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REPORT

OF THE

ROYAL GRAIN INQUIRY COMMISSION

1938

OTTAWA
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1938

ROYAL GRAIN INQUIRY COMMISSION
1938

Hon. Mr. Justice W. F. A. Turgeon
Commissioner

T. W. Grindley, Ph.D.,
Secretary.

R. H. Foster, Esq.,
Assistant Secretary.

Commission Counsel:
Hon. J. L. Ralston, P.C., K.C.
J. E. Coyne, Esq.

ROYAL GRAIN INQUIRY COMMISSION

OTTAWA, ONTARIO, May 4, 1938.

The Hon. W. D. EULER,
Minister of Trade and Commerce,
Ottawa.

DEAR SIR,—I have the honour to hand you herewith the report of the Royal Grain Inquiry Commission, pursuant to the Order in Council of 27th June, 1936, P.C. 1577, a copy of which is attached hereto.

Your obedient servant,

W. F. A. TURGEON,
Commissioner.

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(Copy)

P.C. 1577

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 27th June, 1936.

The Committee of the Privy Council have had before them a report from the Acting Minister of Trade and Commerce, stating that the various problems pertaining to the production and marketing of Canadian Wheat and other grains have been engaging the earnest consideration of the Sub-Committee of the Privy Council, consisting of the Minister of Agriculture, the Minister of the Interior, the Minister of Finance and the Minister of Trade and Commerce, which Sub-Committee was authorized to examine and advise upon such matters; that the Sub-Committee has taken cognizance of the discussions upon the subject in the House of Commons and has come to the conclusion that it would be to the public advantage that an enquiry be made into all the matters involved.

The Minister, therefore, recommends that The Honourable William Ferdinand Alphonse Turgeon, of Regina, Saskatchewan, a Judge of the Court of Appeal of Saskatchewan, be appointed a Commissioner under Part 1 of The Enquiries Act, being Chapter 99 of the Revised Statutes of Canada, 1927, to enquire into and to report upon the subject of the production, buying, selling, holding, storing, transporting and exporting of Canadian Grains and Grain Products, and other questions incident to such matters, and in particular, but without restricting the generality of the foregoing terms, to enquire into and to report upon:

1. The methods now or heretofore employed in marketing Canadian Grains abroad, including Government Grain Boards, co-operative or pool marketing, price stabilization measures and the open market or competitive method; and the effect of these various methods upon markets.

2. All transactions since the year 1930 pertaining to the handling of grain for relief and seeding purposes in the Provinces of Manitoba, Saskatchewan and Alberta under the Dominion Government guarantee, or otherwise.

3. The extent, if any, to which the Canadian Wheat Board protected speculative short interests in the Winnipeg Wheat Market in December, 1935, immediately following the higher price fixed by the Argentine Government for Argentine wheat; and the effect, whether beneficial or harmful, of any such action taken by the Board.

4. The effect of the practice of mixing and of the selection of grain for protein content by millers and exporters.
5. The causes of the decrease in Canadian Grain exports in recent years.
6. The measures which should be taken to retain and to extend the marketing throughout the world of Canadian Wheat and other grains and their products.

The Minister further recommends that for the purpose of making such inquiry the Commissioner shall have the special authority specified under Part 3 of The Enquiries Act aforesaid.

The Minister further recommends that the Commissioner be instructed to make his Report as speedily as possible.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE,
Clerk of the Privy Council.

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REPORT OF THE COMMISSION

INTRODUCTION

On June 27, 1936, I was appointed by an Order of His Excellency the Governor General in Council a Commissioner under Part 1 of The Enquiries Act to inquire into and to report upon the subject of "the production, buying, selling, holding, storing, transporting and exporting of Canadian grain and grain products and other questions incident to such matters." The Order in Council provided that, in particular and without limiting the general scope of the inquiry, I was to devote my attention to the following subjects specifically set out and defined:

1. The methods now or heretofore employed in marketing Canadian Grains abroad, including Government Grain Boards, co-operative or pool marketing, price stabilization measures and the open market or competitive method; and the effect of these various methods upon markets.
2. All transactions since the year 1930 pertaining to the handling of grain for relief and seeding purposes in the Provinces of Manitoba, Saskatchewan and Alberta under the Dominion Government guarantee, or otherwise.
3. The extent, if any, to which the Canadian Wheat Board protected speculative short interests in the Winnipeg Wheat Market in December 1935, immediately following the higher price fixed by the Argentine Government for Argentine wheat; and the effect, whether beneficial or harmful, of any such action taken by the Board.
4. The effect of the practice of mixing and of the selection of grain for protein content by millers and exporters.
5. The causes of the decrease in Canadian Grain exports in recent years.
6. The measures which should be taken to retain and to extend the marketing throughout the world of Canadian Wheat and other grains and their products.

Origin of the Inquiry

The origin of the inquiry is to be found in a report of a special committee of the House of Commons concurred in by the House on June 17, 1936. This report, after dealing with the matters which had been specifically referred to the committee, concluded with the following recommendation:

"The committee further gave general consideration to the whole problem of the production and marketing of Canadian wheat and other facts pertaining to the wheat problem. Because of the gravity of this problem, and because your committee has neither the time nor the facilities to make a comprehensive survey of the situation, we recommend the appointment by the government of a Royal Commission to make a complete survey of the production, grading and distribution of Canadian grain, including the methods of marketing by,—

(*a*) the producers themselves through co-operative and stabilizing effort;

(*b*) the agency of a government wheat board and the powers such a board should possess;

(*c*) the open market or competitive method; and, further, to inquire into the general effect of mixing, if any, and of selection for protein content by millers and exporters.

"This would involve not only a full examination into the methods referred to above, but also into the conditions which obtain in world markets; what effect, if any, these methods have had upon European purchasers, and, generally, what measures should be taken to retain and enlarge markets for Canadian wheat, and products of wheat and other grains, throughout the world."

The report of the committee, adopted without dissent, also recommended that certain specific questions upon which it had taken evidence should be referred to the proposed Royal Commission for further inquiry and report. The Order in Council, in defining the subject matter of this inquiry, embraces all the matters into which it was deemed expedient by the committee and by the House of Commons that inquiry should be made.

During the last forty years the grain trade of Canada has been investigated many times at the instance of both Dominion and Provincial governments. These various inquiries have been more or less broad in their scope. Thus the commission appointed by the Government of Canada in 1923 was instructed to inquire into "the subject of the handling and marketing of grain in Canada and other questions incident to the buying, selling and transportation of grain." The task of the Saskatchewan Commission of 1928 was to inquire into "the subject of the grading, mixing, handling and marketing of grain." The inquiry instituted by the Government of Canada in 1931 was confined to one subject, but a most important one; the commission was instructed "to inquire into and report upon what effect, if any, the dealing in grain futures has upon the price received by the farmer."

On the present occasion the scope of the inquiry has been made considerably wider than on past occasions, because, besides some of the old problems which now demand reconsideration, other problems have presented themselves in recent years which affect in a vital manner the posi-

tion of Canadian grain in export markets and consequently the production of grain, and especially of wheat, in Canada. This appears from a perusal of the report of the Committee of the House of Commons and is indicated specifically in paragraphs 5 and 6 in the Order in Council. Reference is made to "the gravity of the problem" and notice is taken of a decrease in Canadian grain exports in recent years and of the advisability of efforts being made to retain and to extend our markets. This involves a study of the causes of the decrease and of the measures which appear best fitted to better our position for the future.

The Interests Concerned

The subject matter of the inquiry is not only of first importance to the economic life of Canada, but it is also of great magnitude, being made up of many inter-related problems of which some are of a controversial character. The outstanding interest concerned is, of course, that of the producer of grain; but many other interests also exist along the course of the process whereby the primary product is removed from the farm in Canada to the mill in Great Britain and in other overseas countries. The privilege of having counsel at the sittings of the commission was therefore extended to all those whose interests were affected by the inquiry. In addition, I had the great advantage of the assistance of counsel appointed as counsel to the commission.

Procedure

A great number of witnesses appeared before me. Sittings were held in Canada at Winnipeg, Saskatoon, Regina, Edmonton, Calgary, Vancouver and Ottawa, and, with the consent of those concerned, at London, Liverpool, Glasgow, Paris, Brussels, Antwerp, Rotterdam and Chicago. In all, 122 days were devoted to these sittings, 260 witnesses were heard and 715 exhibits filed. The period between the issuing of the Commission and the submission of this report has been somewhat protracted by reason of the fact that, during most of it, I was engaged, also as sole commissioner, upon an inquiry into the textile industry of Canada, which took up 135 days of public sittings besides the time necessary to compile the report which was submitted to the government on January 20th, 1938.

Counsel

The following counsel took part in the proceedings:
Hon. J. L. Ralston, P.C., K.C., Montreal, Commission Counsel,
Jas. E. Coyne, Winnipeg, Assistant Commission Counsel,
Isaac Pitblado, K.C., Winnipeg, Winnipeg Grain Exchange,
A. E. Hoskin, K.C., Winnipeg, Winnipeg Grain Exchange,
L. W. Brockington, K.C., Winnipeg, North West Grain Dealers' Association,

E. K. Williams, K.C., Winnipeg, Manitoba Pool Elevators Ltd.,
M. A. MacPherson, K.C., Regina, Saskatchewan Pool Elevators Ltd.,
R. H. Milliken, K.C., Regina, Saskatchewan Pool Elevators Ltd.,
M. M. Porter, K.C., Calgary, Alberta Pool Elevators Ltd.,
Hugh Phillipps, K.C., Winnipeg, Terminal Elevators,
C. K. Tallin, Esq., Winnipeg, Terminal Elevators,
J. T. Thorson, K.C., M.P., Winnipeg, United Grain Growers Ltd.,
Hon. J. E. Brownlee, K.C., Edmonton, United Grain Growers Ltd.,
P. G. Hodges, K.C., Regina, Province of Saskatchewan,
W. C. Hamilton, K.C., Winnipeg, Dominion of Canada,
W. J. Lindal, K.C., Winnipeg, Board of Grain Commissioners for Canada,
E. F. Haffner, K.C., Winnipeg, McCabe Grain Co.,
Boyd McBride, Edmonton, Edmonton Chamber of Commerce,
George H. Barr, K.C., Regina, Representing a Group of Regina District Farmers,
Walter B. Caswell, Saskatoon, Citizens' Wheat Board & Price League,
W. Martin Griffen, K.C., Vancouver, Vancouver Merchants Exchange & Vancouver Board of Trade.

CHAPTER I

THE WHEAT GROWING AREA

It will be well, I think, to begin the survey called for by the terms of the Commission by describing briefly the area of Canada which produces our principal export commodity (wheat), and by reviewing the history of this area in relation to this production.

The three provinces of Manitoba, Saskatchewan and Alberta have a total land area of 452,158,720 acres, of which it is estimated that nearly 170,000,000 acres can be used for agricultural purposes.[1]

UTILIZATION OF LAND ACREAGE IN WESTERN CANADA, 1936

No. of Occupied Farms	300,523	
Total Occupied Area	113,112,500	Acres
Total Improved Area	60,849,957	"
Area in Field Crops	40,104,581	"
Area in Wheat	24,837,824	"

Source: Census of 1936

The agricultural area is bordered on the East by the physical barrier of the Ontario Clay Belt, on the West by the Rocky Mountains, on the South, by the political line of the United States boundary, and on the North by the seemingly elastic border of a territory with an unfavourable agricultural climate. East and West, along the international boundary, there is a length of 800 miles from the Clay Belt to the Mountains, but the breadth of the area is narrowed on the northeast by the extension of the Laurentian Plateau. Thus the arable belt assumes a somewhat triangular shape, with the western side running for more than 500 miles along the foot of the Rocky Mountains and, making about a 35-degree angle in the Peace River District for the third side, running southeast to the southeastern corner of Manitoba. This third side runs for a length of about 1,000 miles to complete the boundary of agricultural production at the present time.

The wheat area is thus isolated from the rest of Canada by a thousand miles of thinly populated land on the east and by five hundred miles of mountain barriers on the west. While this inland, physical, isolation remains as an impediment, the development of lake and rail transportation has greatly reduced the economic disadvantages of a country compelled to export a specialized crop. The network of railway lines in the West pictures surprisingly well the Canadian wheat triangle. Ready access to the Great Lakes, and to the Pacific ports and to Churchill on Hudson's Bay has helped to offset the disadvantages of Western Canada's geographical position.

[1] "Natural Resources of the Prairie Provinces." Publication of the Department of Interior, Canada.

MILEAGE FROM WESTERN CANADA POINTS TO THE VARIOUS PORTS

From	To			
	Vancouver	Fort William	Montreal	Churchill
Calgary	642	1,267	2,190	1,190
Edmonton	769	1,253	2,163	1,159
Regina	1,103	783	1,780	825
Saskatoon	1,095	932	1,862	790
Winnipeg	1,405	419	1,423	950

There are two rather large and well-defined regions of the West—the southern, short-grass plains and the park belt, a transition of mixed prairie and tree land. A smaller area is the forest zone. Within these major regions, the soils are by no means uniform.

Development of Wheat Acreage

Wheat has held the major place in the economy of Western Canada throughout this Century. In 1900, 44·6 per cent of the improved land was in wheat; in 1936 this percentage had been lowered only slightly to 40·8 per cent. Other field crops formed 19·8 per cent of the improved land in 1900 and 25·2 per cent in 1936. There has been a tendency toward diversification in Manitoba, in the northern park belt of Alberta and Saskatchewan and in the irrigated areas of southern Alberta, but elsewhere wheat has held its important place in the farm economy. In 1900, the wheat acreage was 2,495,474; in 1936 it was 24,837,824, both census figures. The other grain crops, oats, barley, rye and flaxseed together comprise little more than half the acreage sown to wheat.

The production and export of wheat rose steadily from 1908 (when the compilation of annual statistics began) until 1928. During the same period, there was an increase in the quantity used for domestic purposes in Canada as flour, feed and seed. In this period, the population of Canada increased from about 7 to 10 million, all classes of live stock and poultry numbers increased significantly and the quantities necessary for seed rose with the increase in wheat acreage. The exportable surpluses rose even more quickly until over 400 million bushels of wheat and wheat flour were exported in the crop year 1928-29. Since that date there have been only two crops of normal size (1930 and 1932) and exports have fallen accordingly.

Within this 20th century, Canada has progressed from modest beginnings in wheat production to a position of being the largest factor in the wheat export trade of the world. This position has brought with it naturally a dependence on export markets and on prices in those markets.

Early History

The earliest attempts to grow wheat in western Canada date from the trials of the Selkirk settlers in the region near where Winnipeg now stands, about 1813. The first crops of 1813 and 1814 were failures, but

that of 1815 was a limited success. The troubles of these early colonists were almost insuperable. Apart from climatic difficulties, grasshoppers, locusts, passenger pigeons and mice exacted their toll from the small yields. A reference to troublesome weeds at this time shows the birth of a present-day pest. When locusts had destroyed the crops of 1818 and 1819, there was no seed wheat in the colony and a supply had to be brought from Prairie du Chien, Wisconsin. With this shipment came stinkweed, and later seed importations from Minnesota brought other noxious weeds. Discouraged by floods and locusts a number of the Selkirk colonists moved up the river to Pembina in 1818 and there was another exodus in 1819. Pembina was vacated in 1822 because it was found to be on American territory and settlement there retarded the further growth of St. Boniface. Another flood in 1826 caused a great emigration, particularly of Swiss settlers, to Minnesota. Lower Fort Garry was built in 1830 and the Fort Garry begun in 1835 was the future Winnipeg.

At this time, two wagon trails—the Red River or plains trail, and the Sauk, or woods trail—formed the communication with the outside world. The latter of these was to be the path of the St. Paul and Pacific Railway, begun in 1862, bankrupt in 1373, purchased by Canadian financiers from the Dutch bondholders in 1876, and reorganized under James J. Hill as the St. Paul, Minneapolis and Manitoba in 1879. In 1889, this road became the Great Northern.

The first recorded shipment of wheat from western Canada took place in 1876. Amounting to 807 bushels and sold for 85 cents per bushel, it went out in sacks by boats up the Red River to the Northern Pacific lines, which conveyed it to Ontario.

The introduction of "Red Fife" wheat from Ontario about 1870 marked a real advance in western grain-growing. Much of the previous discouragement had arisen from the lack of suitable varieties.

In 1878, the St. Paul Railway entered Winnipeg and from this date on the economic history of western Canada is written in terms of settlement, railway building, breaking of new land and wheat production. It was the peculiar and natural adaptation of wheat to the climatic and soil conditions of the West that engendered this growth. This fitness of wheat became even more apparent with the advances in plant breeding and cultural investigation.

The development of western Canada in the past sixty years may be divided into three periods. The first of these began with the active building of the Canadian Pacific Railway about 1882; the second, with railway extension and immigration influx about 1903; and the third in 1924 at the conclusion of the economic depression and unfavourable weather conditions that followed the Great War.

The Period 1882 to 1902

The building of the Canadian Pacific Railway started in 1882-83, was hindered by financial difficulties and the Riel Rebellion, but was completed to the Coast in 1885. It tapped the southern, short-grass plains, which were easily broken up for wheat production. Settlement in this period came mainly from eastern Canada and Great Britain, and spread westward from the Red River Valley of Manitoba into Saskatchewan and along the fertile banks of the Souris, Qu'Appelle and Assiniboine Rivers. The development of this period was not as great nor as prolonged as that which began early in the present century. There were several reasons for this, including the counter-attraction provided by cheap lands in the western United States, the lack of land surveys and the comparatively slight encouragement to immigration. About the year 1895, the first period of western development came to an end.

The Period 1903 to 1918

The second period of rapid development began with a great inrush of immigration in 1903 which showed a fairly steady increase to a peak in 1913. In the early years of the century, Manitoba continued to fill up at a rapid rate and settlement extended northward into the park lands of Saskatchewan and Alberta. The main line of the Canadian Pacific and its few branch lines served the settled portion of the West until the oncoming of the accelerated immigration about 1903. Then more railway accommodation became necessary. About this time Messrs. Mackenzie and Mann began the building and acquiring of lines in the north and central regions of the West, which by 1905 stretched from Edmonton in Alberta to the Head of the Great Lakes in the east, and from Lake Winnipegosis to the United States line, and extended into St. Paul by the Northern Pacific. The building of the Grand Trunk Pacific also began about 1903. An increase in wheat production followed closely upon railway building and new immigration, and a fairly close relation is found between these three elements in the growth of the West.

The outbreak of the War in 1914 ended the rapid development in settlement and transportation of the previous decade, but the patriotic appeal for increased wheat acreage met with ready response. The first crop seeded after the War was declared covered over 3½ million acres more than that of 1914, and the crop of 1918 was 5¼ million acres more, an increase of over 50 per cent. This was mainly accomplished by breaking new land and by some trespassing upon the coarse grain acreage. During this period new agricultural development was most evident in the northern sections of the Prairie Provinces, particularly in the Peace River District.

The Post-War Period

The wheat acreage continued to expand until 1921. The years 1918-21 offered little in the way of encouraging weather to the wheat farmer, but while the prices remained high, they compensated for the low physical yield. When wheat prices fell in 1920 and 1921 many of the marginal lands were returned to their pre-war uses. Land settlement and railway construction continued as important factors. The Soldiers' Settlement Board and the Canada Colonization Association did much to encourage the resumption of immigration, especially in 1920 and 1921. After a slump in 1922 and 1923, immigration continued on a moderate scale until the depression arrived in 1929. The government began its control of the Canadian Northern and Grand Trunk Pacific Railways and the Hudson Bay Railway was pressed to completion.

Immigration was resumed in moderate numbers in 1924 and continued up to 1929. Since that date, it has been an insignificant factor in western development. The growth of population has also slackened. Between the census periods, 1901 and 1936, the population of Manitoba rose from 255,211 to 711,216; Saskatchewan from 91,279 to 930,893; Alberta from 73,022 to 772,782, and the three provinces from 419,512 to 2,414,891. The rate of increase has slowed notably in the past five years; Alberta's population is now increasing the fastest, Manitoba's being almost stationary.

Wheat acreage had declined to a level of 19,759,648 acres in 1925, but then began a steady rise to a peak of 26,395,000 acres in 1932. With low prices prevailing there were declines in 1933, 1934 and 1935, an increase in 1936 and a slight decline in 1937 to 24,599,000 acres. It is evident that the low depression prices had only a slight and temporary effect in reducing western wheat acreage.

CHAPTER II

HISTORICAL SURVEY OF THE ECONOMIC POSITION OF AGRICULTURE IN WESTERN CANADA

Chapter one has described briefly the factors responsible for the initiation and growth of grain-farming in the West. These may be listed as the natural adaptation of such crops to climatic, soil and economic conditions and the plentiful and cheap supply of fertile, easily-broken land. Effective precipitation is usually well concentrated in the grain growing season. Under pioneer conditions, with land cheap and labour dear, the cultivation of wheat and other grains was naturally resorted to. As settlement progressed, railway lines were extended and bulk handling made relatively lower freight rates on grain possible. Terminal elevators were provided at interior points and at the ports to assist the outward movement. Labour saving machinery for large-scale production was developed. A tremendous stimulus was provided by the high prices and assured markets of the War period. Throughout most of the short history of the West, land values have remained low enough to encourage extensive methods of farming. The work of plant-breeders and cultural investigators has kept pace with new problems so that new and earlier varieties have been developed and better cultural methods adopted to meet the changed conditions resulting from extractive farming.

A brief citation of the relevant statistics will illustrate the hazards that have accompanied the establishment of a wheat economy in the Prairie Provinces. The two main variants—weather and foreign demand—are largely beyond control. The weather is the main determinant of yield and foreign demand is one of the principal price-determining factors.

The following table lists the gross value of agricultural production in the three Prairie Provinces from 1918 to 1937, and for comparative purposes, the value of the wheat crop. The tremendous variation is clearly apparent, the low point of gross value of production being $291,666,000 in 1931 and the high, $863,986,000 in 1927. Similarly for wheat the low point in value was $112,480,000 in 1931 and the high, $451,956,000 in 1925.

GROSS VALUE OF AGRICULTURAL PRODUCTION IN THE PRAIRIE PROVINCES AND FARM VALUE OF THE WHEAT CROP, 1918 TO 1937

Year	Gross Value of Agricultural Production. (Thousand Dollars)	Value of Wheat Crop (Thousand Dollars)
1918	714,804	328,939
1919	802,374	387,073
1920	730,093	370,990
1921	475,589	219,175
1922	604,919	312,515
1923	591,546	294,686
1924	653,543	285,821
1925	771,065	451,956
1926	765,011	408,270
1927	803,086	445,547
1928	843,153	424,039
1929	642,022	290,046
1930	441,219	187,279
1931	291,666	112,480
1932	299,080	144,333
1933	293,298	123,198
1934	354,920	159,027
1935	359,122	159,677
1936	412,191	185,580
1937	390,643	157,560

Source.—Dominion Bureau of Statistics, Agricultural Branch, Ottawa.

