April 7, 1934	.....	2,978	2,978		118,541
" 14, 1934	.....	4,250	4,250		114,291
" 21, 1934	.....	3,354	3,354		110,937
" 28, 1934	.....	2,700	2,700		108,237
May 5, 1934	.....	4,548	4,548		103,689
" 12, 1934	.....	5,337	5,337		98,352
" 19, 1934	.....	2,081	2,081		96,271
" 26, 1934	.....	249	249		96,022
June 2, 1934	100	687	587		95,435
" 9, 1934	.....	256	256		95,179
" 16, 1934	588	304	(284)		95,463
" 23, 1934	2,390	26	(2,364)		97,827
" 30, 1934	209	117	(92)		97,919
July 7, 1934	865	384	(481)		98,000
" 14, 1934	2,195	1,472	(723)		99,123
" 21, 1934	988	2,305	1,317		97,806
" 28, 1934	2,755	431	(2,324)		100,130

'SPECIAL' TRADES (CONTINUED)

<u>PERIOD</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>NET (PURCHASES)</u> <u>OR SALES</u>	<u>ON HAND</u>
August 4, 1934	25	1,129	1,104	99,026
" 11, 1934	1,650	1,949	299	98,727
" 18, 1934	1,450	420	(1,030)	99,757
" 25, 1934	2,285	1,511	(774)	100,531
" 31, 1934	4,877-	.....	( 4,877)	105,408
<u>BY MONTHS:</u>				
September, 1934	23,974	.....	(23,974)	129,382
October, 1934	29,716	292	(29,424)	158,806
November, 1934	922	1,385	463	158,343
December, 1934	150	10	(140)	158,483
January, 1935	25	57	32	158,451
February, 1935	272	395	123	158,328
March, 1935	179	425	246	158,082
April, 1935	207	7,627	7,420	150,662
May, 1935	3,363	1,579	(1,784)	152,446

TOTAL PURCHASES
AUG./'31 - MAY/'35

297,589,000 bushels

TOTAL SALES
AUG./'31 - MAY/'35

148,321,000 bushels

SOURCE: Minutes of Evidence and Proceedings, Special Committee on the Grain Board Act. pages. 333-337.

APPENDIX II

CANADIAN COOPERATIVE WHEAT PRODUCERS LIMITED

Statement of Total Indebtedness To Banks and Net Liability After
Deducting Cash Deposits and Grain Stocks at Market Values
Season 1930-1931 Pool and Special Account

<u>DATE</u>	<u>TOTAL BANK INDEBTEDNESS OR (SURPLUS)</u>	<u>MARGIN DEPOSITS</u>	<u>VALUE OF GRAIN STOCKS</u>	<u>NET LIABILITY TO BANKS OR (SURPLUS)</u>
<u>1931</u>				
July 31st	\$28,387,340.49	\$10,370,000	\$15,458,988.47	\$ 2,558,352.02
August 31st	24,613,460.55	13,355,000	6,823,400.02	4,435,060.53
December 31	14,749,777.65	13,060,000	943,491.83	746,285.82
<u>1932</u>				
July 1st	25,565,986.18	14,440,000	15,878.64	11,110,107.54
December 31	54,952,729.84	21,831,000	.....	33,121,729.84
<u>1933</u>				
May 1st	30,632,694.29	20,953,000	229,656.25	9,450,038.04
June 1st	23,799,713.13	20,978,000	.....	2,821,713.13
July 1st	14,841,800.87	24,061,000	496.35	(9,219,695.48)
July 14th	(12,105,764.03)	21,721,000	915,195.00	(34,741,959.03)
July 16th	(15,975,305.28)	20,221,000	962,572.50	(37,158,877.78)
July 17th	(18,545,834.49)	18,971,000	989,210.00	(38,506,044.49)
July 18th	(19,561,712.32)	18,971,000	1,033,367.50	(39,566,079.82)
July 19th	(12,866,128.61)	18,971,000	934,492.50	(32,771,621.11)
July 20th	(2,311,572.26)	19,971,000	774,630.00	(23,057,202.26)
July 21st	3,631,060.59	23,016,000	730,870.00	(20,115,809.41)
July 22nd	9,552,443.09	23,656,000	704,510.00	(14,808,066.91)
August 1st	(6,137,645.34)	25,161,000	617,132.42	(31,915,777.76)
August 31st	19,703,170.85	25,062,300	202,935.00	(5,562,064.15)
September 30	41,598,309.46	28,676,600	165,585.00	12,756,124.46
October 31st	48,081,476.54	31,999,600	264,130.11	15,817,746.43
November 30	51,588,190.79	32,539,600	.....	19,048,590.79
December 31	51,577,427.60	32,717,600	.....	18,859,827.60
<u>1934</u>				
January 31	41,184,518.66	32,662,600	.....	8,521,918.66
February 28	43,649,353.83	31,939,000	.....	11,710,353.83
March 31	41,833,848.90	29,650,000	667,500.00	11,516,348.90
April 1934	47,458,217.85	28,443,000	1,302,500.00	17,712,717.85
May 31	28,720,923.29	22,930,000	15,341,538.43	(9,550,615.14)
June 30	30,701,418.01	27,115,000	3,209,455.83	376,962.18
July 31	22,651,160.95	26,445,000	11,014,028.73	(14,807,867.78)
August 31	25,886,581.19	28,080,000	2,829,731.41	(5,023,150.22)
September 30	29,949,878.46	32,110,000	140,204.18	(2,300,325.72)
October 31	52,083,505.49	37,810,000	694,308.63	13,579,196.86
November 30	47,195,587.53	38,130,000	283,293.67	8,782,293.86
December 31	44,545,642.99	37,000,000	2,208,437.47	5,337,205.52