The next table is appended to show the growth of wheat acreage and production in the three Prairie Provinces as well as the tremendous variation in average yield per acre from year to year. A downward trend in yield per acre is also apparent from the moving averages. The year 1937 showed the lowest average yield per acre (6·5 bushels) and the year 1915 the highest (26·0 bushels). In 1937, the total yield was the lowest since 1914, in which year there were over 15 million acres less wheat sown.

WHEAT ACREAGE, PRODUCTION, YIELD PER ACRE, AND 9-YEAR MOVING AVERAGES OF YIELDS, 1906-1937

Year	Acreage	Production (Bushels)	Average Yield Per Acre (Bushels)	9-Year Moving Average of Yields (Bushels)
1906	5,096,053	104,222,780	20·4	–
1907	5,081,207	71,574,402	14·1	–
1908	5,624,000	91,855,000	16·3	–
1909	6,878,000	147,482,000	21·4	–
1910	7,867,423	110,166,704	14·0	18·43
1911	9,990,461	208,697,000	20·9	19·63
1912	10,011,000	204,280,000	20·4	19·50
1913	10,036,000	209,262,000	20·9	19·12
1914	9,335,400	140,958,000	15·1	17·60
1915	13,807,715	360,187,000	26·0	16·57
1916	14,362,809	242,314,000	16·9	15·85
1917	13,619,410	211,953,100	15·6	14·98
1918	16,125,451	164,436,100	10·2	14·97
1919	17,750,167	165,544,300	9·3	15·85
1920	16,841,174	234,138,300	13·9	14·40
1921	22,181,329	280,098,000	12·6	14·67
1922	21,223,448	373,194,000	17·7	14·95
1923	20,879,558	452,260,000	21·7	16·10
1924	21,066,221	235,694,000	11·2	17·65
1925	19,759,648	367,053,000	18·6	17·22
1926	21,805,314	380,765,000	17·5	17·58
1927	21,425,650	454,559,300	21·2	16·84
1928	23,158,505	544,598,000	23·5	16·25
1929	24,297,116	281,664,000	11·6	16·07
1930	24,807,058	397,300,000	16·0	15·33
1931	25,586,092	301,181,000	11·8	14·69
1932	26,395,000	422,947,000	16·0	13·33
1933	25,177,000	263,004,000	10·4	11·51
1934	23,296,000	263,800,000	11·3	–
1935	23,293,000	264,098,000	11·3	–
1936	24,837,800	202,000 000	8·1	–
1937	24,599,000	159,000,000	6·5	–

Source: Dominion Bureau of Statistics, Agricultural Branch, Ottawa.

An idea of the variation in wheat prices may be gained from the following table, which gives the yearly average prices of No. 1 Northern wheat at the Head of the Lakes from 1890-91 to 1936-37. Actually the variation at the country elevator would be greater.

YEARLY AVERAGE PRICES OF NO. 1 NORTHERN WHEAT, FORT WILLIAM-PORT ARTHUR BASIS, CROP YEARS 1890-91 TO 1936-37

Crop year ending August 31	Cents per bushel
1890-91	90·4
1891-92	87·0
1892-93	74·9
1893-94	65·6
1894-95	71·0
1895-96	61·1
1896-97	72·6
1897-98	98·9
1898-99	72·4
1899-1900	69·8
1900-01	79·5
1901-02	72·7
1902-03	74·9
1903-04	86·2
1904-05	97·4
1905-06	77·5
1906-07	79·5
1907-08	104·7
1908-09	116·1
1909-10	102·4
1910-11	96·6
1911-12	100·8
1912-13	89·4
1913-14	89·4
1914-15	132·4
1915-16	113·3
1916-17	205·6
1917-18	221·0
1918-19	224·1
1919-20	217·5
1920-21	109·3
1921-22	129·7
1922-23	110·5
1923-24	107·1
Crop year ending July 31	
1924-25	169·0
1925-26	151·2
1926-27	146·3
1927-28	146·3
1928-29	124·0
1929-30	124·0
1930-31	64·2
1931-32	59·8
1932-33	54·3
1933-34	68·1
1934-35	81·8
1935-36	85·1
1936-37	122·7
1937-38*	139·0

* Eight months, August, 1937 to March, 1938, inclusive.
Source: Dominion Bureau of Statistics, Agricultural Branch, Ottawa.

Canada's progress from an importing to a great wheat exporting country is shown by the following table, giving the population of Canada and the production, imports, exports and home consumption of wheat in Canada 1868-69 to 1936-37. The development of western Canada is mainly responsible for this change in Canada's wheat production through the years. The production of soft winter wheat in Ontario has actually declined as the Prairie Provinces were developed.

PRODUCTION, IMPORTS, EXPORTS AND HOME CONSUMPTION OF WHEAT IN CANADA, 1868-69 TO 1936-37

Year	Estimated population	Production	Imports[1]			Exports[1]			Apparent home consumption[3]
			Wheat	Wheat flour	Wheat and flour[2]	Wheat	Wheat flour	Wheat and flour[2]	
	000	000 bush.	bush.	brl.	bush.	bush.	brl.	bush.	000 bush.
1868	3,511	*22,152*	3,591,948	349,248	5,163,564	2,809,208	375,219	4,497,694	*22,682*
1869	3,565	*22,528*	4,402,773	326,387	5,871,515	3,557,101	582,177	5,276,898	*23,173*
*1870	3,625	*19,727*	4,201,657	392,843	5,969,451	1,748,977	309,339	3,127,503	*25,663*
1871	3,689	*23,149*	4,168,179	376,372	5,861,853	2,993,119	453,144	5,032,277	*23,979*
1872	3,754	*27,838*	5,821,390	278,832	7,076,134	4,379,741	474,190	6,513,596	*24,401*
1873	3,820	*24,180*	8,405,616	288,056	9,701,868	6,581,217	540,317	9,012,644	*24,869*
1874	3,895	*25,853*	5,105,159	467,786	7,210,195	4,383,022	302,783	5,745,546	*25,518*
1875	3,951	*26,005*	5,855,656	376,114	7,548,169	6,070,393	418,504	7,940,161	*25,701*
1876	4,009	*22,601*	4,589,051	549,063	7,059,835	2,393,155	268,605	3,601,878	*26,059*
1877	4,064	*25,903*	5,625,411	314,520	7,050,751	4,393,535	476,431	6,537,475	*26,416*
1878	4,120	*30,459*	4,210,165	313,085	5,619,061	6,610,724	574,947	9,197,986	*26,780*
1879	4,185	*31,225*	10,176	101,795	468,272	5,090,505	544,591	7,541,165	*27,903*
*1880	4,255	32,330	76,652	197,581	965,767	2,523,673	439,728	4,502,449	28,813
1881	4,325	38,000	345,900	172,517	1,122,236	3,845,035	469,739	5,938,861	33,163
1882	4,375	47,752	44,097	264,956	1,236,399	5,807,458	489,046	8,068,165	40,920
1883	4,430	30,841	268,660	531,188	2,689,006	745,526	197,389	1,633,777	31,896
1884	4,487	45,363	373,101	540,108	2,893,587	2,340,956	123,777	2,897,953	45,269
1885	4,537	42,736	66,084	201,327	972,056	3,419,168	386,099	5,156,614	38,551
1886	4,580	38,225	22,540	169,629	785,871	5,631,726	520,213	7,972,685	31,038
1887	4,626	38,954	12,012	62,482	293,211	2,163,754	350,115	3,739,272	35,508
1888	4,678	32,965	15,167	233,813	1,179,826	490,905	131,181	1,081,220	33,064
1889	4,729	30,792	188,934	169,869	953,345	422,274	115,099	940,220	30,805
*1890	4,779	42,223	147,521	57,489	406,222	2,108,216	296,784	3,443,744	39,185
1891	4,833	60,721	66,112	36,536	220,629	8,714,154	380,996	10,428,636	50,523
1892	4,883	48,182	9,066	34,507	164,351	9,271,885	410,185	11,117,718	37,229
1893	4,931	41,347	60,775	32,506	207,050	9,272,208	428,610	11,200,958	30,353
1894	4,979	43,221	499,720	47,883	715,194	8,825,683	222,975	9,829,077	34,107
1895	5,026	55,705	142,131	41,436	328,593	9,919,842	185,716	10,759,764	45,272
1896	5,074	39,570	83,589	26,377	202,286	7,855,274	421,758	9,753,185	30,019
1897	5,122	51,418	58,045	35,537	218,197	18,963,107	1,249,438	24,585,578	30,031
1898	5,175	66,495	35,546	57,745	265,369	10,305,470	792,536	13,871,882	52,919
1899	5,235	59,912	27,262	50,656	255,228	16,844,650	768,162	20,301,379	39,866
*1900	5,301	55,572	104,782	46,638	314,653	9,739,758	1,118,700	14,773,608	41,113
1901	5,371	88,337	148,326	47,143	360,470	23,117,530	1,086,648	31,007,446	57,690
1902	5,494	97,073	84,931	35,247	243,543	32,985,745	1,287,766	38,780,692	58,536
1903	5,651	81,888	37,151	40,849	220,992	16,779,028	1,557,600	23,923,228	58,180
1904	5,827	71,838	92,406	42,397	283,193	14,700,515	1,321,469	20,646,926	51,474
1905	6,002	107,033	64,927	41,912	253,581	40,399,402	1,532,014	47,293,465	59,993
1906	6,037	135,602	35,251	44,072	243,575	39,434,658	1,562,491	46,465,868	89,370
1907	6,411	93,124	104,267	44,194	303,140	40,077,950	1,667,905	47,583,514	45,851
1908	6,623	112,434	28,186	33,489	178,857	47,696,095	2,008,348	56,733,626	55,879
1909	6,800	166,744	73,078	30,273	209,307	52,623,887	3,374,268	67,808,093	99,145
*1910	6,988	132,078	107,903	66,108	407,639	48,442,780	3,101,185	62,369,113	70,088
1911	7,207	231,237	140,626	52,191	375,486	78,786,889	4,180,892	97,600,903	134,012
1912	7,389	224,159	619,031	60,079	899,387	93,510,826	4,496,299	115,744,172	109,304
1913	7,632	231,717	129,823	50,632	357,667	114,902,121	4,596,739	135,597,447	96,487
1914	7,879	161,280	1,964,466	47,905	2,180,039	63,901,874	5,077,389	86,750,125	76,710
1915	7,981	393,543	131,308	38,638	305,179	235,738,776	7,426,437	299,157,743	124,690
1916	8,001	262,781	86,042	48,531	304,433	140,223,819	7,031,429	174,565,250	88,520
1917	8,060	233,143	183,639	21,693	281,258	118,579,601	11,257,942	169,240,340	64,784
1918	8,148	189,075	290,891	6,815	321,559	55,921,319	9,119,796	96,960,401	92,436
1919	8,311	193,260	115,420	19,186	201,757	63,450,123	6,455,429	92,499,554	100,962
*1920	8,556	226,508	304,642	33,357	454,749	136,968,832	6,721,469	167,215,443	59,747
1921	8,788	300,858	193,234	39,935	372,942	150,925,359	7,740,960	185,769,679	108,759
1922	8,919	399,786	93,571	67,544	397,519	229,849,410	11,003,460	279,364,980	129,719
1923	9,010	474,199	40,772	83,882	440,741	292,425,153	12,021,424	346,521,561	94,650
1924	9,143	262,097	352,923	61,660	620,393	146,938,158	10,169,692	192,721,772	87,451
1925	9,294	395,475	154,963	49,829	379,194	275,557,078	10,890,654	324,592,021	62,501
1926	9,451	407,136	139,435	59,474	407,119	251,263,788	9,247,524	292,880,996	100,191
1927	9,637	479,665	148,904	72,410	474,749	288,567,390	9,845,754	332,963,283	120,172
1928	9,835	566,726	994,922	77,991	1,345,881	354,424,699	11,808,778	407,564,187	133,805
1929	10,029	304,520	1,003,968	82,384	1,374,726	155,766,106	6,778,023	186,267,210	111,943
1930	10,209	420,672	131,608	25,025	244,221	228,536,403	6,701,663	258,693,887	139,487
1931	10,379	321,325	123,524	20,623	216,328	182,803,382	5,383,594	207,029,555	117,560
1932	10,506	443,061	51,320	27,043	173,014	240,136,565	5,370,613	264,304,327	99,123
1933	10,681	281,892	10,676	89,442	413,165	170,234,013	5,464,636	194,779,875	104,518
1934	10,824	275,849	2,794	198,640	896,674	144,374,910	4,720,310	165,751,305	101,583
1935	10,935	281,935	15,111	61,422	291,510	232,019,649	4,978,917	254,424,775	121,702
1936	11,026	229,218	16,959	56,985	403,396	174,858,160	4,525,665	195,223,653	109,740

[1] Years ended June 30, 1869 to 1905, and July 31, 1906 to 1937.

[2] Wheat flour has been converted into bushels of wheat at the average rate of 4½ bushels to the barrel of 196 lb. of flour.

[3] In calculating the apparent home consumption, stocks of wheat on hand at July 31 have been included since 1921 and stocks of wheat flour since 1926. The consumption figures for these years are not, therefore, strictly comparable with the figures for the earlier years, for which data on carry-over stocks are not available.

*Production figures from records of the decennial census.

Source.—September, 1937, Monthly Bulletin of Agricultural Statistics.

Western Canadian Agriculture in the Canadian Economy—Internal and External

Canada's economic policy, stated in general terms, has been one of protection to industry and certain minor branches of agriculture, with considerable importation over the tariff from the United States and Great Britain and reliance on export of primary products and manufactures thereof to balance her international indebtedness. Capital for early development came mostly from the Old Country, creating a net debtor position that has persisted to this day.

The tariff and related imposts cause increased production and living expenses on the western farms and when added to taxes on land value, mortgage charges, etc., do not correlate well with a farm income noted for its variation with the weather and foreign demand. These taxes in turn cannot be shifted by the farmer to any great extent since the factors determining grain prices are of world wide scope.

As an offset, it has been a matter of government policy to effect reductions in the cost of marketing. A great deal has been done to promote efficient marketing of the wheat crop in which western Canada is comparatively advantaged and upon which Canada largely depends for the balance of her international indebtedness.

Farm Capital and Value of Production

The current value of farm capital in Canada in 1937 (including land and buildings, implements and machinery, and livestock and poultry) was $4,626,161,000. Of this amount, the three Prairie Provinces accounted for $2,026,254,000. The constituent items were land and buildings, $1,539,646,000, implements and machinery, $261,882,000, and live stock and poultry, $224,726,000.

In the same year, 1937, the gross value of agricultural production in Canada was $1,051,698,000, of which the three Prairie Provinces contributed $390,643,000. All field crops accounted for $273,592,000 of this latter figure and wheat was valued at $157,560,000. Of course, this was far from a normal year in western agriculture. These are the indications of the tremendous investment in Canadian agriculture.

Farm Population

At the 1931 census, some 4·8 millions of Canada's total population of 10·4 millions were classed as rural and this was the first time in which urban population exceeded rural. The Prairie Provinces, as disclosed in the following table, have remained essentially rural.

PERCENTAGE RURAL OF TOTAL POPULATION

—	1901	1921	1936
Manitoba	72·4	57·1	53·3
Saskatchewan	84·4	71·1	69·9
Alberta	74·6	62·1	62·9

Source: Census data.

Farm Ownership and Tenancy

Western Canada is rapidly changing from farm ownership to farm tenancy. The following quotation is illustrative:

> "Twenty-five years ago (1911), 83·4 per cent of the farmers of Manitoba, 90·6 per cent of the farmers of Saskatchewan and 92·0 per cent of those of Alberta owned the farms which they operated, whereas in 1936 the percentages were as follows: Manitoba 67·2 per cent, Saskatchewan 60·3 per cent, and Alberta 66·9 per cent."

Source: Canada Year Book, 1937, p. 270.

There were also large increases in the number of partly owned and partly rented farms in each province during this period. Such changes are related to the decrease in the value of land and the increase in mortgage and other indebtedness.

Internal Importance of Canadian Agriculture

Canadian agriculture is a very important factor in the economy of Canada. The purchasing power of the farmer is a decided influence in providing manufacturing, transportation and distribution interests with employment and revenues. Basing calculations on the last Dominion census of 1931, farm expenditures for labour, taxes, feed, fertilizers, farm machinery, light and power, annual charges on farm mortgages, gasolene, oil and repairs, binder twine and other supplies, it is estimated that Canadian farmers spent 557 million dollars for these items. Food would account for another 325 million dollars and clothing at least 75 millions. These items totalling nearly a thousand million dollars represent the value of farm purchasing power to the Dominion. It is further calculated that about one-third of this purchasing power arises from the Prairie Provinces.

Farm production forms the raw material of Canadian manufacturing and processing concerns to the extent of about one-quarter of the total gross value of their output.

About 20 to 25 per cent of the revenue freight loaded on Canadian railways is made up of grain and grain products and live stock. A large part of the Great Lakes freight is made up of grain moving eastward for export. It is very important also to note that in periods of depression

there is only a slight contraction in the volume of farm products moving, compared with the major decline in the movement of industrial goods. Agriculture thus acts as a stabilizer to the revenues of transportation interests.

External Importance of Canadian Agriculture

In external trade, products of farm origin made up nearly 40 per cent of our total exports in 1936-37, with wheat and wheat flour providing 23 per cent. The total value of domestic exports was $1,061,181,906, of products of farm origin, $422,163,595, and of wheat and wheat flour, $245,048,047. Other grains add to over 21 million dollars and other grain products over 15 million dollars. These percentages are lower than was formerly the case because of the impediments to trade in wheat common throughout the world.

These statistics reveal the importance of agricultural exports (and wheat, in particular) in balancing the international exchange of Canada, which is a net debtor country. Payment for imports and for interest and retirement of our national debt held in other countries is largely dependent upon Canada's continuation as an export country.

A study of relevant statistics impresses one with the fact that domestic utilization of Canadian foodstuffs produced in surplus amounts has declined very slightly in recent years. The great change has been in foreign demand. The marketing troubles besetting western agriculture can therefore be appraised as foreign and, to a large extent, uncontrollable. Diminished effective demand is the important change.

A basic difficulty of agriculture is that production is not controllable as in industry. Unless nature limits the output, the full force of depression in demand is felt in the price factor; in manufacturing, employment, wages and prices all bear part of the burden.

Undoubtedly, the western producer works under a disadvantage in Canada's fiscal policy. This was repeatedly emphasized in evidence before this Commission. The compensation suggested for this disability included measures directed toward reduction of production costs, continued improvements in marketing and handling methods from the standpoint of efficiency and economy, and any possible steps that can be taken to better overseas demand.

It is estimated that British and foreign investments in Canada at January 1, 1935, amounted to $6,887,812,000, a figure which is counterbalanced to some extent by Canadian investments in other countries of $2,083,341,000. (Canada Year Book, 1937, p. 872.) The net liability is still a large amount and must remain a principal determinant of our economic policy. The continuation of our export trade is essential and because of the important place of wheat in such trade, it deserves special consideration.

Chapter III

METHODS OF MARKETING

The first enumerated paragraph in the Order in Council calls for an inquiry into:

> 1. "The methods now or heretofore employed in marketing Canadian Grains abroad, including Government Grain Boards, co-operative or pool marketing, price stabilization measures and the open market or competitive method; and the effect of these various methods upon markets."

Before discussing these various methods in detail and from the standpoint of the controversies which surround them, I find it useful to review in bare outline the history of the years which have gone by and the place which each system of marketing has occupied from time to time. It will be convenient in doing this to begin with the method described in the paragraph as "the open market or competitive method;" because, with the exception of two intervals, one during the Great War and one immediately after its close, this method of marketing Canadian grain has prevailed constantly, though not always exclusively, from the beginning of western Canada's export trade down to the present time.

The Open Market or Competitive Method

The history of the open market or competitive method may be divided into two periods: that which went before the existence in Canada of a futures trading system, and that which has been going on since the coming into operation of this system in its present form in Winnipeg in February, 1904.

From the beginning, and regardless of the particular systems prevailing, the grain grower and those concerned in his welfare have always been interested in securing the best possible return for the product shipped from the farm to the market. At first the wheat was bought for export to Europe by traders who did not hedge their purchases but bore, themselves, the full risk of price fluctuations until they had resold at an Atlantic port, generally New York. The only evidence we have of those early days, which is now incomplete and fragmentary, indicates that a wide spread of probably ten cents a bushel on wheat of the straight grades was taken between the prevailing British price and that paid to the farmer at the time of purchase, this spread being in addition, of course, to the necessary carrying and shipping charges. At a later period some firms came into the business who hedged their purchases in New York, Chicago or Minneapolis; but the spread between producer and consumer prices, apart from carrying and

shipping charges, still remained relatively wide because hedging in these United States markets was not altogether satisfactory. This was the first period of the open method of marketing and it came to an end when futures trading was established in Winnipeg.

However, it must be added that in those early days, and especially before the enactment of the Manitoba Grain Act, 1900, several factors other than the lack of a futures market in Canada had a bearing on the wide spread taken between overseas prices and those paid to the producer. These were uncertainty as to grade and quality, scarcity of cars, inadequate elevator space and loading platforms, the high cost of handling grain in small volume, slower communications and lack of broad and precise market information.

The reasons which actuated those who brought the present system of futures trading into being in Canada and the steps which they took to achieve their purpose are set out in the statement submitted to me in Winnipeg by Mr. Frank Fowler who has been manager of the clearing house since its establishment. The full name of the clearing house is the Winnipeg Grain and Produce Exchange Clearing Association. Mr. Fowler says:

> "This Association obtained incorporation under the Joint Stock Companies' Act of Manitoba in June, 1901. Its incorporators, along with others, after having a few years' experience in handling the grain crops of the West, during which they protected their purchases in the country with hedges in Chicago, decided they could not continue placing their hedges in a market in which they could not make delivery, and consequently through the Winnipeg Grain Exchange established a futures market in Winnipeg where futures contracts could be completed by the delivery of, and payment for, the grain stipulated in such contracts. Then, for the purpose of more efficiently and economically exchanging the daily balances due to the fluctuations in the price of grain and for the added security to contracts, a number of members of the Winnipeg Grain Exchange established this Clearing Association. Not all members of the Exchange are members of the Clearing Association, but all members of the Clearing Association must be members of the Exchange.
>
> "The affairs of the Association are managed and administered by a Board of nine Directors, who in turn elect a President, Vice-President, Secretary-Treasurer and Manager. I was appointed Manager in the fall of 1903, and proceeded to organize and staff an office for clearing futures trading in western grain on the Winnipeg Grain Exchange. This took considerable time, but we finally commenced trading in futures and clearing the trades on the 2nd day of February, 1904."

The immediate effect of the establishing of the futures trading and clearing house system in Winnipeg was considered to be beneficial to the

producer. This is evidenced by the report of a Royal Commission appointed by the Dominion Government on July 19, 1906, and which reported on October 11, 1907. This report says:

> "The work of the Grain Exchange in establishing and systematizing a market in Winnipeg for the handling of the crops of the West has been a great benefit to the country. The restrictions placed upon its members in providing for the fulfilment of contracts, the establishment of a clearing house in which contracts are protected day by day give the banks the necessary confidence and surety in advancing money to the trade with which to handle the crop. This has brought the producer much nearer to the consumer than he at one time was and no doubt is of great financial benefit to him."

Peculiar importance is to be attached to this statement by reason of the composition of the commission responsible for it. The commissioners were Mr. John Millar, Mr. W. L. McNair and Mr. George E. Goldie. Mr. Millar is and was then a farmer and wheat grower in the Indian Head District, who took an active part in farmers' movements. He was the first secretary of the Territorial Grain Growers' Association which was organized in 1901 and of which the Honourable Dr. W. R. Motherwell, M.P., was first president, and was later a member of Parliament from Saskatchewan. Mr. McNair was a prominent Manitoba farmer and Mr. Goldie was a miller in eastern Canada. These men were therefore in constant touch with grain marketing questions both before and after the adoption of futures trading in Canada and had their own experience to guide them in reaching conclusions.

As the years went on, however, a different sentiment concerning the futures trading system made itself felt among large numbers of grain growers. The Royal Grain Inquiry Commission of 1923-24 heard charges against the system which are summarized in the Commission's report at page 128 as follows:

> "That speculation either on the cash or futures market injuriously affects the farmer and the community: (*a*) the price of grain is thereby unduly depressed in the autumn when the farmers are selling the bulk of their crop; (*b*) lucrative profits are made by speculators, scalpers, etc., through gambling with the farmers' product; (*c*) disastrous losses are made in speculation."

The report deals with these charges on pages 130 to 139 and on this last page it lays down 12 conclusions the effect of which is to favour the futures trading system as being, on the whole, beneficial to the producer.

Later on, dissatisfaction again induced government action and in 1931 another commission was appointed to deal solely with this question of futures trading. The report of this Commission, after pointing out the difficulties involved in the problem, concludes as follows:

"However, in brief, our answer to the question submitted is that in addition to the benefits reflected to the producer in furnishing a system of insurance for the handling of his grain, and in providing an ever-ready and convenient means for marketing the same, futures trading, even with its disadvantages of numerous price fluctuations, is of distinct benefit to the producer in the price which he receives."

During the course of this present investigation the merits of the system were again called in question and the advisability of allowing it to continue in existence in Canada was challenged.

The Board of Grain Supervisors

The first departure from the open and competitive futures market trading system took place by Dominion Government action during the war. On June 11, 1917, an Order in Council was passed creating "The Board of Grain Supervisors of Canada." The reasons for this action appear in the preamble to the Order in Council, which reads:

"Whereas, by reason of war conditions, it is considered necessary to provide means whereby the grain of Canada in excess of domestic requirements may be made available for purchase by or on behalf of His Majesty's Government of the United Kingdom and of the Allied Powers, and that the distribution of domestic requirements be controlled in such manner and under such conditions as will prevent to the utmost possible extent any undue inflation or depreciation of values by speculation, by the hoarding of grain supplies, or by any other means."

The Board marketed the remnant of the wheat grown in 1916 and the whole of the wheat crops of 1917 and 1918.

The principal powers conferred upon the Board were to take possession of the wheat; to fix prices which "as far as possible and having regard to position and the cost of transportation" were to be uniform throughout Canada for grain of the same kind, quality and grade; and to resell the grain thus acquired to millers and to:

"overseas purchasers representing or acting for the Government of the United Kingdom or for any of the allied nations or for any combination of the same."

The prices paid by the Board were, basis No. 1 Northern in store Fort William: for the remainder of the 1916 crop, $2.40 a bushel; for the 1917 crop, $2.21; for the 1918 crop, $2.24½.

The object of the Government in establishing this Board appears to have been to assist in providing a sufficient supply of grain to Great Britain and her allies and also to fill domestic requirements at reasonable prices. It was at this time that the Government, having the same purpose

in view, launched a nation-wide campaign for the extended production of wheat and other foodstuffs.

By order of the Board of Grain Supervisors trading in wheat for future delivery on the grain exchange was suspended from and after September 1, 1917. This suspension continued until July 21, 1919.

On this last date futures trading in wheat was resumed, but it lasted only until July 29, 1919. On July 31 an Order in Council was passed again suspending futures trading and establishing the Canadian Wheat Board with instructions to handle and market the wheat crop of 1919 and that portion of the crop of 1918 which might remain undelivered to the Board of Grain Supervisors on August 15, 1919.

The Canadian Wheat Board, 1919-20

The reasons for the creation of the Canadian Wheat Board are stated as follows in the Order in Council:

> "As regards the crop of 1919, and any other wheat undelivered on the 15th day of August, 1919, it does not appear that there will exist in importing countries likely to require or purchase same, any organized buying at fixed prices such as prevailed in recent years, nor any open and stable market of the character that obtained prior to the war.
>
> "The United States Government has through a constituted agency undertaken many months ago and during the continuance of active hostilities in the present war, the purchase at a fixed price, of the crop of that country for the year 1919, and the marketing of same at home and abroad.
>
> "Under these abnormal conditions, resulting in uncertainty of price and instability of market, it would appear that in order to secure that early movement of the Canadian crop which is so essential, and that fair distribution among our wheat producers of the actual value of their product, as determined by the world demand for same throughout the entire season of marketing, which is equally desirable, action should be taken by the Government, looking to the purchase, storage, movement, financing and marketing of the wheat grown in Canada in 1919, and other wheat undelivered in Canada on the 15th of August, 1919."

The difference in the manner of operating between the Canadian Wheat Board of 1919-20 and the Board of Grain Supervisors was that the new board, instead of buying the wheat outright at a fixed price as the earlier board had done, paid the producer or other person delivering the wheat an advance which was fixed at $2.15 a bushel on the basis of No. 1 Northern in store at Fort William, and remained accountable to the sellers for any profits it might realize on its resales after deducting all expenses. In the result, additional payments of 30 and 18 cents a bushel were made, bringing the total price of the wheat up to $2.63 per bushel.

The operations of the Canadian Wheat Board of 1919-20 having come to an end, futures trading was resumed on August 18, 1920 and has gone on continuously ever since.

The Pools

The next modification in the system of wheat marketing occurred with the coming into action of the Pools in Alberta, Saskatchewan and Manitoba. The main objects of these Pools are to be found by reference to the contract signed by each Pool with the grower and which is in identical terms in the case of the three provinces. The preamble to the contract, taken from the Alberta form, reads:

> "Whereas, the undersigned Grower desires to co-operate with others concerned in the production of wheat in the Province of Alberta and in the marketing of the same, hereinafter referred to as Growers, for the purpose of promoting, fostering and encouraging the business of growing and marketing wheat co-operatively and for eliminating speculation in wheat and for stabilizing the wheat market; for co-operatively and collectively handling the problems of Growers and for improving in every legitimate way the interests of Growers in the Province of Alberta and for other pertinent purposes:
>
> "And whereas, the Association has been formed under 'The Co-operative Association Act' of the Province of Alberta with full power to act as agent, factor, mercantile agent and attorney in fact, to handle wheat produced and delivered to it by its members, and with such further powers as are set forth in its Memorandum of Association";

The Alberta Pool was the first in the field and became organized in time to handle a portion of the 1923 crop, about 34,000,000 bushels. Although the elimination of speculation was one of the principal objects of the Pool, and the Pool did not hedge its grain, its operations were not carried on altogether outside the Winnipeg Grain Exchange and the Exchange's marketing facilities. The operations of the Alberta Pool were inquired into in the winter of 1924 by the Royal Grain Inquiry Commission which was then sitting, and reference to the evidence given is to be found in the Commission's report at page 131. The Mr. Jaffray referred to is Mr. H. T. Jaffray, then chairman of the western subsection of the Canadian Bankers Association:

> "The Alberta Pool which had received a line of credit, Mr. Jaffray stated, was not required by the banks to hedge its grain because the farmer gets only a partial advance and carries all the risk himself. That is, the farmer retains such a substantial interest in the grain until it is ultimately disposed of that it is sufficient to

protect the advance the bank makes against any loss. Loss, if it occurs will fall upon the Pool members themselves. The witness believed that without hedging the farmer (that is the non-pool farmer) would be unable to dump his large crop on the market within three months of the harvest season without taking a smaller price for it. Evidence was later given by Chester Elliott, Western Sales Manager for the Alberta Pool, that the Pool had sold wheat for future delivery 'when prices looked attractive' and had also used the futures market in connection with the export business 'to accommodate the buyer.' Mr. Elliott, however, said they did not use the market to hedge the grain of which control had been acquired in the country."

In 1924 the organization of the three Pools was completed. They then decided to get together in setting up a combined selling agency in Winnipeg, and this was done by the incorporation in August 1924, under the Companies Act of Canada, of Canadian Co-operative Wheat Producers, Limited. The new company was to act as selling agent for the three Pools on a non-profit basis. It became known as the Central Selling Agency, and its objects, as stated in its charter, were:

"To be an agricultural organization instituted for the purposes of mutual help, to serve as the central marketing association for the corporations and persons mentioned in Section (a. 1) hereof, (the three Pools) but for no others; to improve methods and reduce costs of marketing grain; to reduce speculation, manipulation and waste, and all unnecessary transactions in such marketing; to increase consumption, build up new markets and develop new uses for grain; to market same directly and with regularity, so as to furnish it economically to the users thereof; and to preserve for the growers and the public their proper profits and economies."

I notice that while the contract between each Pool and the growers expressed the intention of "eliminating" speculation, the object of the Central Selling Agency in this regard was stated to be to "reduce" speculation. I do not know whether this change in language was meant to have any real significance, or whether the modified wording in the later charter was intended to provide for the operations described by Mr. Chester Elliott in 1924 when he spoke of selling wheat for future delivery "when the prices looked attractive" and using the futures market "to accommodate the buyers" (which means accepting from the buyer of cash wheat a futures contract held by him). In any event the Central Selling Agency took membership on the Winnipeg Grain Exchange and, in the course of its operations, it had recourse from time to time to practices usually considered to be speculative; but this will be gone into later. It will suffice for the present to point out that the Pools, through their Central Selling Agency, pursued a marketing policy different in one major respect from that pursued by elevator companies and others buying wheat

in large volume for re-sale, in that they did not hedge the wheat they held for sale but carried their own risk of fluctuations in prices, disposing of their wheat from time to time throughout the year. They adopted this policy out of conviction that the hedging of great quantities of wheat in the futures market in the early delivery months had a depressing effect upon prices. As the Pools handled over 50 per cent of all the wheat marketed during their period of full activity, the effect upon prices of their non-hedging policy might be expected to have been noticeable if their conviction was well founded. On the other hand the risk they were carrying was great, but it might be argued that it was no greater than were their chances of gaining by not committing themselves to a price early in the crop year.

In 1925 the Saskatchewan and Alberta Pools began the pooling of coarse grains and the Alberta Pool adopted the same measure in 1929.

The first four years of Pool operating appear to have produced results satisfactory to Pool members. But the wheat crop of 1928 turned out to be the largest in the history of Canada and at the end of the crop year the Pools had a large quantity of this wheat still unsold. This handicapped the selling of the 1929 crop. On July 11, 1929, when the Winnipeg closing cash price for No. 1 Northern wheat was $1.44¼, the Central Selling Agency fixed the initial payment to be made in respect to the 1929 crop at $1 per bushel on the basis of No. 1 Northern at Fort William. This initial payment proved much too high. Prices fell so that in the result the over-payment made on this basis amounted to 18 cents a bushel. The Pools' total deficit in respect to wheat and coarse grains was ultimately placed at $24,300,000.

The amount advanced by the banks to the Pools to make the initial payment of $1 in 1929 having become jeopardized by a fall in prices which reduced the margin between the market value of Pool grain and the indebtedness to less than the stipulated 15 per cent, the banks wanted some action taken. In February 1930 the Governments of the three Prairie Provinces gave the banks a guarantee against loss in respect to the 1929 crop and the remainder of the 1928 crop.

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

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

On July 31, 1931, the Pools became separated from the Central Selling Agency and since then have operated as separate entities carrying on a country and terminal elevator business. They also operated voluntary selling pools, each in its own province, for those of their members who wished to pool their grain. This voluntary pooling went on for the four years 1931-32-33-34, but was discontinued upon the establishment of the Canadian Wheat Board in the summer of 1935. The voluntary pooling operations were of small volume, slightly less than 20 million bushels of wheat being marketed in that manner during the four years.

Price Stabilization Measures

Shortly after the assumption by Mr. McFarland of the management of the Central Selling Agency in November, 1930, there began what is referred to in the Order in Council as the "price stabilization measures." These went on until the fall of 1935 and were financed by the banks under Dominion Government guarantee. In speaking of these stabilization measures in their relationship to the futures market, all that may be said is that they consisted in holding unusually large quantities of grain out of the cash market for long periods of time and in adding to the Central Selling Agency's cash wheat by the buying of futures. The reasons given for this policy were: excessive world supplies, a scarcity of buyers and ruinously low prices. These practices were contrary to those which had been followed by the Central Selling Agency up to that time. They were intended to secure better prices for wheat by abstaining from selling freely and continuously, and to resist downward pressure on prices by buying futures, especially in the fall months. The unusual element thus furnished to the market was the existence of this agency acting on a very large scale under Dominion Government guarantee. When Mr. McFarland took charge of the Central Selling Agency in November, 1930, the quantity of wheat on hand was 36,935,000 bushels, with Pool contract wheat still to come in during the crop year. At the end of that crop year, he had a carry-over of 75,164,000 bushels of which 47,555,000 consisted of futures, and 27,609,000 of cash wheat. When Mr. McFarland's activities came to an end in the fall of 1935 he had on hand, on Central Selling Agency account, 205,187,000 bushels, of which 53,728,000 bushels were cash wheat and 151,459,000 futures.

The Canadian Wheat Board, 1935

The next agency to be created was the present Canadian Wheat Board established by Dominion Statute in July, 1935, and acting with the financial support of the Government.

The Wheat Board took office on August 14, 1935, with Mr. McFarland as chief commissioner. The statute empowered and instructed the Board to acquire and to sell all the wheat and the contracts for the delivery of wheat held by the Central Selling Agency, and also to receive and to sell

all wheat delivered to it by producers. In receiving wheat from producers, the Board was to pay the producer a price to be fixed by the Board with the approval of the Governor in Council and to deliver to him a participation certificate entitling him to share, with all other producers dealing with the Board, in the equitable distribution of the surplus, if any, of the operations of the Board during the crop year. Mr. McFarland continued to act as manager of the Central Selling Agency up to the time he resigned from the Wheat Board on December 2, 1935, and, during the autumn months of 1935 preceding his resignation, he continued to buy and sell on stabilization account.

On December 3, 1935, Mr. J. R. Murray was appointed chief commissioner. The new Board took over from Mr. McFarland's administration 90,189,187 bushels of wheat and wheat contracts in respect of the 1935 crop. At the same time there was in the account of the Central Selling Agency the 205,187,000 bushels of cash wheat and of futures contracts already referred to. The acquisition of these 205,187,000 bushels, called "stabilization wheat" was later completed as of December 2, 1935. The terms of the acquisition showed a loss to the Government, under its guarantee, of $15,856,645.83 on ruling prices.

The Board with Mr. Murray as chief commissioner proceeded to dispose of this stabilization wheat and the wheat of the 1935 crop. At the end of the 1935-36 crop year there were left on hand 82,667,891 bushels of stabilization wheat and 2,030,761 bushels of 1935 crop wheat. The initial price fixed under the provisions of the Act for 1935 wheat was 87½ cents for No. 1 Northern in store Fort William or Vancouver. As the operations of the Board in respect of this wheat resulted in a loss of $11,858,104.18, there was no surplus to be distributed among the producers.

The Canadian Wheat Board, 1936-37 and 1937-38

Respecting the crops of 1936 and 1937 the Board has this to say in its annual report for 1936-37:

> "In accordance with Section 8, subsection (*a*), of the Canadian Wheat Board Act, 1935, the Board, on July 29, 1936, fixed a price to be paid to the producers for wheat delivered to the Board, subject to the approval of the Governor in Council, of eighty-seven and one-half cents (87½c.) per bushel for No. 1 Northern at Fort William or Vancouver. On August 28, 1936, this price was approved by the Governor in Council to become effective only if the closing market price for wheat dropped below ninety cents per bushel for No. 1 Northern Wheat in store Fort William. During the period from August 1 to August 28, 1936, the Board took delivery of 617,655-21 bushels of wheat from producers of which 559,663-47 bushels were subsequently returned to the producers, while 57,991-34 bushels were settled for at the open market price to producers who elected that alternative.

"The price to be paid to producers for the 1937-1938 season was fixed on the same basis as in the previous season, namely eighty-seven and one-half cents (87½c.) per bushel for No. 1 Northern Wheat, in store Fort William or Vancouver. As in the previous year, this price was approved by the Governor in Council to become effective only if the closing market price for wheat dropped below ninety cents per bushel for No. 1 Northern, in store Fort William."

During the crop year 1936-37 and up to the present time in this crop year 1937-38 the closing market price for No. 1 Northern wheat has not dropped below 90 cents.

The liquidation of stabilization wheat was continued during 1936-37, and at the same time the Board sold the remaining 2,030,761 bushels of the 1935 crop. The result of these operations is found in the following extract from the Board's report:

"The net results of the Board's wheat operations to July 31, 1937, at which date the Board was holding 6,964,000 bushels of futures contracts against seed requirements for the 1938 crop, may be summarized as follows:

Profit on Wheat taken over from Canadian Co-operative Wheat Producers Limited at market prices of December 2, 1935		$25,485,526 66
Less:		
Amount necessary to repay advance to Board by Dominion Government, against estimated loss (figured at market prices of December 2, 1935), on Wheat taken over from Canadian Co-operative Wheat Producers Limited		15,856,645 35
Net Profit		$ 9,628,881 31
Less:		
Loss on Board Operations—		
1935 crop	$11,859,104 18	
1936 crop	49,574 88	11,907,679 06
Net Loss as at July 31, 1937		$ 2,278,797 75"

Speaking to-day of the Canadian Wheat Board in relation to the "open market or competitive method" of marketing with the futures trading system as its mode of operation, it can only be said (1) that the Board did not hedge the wheat it had for sale, and (2) that it has put an end to the stabilization proceedings above described.

Since the Board's marketing activities in respect to the 1937 crop are suspended in view of the market prices prevailing, which have constantly been above the 90 cents level, it may be said that Canadian grain is now being marketed under the open market, competitive, futures trading system, as it was before the war and during the period between the end of the operations of the Canadian Wheat Board 1919-20 and the coming into the field of the Alberta Wheat Pool in the fall of 1923.

Chapter IV

FUTURES TRADING

It will now be in order to look into the operation of the open market system with its attendant futures trading device. This task has been performed several times in the past and at some length by Royal Commissions, for instance in 1923-24 and in 1931. It will be necessary, however, to treat the subject again on this occasion (although more briefly in some respects), in the first place because the Order in Council calls for a report on this, as well as on other methods of marketing, and in the second place because upon this inquiry the futures trading system, as I have already remarked, has once more been challenged as inefficient and as detrimental to the wheat grower. That this unfavourable opinion is held by many is evidenced, among other material submitted, by the considered statement made by the Pool organizations of Alberta, Saskatchewan and Manitoba as appears in their brief (Ex. 398), and in particular in what I find at page 8 of that document where the following is submitted:

> "We are satisfied that the futures market does cause fluctuations not justified by the supply and demand for wheat, and this fluctuating price does not necessarily reflect world value. Indeed, it would appear to be true to say that the futures market is not a system of intelligent merchandising; it is merely an example of irresponsible mob blundering. This tendency toward instability in price, which many farmers are convinced is aggravated by speculation, is one of the most serious indictments numerous farmers level against the futures market."

The Farmer and the Wheat Market

It must be noted at the outset that in estimating the efficiency of the futures trading system, or of any other marketing system, the test, for present purposes, must be whether the system in question is of superior advantage to the grower of Canadian grain; that is, whether it is more effective than any other known or proposed system in obtaining a good price for the grower's product and in increasing the sales volume of that product.

The farmer is brought face to face with the mechanism of the market when his wheat is threshed and ready for delivery at a country elevator point. This wheat will usually become available for consumption only later on, at some distant place, and it is for the farmer himself to determine the time when he will give up his property in it and allow it to go forward into the channels of trade. He knows that a certain price is

available to him at once in cash. He also knows that this price may rise or fall during the weeks and months to come. Between him and the person who will ultimately consume his wheat there is therefore the risk or chance of a change in price. Some one must carry that risk. The farmer may carry it himself for a part of the time by keeping the wheat on his farm, if he has the facilities, or by storing it in an elevator, or by handing it over to a co-operative selling organization, if he belongs to one, and entrusting the time of its sale to that organization.

But while someone must carry the risk, the farmer himself need not do so, any longer, in the usual case, than it takes him to deliver his wheat to a country elevator ready to buy it from him. Once he has sold his wheat it leaves his possession and he can make no further profit or loss out of it; the risk or the chance attendant upon it up to the time of its consumption is carried by others.

The Risk of Price Change

But the person buying the wheat from the farmer may likewise get rid of his risk, in cases where a risk subsists, by selling either directly to a consumer or to somebody else who is ready and willing, for one reason or another, to become a buyer before the consumer is reached. This brings us to the grain exchange with its cash and futures markets and into the company of those who buy and sell in that market. Those who buy generally do so (1) because they need the wheat for immediate use, or (2) because they wish to avoid another risk to which they would otherwise be exposed, or (3) because they wish to put an end to a loss which they can stop only by buying, or (4) because they wish to take a profit on a previous transaction and must buy to do so, or (5) because they hope to make a profit by selling later, or (6) because they wish, by buying, to produce an effect upon the market itself by preventing a fall or producing a rise in prices, or by encouraging others to buy.

On the other hand those who sell generally do so (1) because they are producers who desire to take the price of their product, or (2) because they wish to avoid another risk to which they would otherwise be exposed, or (3) because they wish to put an end to a loss which they can stop only by selling, or (4) because they wish to take a profit on a previous transaction and must sell to do so, or (5) because they hope to make a profit by buying later, or (6) because they wish, by selling to produce an effect upon the market itself by preventing a rise or producing a fall in prices or by encouraging others to sell.

The foregoing enumeration does not assume to be exhaustive, but I think it sets out fairly the different classes of buyers and sellers who were discussed in the evidence. It will be noted that of the various transactions referred to some are intended to avoid, or to put an end to, a risk, and consequently to the hope of profit or the fear of loss, while others

are intended to open a risk which is assumed in the hope and expectation of profit.