APPENDIX II
(CONTINUED)

<u>DATE</u>	<u>TOTAL BANK</u> <u>INDEBTEDNESS</u> <u>OR (SURPLUS)</u>	<u>MARGIN</u> <u>DEPOSITS</u>	<u>VALUE OF</u> <u>GRAIN STOCKS</u>	<u>NET LIABILITY</u> <u>TO BANKS OR</u> <u>(SURPLUS)</u>
<u>1935</u>				
January 31	\$45,558,615.72	\$37,195,000	\$ 542,203.45	\$ 7,821,412.27
February 28	42,818,672.26	36,885,000	541,950.47	5,391,721.79
March 31	39,274,660.78	36,375,000	523,717.65	2,375,943.13
April 30	23,423,824.95	28,905,000	529,991.62	(6,011,166.67)
May 31	80,301,741.78	28,395,000	41,610,816.15	10,295,925.63
June 22	79,333,662.88	27,510,000	40,202,264.00	11,621,399.00

SOURCE: Minutes of Evidence and Proceedings, Special Committee on
the Grain Board Act. 1935. page 338.

APPENDIX III

CANADIAN COOPERATIVE WHEAT PRODUCERS LIMITED

Approximate Average Cost of all Wheat Carried At The
Following Dates (In Thousands of Bushels)

<u>DATE</u>	<u>BUSHEL</u>	<u>APPROXIMATE COST PER BUSHEL</u>
April, 30, 1933	148,396	64.410¢
June 30, 1933	145,718	64.998¢
April 30, 1934	184,218	74.582¢
June 30, 1934	174,036	75.838¢
September 30, 1934	205,499	76.167¢
April 30, 1935	226,777	85.062¢
May 31, 1935	228,562	85.943¢

Approximate Average Cost of Special Wheat At The
Following Dates (In Thousands of Bushels)

April 30, 1933	72,020	50.272¢
June 30, 1933	69,342	50.095¢
April 30, 1934	107,843	63.089¢
June 30, 1934	97,919	63.052¢
September 30, 1934	129,382	65.663¢
April 30, 1935	150,662	76.328¢
May 31, 1935	156,446	79.011¢

APPENDIX IV

POOL SALES AS PERCENTAGES OF TOTAL MOVEMENT
OF CANADIAN WHEAT INTO CONSUMPTION AND EXPORT
1926-27 to 1929-30

<u>Month and Period</u>	<u>1926-27</u>	<u>1927-28</u>	<u>1928-29</u>	<u>1929-30</u>
September	58.4	73.6	84.5	66.0
October	36.5	68.3	47.0	31.5
November	38.3	40.4	26.4	40.0
December	38.2	22.3	39.7	33.6
January	89.4	60.9	64.1	26.5
February	80.6	96.4	71.3	7.7
March	63.2	98.0	54.5	50.6
April	61.5	156.7	92.5	138.0
May	61.6	46.6	12.9	109.0
June	65.4	64.0	61.6	39.6
July	65.2	43.3	55.9	57.2
August	98.1	38.2	21.7	95.9
Sept.-Dec.	40.0	43.7	43.3	39.7
Sept.-May	52.3	60.4	46.6	51.9
Sept.-Aug.	55.9	57.1	47.3	55.9

SOURCE: "THE WORLD WHEAT SITUATION 1929-30"; WHEAT STUDIES
VOL. VII No.2. page 143.