By far the greater proportion of the transactions above described are not accompanied by a change of property in any actual wheat or by a transfer of the documents of title to wheat; they are contracts for the acceptance or delivery of wheat at some later time; those who enter into them do not expect to make or to take delivery; added together these transactions would call for the disposal of much more wheat than the country can produce; and they are usually terminated by the setting-off of buying contracts against selling contracts, the differences being paid in money. Contracts of this nature are entered into daily on the Winnipeg Grain Exchange and are cleared in the clearing house, and the system of dealing in grain which permits of them is known as the futures trading system.

When, therefore, in the usual course of things the farmer sells his grain at the country railway point or later on after storing it and perhaps shipping it forward, the person paying for it is a trader in futures although he may also be engaged in some department of the grain handling or marketing business. The farmer is thus brought into contact with the futures trading system. For instance, the purchaser is in most cases a country elevator company. A short description of what takes place will illustrate the working of the system at its point of contact with the farmer. In buying wheat from a farmer to-day (March 15, 1938) the company must do so on the basis of cash wheat at Fort William, and protect itself from the risk of price change by selling an equal quantity of wheat for May delivery. But at this time there is a premium of 16½ cents a bushel on No. 1 Northern cash wheat over the May future. The company must therefore sell its future at 16½ cents less than it pays for the wheat. It expects that the two prices—cash and future—will maintain this relation until a buyer for the cash grain is found and the future disposed of. The future contract in these present circumstances is not so complete a protection as it is at times when no premium exists, because then the spread between the cash and the future prices is much closer, being made up mainly of the carrying charges. Nevertheless it affords a sufficient measure of protection to allow the companies to buy the producer's grain in the country on the basis of the cash premium price paid at Fort William, provided circumstances permit the grain to be brought to Fort William during the continuance of the premium position.

A Ready Market

Whatever may be said in the long run of the merits or demerits of the futures trading system, it has this much to its advantage initially: that the producer can always find a purchaser who will take his grain and pay for it in cash. This is because the first purchaser knows that, if he does not need the wheat immediately, he can protect himself against the risk of carrying it by a resale on the futures market. And this sale by

the farmer and resale by the purchaser are made possible by the great disproportion which exists between the volume of transactions in bushels and the comparatively small quantity of grain produced. I have never heard of a case of a Canadian farmer being unable to sell his grain for cash on the basis of Winnipeg Grain Exchange prices (this does not imply that these prices have always been satisfactory). Even in the catastrophic autumn of 1929, the events of which will be discussed later, those farmers who chose to sell their wheat at Winnipeg market prices had no difficulty in doing so, although those prices were for several months much higher than usual in respect to Liverpool prices and were found eventually to be too high, the consequence being a great loss to those who did not sell. In thus stating this position of the individual farmer in the autumn of 1929, I am not overlooking the difficulties in selling for export that were met with by organizations holding large quantities of wheat at that time. I intend to discuss these difficulties later on when dealing with the position of the Pools.

Scope of Futures Trading

I think I should refrain on this occasion from entering upon a detailed description of the Winnipeg Grain Exchange and the mechanics of the trading upon that exchange. This subject was dealt with at some length in the 1923-24 report and again very completely in the 1931 report. The object of this inquiry does not call for a repetition of all the information supplied on those previous occasions but will best be attained, I think, by an examination of the criticism directed, on the inquiry, at the futures system of trading in grain in Canada, having regard to the interests of the producer; and this will involve, as the Order in Council requires, a study of the effect of this system, or method of marketing, upon the markets in which our grain is ultimately disposed of.

The Canadian grower of wheat and the overseas consumer of the commodity are separated by great distances; and the time differential between them is affected by the fact that the grower harvests in about two months a quantity of wheat that is intended for a year's consumption. It is said on behalf of the futures trading system that it ensures, at the least possible cost, a steady flow of wheat from the country elevator to the overseas mill; this by means of a succession of contracts whereby the price risk inherent in the factor of time is alternately assumed and passed on many times throughout the whole marketing process. This future trading system is practised in the case of many commodities besides grain. It is the modern substitution for the primitive method of direct dealing between producer and consumer at a price bargained for and dependent upon local considerations of supply and demand. Since the beginning of futures trading on the North American continent the number of commodities so dealt in has increased steadily. Thus Professor G. Wright Hoffman of the University of Pennsylvania, Consulting

Economist to the Grain Futures Administration in the United States says in his work on Future Trading at page 8:

> "In the United States, future trading had its origin just prior to the Civil War in grain and pork products. Cotton followed in the latter part of the sixties, coffee in 1882, cottonseed oil in 1904 and raw sugar in 1914. Since the World War, a long list of products has been added including rubber, cocoa, eggs, butter, hides, silk, cottonseed and cottonseed meal, mill feeds, tin and copper. Classified by commodities, the list includes at the present time (1931) over twenty-five individual products; and the future markets for these commodities also number more than twenty-five. Their total volume of trading during the year 1929 amounted to approximately 42 billion dollars."

The above was written in 1931. Between then and 1935 silver, zinc, lead, canned goods, gasolene and crude oil were added to the list, and finally in 1936 a futures market for the soy bean was opened in the Chicago Board of Trade. The Canadian Commodity Exchange in Montreal established a futures market in silver in 1934 and in butter in 1935.

The Hedging Process

As an illustration of practices in the futures market, I have referred to the case of the country elevator company buying wheat for cash from a farmer and simultaneously, or immediately afterwards, selling an equal quantity of wheat for future delivery. In the case I have given the company buys the wheat on March 15 and hopes to sell it at at least as good a price at Fort William, probably during March, but in the meantime endeavours to protect itself against the risk of a fall in price by contracting to sell an equal quantity of wheat for delivery in May. The company expects, on account of the intimate relationship which usually exists between cash and future prices, that if the price of cash wheat at Fort William falls the price of the May future will fall likewise; so that, if it loses on its cash wheat, it will cancel its futures contract to sell by buying May wheat at the lower price, thus taking a profit on its future transaction as an offset against its loss on the cash transaction. But if, on the other hand, the price of cash wheat goes up after March 15, any profit the elevator company would make on its purchase would probably be cancelled by a simultaneous rise in the price of the May future; because the company must cancel that future sale by buying in its contract or by delivering wheat sometime during May.

The practice followed by the elevator company in this case is known as "hedging." The company, having taken possession of a quantity of wheat which it must carry until resold, protects itself against loss by a futures sale. The hedging operation performed by the company in this case is the *selling*. But on the other hand a futures contract may be a

purchase by someone who wishes protection against a possible loss. Thus a miller who has sold a mill product ahead at a fixed price, or who must fix presently the selling price of a product he is now milling, may buy a futures wheat contract to protect himself against the rise in the price of his raw material. In this case the hedging operation consists in the buying.

The essence of hedging is that it puts aside speculation; it avoids the risk of loss through price change but at the same time it eliminates the chance of profit which a price change might otherwise bring. On the other hand, the person who owns a quantity of wheat, or a futures contract in wheat, and who holds for a rise thus running a risk of a loss, is not a hedger but a speculator. In describing the essence of hedging as I have just done, I am not losing sight of the fact that hedging may result in small losses or small gains according to the market used for hedging, to the time of the trading day when a hedge is put on, and to other technical considerations. Because care and skill are required in hedging as I shall have occasion to point out later on, and, on the whole, a company's hedging may be successful or unsuccessful. The fact remains, however, that the primary object of a hedge is to avoid a risk by giving up a chance of profit.

Farmers Purchasing Futures

Upon this point there is a case of frequent occurrence to which I think I should now make some reference. It is the case of the farmer who sells his grain in the fall for cash and then buys a May future for an equal quantity of grain. In certain statements I have heard and in certain articles I have read, this operation is described as a "hedge." But it is not a hedge; it is a speculation. The farmer's wheat is gone and is paid for; his risk in respect to it is over. In the new position he has assumed, the risk of loss runs side by side with the chance of profit. It may be said that he was speculating so long as he held his wheat unsold: but in that case he has merely exchanged one speculation for another. The point is that he is not hedging. I think it appropriate to refer to this inaccuracy of expression, because there seems to be a certain magic in the word "hedge," and its misuse may be dangerous to some.

Hedging, A Form of Insurance

Hedging is a form of insurance, and the cost incidental to it represents the insurance premium. Charles O. Hardy of the Institute of Economics, Washington, says at page 223 of his work on "Risk and Risk-bearing":

> "Since the hedging transaction involves some costs for commissions, taxes, interest on margins, etc., it is clear that the average result of a long series of such trades should normally be a slight loss, but this loss is regarded as a premium paid for insurance against the risk of such heavy losses in an unfavourable season, as would disrupt the business and prevent its continuance through

the long run, in which gains and losses from price changes could be expected to balance."

Hedging being then a form of insurance, it is necessary for our purposes to find out who the insurers are. It will be well to treat this question first in respect to the situation which exists in Western Canada in the fall, because this is the period which is of greatest interest to our producers. In a normal crop year probably 75 to 100 million bushels of wheat are delivered and sold by farmers to country elevator companies in the month of September and an equal quantity of wheat futures are sold by the companies at the same time. The buyers of the companies' future sales are the companies' insurers. In the first place these are buying hedgers: Canadian millers and exporters and overseas millers and importers. But these buying hedgers do not take up all the selling hedges. It has been found impossible to ascertain just what proportion of them they do take up, but it is probably less than one-half of the total. So, in the second place we have those buyers of futures who are not hedgers, who have no present or future wheat requirements, and who consequently are speculators, buying futures in the sole expectation of selling out at an advanced price. Whether these speculators win or lose in the long run, they have become, by buying, the insurers of those who have sold. They carry the risk until they sell. But, not being hedgers, they carry it without any balancing transaction on the opposite side of the market.

This is the position in the fall. At a later period of the crop year the situation is usually reversed. Then the person requiring to *buy* does not find enough sellers without the presence in the market of selling speculators.

An Example at Chicago

The United States Grain Futures Administration made a survey of the position of accounts in the Chicago Board of Trade as of September 29, 1934, with a view to ascertaining the respective volume of hedging and of speculative transactions on that day. The result is summarized in a booklet issued by the United States Department of Agriculture (Ex. 146) at page 3:

> "The distribution of the open contracts between the two basic trading classifications, i.e., speculative and hedging, as of September 29, 1934, showed the speculators predominantly on the long side of the market and the hedgers predominantly on the short side to the extent that 75·40 per cent of the long contracts in wheat were held by speculators, while 81·51 per cent of the short interest represented hedging. The situation in corn was substantially the same as that in wheat, with 73·86 per cent of the long contracts speculative and 79·25 per cent of the short contracts hedging."

Insurance and Speculation

Economists seem to agree that insurance by way of hedging is a useful help to business in produce markets, but that it attracts speculation and

that, in the case at least of grain markets, the speculative element is necessary to its proper functioning. The matter is dealt with by both Hardy and Hoffman in their works already referred to. Hardy, at pages 59 and 60, discusses certain forms of insurance of a markedly speculative character of which he says that:

> "They are as useful as any other type of insurance but that the device lends itself admirably to gambling and is often used for that purpose."

He then proceeds to deal specifically with hedging:

> "Very similar to the speculative type of insurance is the practice of hedging. This is the practice of making two contracts at about the same time of an opposite, though corresponding, nature—the one in the *trade* market and the other in the *speculative* market. The same possibility of using a contract either for the purpose of hedging a legitimate risk or for the purpose of creating a gambling risk which we saw in the Lloyd's contracts arises in connection with these 'future contracts' on the produce exchanges" . . . "The whole machinery of the produce exchange finds its justification in the facilities which it affords for carrying on certain types of business with a minimum risk and consequently at a minimum cost. There is no question that it is sound business policy to make use of the hedging market wherever a hedging contract can be secured on reasonable terms, but the existence of a hedging market presupposes the existence of a group of speculators who are taking the risk off the business man's shoulders, and there has as yet been found no way to keep these contracts from being bought and sold in a purely gambling spirit."

And Hoffman at page 417 says:

> "The data compiled by the Grain Futures Administration as well as that of the Millers' National Federation, shown in Table 28, throw considerable light upon the question of whether a future market could be maintained which permitted only transactions growing out of cash grain operations. Such a market would clearly be handicapped in periods when hedging interests were either largely long of the future market or largely short. And one or the other of these situations prevails most of the time. It should further be observed that hedging positions change relatively slowly so that the amount of buying and selling which hedgers do each day is comparatively small. A future market composed purely of hedging operations would in all likelihood encounter considerable difficulty in timing its trading so that the buyers could find sellers and sellers buyers. It is sometimes suggested that in addition to hedging operations, speculators be permitted to enter the long side of the market but not the short side. This would be a material aid to those interests

(mainly elevator concerns) and for those seasons requiring large short hedge positions. It would also improve the continuous character of the market compared to one devoid of speculative interest. But it would not supply the needs of hedgers requiring a long position such as millers, nor would it supply a balanced market to the same degree as supplied where equal opportunity is afforded to enter either the long or the short side."

The Importance of Speculation

It seems abundantly clear from the foregoing statements and from all the evidence I have heard on the subject that business on the Chicago Board of Trade would be seriously handicapped, if not wholly dislocated, by the elimination of speculative buying and selling (or even by the elimination of only speculative selling) in the market.

I am convinced by the evidence that the presence of speculators in the Winnipeg futures market is just as essential to the proper functioning of that market as is the case in Chicago. The volume of their transactions may not be as great, and on this point there is no definite evidence, but experience has shown that in Winnipeg if the speculator is away the market is in difficulties.

This is only to be expected when consideration is given, for instance, to the great amount of selling hedging that must be done by the elevator companies in the fall, much greater in volume than the quantity of wheat required at that time by millers, merchants and exporters. The absence of the speculator would then endanger prices. This was admitted to be the case by members of the trade and the representative of the Pools who appeared, in July, 1931, before the Select Standing Committee of the House of Commons on Agriculture and Colonization. The proposal then was that the Government should take some action to help the market in view of the speculators' absence. Speaking of the then existing Canadian wheat surplus, Mr. Sidney T. Smith, representing the Winnipeg Grain Exchange, said: (Ex. 171.)

> "We have been working it off but not as well as we might because of the business speculators who have been referred to. They are not buying as in other years."

Later on he said: "The trend of speculation is at a much lower volume than formerly." The following evidence given by Mr. Andrew Cairns, representative of the Pools, is interesting on this point:

> "If you buy the grain or allow them the alternative to go on the open market, you will have to hedge it, and the pressure will still be on the market. You have to provide some means, some body, or some power for assuming the risk of the difference between the amount of wheat offered, and taken. In normal years the speculators perform that function; this year they are dead; and

somebody has to step in and perform that risk and Western Canada feels that the most economic and the most satisfactory way of handling it is through some form of Dominion financing and co-operation.

Mr. SHAVER: You say the speculator performs that function. That is interesting to me as an easterner. I remember, if I got the impression correctly, at the time the Wheat Pool was formed, statements were made that instead of the money going into the pockets of the farmers of the west, it went into the pockets of speculators. It was largely to do away with speculation that the pool was formed. Now, you make the statement that one of the determining factors is the lack of speculation; so do you mean that the speculator has his uses?

Mr. CAIRNS: Under the existing system, he certainly has a very important function to perform. Many farmers in Western Canada believe that that system is unsound; that a better one can be performed; but unless you have complete co-operation, or some means whereby all the farmers will carry their own risk I believe it is to the farmers' benefit to do it. As long as you have the present method of marketing, speculation is a very necessary element in the existing system and its absence is certainly to be regretted."

Giving evidence before the Stamp Commission on April 21, 1931, Mr. Cairns presented a statement on behalf of the Pools (Ex. 221) in which the following is found at page 6:

"We do not for a moment contend that the present extremely low price of wheat is due to the system of futures trading, as we are well aware of the many important factors, each of which is partly responsible for present deplorable prices. The undoubted excess of supply over effective demand, the very severe world-wide economic depression, extremely high tariffs, milling restrictions, the uncertainty regarding Russia and other factors all have an important bearing on the problem. We contend that an additional contributory factor to the present ruinous prices is the failure of the institution of speculation to assume anything like the risk carrying function so commonly attributed to it. Following the speculative debacle of 1929-30 which carried prices far too high, the general public has lost enormous sums of money, and confidence as well, and are not at present in the market with sufficient resources to carry the risk of price fluctuation by buying hedges and whatever contracts may be offered by short sellers. Consequently, we have had a situation lately where more wheat was offered for sale than there was consumptive or speculative investment demand to absorb, without sharp recessions in price."

This statement is to the effect that the presence of the buying speculator is an important factor in the market and tends to keep prices up. There is a "risk-carrying function" to be performed and the speculator is a neces-

sary party to its proper performance. It must be remembered that, at the time Mr. Cairns made the two above-quoted statements, the Pools had cancelled their pool contracts and were carrying on the small voluntary selling pools referred to in Chapter III.

As to the importance of the speculative element on the Winnipeg Grain Exchange, Mr. W. J. Dowler, President of the Exchange expressed the following opinion:

> "My Lord, I thought that I had been very clear in my statement the other day on this point, which was that the buying in our market, the large percentage of the buying in our market comes from people who are merchandisers and who really want the wheat, and the speculation in it has been over-emphasized, that the speculation in our market is not nearly as extensive as it is in the Chicago market; and that, of that speculation, there is undoubtedly some of the smaller element, but there is also an element of people who study the market and go into it for investment purposes."

Mr. A. E. Darby, Secretary of the Winnipeg Grain Exchange, had this to say:

> "Q. Would you say that the speculator as a general rule is the person who carries the hedges?
>
> A. No, I would say that the speculator takes up the slack between the selling and the buying hedges to the extent to which it is necessary to do so, which may vary considerably from time to time.
>
> Q. You used the expression, which I think you took from Professor Clark, when you were giving your evidence the first day, of the enormous pressure of hedging operations during the time of the delivery of the Canadian crop in the fall?
>
> A. Yes, I think that the selling hedges are heaviest then.
>
> Q. That pressure is supported usually, or generally, by the speculator, is it not?
>
> A. It is supported by the buying factors in the market.
>
> Q. And that is as far as you can go?
>
> A. I admit quite frankly there is a considerable factor in the buying in the market that is speculative, otherwise I wouldn't be able to support my position that the speculator performs a useful economic service."

Who Are the Speculators?

Just a word as to those who are referred to as speculators. Some of them may be persons engaged in one or another of the departments of the grain trade whose business supplies them with information upon domestic and world conditions in their relation to wheat values; others are persons who, without being in the grain trade, apply themselves to a study of this

same sort of information with a view to forming a judgment upon probabilities for the future; others, finally, are those who are ignorant of basic factors and who act hastily, under the influence of what has been described as "an inferior quality of street gossip substituted for worth-while information." Experience seems to show that this last class is usually composed of optimists who go into the market on the buying side, often in great numbers; and that they usually lose, either because they make a bad guess at the start or because they do not know when to stop.

All of these speculators are divided into two groups by those who deal with the subject of speculation in commodities: (1) the *competent* speculator who is said to assist in fixing true market prices and (2) the *incompetent* speculator who acts on impulse and at great risk to himself because of his lack, not only of knowledge, but of capital, and whose transactions tend to disturb the price structure. Of these so-called competent speculators, some are buyers at the same time as others are sellers. It may no doubt be said that a person of good judgment who has taken the time and trouble to inform himself, and who moreover may have another subsisting commitment to consider, may think it in his interest to buy at a time when another person, similarly qualified, may think he can better his position by selling. When they act simultaneously, the one as a buyer at a price and the other as a seller at the same price, their operation may be compared to that of "the buyer who is not compelled to buy" dealing with "a seller who is *not* compelled to sell," whose transaction in some legal systems is said to *determine* the fair *present* value of the property transferred. Their transactions, having regard to their qualifications, may indicate to observers that neither of them can be far wrong, so that, for the near future, at least, the upward or downward movement away from the price registered by them will not be great. The position of mere "guessers" is very different. Their presence in the market in large numbers, either as buyers or sellers (and they appear usually to be nearly all on the same side at the same time), is one of the factors which the *competent* speculator has to consider when making up his mind as to true values. In the long run their transactions tend to disturb and mislead, although they may momentarily improve prices for those who have wheat to sell. They also afford opportunities to the more competent speculators to make money at their expense. They may be said to disturb the market, for instance, when they carry local prices so high that export sales, based upon the futures market, are rendered difficult or impossible.

Effects of Speculation

In considering the value to the market of speculators' transactions it must be remembered that when one sells and another buys, at the same price, it does not follow that one must lose and the other gain. On the contrary, having regard to their respective market positions at the time, both may be winners or both may be losers.

It must also be remembered that those who carry their own grain, at their own risk, unsold, are likewise, in a sense, speculators, although they are not usually placed in either of the two groups I have been discussing. These may be farmers, trading organizations, such as country elevator companies who sometimes do this, although only very rarely, or marketing organizations such as Pools. They may be more or less competent. By refraining from selling, at least in large quantities, these carriers sometimes seek to prevent a depression in prices. It does not follow that they always gain or always lose by this practice, nor does it follow that the speculator who buys from them or, to state the case more accurately, who buys at the same time that they sell and at the same price, is thereby bound to make a loss.

In the much discussed case of *Board of Trade of Chicago vs. Christie Grain and Stock Co., 198 U.S.R. 236*, the Supreme Court of the United States expressed the considered, unanimous opinion that transactions by competent speculators are beneficial:

> "Of course, in a modern market contracts are not confined to sales for immediate delivery. People will endeavour to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn."

Manipulation

In addition to the market activities which consist of buying or selling in order to hedge other transactions or because the trader or speculator believes that, having regard to conditions and prospects and his own present position, prices are now at a proper level for buying or selling, as the case may be, there is another form of activity known as manipulation. I have already referred to this in giving the case of those who buy or sell in order to influence the market itself by producing a rise or a fall in prices, sometimes by inducing others, by means of a false activity, to buy or to sell. Speaking of manipulation, Hardy says:

> "Manipulation is only possible through large scale operations, and the number of people who can engage in it is comparatively small, though, by pooling their capital and entrusting the management of their campaign to a single manager, a group of individuals can influence the market as much as a single operator owning much larger capital."

Sometimes buying manipulation is directed to the creation of a "corner" or a "squeeze." The danger of this sort of manipulation in wheat is greatly

lessened by the rule of the Winnipeg Grain Exchange (and, I am told, of all grain exchanges) which, in the case of futures trading, gives the seller the option of the day in the delivery month on which he will deliver, if necessary or advisable, and the grade of wheat he will deliver, whether No. 1 Hard, or Nos. 1, 2 or 3 Northern, the last two grades being deliverable at a discount in the price. In the United States, the Commodity Exchange Act confers upon the Commodity Exchange Administration power to make rules intended further to eliminate the dangers of corners and squeezes. I received no evidence of anything having taken place in the Winnipeg market in the nature of a corner or squeeze in wheat, excepting the case which occurred during the war, in the Spring of 1917, when, owing to damage caused by rust to the 1916 crop, the buyers for the United Kingdom and allied countries found themselves in a position, through their purchase of May and July futures, to call for much more wheat of the contract grades than was available and were unwilling to take wheat of lower grades at a discount.

The record in respect to coarse grains is not quite so clear. There was a movement in rye in June and July, 1937, which, in my opinion, was caused by a squeeze by long buyers. From about June 18 to July 30 (the last delivery day) the July future prices and the cash prices for No. 2 C.W. ran upwards together from about $1.11 to $1.60. On the 31st, the cash price fell 65¼ cents to 94¾ cents while the July future went off the board at $1.62½. The records of country deliveries and shipments show that the greater part of the benefit of this rise went to the elevator companies and not to the producers. A similar price movement in barley, though on a smaller scale, occurred in December, 1936. The Winnipeg cash price of No. 3 C.W. barley rose from 64⅜ cents on December 1 to 91¼ cents on December 30 and fell the next day to 77⅝ cents. In this case, however, the rise in price and subsequent sharp drop appear to have occurred mainly through the existence of a demand for good malting barley in Canada and in the United States at that time. Traders with selling commitments treated the barley in their hands so as to qualify it for the higher price of malting barley and so ran short of No. 3 C.W. barley to deliver on their futures sales, and had to buy in large quantities before the end of December.

One of the reasons why the producers secured a relatively small proportion of the advantage of the price increase in rye in June and July, 1937, and in barley in December, 1936, is the distance from the country point to Fort William. In each case the urgency of the demand was for grain in store at Fort William before the end of the month. But rye and barley cannot be handled for shipment as rapidly as wheat. I was told that the 12th of the delivery month is the last day, at a point of average distance, for shipment to and delivery at Fort William before the end of the month.

Speaking generally of manipulative practices, the belief is expressed by those who speak for the Winnipeg Grain Exchange that if they exist

here at all it must be on a much smaller scale than in the United States. But the means of obtaining reasonably conclusive evidence on the question, one way or the other, still does not exist. On this point I find myself back again to the position expressed by the Stamp Commission of 1931, where the following statement is made at page 60 of their report:

> "There is no doubt whatever that a feeling is prevalent amongst many farmers that someone is making money at their expense unfairly by inside knowledge, manipulation and undesirable practices. Nothing was given in evidence of a practical or satisfactory character as to what it actually is that is done or how it is done, and in that respect we share the experience of the Turgeon Commission.
>
> "But we cannot claim to have been able to satisfy ourselves conclusively as to the impossibility of such practices existing."

The Futures Market and Price Fluctuations

Among the charges made against the system of futures trading there are two that now require attention. These are (1) that futures trading produces, or accentuates, price fluctuations, sometimes referred to as price instability, and (2) that the cost of the system is borne by the producer.

The subject of fluctuations was dealt with fully and minutely in the Stamp Commission report at pages 68 and 69. There, fluctuations are divided into three classes: (1) long period major trends of price wherein grain is related to all other commodities; (2) major fluctuations in price extending from year to year and from quarter to quarter; and (3) minor short period (daily and hourly) oscillations running round about the major fluctuations of class (2). The report finds as to class (1), that futures trading has no effect on them; as to class (2) that it lessens them, helps stability and thereby makes the producer's position more stable and secure; as to class (3), that it probably increases them, but that whatever disadvantage these oscillations may produce is less than the advantages produced by the fluctuations of class (2).

It was asserted before me by some that these fluctuations, and more especially the daily and hourly "oscillations," are annoying and disappointing to the producer, and that he would feel better if he were rid of them even if his net return were somewhat lower. I doubt whether the accuracy of this assertion would be supported if it could be put to the test, that is, if some method could be devised whereby, fluctuations and oscillations being abolished, it could be demonstrated to the producer that his net return was lower than before. I have difficulty in believing that such a result would be accepted as altogether satisfactory. However, since fluctuations in themselves, and regardless of their effect, appear to be looked upon with disfavour, and since they accompany the system of futures trading, I have looked around to see whether any other system offers freedom from them. For this purpose I have inquired into the situation regarding (1) wheat marketing in Canada before the beginning

of futures trading in 1904 (2) the situation in Australia to-day where there is no futures market, and (3) the situation respecting other primary products which are not dealt with in futures trading.

In the appendix to this report appropriate tables and a chart will be found which illustrate the situation in the three cases.

In respect to wheat marketing in Canada before and after the introduction here of futures trading, I have given the information (Appendix III a and b) in the only form in which it is now possible to give it. The years cited are from 1890-1891 to 1913-1914. In the case of Liverpool and Chicago the figures throughout show the average monthly price. This is also done in the case of Canada from 1905-06 onward. But the Canadian figures for the earlier years are the registered prices on the first day of each month, the only ones now available. The tables, of course, speak for themselves. The result seems to show that month to month fluctuations in Canada have not been substantially different between the two periods. The question, what daily or hourly fluctuations took place in Canada before 1904 cannot be answered now.

The figures of comparison between Australian and Canadian wheat prices are subject to this remark, that in the case of Australia the only information at hand concerning domestic prices is the price paid at Melbourne by exporters to producers, producers' organizations and traders who bring wheat to that port for sale. The table includes domestic prices for wheat grown in Great Britain. The figures indicate sixteen-year averages from 1921-22 to 1936-37. The table (Appendix IV) shows fluctuations in domestic prices to be smaller at Melbourne than at Winnipeg. It also shows that the Liverpool variations are somewhat less in respect to Australian than to Canadian wheat. This table is taken from an article in Wheat Studies of the Food Research Institute of Stanford University, California, Vol. 14, October, 1937. Referring to the table, the writer of the article, Mr. Holbrook Working, says:

> "Toward one extreme stand prices of Australian wheat, with an average seasonal variation less than that of Canadian wheat and an average course very peculiarly related to the timing of the harvest. Toward another extreme stand prices of British domestic wheat, with an average seasonal variation greater than that of Canadian wheat despite the relatively moderate variation in rate of marketing of British wheat, and an average course suggesting that the system under which the wheat is marketed rather imperfectly meets the very modest requirements placed upon it."

In the appendix (V *a* and *b*) will also be found a tabulation, covering the period between 1929 and 1937, showing price spreads and adjustments in the case, besides wheat, of steers, hogs, butter, cheese, hay and eggs. There is no futures market in Canada for any of these other products excepting butter. The periods are of long range. All these commodities have been subject to price fluctuations in various degrees, the most pronounced being in eggs and the next in wheat.

Seasonal Variations in Wheat Prices

I think this is the time, while I am dealing with price fluctuations, to take up the much debated question of fall and spring prices for Canadian wheat. Two extracts from the above mentioned article in Wheat Studies will serve to throw light upon the problem of comparisons which I have just left and this next one of seasonal spreads. In describing the characteristics of the Canadian wheat marketing process, the author says:

> "The Canadian record is one peculiarly worthy of study. The wheat crop of the Canadian prairies is marketed with great rapidity. Three-fourths of a normal crop in the Dominion cannot find local markets, but must be moved into export channels. The harvest comes at the time when wheat supplies for the world as a whole are at their seasonal maximum. For markets to absorb heavy deliveries at this season is much more difficult than for them to absorb the heavy deliveries from Argentina—also notable for extraordinarily rapid marketing—since Argentine supplies reach import markets opportunely in a period that would otherwise be one of relative seasonal scarcity. Furthermore, the export wheats of Canada possess special milling characteristics requiring, for their most effective utilization, that Canadian wheat be fed into consumption more or less uniformly throughout the year. These conditions subject the Canadian marketing system to an extreme strain. They afford a test that is perhaps not representative, but one that is at least peculiarly fitted to reveal weaknesses in the system."

The second extract is directly pertinent to the question of our fall and spring prices, and the author's opinion is well worth having:

> "The Winnipeg price tends to decline relative to Liverpool early in the marketing season under the pressure of adjustments necessary to permit a rapid export movement. The occurrence of such price adjustments is perhaps not an indication that the rapid country marketing leads to undue price depression and an excessive rate of export; but rather that the Winnipeg price tends to be somewhat too high at the beginning of the season, and to fall into an appropriate relation to Liverpool only as the requirements of the situation are clarified in the course of meeting them. There are, nevertheless, certain small price effects that appear rather directly related to the rate of country marketing. They seem to reflect an influence of hedging pressure on the Winnipeg futures market."

In Appendix VI will be found a memorandum on this fall-spring price question giving a review and compilation of the best obtainable information. The problem is an extremely difficult one to solve with definiteness, but the following conclusions are reached:

1. There is an autumn decline, in relation to the previous summer, in both cash and futures prices, and a co-related rise which occurs chiefly in the following May or July, and sometimes in both these months.

2. Considered by themselves, cash prices do not indicate variations over the year as a whole greater than would be expected to be caused by mounting carrying charges, although the rise in prices which sometimes occurs between May and July indicates that other influences are also at work.

3. The course of futures prices, however, gives evidence of a tendency towards at least one and sometimes two periods of pronounced speculative price rises, almost always in May and/or July, and this speculative influence also accounts for a part of the rise in cash prices.

4. The decline in all prices in the autumn appears to be chiefly a recession from previous rises; but in the case of cash prices, at least part of such recession is natural in view of the change from old crop to new crop.

The Cost of Futures Trading

I now come to the objection that the cost of futures trading is borne by the producer. The experience of the spring and summer of 1931, to which I have already referred, shows that in the opinion of all those who were heard in July of that year before the Committee of the House of Commons, the insurance system had weakened and prices were insecure, because the speculator was absent. This attitude, by the way, supported the statement of Professor Seligman in "Economic Principles," where he says that:

> "the selling of futures, far from depressing the price after harvest, really tends to spread the supply over a long period, and thus to check the tremendous fall in prices which would inevitably take place in the autumn."

(Provided, of course, somebody is there ready to buy.) But this active trading in wheat, necessary to the maintenance of prices, and the absence of which was complained of in 1931, can go on only by the making of a great number of futures contracts, dealing in the aggregate with many more bushels of wheat than the country provides, and entered into with the expectation of being cancelled by offset before maturity. This excess of the aggregate trading over actual production is sometimes referred to unfavourably as "wind bushels." Admittedly it supports prices. But who pays for it? If the producer does, he is no better off.

The question is one which, so far as I can find, has never been probed scientifically with a view to reaching a demonstrable solution. Perhaps it is capable of such a solution. Futures trading takes the form of hedging, mainly by elevator companies, exporters, millers, merchants, etc., and of speculation by so-called "competent" and "incompetent" speculators. Both hedgers and speculators contribute to the fixing of prices.

From all I have heard and read on the subject of "who pays the costs?" it seems to me that the most likely answer to the question is that the cost of some of the *hedging* is charged to the producer (for instance the country elevator's hedging costs), and that of some of it to the consumer; but that the whole of the cost of *speculation* is borne by neither the producer nor the consumer but by the speculators themselves. This is the opinion held, for instance, by Dr. J. W. T. Duvel, Chief of the Grain Futures Administration,* Department of Agriculture, Washington. Giving evidence in 1935 before the Farmers' National Grain Dealers' Association Commission, Dr. Duvel said:

> "Q. In the final analysis who pays the commission charge for hedging?"
>
> "A. The commission charge for hedging comes out of the cost of the grain, either the producer or the consumer has to pay it."

And later on he says:

> "Q. Then you do not agree with the statement sometimes made that the farmer receives less for the grain because he must pay the commission charges on the large amount of future trading?"
>
> "A. No, that comes out of the speculator. The speculator pays it. I might add, there are two factors involved in the question of marketing grain, that is, the cost from the standpoint of the merchandising of grain, and the cost to society as a whole. Now we try to stay away from that last part. Nobody knows what the cost to society as a whole is, but we do know that if added to the cost of merchandising the grain it would come up pretty high. That's an entirely different issue. I say that because the majority of people who speculate in the grain market lose their money. Were you to add all of these losses to the cost of merchandising we might be able to believe that we have intelligence enough in this country to find a better and cheaper way."

Dr. Duvel's statement serves to call attention to the social and ethical aspect of speculation in the grain futures market. Of course, all insurance involves the assumption of a risk in the hope of a profit. Fire insurance, hail insurance, etc., require knowledge and care on the part of the insurers, otherwise losses will occur and perhaps failure. The question whether moral condemnation should be visited upon those who, having capital to employ, choose to employ it in buying and selling grain futures, and who endeavour to qualify themselves for success by study and investigation, is one I am not called upon to decide. Incidentally, these people are insurers; only incidentally (not in the manner of fire insurers, hail insurers, etc.), but nevertheless effectively. Their transactions also help to stabilize prices —according at least, to the evidence I have already referred to—insofar as they are buyers in the market when buying hedgers are not present

* Now the Commodity Exchange Administration.

in sufficient numbers, and sellers later on when selling hedgers are too few. Those whom I may term "incompetent" speculators also contribute to the insurance of the grain trade, again only incidentally (and no doubt quite unconsciously), but still effectively. Their contribution to the price structure is not sound, as I have already said, although when present in large numbers as buyers in the fall months they are of help to the producer. Those of this second, "incompetent" class usually bring loss upon themselves and very often they are not financially able to bear the loss without suffering.

Whether, and to what extent, society is injured, morally or financially, by speculation in futures markets, is a question that was not discussed before me although some witnesses did denounce it as a species of gambling, and immoral. Whether or not one approves of the practice, the fact remains that the speculator occupies an important position in our present marketing system. And opinions may differ as to the quality of his operations. Mr. Darby, Secretary of the Winnipeg Grain Exchange, believes that "the speculator (he probably means the 'competent' speculator) performs a useful economic service," and he is not alone in thinking this. Certainly the speculator's absence was deplored in 1931 and afterwards, and raised a demand for some other price-supporting machinery to take his place. It may be that Dr. Duvel, in making the statement above quoted, had in mind only some purely financial loss which he believes society suffers through this sort of speculation, and that he did not intend to broach the ethical side of the case. The rest of his examination does not make this altogether clear. However, he does say that while he mentions this aspect of the question, he does so

> "because the majority of people who speculate in the grain market lose their money."

Moreover, Dr. Duvel does not suggest what other system, if any, might be set up to take the place of the present one.

One test which has been used to show that the cost of speculation does not fall upon the producer is the measurement of the margin which exists between the price paid to the producer in western Canada and that paid by the consumer in Europe. A calculation from Exhibit 6 shows that the cost of shipping a bushel of wheat from an average western point to Liverpool in 1935 was 30·5 cents per bushel, so that a shipment of wheat purchased from the farmer at 100 cents a bushel would cost 130·5 cents on arriving in Liverpool and presumably could not be sold there for less than that price. But the evidence shows that in reality the difference between the producer price and the consumer price is less than the sum of the former and the cost of handling, storing and transporting. (See also pages 60 and 61.)

The opinion of those who have studied this question is that the lessening of the spread between producer and consumer is brought about in the main by the speculator and at his expense. This is found, for

instance, in the evidence of Dr. Alonzo Taylor, Director emeritus of the Food Research Institute of Leland Stanford University. The gist of his evidence is that speculation narrows the spread, and that the benefit goes mainly to the producer or the consumer according to the bargaining position of the parties at the time: a short crop strengthens the position of the producer and a large crop that of the consumer. The witness was being examined on this point by Mr. Milliken:

> "WITNESS: My interpretation is that the total effect of the operations of these speculators in Chicago, called gamblers, is to narrow the spread, and the consumer gets his share of it.
>
> "Q. Is not this the truth of the matter, that when there is a large crop the consumer will get practically all of the narrowing spread?
>
> "A. Naturally.
>
> "Q. When there is a short crop the producer will get the bigger part of it?
>
> "A. Certainly."

It must be remembered that, among those who become speculators in the futures market and thus, whether or not they are acting wisely or ethically, contribute at their own expense to the support of the futures trading marketing and price determining system, are to be included those producers who got into the market themselves as buyers or sellers of futures. I believe by the evidence that they do this in large numbers, particularly in the fall, and usually as buyers.

I said at the beginning that no positive demonstration as to the incidence of the cost of futures trading including speculation, has yet been found; all we have on the question being opinions based upon certain calculations. However, I must say that I have no difficulty in agreeing with these opinions. I can quite understand that those who are in the market as hedging traders add the cost of their operations to the commodity they handle, because they are actual dealers in physical wheat. They pass it on, backwards or forwards. On the other hand it seems to me that those (speculators) who never handle wheat, who neither buy nor sell it as an actual commodity, but who stand by, study conditions, watch market movements, and then go in and out merely as makers of contracts which they never execute except by set-off, are in a different position. In addition to their costs, such as brokerage charges, these people have actual losses or actual profits. Those profits they take out of the market; the losses, they pay in. The only other people in the futures market are the hedgers. Profits taken out by speculators must make business more expensive for the hedgers and consequently, by reason of the "passing on," for those with whom they deal,—producers and consumers. But, on the other side of the case, speculators' losses remaining in the market lessen the hedgers' expenses, and this benefit is again "passed on" to the producer and consumer, by reason partly, at least, of the competition of hedging traders among them-

selves. Experience seems to show that in the long run speculators, as a body, lose. This final result of speculative loss helps to make business easier for the hedging trader and is consequently, of benefit to the producer and the consumer. The trader who hedges takes advantage, according to his means and ability, of all the incidents of the market and he must compete with others to get his share of the business.

That there is skill in hedging and that the factors which better each hedger's position allow of competition among them all to the benefit sometimes of the producer, sometimes of the consumer, and sometimes to both at once, is apparent from the information gathered upon this inquiry. Dr. D. A. McGibbon says of hedging in "The Canadian Grain Trade" at page 308:

> "It is a task that calls for unremitting alertness and experience in the grain trade. There is a common saying in the trade that a company will make money or lose it according to the skill with which it places its hedges."

This question of what becomes of hedgers' profits is dealt with by Professor Hoffman at page 409:

> "It is a question, however, in a commodity in which hedging is the general practice, whether this increased profit has continued to redound to the benefit of hedgers. It seems more likely that through the force of competition the margin between purchase and sales prices has been reduced in proportion to the lower handling costs and that this initial benefit has long since been passed on either in the form of a lower price to the consumer or a higher price to the producer. Studies which have been made of the margin of gross profit per unit of commodity handled by grain and cotton merchants tend to substantiate this view."

In London the following statement was made to us:

> "It is our considered opinion that the average daily price at which Canadian wheat is sold in Europe is lower than the average daily price registered in the Winnipeg Market, indicating that the Canadian grower by the existing system is getting a higher price than the c.i.f. parity of the same day. In other words, his wheat is marketed in the consuming countries without any charge to him."

This statement was then amplified:

> "Q. Could anyone amplify that just a little? It seems to us peculiar that the average daily price at which Canadian wheat is sold in Europe is lower than the average daily price registered in the Winnipeg market?
>
> "A. It is definitely so. I think the best way to approach the subject is to give an example of, say, the last six or seven months. Anybody, for instance, who carried his hedges against cash grain in Winnipeg on the Chicago market in the last six months would

obviously be in a position to undercut the selling price of any other trader who carried his hedges in the Winnipeg market. There is always, at some time, somebody who is right; he has got his exchange right; he has got his freight right, and he has a successful spread, or he wants to sell short or long and he has got a profit which he wants to cash. If twenty different people set out to move a load of wheat from the Canadian prairies, there are twenty different ways in which they can do it. It depends entirely on the outlook and the mentality of the particular individual who begins the operation. I am sure that the statement cannot be challenged; it can be checked. The average price, not only of Canadian wheat, but of all North American wheat sold here is, as a rule, a less average price than the average of the day's price in Winnipeg."

In my opinion, the result of this inquiry into speculation and hedging is to show by reasonable inference: (1) that speculators' costs are paid by themselves, while hedgers' costs are charged against the grain; (2) that in the aggregate the speculators are losers and therefore make a money contribution to the market where the only other operators are the hedgers; (3) that whatever benefit the market receives through speculators' losses is passed on to the producers and consumers mainly as a result of the competition among themselves of the hedgers as traders.

CHAPTER V

DEMANDS FOR A CHANGE, 1920 TO 1923

I have endeavoured, so far, to describe the nature of the futures trading system and its mode of operation in respect to Canadian grain. It is a system which provides a ready market for the producer and effects the delivery of his grain in overseas markets at a low cost. The contribution of futures trading to the low cost consists of the factor of price insurance which it furnishes to all those who deal in the commodity between the farmer and the consumer; and the low cost itself is indicated by the narrowness of the spread which is found to exist between producer and consumer.

A most interesting thing about the futures market, as I have dealt with it so far, is the presence there of the speculator. Those who favour the system admit that his presence is necessary and they welcome it on the ground, as Mr. Darby says, that "he performs a useful economic service." Those who, like the Wheat Pools in their submission, oppose the futures trading system, recognize, as the Pools did before the Stamp Commission and before the Committee of the House of Commons in 1931, that the system cannot function properly without the speculator or somebody to take his place. The system itself may be deficient in their view but it is worse without the speculator. Traders buying cash wheat, or hedging sales or purchases in future months, if left to themselves, could not ensure a satisfactory market. They would not provide enough buyers in the fall or enough sellers in the later months of the crop year. The net result would be unreasonably low prices to the producer. On the other hand, it is the presence of the speculator in our market that seems, more than anything else, to arouse antagonism to the system.

I may say at once that all those who now ask for the abolition in Canada of futures trading in grain, have but one alternative marketing system to suggest: a national marketing board, created and supported financially by the government of Canada, charged with the duty of disposing of the whole of the western wheat crop. But, before discussing this alternative proposal, or other proposals which are more in the nature of half measures, it will be well to examine the merits, and possible demerits, of the various other methods of marketing we have had at different times, with a view to seeing what lessons they may hold for the future. These various methods have all been referred to summarily and chronologically in chapter three. They are: the open market without futures trading in Winnipeg, the condition which existed up to the first few years of the present century and to which I shall have occasion to refer later on; the Board of Grain Supervisors of Canada, 1917; the Canadian Wheat Board of 1919; the Wheat Pools, 1923 to 1930; the price

stabilization proceedings, 1931 to 1935; and the Canadian Wheat Board, 1935 and onwards.

There is little to be learned from the character and operations of the Board of Grain Supervisors. The Board was created on account of war conditions then prevailing. It bought the producers' grain outright and resold it to the Wheat Export Company, a British Government body buying for Great Britain and her allies. This Wheat Export Company was an agency of the British Royal Commission on Wheat Supplies. During its existence the Winnipeg and the Liverpool futures markets were closed.

The Canadian Wheat Board of 1919 also operated in conditions which were abnormal. The Order in Council which created it stated that "it does not appear that there will exist in importing countries . . . any organized buying at fixed prices such as prevailed in recent years nor any open and stable market of the character that obtained prior to the war." As it turned out, the overseas buying *was* organized by governments, though not at fixed prices, but the "open and stable market of the character that obtained prior to the war" did not exist, the Liverpool and Winnipeg Exchanges again being closed. As to Liverpool, I may add that its futures market for wheat and maize closed on August 1, 1914, reopening for maize on March 15, 1920, and for wheat on April 18, 1921. No other grain markets were open in Great Britain during this time. The buying for Great Britain, France and Italy was again done by the Royal Commission on Wheat Supplies, while in the case of Belgium, Holland, Denmark, Sweden and Norway, each of the governments controlled the buying.

Under both these boards there was no problem of finding markets. There was a full demand for our wheat and our wheat-growing area, even in 1919, was about seven million acres less than it is today.

The Canadian Wheat Board of 1919 ceased to function after disposing of the 1919 crop and paying a uniform price of $2.63 for No. 1 Northern wheat. Subsequent crops, before the establishment of the Pools, were handled through the open market, in the same manner as before the war. On August 18, 1920, trading reopened on the Winnipeg Grain Exchange, and the cash price on the first day was $2.73½. It remained near this level for about a month. But, with the disappearance of the war and immediate post-war urgent export demand, the price fell rapidly and persistently to $1.60⅝ on April 15, 1921. After a temporary rise during the summer, the decline was resumed and a low point of $1.02 was reached on November 3. During 1921-22 there was another rise and fall, and by the middle of September, 1922, the price dropped below $1 for the first time since 1915. The prices of other primary products reacted similarly during this general deflationary period.

The Wheat Board had not originally been received with favour, but the high prices which it had paid, and the drastic decline in prices after its termination, led to strong agitation for its re-establishment.

Towards the end of the 1920 session, Parliament passed an act empowering the Government to continue the Board, but on July 16th it

was announced that, since the factors which had influenced the Government in creating the Wheat Board no longer existed, the Board would not handle the 1920 crop. In November of that year the Saskatchewan Legislature passed a resolution declaring that the reopening of the Grain Exchanges at home and abroad was primarily responsible for the sudden decline in the price of wheat, and asking the Federal Government to re-establish the Wheat Board to market the balance of the 1920 crop.

Here it may be pointed out that a guaranteed price was not a part of the Canadian Wheat Board Act at this time; that the initial payment which the Board could have paid would, in order to be safe, have had to be very much less than the price of the previous year; and that, inasmuch as wheat prices all over the world declined throughout most of 1920-21, it is extremely doubtful whether a Board could have realized a price as great as that obtained by farmers who sold for cash in the open market in the autumn of 1920.

The Canadian Council of Agriculture, at a meeting at Winnipeg on October 22, 1920, passed a resolution urging the reappointment of the Board. It recognized, however, that compulsory marketing through a Government Board was justifiable only as a temporary emergency measure. In all the resolutions of various farmers' organizations, from 1920 to 1923, the request is merely for a Board as a temporary measure, usually for a period of one year.

It will suffice if I indicate only very briefly the steps that led to the abandonment of the Wheat Board idea. The subject is not of much interest as a guide to the future. It was decided that, war emergency conditions being over, Parliament had not power to take control of the whole grain trade of Canada, at least without the concurrence of the provinces interested, Manitoba, Saskatchewan and Alberta. An Act was passed to become effective only if at least two of these provinces concurred. The Board to be established was to operate for not more than two years. Saskatchewan and Alberta agreed but Manitoba refused. The Premiers of Saskatchewan and Alberta attempted to secure competent grain men to undertake the duties of the Board, but in this they were unsuccessful. After repeated efforts the two Premiers announced in June, 1923, that they had found it impossible to secure a Board combining the necessary elements of experience, ability and public confidence. On June 27 the Grain Growers' Guide observed that the Wheat Board idea was dead.

It seems probable that the final abandonment of the movement for a Board was brought about partly by the recognition of the fact that the need of government control and the conditions which had enabled the 1919 Board to obtain high prices were products of the war and had virtually disappeared. The experience of a Wheat Board with no marketing problem, with only a few overseas customers and these all government Boards themselves, operating while futures markets were closed in Canada and in Great Britain, cannot be a sure guide to the potential success of a Board doing business in world markets in the midst of many buyers and sellers in active competition.

Chapter VI

THE POOLS

In the meantime, the idea of co-operative grain marketing had been gaining favour. It came into being with the commencement of operations by the Alberta Pool in the fall of 1923, and became fully effective with the establishment of the Central Selling Agency of the three Pools (of Alberta, Saskatchewan and Manitoba), incorporated in August, 1924, under the Dominion Companies Act as Canadian Co-operative Wheat Producers Limited.

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

Objects of the Pools

I have already quoted from the Pool contracts and the charter of the Central Selling Agency to show that the main objects of the Pools in respect to marketing were stated to be:

(1) To eliminate (or reduce) speculation, manipulation and unnecessary transactions;
(2) To stabilize the market;
(3) To improve methods and to reduce costs of marketing;
(4) To market directly;
(5) To market with regularity.

The extent to which these objects were pursued or departed from as time went on will appear from a review of the methods employed by the Central Selling Agency in the performance of its duties.

Pool as Selling Agency

The essential difference between the Pool and most other merchandising agencies of the grain trade lay in the fact that the Pool did not buy grain, but acted as a selling agent for its members. There are, of course, private commission agents in the grain trade who perform much the same function, but such an agent sells under the specific instructions of the farmer owning the grain, and the farmer receives payment out of the proceeds of his own grain as such, irrespective of any sales of other farmers'

grain by the same agent. But the ordinary practice outside the Pool, for the vast majority of farmers, was and is that they at some time sell their wheat to an elevator company, and the latter immediately resells such grain, or, more accurately, sells an equivalent quantity for future delivery, through the Winnipeg futures market. Broadly speaking, the sale by the farmer may be regarded as simultaneous with the sale by the elevator company. The Pool, on the other hand, neither bought from the farmer nor was governed in its rate of sales by the desires of the individual member delivering grain to it for sale.

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

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

Direct Selling

One of the chief points of interest in connection with Pool selling has long been its policy of "direct selling." This meant that a portion of Pool wheat was sold by the Pool to millers at home and abroad, without the intervention of an established middleman. The Central Selling Agency, in fact, in making these sales replaced the existing agencies of the trade, both exporters and importers, by performing their functions itself. Attention has been chiefly concentrated on the Pool's export sales. These were carried on almost exclusively through its own offices in London and Paris after the establishment of those offices and were of two kinds, namely, (1) sales direct to millers and (2) to a lesser extent, sales to middlemen in the overseas countries. The Paris office was opened early in 1925 and made almost all of its sales direct to the millers in France. The London office was opened in 1927, the Manager being Mr. D. L. Smith, formerly Sales Manager of the Pool in Winnipeg. Prior to that year the Pool's sales in the United Kingdom and in Europe generally, with the exception of France, had been made in much the same fashion as those of other Canadian exporters. That is, the Pool had connections with importers and agents in various cities and countries. These persons made sales to millers

and others and handled no Canadian wheat other than that of the Pool, but they did also handle wheat from other countries. The Pool's own office, however, dealt exclusively in Canadian wheat, Pool wheat. Mr. Bredt stated that he believed that this latter fact tended to increase the sale of Canadian wheat (evidence, p. 5574).

The Pool made one experiment with exclusive contracts with overseas mills. In September, 1925, an agreement was made with Joseph Rank Limited, a large milling concern in Great Britain, whereby the latter agreed to buy its entire requirements of wheat from the Pool providing the price was as favourable as that of any exporter. No price or quantity was fixed. Prices were quoted daily by the Pool, which had some knowledge of its customer's requirements through monthly advices as to the quantities and grades that would probably be required for shipment to the various ports of the United Kingdom. The mill had the privilege of selecting the days on which its purchases would be made. The agreement was terminated in September, 1927, because of objections by other customers that it really conflicted with the Pool's policy of one price to all buyers. Mr. Bredt stated that when the agreement was cancelled Mr. James Rank made a trip to Winnipeg, to interview the Board of Directors. (Evidence, p. 5614.)

As described by Mr. Bredt (evidence pp. 5644-49) the Pool's export business was carried on in general in the same manner as that of other exporters. Offers were cabled abroad each night based essentially on the Winnipeg closing quotation plus the current cost of freight, insurance, etc. The London office was used for the transmission of these offers, which required acceptance before the opening of the Winnipeg market the following morning. During the day, further offers might be made, depending upon the action of the market, for immediate acceptance.

Figures are not available as to the amount of direct sales. The Pool's annual reports, however, show the amount of export business without distinguishing between the sales direct to millers overseas and sales to overseas merchants and other importers, as follows:

1924-25 55 to 60 per cent (p. 7 of 1925 Report).
1925-26 "a very large percentage" (p. 12 of 1926 Report).
1926-27 124 million bushels (equal to about 61 per cent of total Pool sales) (p. 14 of 1927 Report).
1927-28 115 million bushels (52 per cent) (p. 19 of 1928 Report).
1928-29 108 million bushels (51 per cent) (p. 18 of 1929 Report).
1929-30 57 million bushels (44 per cent) (p. 12 of 1930 Report).

All the above sales were made without the employment of any Canadian Agency. The residue in each year is the volume sold to Canadian millers and traders or, perhaps, delivered to the clearing house.

Although, as noted below, the Pool preferred to makes sales in the manner in which it could obtain the best price, there was nevertheless a definite preference for making direct sales wherever possible.

"We preferred to sell direct to millers overseas, in the United Kingdom and on the continent, and to millers direct here in Canada, rather than, say, to use the facilities of the Exchange to sell futures." (Evidence pp. 6449-50.)

"We preferred to sell into actual consumption." (Evidence p. 6450.)

On the one hand, such sales would bring to the Pool, if it operated efficiently, the profits that would otherwise accrue to other exporters, and, on the other hand, the idea of selling to consumers rather than having any dealing with middlemen and speculators was an integral part of Pool ideology. It was considered desirable to keep under the control of farmers' representatives the entire flow of grain from producer to consumer. This was closely associated in their minds with the idea of orderly marketing, and of supplying wheat only as required to fill actual consumptive demand:

"The Pool's objective was to have its members collectively carry their own wheat until such times as they found markets for it in consumptive channels."

The Pool's orderly marketing policy was:

"simply an attempt to move the flow of wheat into consumption in accordance with consumptive demand." (Evidence p. 5521.)

Other Methods of Sale

Aside from its direct sales and other exports the Pool sold considerably in the Winnipeg market. Wheat was sold on the cash market from time to time when the price was suitable (evidence p. 6716) and in the case of many such sales futures were taken back from the buyer, both because of the desire of the customers to do business on that basis (evidence p. 5526) and because if the Pools did not take back the future the customers would probably sell the same quantities of futures on the market immediately and possibly depress the price (evidence p. 6716), whereas the Pool could dispose of the future in its own time, thus continuing to carry the same quantity of wheat, but in the form of futures instead of actual grain. Occasionally, these futures would be held until the delivery month and cash grain would be received by delivery through the clearing house (evidence p. 5526).

Selling on Futures Market

As a result of taking back futures contracts on cash sales the Pools necessarily had to makes sales in the futures market if only to close out these contracts. In fact, however, sales of futures were made on numerous occasions without direct connection with, and in greater quantities

than, futures that had been acquired in making cash sales. In the first place, there were occasions when the futures market offered an opportunity of securing a better price than was otherwise obtainable. Mr. McIntyre, Assistant Sales Manager, speaking at the International Wheat Pool Conference at St. Paul in 1926 (Ex. 240, p. 71 and evidence p. 6760) said:

> "There are times when speculative fever, such as there was last year, will carry wheat possibly away over its true value. If you have a market which is bound to pay 20 cents more than what you consider prices worth, can any pool afford to let that market pay that price and not sell them the wheat?"

While eventually the actual grain itself had to be sold, these futures sales insured a certain basic price for the quantities that were so sold (evidence p. 6718).

Sales of wheat futures were also made with a different and specific purpose, or rather a double purpose, in the summer and early autumn. In the first place, futures sales were sometimes made as a help towards completing the disposal of the year's crop and determining the final payment to be made to members. For example, on July 31, 1928, out of a total of 43 million bushels still on hand, some 12,500,000 had been disposed of by cash sales for deferred shipment, and another 12,000,000 by sales on the futures market. Similarly, in 1929, close to 27,000,000 bushels had been sold as futures by the end of July, with respect to the balance of the 1928 crop, although there was still an unsold carry-over (after allowing for those futures sales) of about 52,000,000 bushels.

Likewise, sales of futures were made, on one occasion as early as February, by way of advance sales in respect of the following crop. In 1925, October futures to the extent of 5,661,000 bushels were so sold during May, June and July. In 1926, the quantity was 6,237,000; in 1927, just under 15,000,000; and in 1928, 4,603,000 (evidence pp. 6913-19, Ex. 358). In 1929, the records show only a very small quantity so sold and the explanation given (evidence p. 5791) was that all futures sales made that summer were allocated to the 1928 crop in view of the large carry-over remaining on hand and of the fact that it was realized that the interim payment of July, 1929, represented virtually the final payment on the 1928 crop.

Thus, although the Pool did not hedge in the manner of country elevator companies by a purchase of cash wheat and a simultaneous sale of futures, it, nevertheless, hedged portions of its merchandise at times by making extensive sales of futures with a view to securing what appeared to be a good price. As was stated in evidence, futures sales were made:

> "if the price were satisfactory" (evidence p. 5545)—and
> "we used the futures market on those occasions because we considered that it was an advantage to make use of it" (evidence p. 5546).

With respect particularly to the sales in advance of the incoming crop, Mr. Bredt said:

> "It was just exactly the same as if we had made a sale under contract for the delivery of actual wheat later on. That is what we considered it" (evidence p. 5546).

The extent to which such sales were made:

> "depended naturally upon the prospects of a crop and the amount of the carry-over or on the amount of the unsold stocks still on hand of the old crop and whether or not our technical men, salesmen, considered that it was advantageous to make sales at that particular time by this method" (evidence p. 5783).

Buying on Futures Market

Another use of the futures market by the Pool was for the purpose of purchasing, not selling. Mr. Bredt said that on those occasions the management thought that a price decline was not justified or had been caused by manipulation and that by making purchases the Pool could give strength to the market. The first occasion was in April, 1925. Prices had declined from $2.17\frac{7}{8}$ on January 28, with large intervening fluctuations, to $1.38\frac{3}{8}$ on April 3. This low point was only $3\frac{3}{8}$ cents above the amount of $1.35 which the Pool had paid to its members by way of initial and first interim payments. On April 4, the Pool purchased 3,435,000 bushels of futures. By April 11, the price had risen to $1.69. The futures so acquired were sold out in May and June at a profit of $486,000 (evidence p. 5804). The second occasion was in May, 1929, when 6,153,000 bushels were purchased between the 9th and the 17th and were sold out in June at a profit of $537,000. The third occasion of this sort was a series of purchases extending from November, 1929, to April, 1930, which later had to be disposed of at a loss of $2,014,000 (evidence pp. 5803-6).

Two reasons are given for these purchases. First it is said that the price declines jeopardized the margin of 15 per cent which the Pool had to maintain between the current market value of its holdings and the amount of its borrowings from the banks. At least in 1925, this margin had not been actually infringed and there was no trouble with the banks, but it was felt that the margin would be endangered by any further fall in price (evidence p. 5795, also 5620, 5624, 5627, 5629).

The second object was to influence the market with a view to aiding sales by stabilizing prices. Mr. Bredt says the Pool firmly believed that the price declines were unjustified by world conditions or by commercial transactions and were, in fact, being made by manipulation. In the view of their salesmen the downward trends were not justified. All purchases were made upon the advice of their salesmen. The Pool went into the market with the purpose of stopping the decline. Mr. McPhail, on page 341 of the evidence before the Stamp Commission, described their purpose

as that of stabilizing the market "exactly the same as the United States Farm Board tried to stabilize the market" (evidence p. 6723). In May, 1929, the Pool thought there was a bear raid on the market and decided to take a definite stand against it (evidence pp. 5803-4, quoting "Tides in the West," Ex. 337, p. 23). Likewise, in the fall of 1929, "we were under the impression that the market was being manipulated," and they felt that the price was too low and that wheat should go up or at least that it should not go lower (evidence p. 6701). In 1930, after the Provincial guarantee had been given the provincial governments were notified of these purchases of futures before the purchases were made (evidence p. 6712). Evidently reliance was placed upon the good judgment of the Pool executive and the efficiency of its information service.

Whatever may have been the motive behind these purchases of futures, the action taken in each case was in its nature speculative and was based upon the confidence of the management that prices would rise, and, probably, that the Pool's purchases would themselves influence the market upwards. On the two occasions, namely in April, 1925 and in May, 1929, the speculation turned out happily and the Pool made profits. But the last venture into the buying side of the futures market in the fall of 1929 and the winter of 1930 proved unsuccessful and the loss was heavy. The net result of all these transactions was a loss of nearly $1,000,000. Having regard to the disinterested personal position of the Pool officials, and to their ability, experience and access to sources of information, the outcome of these speculations, on the whole unfortunate, illustrates the dangers and difficulties which attend grain market speculation.

Selling Policy and Carry-overs

The Pool itself has frequently put forward, as the standard by which its selling policy should be judged, the amount of its carry-over at the end of the various crop years. In numerous publications prior to the cessation of pooling, the unsold Pool stocks as at July 31 of each year are compared with the total Canadian carry-over. In the Pool's submission to the Commission, the method adopted was to compare total Pool stocks, whether or not sold for future delivery, with the total Canadian carry-over. In each case the statement was made that as the Pool handled 50 per cent of the total crop it was proper that the Pool should hold in the neighbourhood of 50 per cent of the total carry-over; and that whenever that occurred it was clear that the Pool had made sales as large as could be expected.

This method seems to be fallacious for three reasons. In the first place the amount of Pool carry-over at the end of any particular year has no necessary relationship to the success of the selling efforts of the Pool during that year. There is no reason why in handling half the crop the Pool should finish the year holding half the carry-over. For example, if at the commencement of the year the Pool had no carry-over and the total Canadian carry-over was 50,000,000 bushels, and at the end of the year the

Pool had a carry-over of 50,000,000 bushels out of a total Canadian carry-over of 100,000,000 bushels, it would be in line with the Pool argument to say that the Pool had finished the year with its proper proportion of the carry-over It is clear, however, that in such a year the Pool would have failed to sell its share of the current crop, to the extent of 50,000,000 bushels, its carry-over having increased by that amount; and that the non-Pool proportion of the current crop had been completely disposed of, its carry-over having remained stationary.

This hypothetical case was very closely approximated in fact in the year 1928-29. At the end of July, 1928, total Pool stocks were 43,000,000 bushels, of which 25,000,000 had been sold but not delivered, leaving an unsold carry-over of 18,000,000 (all of which had been sold by the end of August, that is by the end of the Pool's fiscal year). At the end of July, 1929, the total Pool stocks were 85,000,000 bushels, of which 33,000,000 had been sold but not delivered, leaving unsold stocks of 52,000,000 or an increase of 34,000,000 bushels. During that crop year (1928-29), the total Canadian carry-over increased by 36,000,000 bushels. In other words the non-Pool carry-over had remained virtually stationary while the unsold Pool carry-over increased by 34,000,000 bushels, although, considering merely the position at the end of July, 1929, the unsold Pool carry-over was only 41 per cent of the total Canadian carry-over, and the Pool had handled 52 per cent of the crop. If, on the other hand, regard is had to total Pool stocks (instead of only unsold Pool stocks) the increase during the year was 42,000,000 bushels, and the balance of the carry-over decreased by 6,000,000 bushels. The basis used by the Pool, in accordance with which it would be pointed out that at July 31, 1929, total Pool stocks, sold and unsold, constituted 66 per cent of the total carry-over, thus reveals a completely different situation from that given by consideration of the respective increase and decrease in Pool carry-overs and the remainder of the carry-over.

Secondly, there is no valid basis of comparison between the Pool carry-over and that part of the carry-over which was in other hands. In the previous Pool literature, the comparison made was between the unsold Pool carry-over and the entire balance of the carry-over, which balance was usually described as being in the hands of the trade. But it is clear that of the so-called balance a certain proportion would be in farmers' hands, some would be in Canadian mills waiting to be ground into flour, and an uncertain amount, possibly in some years a very large proportion of the remainder, would have been sold either in Canada or in the export market, for shipment at some future date. This factor was to some extent corrected in the Pool submission where not the unsold carry-over, but the total Pool stocks at the end of the year, were used as the basis; and where the comparison was made with the total Canadian carry-over, the non-Pool proportion not being described as in the hands of the trade. It is clear, however, that looking merely at total stocks—whether sold or unsold—is of no utility when the matter under consideration is the extent to which

the Pool, or any other marketing agency, had sold the grain entrusted to it for that purpose.

Thirdly, there is little apparent reason for making any comparison between what was done with Pool wheat and what was done with other wheat. The Pools were an agency to sell members' wheat to the best possible advantage, having in mind certain principles of action to be found in their charter and their contracts. What was done with other farmers' wheat and the price obtained therefor was not its concern. The Pool carry-over should be considered, not so much in relation to other carry-overs, but rather in relation to the objects of the organization and the policy which should have been followed to attain these objects.

Beginning of Difficulties

Professor Patton has noted that:

> "The Canadian Wheat Pool had come into existence under a favourable international conjuncture in which the gold price level was relatively stable, in which international loans and investments were being made in unprecedented peace-time volume, in which European wheat imports attained record proportions, and in which Canada had assumed first rank as a wheat exporting nation."

These conditions (excepting Canada's export position) came to an end in the year 1929-30, at a time when the international wheat position was particularly vulnerable, owing to the huge world crops of the previous year. In 1928 world production (excluding Russia and China) was 464 million bushels greater than the average for the preceding five years. The greater portion of this surplus was produced in overseas exporting countries. Despite record international shipments in 1928-29, the carry-over in the four chief exporting countries increased by 187,000,000 to the figure 554,000,000 bushels. The Pool itself had an unsold carry-over, at August 31, 1929, of 48,000,000 bushels, as compared with no carry-over at the same date in 1928.

There can be no doubt that the origin of the Pool's difficulties, so far as its own actions are concerned, lies in its failure to dispose of its share of the 1928 crop (by contrast, the non-Pool Canadian carry-over did not increase in 1928-29) which left it unprepared to meet the price crash in 1929-30. It is true, as Mr. Bredt said in evidence (p. 5631), that neither the Pool nor anyone else had reason to expect that in the particular year, 1929-30, world wheat shipments would decline by 300,000,000 bushels, but the general possibility of difficulties in the world wheat position had long been known to the Pool, and it did nothing to prepare itself for any untoward eventualities.

The Pool had, in the Central Report of 1927 (dealing with operations in 1926-27) pointed out that world production was increasing and that, accordingly, "the outlook during the year was, if anything, for lower prices."

The following year (see p. 17 of 1928 Sask. Report, dated November) it was drawn to the attention of members that:

> "The operations of the Pool had to be based on an increased world production"

and figures were given showing constantly increasing production since 1924 —an increase between 1924 and 1927, in fact, of 800,000,000 bushels. In 1929 the Central Selling Agency reported, in October (p. 16 of 1929 Saskatchewan Report), that:

> "It was apparent in the early season" (i.e. of 1928-29) "that we were faced with a year of extraordinary world production, as the United States and Canada both produced very large crops, to be followed later by Argentina with a record crop and Australia with an above-average crop."

(The latter two countries' crops would not of course be known until December, or later, and in point of fact the Argentine crop was greatly under-estimated, but the Canadian and United States crops were known fairly exactly in the autumn, and the general outlook, "apparent in the early season" was for a "year of extraordinary world production.")

In the same report it was also noted that:

> "Production throughout the world has undoubtedly been stimulated by the comparatively high prices ruling for the past four years . . . partly offset by increased and increasing world consumption."

The lesson drawn from this was that:

> "The need for a regulating organization between consumer and producer, such as the Pool, was never more apparent."

May, 1929

It was in May, 1929, that the Pool completely departed from the policy that might be expected in the midst of such conditions. Sales up to then had been large, averaging 25,000,000 bushels per month from September to December, and 16,000,000 from January to April. It is to be expected that sales after December and before May would be smaller than in the autumn, but in this year it is to be noted that such lessening of sales took place despite the existence of higher prices (Winnipeg average cash closing price was $1.19\frac{3}{4}$ for the period September to December, $1.24\frac{5}{8}$ for January to April). By this time the Argentine competition was making itself felt.

> "From January, 1929, on we were faced with the most severe kind of competition from the pressure of the Argentine wheat on the market"—

as Mr. McPhail said in an address in March, 1930 (See Tides in the West, Ex. 337, p. 23, footnote 2, and Patton Ex. 175, p. 10 and evidence p. 6483). He also said that:

> "During the winter months last year" (i.e. winter 1928-29) "our Winnipeg prices were unduly high as compared with the Argentine."

It is apparent therefore that from January on the Pool was not willing fully to meet the Argentine competition, but it was in May that the crisis really arose and was met by a decision in favour of holding rather than of maintaining sales at current price levels. From September to April Winnipeg cash prices had been very steady, with a low of $1.13⅜ and a high of $1.31¼, and with average prices about 5 cents higher after December than before. Mr. McPhail spoke of the "drastic decline" and "the big break in prices" . . . "to as low as $1.06 in May." The decline was in fact from $1.21 on May 1 to $1.11¾ on May 7, and finally to $1.06¼ on the 31st. The only large single decline was from $1.19¾ on the 4th to $1.11¾ the next market day, which was the 7th. On May 9, the day the Pool commenced buying futures, the cash price was $1.10¾, and on May 19, the last day of the Pool purchasing, it was $1.12¼. The decline then continued until abruptly reversed by a rise of 6½ cents on June 4, which put the price at $1.14¼.

It has been mentioned that Mr. McPhail said that in May, "We decided to take a definite stand against what we considered a 'bear raid' on the market," and this was the reason for the purchases of the futures.

With regard to the general problem he said:

> "Some people will naturally ask, why not have taken such an attitude to the market as to have brought our prices in line with those of Argentina? At the time of the drastic decline I speak of in Canadian prices, we found that Argentinian prices simply kept falling away from ours; and even at these low levels there was no sign of touching bottom so far as Argentinian prices were concerned" (evidence p. 6485).

It is evident that the "bear raid," if any, must have been world wide.

That a "Holding Policy" i.e. refraining from selling at current prices was deliberately adopted in the spring of 1929 is clear from the sales figures given in evidence, from the foregoing remarks of the President, and from equally authoritative statements by the General Manager of the Central Selling Agency (quoted in a Pool pamphlet entitled "Open Market Prices Under Pressure—Pools Unaffected by Demoralization," issued in May, 1929. See evidence pp. 6486-88). Taking certain figures of production and carry-over as his basis, the general manager said:

> "The much-talked-of world surplus amounts to an increase in the United States carry-over of some 60,000,000 bushels, which is partially offset by a decrease in the Canadian carry-over."

He went on to point out that the 1929 world crop would not likely be as large as in 1928, but that even if it were,

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

This last can only mean, prepared to wait for demand at a price satisfactory to the Pool. As already mentioned, the Pool not only ceased selling in May, but went further and bought futures to influence prices.

The reasonableness of this action is not apparent. If there was believed to be only a temporary fluctuation, "stabilizing" purchases were not necessary and could only add to the quantities required to be sold later. On the other hand, no matter what the Pool managers believed, there was at least the possibility tnat the decline would continue, in which case adding to stocks by purchases might be disastrous. Prices had not really declined seriously as compared with the previous autumn. The price paid to Pool members to date was only 97 cents, and over 160,000,000 bushels had been sold at considerably more than that, so that the bank credit was not imperilled. Winnipeg prices had avowedly been "unduly high" as compared with Argentine since January. At most, a certain lessening of selling might have been regarded as sound policy—not the making of future purchases exceeding what small sales had been made that month.

However, the experiment was successful financially, in the sense that futures sales in June at higher prices were regarded as closing out the May purchases. But the Pool still had to sell over 80,000,000 bushels during the remainder of the year if it were to repeat the achievement of 1927-28, when it had no unsold carry-over by the end of August.

Selling Resumed, June, 1929

In June prices recovered, there being a rising market for the most part, although the average Winnipeg price for the month was only 5 cents higher than the average during the decline in May. Selling was resumed on a large scale, the total for June being 20,103,000 bushels, as compared with 4,510,000 in May. If the figures are adjusted to include the Pool's special futures transactions, total sales in June were 26,258,000 bushels, as compared with *net purchases* in May of 1,643,000.

Actions in July, 1929

In July, however, and even more in August, no vigorous selling policy was followed, despite higher prices, and this, coupled with the large payments to members brought the Pool into 1929-30 with a large unsold carry-over and, when prices thereafter declined, an unbalanced financial position.

It has been mentioned that large sales were made in June, on a rising market. The average cash price for the month was $1.18¼ and the closing price on June 29 (the 30th being Sunday), was $1.29½. In July there was a very rapid and sustained rise to $1.78⅝ on the 29th, yet Pool sales were only 13,561,000 bushels, leaving 52,000,000 bushels still unsold on July 31. The reasons given for this failure to make more substantial sales will be discussed shortly. Here attention must be directed to an action of the Central Board, which, more than any other Pool action except the mistake in selling policy, was responsible for its financial difficulties and ultimate failure. For, after all, entering the crop year with a large carry-over would merely interfere with the selling of the new crop, and would not directly affect the financial position unless a large debt were incurred in respect of that carry-over. This last is just what the Pool did, unfortunately. Until July the Pool had only paid its members 97 cents (basis No. 1 Northern) on their 1928 crop. On July 11, when the Winnipeg cash price was $1.44¼, a further interim payment of 21½ cents was authorized, and was paid on July 31 when the Winnipeg price was at $1.72. The total sum so distributed was, in round numbers, $40,000,000. (See 1931 Sask. Report, p. 49). Although Mr. Milliken stated (evidence pp. 6909-10) that he had been informed by the Treasurer that it was not known how much of this payment was borrowed, because advances were being made at the same time in respect of the new crop which are also included in the bank debt, a simple calculation from the known figures seems to show that the entire sum was borrowed. On p. 21 of the Central Report for 1928-29, the balance sheet shows a bank debt of some $68,000,000, as at August 31, 1929 (against which, of course, there were stocks of grain, having a total value at prevailing prices of $84,000,000) up to the end of September, deliveries of the new crop to *Central* aggregated 18,626,000 bushels (Brief, Part 1, p. 27). Even if all this had been No. 1 Northern and delivered by the Pool members in August, and even if no sales had been made, the most that could have been paid on account of the new crop was $18,625,000. In fact, of course, the amount was much less. Likewise deliveries of old crop in August were 1,728,000, on which at most $2,000,000 would have been paid. It thus appears that the bank debt attributable to old crop wheat delivered to Central must have been over $40,000,000, and that therefore the entire amount of the July interim payment was borrowed.

This was placing the Pool's finances in a very hazardous position. At prevailing prices ($1.72 on July 31 and $1.52¾ on August 31) the value of grain on hand was, of course, in excess of the bank debt; but such prices were much higher than had prevailed for several years, and could only justify such a large borrowing if in fact steps were taken to dispose of the unsold stocks at those prices. This was not done.

Prices were very high in July, August and September, and may be summarized as follows:—

WINNIPEG CASH PRICES

—	High	Low	Average daily prices	Pool sales
	$ cts.	$ cts.	$ cts.	bushels
July, 1929	1 78⅛	1 34⅛	1 59⅛	13,561,000
August	1 73⅛	1 51⅛	1 58	3,751,000
September	1 57½	1 41½	1 49½	8,563,000

It is convenient to deal with Pool sales as a whole in this period, as indeed was done in the evidence of Mr. Bredt. Mr. Bredt said that, looking backwards, it can be seen to-day that sales should have been larger (evidence pp. 6635-6; 6625; 6775) as indeed is obvious; but he said that in the circumstances it was, in effect, impossible for the Pool to do other than it did.

Effect of Speculation

The essential factors in the market situation at this time were that a wild speculative boom was taking place at Winnipeg and Chicago, and that Argentine grain was being sold in Europe in very large quantities (the size of their 1928 crop had been universally underestimated) and at prices very much below ours—that it was, in fact, effectively shutting Canadian wheat out of the export market. Mr. Bredt gave the figures of Argentine shipments for the last six months of 1928, 1929 and 1930. In particular, it may be noted, that in July, August and September 1929 the shipments totalled 59,475,000 bushels, as compared with 24,260,000 and 9,629,000 in the corresponding periods in 1928 and 1930 respectively.

Pool Export Offers

Faced with such circumstances, what did the Pool do? Mr. Bredt gave evidence that during these months the Pool made export offers at prices that were at times 6½ cents below the equivalent open market price at Winnipeg, plus transportation and other export costs. Out of the seventy-six market days in this period, the Pool export price was under the Winnipeg market on forty-seven days, equal to it on five days, but actually over the market on sixteen days; and on eight days no offers were made. (Ex. 350). This was described as evidence that the Pool were "free and anxious sellers" (Brief Part 11, p. 2) or at least anxious (evidence p. 6528), for in fact the offers were of no avail—sales could not be made (evidence pp. 5569; 5632-4). The fact of the offers being sometimes under the market does not necessarily mean that the Pool was making really determined efforts to meet world competition. Thus on July 11 the Pool offer was ¼c. under the market and on July 17 it was 4⅜ cents under, but in the meantime the Winnipeg price had risen 32 cents, and the Pool offer had correspondingly been raised, though not quite to the same extent.

The fact is, of course, that the Winnipeg market was at this time wholly unrelated to the world market as represented by the prices at which competing wheats were being sold. The Pool Brief (Part 11, p. 9) quotes the statement of Mr. Sidney T. Smith before the Stamp Commission in 1931, that:

> "In the fall of 1929 we ran about 25 cents a bushel higher than world values in Liverpool. We couldn't sell anything further."

And, says the Brief, it was through "recognizing this fact and being seriously concerned about their inability to sell in volume," that the Pool made these export offers. Mr. Bredt was questioned why offers had not been made still lower until sales could be made; why the Pool offers jumped upwards between July 11 and 17 as much as 12 cents in a day—and 28 cents in six days—and also (since the Pool had not hesitated to use the futures market on other occasions, even to the extent of buying futures) why large sales were not made in the futures market to take advantage of the high prices ruling there, which were recognized by the Pool as "materially above world parity." (Brief, Part 11, p. 9).

With regard to the export offers, Mr. Bredt said that they had no assurance that they could make sales even at much lower prices (evidence pp. 6752; 6786) for Argentine prices might decline even further; and that they could not make greater use of the futures market because large Pool offers there would cause prices to fall (evidence pp. 6803-4).

It would seem that to make prices fall should have been the object of Pool policy at this time, if they really believed that excessive Winnipeg prices were responsible for the cessation of export sales. In any event, since the market was one of the strongest speculative "bull" markets ever known, there can be little doubt that large sales of futures could have been effected without crashing prices.

In this connection, however, Mr. Bredt gave in explanation of Pool policy in 1929, a series of statements which indicate either a fundamental defect in any marketing system wherein the selling agency is selling for the producers and is responsible to them either directly or indirectly, or else a misconception of their duties on the part of the Pool leaders. He said that if the Pool had lowered its export offers further and made sales at such lower prices:

> "We would have been liable to very, very severe criticism if the market had not declined, because naturally our members expect us to obtain as high a price as we possibly can." (evidence p. 5569, see also 5635-6).

and that on the other hand if the market had declined through the Pool either lowering its export offers still further, or by selling large quantities on the futures market, the criticism would have been even more devastating.

The Winnipeg price was a "yardstick operating alongside" to which their members in the country looked "more or less as a guide upon which

they expected to get a return" and "we felt that to make sales to meet that competition from the Argentine would have ruined our whole organization." (evidence p. 6521). "We would have lost the confidence of our members completely."

The same objections applied to making cash sales at Winnipeg, as to selling futures (evidence p. 6805).

> The COMMISSIONER: "You say you did not dare to make an offer low enough to meet that competition because such action might have precipitated a fall in prices, and your members would have been dissatisfied?
>
> A.: "And we might have lost our whole organization" (evidence p. 6826-7).

With these remarks should be contrasted the statement of Mr. McIntyre, Assistant Sales Manager, previously quoted, that if speculators are willing to pay

> "20 cents more than what you consider prices worth, can any pool afford to let that market pay that price and not sell them the wheat?"

Mr. Bredt referred to the Pool as

> "an organization brought into being with the avowed purpose of getting for the producer the best price obtainable" (evidence p. 6503).

The best obtainable price at that time was certainly the future price in the Winnipeg market. The Pool leaders knew that these prices were high, according to the earlier evidence of Mr. Bredt. If such were the case, it would be hard to understand why they did not take advantage of them. But the management did not even try to obtain these prices.

POOL OPTIMISM

There is considerable evidence, however, to show that the Pool officials, while they knew that Winnipeg prices and the Pool prices were far out of line with world parity, believed that the pressure of Argentine competition would ease off, and, that by holding for a while, they could later sell at the price they desired. In fact, this evidence shows that at this time the Pool was deliberately pursuing a holding policy.

Mr. Bredt's use of the terms, "Supposing we had decided to enter into cut-throat competition with the Argentine" and "If the pools had set out deliberately making export offers in competition with the Argentine" (evidence p. 6503) indicate that in fact the Pool refused to sell at competitive prices, or at any rate refused to attempt to do so. Likewise: "To make sales to meet that competition from the Argentine certainly would have ruined our whole organization" (evidence pp. 6521, 6786)

Mr. Bredt stated that the Pool deliberately kept off the Winnipeg futures market (evidence p. 6804).

On p. 6503, Mr. Bredt said, "At that time neither we nor anyone else knew what was going to happen to prices finally." On page 6786, however, he agreed that the Pool's export offers indicated that they felt that the Argentine competition was a matter of distress prices (see also p. 6787) that was going to work itself out, and that the real value of wheat which was shown in the Winnipeg market was going to be realized.

The Pool had the same over-optimistic attitude at that time as everyone else (evidence p. 6522). Everybody was bullish (evidence p. 6786). The Pool salesmen expected that the heavy shipments from the Argentine would cease and that Canadian wheat would again be in demand (evidence pp. 6749-50).

> "The real trouble had its start with this large carry-over of the 1928-29 crop year,"

it was suggested, and Mr. Bredt agreed (evidence p. 6748). Asked:

> "Whatever the reason was, the Pools saw fit to carry over these stocks unsold?"

at the end of August, he replied:

> "In other words, they shared with everyone else in Canada the prevailing sentiment that prices were likely to go higher."

Certainly the statements made at the time by Pool officials indicate an optimistic attitude about prices and a determination to wait until sales could be made at a price conforming to such ideas. Such statements were quoted in the course of Mr. Bredt's examination, at pp. 6814 to 6846 of the evidence.

Pool Price Policy and its Effects

These incidents of 1929 lead me to a closer consideration of the price question. It will be necessary to deal rather lengthily with the policy and the record of the Pools in regard to it. The question is important in the interest of those who join co-operative selling organizations, as well as in that of producers who remain outside. It is also of interest, of course, to the buyers of our product.

The obtaining of good prices for the producer is surely a legitimate object, and one which any co-operative selling organization is bound to keep in view. The question here is whether the Pools over-emphasized this object or strove for it in such a way as to antagonize buyers and thereby do more harm than good. The true inferences will be drawn from the facts to be gone into in part in this chapter and in part later on.

There seem to be only two ways of securing better prices than previously paid to the producer at any given time. The one is to increase the ultimate market price; the other is to increase the producer's share of that ultimate price. And both these results may, of course, be kept in view.

While dissociating co-operative marketing by a growers' organization from the form of selling under Government control and assistance, the appeal of the pool marketing method to Western farmers was nevertheless closely connected with the ideas they entertained as to the "success" of the 1919 Board and the causes of such success. As Professor W. A. Mackintosh has said (Queen's Quarterly, issue for October-December 1925, p. 121):

> "It was difficult for the grower to dissociate in his mind the Canada Wheat Board and the high price levels of 1919-20, and yet there is no evidence to show that the Canadian farmer obtained a higher price because of the activity of the Wheat Board. The Wheat Board paid a total of $2.63 a bushel but the weekly low price for No. 1 Northern wheat in Minneapolis only went below $2.63 during three weeks of the entire crop year, and so the United States farmer with competitive marketing did at least as well as the Canadian farmer with a controlled market."

The U.S. Government set up a National Wheat Board for the 1919 crop but it had no monopoly power; farmers were left free to sell to the Board or to the trade. Professor Mackintosh likewise speaks of

> "The state of mind which connected the controlled buying (sic) of the Wheat Board with high prices and looked to a similar organization to bring back the halcyon days of two dollar wheat" (ibid p. 138).

The main motive behind the Wheat Pool movement was, it would seem, that of price. Mr. Bredt stated in evidence (p. 5824) that the reason so many joined the Pool must have been that they hoped to realize a higher price by selling through the Central Selling Agency than would be realized by each individual selling for himself. In pursuit of what they believed to be a new method of marketing which would substantially enhance the price of their product, farmers were prepared to embark on a course which represented a fundamental departure from previous forms of co-operative effort. Earlier efforts had all been in the direction of increasing competition among those handling and buying grain, and freeing the farmer from any kind of monopoly or control by outside interests. The results are to be seen in freedom to load his own car, to ship to the central market, to have the identity of his grain preserved, and to sell when, where and how he will. The farmers' elevator companies went a step further by establishing, within the existing marketing machinery, a yardstick for the entire marketing organization from country

elevators to exporting agency. Their object, which they achieved with success, was to set the competitive pace, to assure the farmer lowest possible costs, greatest possible technical efficiency, and many alternative methods of selling.

All this was to be changed for the farmer who joined the Pool. He gave up all his alternatives, and bound himself, willingly, for a period of five years, to operate solely through the Pool, an organization which took the place, for him, of elevators both country and terminal, local buyers, commission men, brokers, shippers and exporters, and, perhaps most important, took his own place as the judge of where and when to sell his grain. All these functions were to be performed by a single central organization, and much of its very virtue was believed to be that it was single, central, large and powerful, a collective substitute for individual judgment. For years great emphasis was placed on the claim that the Pool was a voluntary, co-operative and democratic organization of, by, and for the farmers themselves—such farmers as choose to join of their own accord. It was only in 1929 that a certain bias in favour of a compulsory marketing system began to appear.

How was it hoped that the Pool would secure better prices? The predominant notion, at least among the more enthusiastic supporters, was certainly a belief in the almost magic qualities of control of supply. Mr. H. W. Wood, a member of the 1919 Board and first President of the Alberta Wheat Pool, declared in October 1920 that the price of wheat that year could undoubtedly have been kept up to at least $2.50 had the Board been continued. (Ex. 183, p. 199.) Professor Mackintosh quotes a further statement by Mr. Wood at that time, when asked the reason for the fall in price:

> "From the standpoint of supply and demand there is absolutely none, the only reason in the world is the inefficiency in the selling of wheat this year." (Op. cit. p. 138.)

A Report made by Messrs. Stewart and Riddell to the Saskatchewan Government in 1921, while stating that a partial pool would not be in as favourable a position as a monopolistic board, and would be affected detrimentally by the competitive selling of that portion of the crop that was not within the pool (Ex. 333, p. 10), nevertheless gave credence to the virtues of control and said, with particular reference to a National Wheat Board (p. 11)

> "It is perfectly obvious that under a system of national control, where only one seller exists, and buyers are numerous, the advantage is with the seller."

This statement seems to overlook the fact that, in regard to buyers, there would not be only one seller but many: sellers of Argentine wheat, of Australian wheat, of American wheat, etc., all competitors.

The belief that the Pool could positively raise the price level of Canadian wheat was common among both members and leaders in the early days and continued, at least in the pronouncements of the management, until the end of Pool operations, as is evidenced in the following:—

Mr. Bredt agreed in evidence (p. 5858) that during the inception of the Pools there was a very distinct feeling that they would be able to raise or influence the price level. Later (p. 5859) he qualified this, so far as Pool leaders were concerned, by limiting it to the idea of eliminating the autumn slump in prices.

On page 6678, he agreed that there were some "over enthusiastic" people who told the farmers that they could get a higher price if they joined the Pool.

On pages 3359-60, Professor Patton, a close student of the Pool movement, agreed that the idea of an international Pool being formed with a view to influencing prices had been promulgated.

At a meeting of the Saskatchewan Pool delegates, at Regina, in 1926, the Central sales manager, Mr. D. L. Smith, stated that the Winnipeg Grain Exchange had really no price except that set by the Pool; that the Pool controlled the prices, so far as the supply side of the law of supply and demand was concerned; and that the Pool had raised the price of Canadian wheat, as compared with other wheats. (See evidence pp. 5859-60, and Ex. 338.) On page 5861, Mr. Bredt said that there may have been times when the Pool really fixed the price on the Winnipeg market; but with respect to Mr. Smith's statement he thought it must have been made with reference to some particular year, for he was not a man given to extravagant statements

At the International Wheat Pool conference at St. Paul, in 1926, Mr. Gourlay, a director of the Manitoba Pool, said that the object of the Pool was to raise the price of wheat (evidence pp. 5874-5 and Ex. 239, p. 67). A subsequent statement of his seemed to be to the effect that prices could not be raised except through international action (Ex. 239, p. 84). At the same conference, Mr. H. W. Wood, President of the Alberta Pool, said "The primary and most important object is to get a better price for wheat"; but he in turn seemed to limit this to raising the price of wheat up to the level of other prices (Ex. 239, See evidence pp. 5869-70). He then said that if producers in the four chief exporting countries combined they could fix the price, and immediately corrected this to "raise" the price and maintain it on a level with the prices farmers have to pay (evidence p. 5872). On page 5873, Mr. Bredt agreed that such a statement lent itself to the interpretation that the only aim and object of the Canadian Pool was to organize an international control board to raise prices. He said Mr. Wood only meant "that wheat prices should be raised to the same level as other prices."

On page 6676, Mr. Bredt agreed that Mr. Sapiro and others had held out the picture of first organizing a Canadian Pool and then an interna-

tional Pool, and that then they could go overseas and tell the consumers what to pay. Mr. Bredt described such people as "over enthusiastic."

Professor Mackintosh, in the article cited, deals with this aspect of the objective of the Pools on page 126, read into the record on page 5883, as follows:

> "There were few even among the most ardent supporters of the Pool who seriously thought that the organization could effect an increase in the world price for wheat and yet some arguments advanced in its favour would seem to infer such a possibility. Later literature issued by the Pools themselves specifically deny any such intention or power. Nevertheless on one hand the over-optimistic grower, and on the other, the European buyer have been apt to impute rising prices to the Wheat Pool rather than to the shortage of the 1924-25 crop. It is further significant that the demand for the Wheat Pool arose out of the period of depression when the price of wheat fell proportionately below the prices of the commodities which the farmer had to buy. Clearly most farmers joined the Pool in the hope that it might do something to mitigate the unsatisfactory conditions of agriculture in those years."

In a speech, in January, 1927, Mr. J. H. Wesson said that the "Pools were deliberately attempting to stabilize, on as high a plane as possible, the Winnipeg quotations," and that they "both deliberately and unconsciously control Winnipeg quotations." The unconscious control he described as that which arose from the fact that, "the farmers' wheat is not now dumped on the market in large quantities" (See Ex. 339 and evidence page 5863).

Mr. Bredt described this as "over enthusiasm," and on page 5864 said that the Pool has influenced the Winnipeg price, but that he would not go so far as Mr. Smith and Mr. Wesson.

At the second International Wheat Pool Conference at Kansas City in May, 1927, the following resolution was adopted (quoted on pages 3358 and 3361, evidence):

> "As soon as practicable, the wheat producers of the chief exporting countries of the world should look towards co-ordination of their co-operative program. This must be preceded by thorough organization of the producers of wheat in each country on a permanent basis, and such organization must control a substantial percentage of the wheat grown in these countries. When these conditions are met, then international co-ordination will give the wheat growers the same control over the marketing of their crop already possessed by other industries and will materially assist in putting agriculture in its rightful place among the other industries of the world."

Elsewhere in this discussion will be found reference to numerous public claims by the Pool to have definitely maintained the Canadian wheat price higher than it would otherwise have been in 1928 and 1929. Indeed, in the brief itself, on page 15 of part 2, it is claimed that:

> "Had it not been for Pool operations the disastrous drop in wheat prices might have come about in 1928";

and that the non-pool farmers had

> "benefited by the fact that the Pool method of marketing held more than half of the entire crop off the hedging market."

Finally, Professor Patton, on page 401 of his book (Ex. 183), said:

> "Many Pool members recalling, or reminded of, the record wheat prices associated with the operation of the Canadian Wheat Board have signed Pool contracts in the expectation that Pool selling would be effective in raising the price of their wheat."

But he went on to say that it was

> "generally recognized by responsible Pool leaders that the higher prices since the organization of the Pool had resulted from broad international causes rather than from the action of the Canadian Pool itself."

Orderly Marketing and Average Price

The objective of raising the entire price level of Canadian wheat, through the power believed to arise from control of supply, may not have been widely held among responsible Pool officials; but, as stated, it was expressed by the more enthusiastic exponents of pooling and undoubtedly affected many farmers. It was very closely connected, in its essential aspect of increasing the farmer's return for his crop, with another really quite different idea, that of obtaining an "average price" through "orderly marketing." It is frequently difficult, in reading early Pool literature, to discover whether the basic objective of a higher price was intended to be achieved through selling for higher prices in the export market (i.e., raising the price level) or through the second principle of directing the profits assumed to be made by speculators into the pockets of the farmer. The background of this second objective was the belief that prices are almost invariably lower in the autumn, when most farmers sell their wheat, than later in the crop year, and that the speculating class thereby makes a profit which should belong to the farmer. This autumn decline is said to be caused by the fact that three-quarters of the crop is delivered, and in large part placed on the market and sold, before the end of December, whereas the ultimate sale and consumption have to extend over the whole twelve months. Further, the glut of wheat in the fall, itself a price-depressing influence, is believed to be aggravated by short-selling and

manipulation. This belief has long been held by many farmers, and has been unanimously expressed by Pool leaders, up to and including their evidence before this Commission. This is not the place to consider the validity of this belief (the question having already been dealt with), but of its existence there can be no doubt. The Pool, it was hoped, would alter this condition, at least so far as its own members were concerned, and it is now maintained that in fact it did so.

There is considerable ambiguity in the phrases used in this connection, notably the expression "average price" and "orderly marketing." If prices were, on the whole, lower in the autumn than later in the year, it is clear that an individual farmer would profit by holding his grain after harvest and not selling until the spring or summer. Or he might sell part of his crop at one time and part at another, and regard his entire crop as having been sold at the average of the various prices at which he had in fact sold. Many farmers, however, are not in a financial position to refrain from selling at harvest time and those who adopt such a course might through poor judgment or ill fortune sell at prices in the spring that were actually lower than the price they might have obtained in the fall, for even if average prices in the latter part of the crop-year were higher than in the autumn the fluctuations would probably result in the lowest late price being below the highest early price. The Pool, it was thought, would overcome such difficulties. It would make a substantial initial advance and the farmer's remaining equity would not be wiped out by temporary declines in the market. Sales would be spread out over the year, so as to take advantage of the supposedly higher prices when they occurred, and the responsibility of deciding when to sell would rest upon the experts of the central organization and not upon the individual farmer. To quote Mr. Bredt (evidence p. 5823),

> "The idea was that farmers realized there were fluctuations in the price all during the year, and rather than take the risk themselves of deciding upon which particular day they wished to sell, they preferred to put their grain into an organization which had sufficient volume to make sales all during the year, and in that way establish as nearly as possible an average of all prices realized."

In the above quotation Mr. Bredt speaks of the average realized price. It is clear, upon reflection, that a Pool cannot obtain an average of all quoted prices, but only of the prices at which it actually makes sales, weighted by the quantity it sells at each price; and this was recognized by Mr. Bredt during examination (evidence pp. 5823-24). What the Pool got for its members and paid to them, which was all that any Pool can get, was the average of its own sales, and not the average market price. But the confusion over the meaning of "average price" appears in much Pool literature.

Attitude Towards Speculation

There were of course, further motives in the minds of those joining the Pool. There was the desire already mentioned, which can stand separately from the idea of getting a higher price, to pass on to others the risk and worry of deciding when to sell; and to know that one's price would be well above the year's lowest, even though also well below the year's highest. There was also for many the opportunity to put an end to all individual dealings with the Grain Exchange and the futures system which,

> "in the opinion of many farmers . . . determines the price of the grain they have to sell by public gambling" (Bredt, p. 5437).

There was also an express objective of the Pool to obtain a larger share of the price paid by the consumer through elimination of waste and reduction of costs involved in marketing—in brief to narrow the margin between producer's price and consumer's price, to the benefit of the producer, through the economies of large scale operations under producer control (Brief, Part 1, p. 7 and p. 12).

The "elimination (or reduction) of speculation" and "direct selling" seem to have been based as much on dislike of the Grain Exchange futures system as upon economic motives. Direct selling may, if efficient and successful, bring to the farmers money that would otherwise form the profits of exporters, usually less than a cent a bushel, but can have little other economic effect, save as an instrument in a plan, if any, to extract higher prices through control of supply. Likewise the "elimination of speculation" so far as concerns the hazards imposed on the individual farmer by the existence of a speculative market, was accomplished by the mere act of forming the Pool. Each Pool member was completely insulated, as an individual, from the price fluctuations of the market. Yet the Pool ideology evidently went further than this and was based on an antagonism to speculation as such, considered to be vicious, and to have a depressing effect on prices, and a consequent desire to restrict and if possible eliminate it. It is now recognized by Pool leaders, and has been throughout by economists discussing pooling, including Prof. Patton, that a Pool cannot eliminate speculation beyond the sphere of its own operations, and cannot reduce fluctuations in world prices; but some such object was in the minds of those who had what may be called the crusading motive in joining the Pool, and continued, and to a considerable extent still continues, though in a more realistic fashion, among Pool leaders.

Lessons of 1929-30

Before leaving the subject of Pool activities I must refer again to the events of the crop year 1929-30. I do not do this for the mere purpose of piling up evidence of mistakes that may have been made by Pool officials during that period. It is only too easy, after a lapse of years, to look back-

wards and point out the errors and shortcomings of others who carried a heavy responsibility under most unusual conditions, and who were anxious throughout to do their best for those whom they represented. But there are certain lessons to be drawn from the events of that time which must be preserved for the sake of the future.

The fall of 1929 saw the collapse of a "boom" period and the birth of a depression of great length and severity. The wheat market furnishes one of the most enlightening manifestations of the transition from one state to another. During the early fall months the Winnipeg market was so far out of line with Liverpool that overseas export business was severely handicapped. Canadian exporters having to buy at Winnipeg and sell at Liverpool were practically unable to do business. And we have seen how the Pools acted. They refused to sell in the futures market when, as it subsequently appeared, it would have been greatly to their advantage to do so, and although they had done so on former occasions. They held their cash prices up, and refused to compete with Argentine sellers. Some of their officials and their publications announced publicly that they would not come down to the Liverpool market prices but that they would hold their wheat and that in due time the buyers would come to them. And what in one respect is especially serious, some of them went so far as to take credit for having put Winnipeg prices up and stated that they were now in control of these prices. Then, when the recession began, they failed to read the signs correctly. They attributed the downward trend to "bear raids" and other forms of manipulation. Instead of selling they went into the futures market and bought speculatively, thereby incurring a loss of $2,014,000.

A few references from Pool sources will serve to show the prevailing sentiment. The first three references are taken from Ex. 454:

On September 12, 1929, when the Winnipeg cash price for wheat was $1.57¼ and the October future $1.58¼:

> "A merchant does not sell his goods at a sacrifice because there are delivery wagons at the door whose drivers want to get working. . .Yet the financial men in Montreal would like to see the Wheat Pool sacrifice its wheat because some cargo boats are there to take it away, and some importers in Great Britain sagely hold the belief that the wheat would sell more rapidly if the owners lowered the price. . . .The Wheat Pool is being charged with holding wheat at extortionate prices. What is really happening is very simple. The Pool, through its world wide organization, and with, as a consequence, extensive information upon which to base its selling policy, is making an effort to secure a reasonably profitable price for the wheat it has to sell. . . .They (the Pools) do not propose to sell at sacrifice prices when they are reasonably certain, from the information in their possession, that they can secure a price which will give them a reasonable return; and they do not have to sell."

On October 10, 1929, when the Winnipeg cash price was $1.46½ and the December future $1.47½-⅝:

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

On October 2, 1929, when the Winnipeg cash price was $1.44⅝ and the December future was $1.46¼-⅜:

> "Sales of wheat to Europe could be effected at the present time but only at the cost of serious reduction in farm income and restriction of Canadian business for the coming year. The world situation justifies higher prices than those at present ruling."

Then, from the evidence, at pages 6833 and 6834. On September 28, 1929, when the Winnipeg cash price was $1.41¼ and the October future was $1.41⅜:

> "Through that influence exercised by the Pool Canadian wheat has continually been pressing to higher levels and continually been leading other wheat exporting countries in this respect . . . .Increased control and volume of wheat through the organization is to make the organization unassailable and more impregnable, and enable it to maintain the lead that the Pool has established in maintaining Canadian wheat price levels, the world lead that the Pool has established for Canadian wheat. . . .If the United States and Argentine and Australian farmers had as large a measure of control over the wheat in those countries as we have in Canada, I have no doubt that the farmers belonging to the wheat exporting countries in the world would be able to secure the maximum advantageous results that any measure of control would give as far as prices are concerned."

Again from the evidence at page 6836. In October, 1929:

> ". . . The Pool selling office believes that owing to the flooding of the European market with wheat from Argentine and the United States, the price in Liverpool is out of line with the actual wheat situation, and it has refused to sell in what for the time being is purely a buyer's market. As a consequence the Canadian wheat movement has been almost halted."

Again from the evidence at page 6833. In September, 1929:

> " . . . the Wheat Pool method of holding back crop surpluses is sound and is compatible with the practices adopted by practically

> every large successful business concern in the world to-day. . . . During the past few months the United States wheat crop has been thrown on the wheat markets in an unparalleled flood. The result has been that prices have been very greatly depreciated. . . . The Wheat Pool by holding off tremendous supplies materially stabilized the market last season. . . ."

All the above statements were made publicly by high officials of the Pool or by Pool organs.

They show that, notwithstanding the Pool's excellent world-wide information service, and the high ability and earnestness of purpose of its officials, the situation was misjudged and the impending depression was totally unforeseen. The other facts (such as the unfortunate buying of futures in 1930), show that this state of error persisted for a considerable time after the depression had settled over the world. They also show, especially when taken with some other statements, already quoted, made in earlier years, that the conviction had been acquired that Winnipeg prices were made and maintained, not by world factors, nor by the buyers' needs and their willingness and ability to pay, nor by the volume of actual trade and of speculation, but by the Pool.

The conclusion to be drawn from all this is that the grain trade, and especially the wheat trade, of the world offers day to day problems of a perplexing kind; that notwithstanding the best of ability, information and good will added to the experience of several years, one may easily go astray; that forecasting the future, even the near future, is a perilous occupation when it is backed by one's money or merchandise; and that those who control immense quantities of wheat do not always possess the influence on the market which might be supposed. In the present case it might, perhaps, be added that a sense of responsibility to a large number of constituents and the fear of not achieving the best possible results have a harassing effect on those who must make decisions.

Summary

I have dealt with the work of the Pools at some length and have made no attempt to pass lightly over such defects in the system or in its operation as have been made known to me by the evidence. In doing this, I have had in mind the thought that the co-operative marketing of wheat is something essentially sound and that it contains possibilities for the future. It is all the more necessary then that this important experience in co-operation should be recorded and analyzed with care. If the idea was to be considered as intrinsically false and now definitely abandoned, the wise thing to do would be to say little about it. I have not followed this course. My examination of pooling as carried on in western Canada for a number of years has been as searching and as critical as I have been able to make it because I think that the history of those years is of value, now, and will continue to be of value in the working out of future problems.

To sum up as briefly as possible, I may say that, in my opinion, the wheat pooling system was beneficial in several respects: (1) it relieved its members of their principal market worries, which are considerable, and procured them a uniform price within each year; (2) on the whole, the price obtained was a fair and satisfactory price; (3) it continued and expanded an integrated farmer-owned grain-handling system; (4) it provided a "service at cost" basis of operations; (5) in so far as its own members were concerned, it relieved them of whatever evil effects may attend heavy hedging pressure in the fall. A sixth point, connected with this last one, is more difficult of treatment. Did the non-hedging policy of the pools have a good effect upon fall prices? If this were so, the result would have benefited non-Pool farmers, and I said in an earlier part of this report, that it might be expected to have been noticeable, since the Pool marketed at least 50 per cent of all the wheat. The record does show that during the years of pool operations the level of prices throughout the year was more constant than it had been before or than it has been since. But at the same time other factors were in play which cannot be left out of consideration. On the whole, though, I think that, while the problem is not capable of definite solution, the Pool did contribute to this result.

But there is another side to the story. I think (1) that the policy of the Pool not to deal through grain merchants in the United Kingdom was injurious both to the United Kingdom traders and to the selling of Canadian wheat; (2) that Canadian traders also suffered to some extent and permanently; (3) that a feeling of alarm was engendered in importing countries by some of the declarations made at the international conferences at St. Paul in 1926 and Kansas City in 1927 which were attended by Canadian Pool representatives; (4) that the statements made with great publicity in the fall of 1929 by Pool officials and organs, coupled with the non-selling policy pursued, were detrimental to our market interests.

On the whole, it seems to me, in regard to (3) and (4), that too much talk and agitation were mixed with business. All these announcements took the form of indirect promises to the Pool farmers, and made a change of selling policy all the more difficult to adopt, even if those who made the announcements became convinced subsequently that a change was imperative. In my opinion, Mr. Bredt's evidence reveals this situation. Then again, human nature has its exigencies, and those making such announcements could not help feeling an inward reluctance to go back on them. Finally, the challenging nature of some of these declarations must have had a bad effect among buyers.

Those who buy our wheat are shrewd business men interested in getting a good product at a price measured in relation to their necessities and to the value of competing products. They do their buying quietly and on considerations which they have reduced to a science. It seems to me that selling also should be conducted without undue publicity, on business principles, by men who keep themselves free to shape and reshape their policy from day to day, if necessary, to meet shifting conditions. There

is no reason why a pool should not be operated on such lines. Nor should considerations of a permanent, general character be allowed excessive influence. For instance, I have quoted on page 55 from an article in Wheat Studies, Vol. 14, October, 1937, which says that the Canadian marketing system is subject to an extreme strain because (1) our harvest (unlike that of the Argentine) comes at a time when world supplies are at their seasonal maximum, and (2) our wheat possesses special milling characteristics which call for its being fed into consumption more or less uniformly throughout the year. These facts are important. They should be noted and borne in mind by co-operative (or other) sellers as market factors. But I do not think they should detract from what, after all, is the paramount consideration: the securing of a good price and the free access at all times into overseas markets. And this paramount consideration requires an elastic, adaptable selling policy. I should add that there is no evidence that the Pools did give undue attention to the factors mentioned in Wheat Studies and referred to above. I deal with them here to prevent any misunderstanding that may have arisen from my use of the quotations from Wheat Studies.

Another point I think worth mentioning is that small pools seem capable of doing satisfactory work. Thus, during the years of voluntary pooling, when only about 20,000,000 bushels in all were handled, the prices realized were considerably higher than the extremely low prices reached during a part of the period, notably in December, 1932; the pooling members were thus protected from the worst extremes of the world price depression.

CHAPTER VII

PRICE STABILIZATION MEASURES

I have already stated the circumstances under which Mr. John I. McFarland became manager of the Central Selling Agency in November, 1930. The responsibility which rested upon him was heavy at the start but became greatly increased in the summer of 1931 and onwards until he resigned from office in December, 1935. The work which he carried on was of an exceptional character and he was virtually in sole command of the policy pursued. This policy has been the subject of much discussion in Canada, in the United Kingdom and on the continent of Europe. I think it well, therefore, as an introduction to quote what Mr. McFarland himself says of the circumstances in which he accepted office and the motives which inspired him:

> "When the price structure completely collapsed in November, 1930, I was urgently requested by the directors of the Canadian Co-operative Wheat Producers Ltd., to accept the position as general manager of that company. Their request was ardently supported by the officers of the Canadian Bankers' Association, and by the prairie premiers. I was most reluctant to re-enter the grain business in any capacity or under any conditions; besides the great depression was on and my own affairs were in need of my personal attention. It was pointed out that, as I was one of the very few grain men who at that time was in no manner connected with the grain business, it was my duty in that national emergency to accept the position. Under the circumstances I finally consented and, subject to certain conditions, I accepted the responsibility for one year. At the expiration of the first year the world situation was even worse and more hopeless. The question was asked why did I not quit at the end of the first year? My answer was that only a coward could quit, and having started I could not turn back.
>
> "Because of the unusual conditions prevailing at that time and afterwards, I preferred that I should not be bound by the restraints which might be considered applicable to a paid employee, and I therefore refused to accept any remuneration from the Canadian Co-operative Producers Ltd., other than my out-of-pocket expenses. It was generally believed to be an emergency which many prominent people believed would be of short duration. My chief interest was to encourage and endeavour to maintain confidence at home and abroad."

One of the first steps Mr. McFarland took upon assuming office was to withdraw the Pools' overseas representatives and to arrange to conduct business through the ordinary trade channels. He published in the press a statement which indicated his policy in this regard:

> "Recently there was held at London, England, an Imperial Conference representative of all the nations of the British Commonwealth. One of the major problems discussed was the possibility of widening the market within the Empire for Empire products. Much attention was given to the marketing of wheat in the United Kingdom and elsewhere throughout the Empire, either as grain or flour. Discussions are to be resumed at Ottawa during this coming year. It is hoped that something definite and concrete will be accomplished at that time for the benefit of producers throughout the British Dominions. In the meantime it is important to do all within our power to win the confidence and goodwill of British importers and millers, so that Canada may be in the strongest possible position to take advantage of any opportunity that may arise for consolidating its position in the market of the United Kingdom and Ireland, as well as in Europe and elsewhere. To that end it has been considered advisable to withdraw our direct representatives from overseas. This should demonstrate beyond the possibility of doubt the truth, or otherwise, of the statements frequently made that the maintenance of direct representation overseas has militated against the sale of Canadian wheat.
>
> "I do not hesitate in taking this action, as I am confident it is the duty of this great organization of farmers to take steps such as will assist in removing from the minds of the grain and the milling trades abroad, and in Canada as well, from the public mind, a prejudice which has unwittingly become prevalent that the Pool's policy was designed to combat the world and plough a lone furrow to the detriment of the consumer abroad and to the grain and milling trades in general. There is no doubt that this sentiment prevails overseas.
>
> JOHN I. McFARLAND,
> *General Manager, Canadian Co-operative Wheat Producers Limited.*"

I have already shown that when Mr. McFarland took charge of the Central Selling Agency in November, 1930, there were on hand 36,935,000 bushels of Pool wheat with deliveries still to come in during the crop year. At the end of the crop year he had a carry-over of 75,164.000 bushels of which 47,555,000 consisted of futures and 27,609,000 bushels of cash wheat.

In the meantime conditions in the grain trade were getting worse instead of better. The depression was becoming more and more extensive.

The statement made before the Stamp Commission on behalf of the Pools has already been quoted from.

The Pools said:

> "we do not for a moment contend that the present extremely low price of wheat is due to the system of futures trading, as we are well aware of the many important factors each of which is partly responsible for present deplorable prices."

But special reference was made to the absence of the speculator:

> "the failure of the institution of speculation to assume anything like the risk carrying function so commonly attributed to it";

—and to the fact that

> "the general public has lost enormous sums of money, and confidence as well, and are not at present in the market with sufficient resources to carry the risk of price fluctuation by buying hedges and whatever contracts may be offered by short sellers."

As the months went on, fears were entertained for the selling of the new crop then maturing. Reference has already been made to a meeting in July, 1931, of the Select Standing Committee of the House of Commons on Agriculture and Colonization. On that occasion the Pools again gave expression to views similar to those submitted to the Stamp Commission and representatives of the Grain Exchange were also heard. The absence of the speculator was given as the principal ground of apprehension and the proposal was made that government intervention of some kind should be authorized to meet the probable disastrous effect on prices which would result from an excess of selling over buying trades by hedgers.

The result was that purchases of futures intended to "stabilize" or "support" prices were begun by Mr. McFarland in July, 1931.

The following table will show the extent of Mr. McFarland's stabilization operations from time to time and the result at the end of the period.

FARMERS' MARKETINGS OF WHEAT IN PRAIRIE PROVINCES, GROSS PIT PURCHASES AND SALES OF CANADIAN CO-OPERATIVE WHEAT PRODUCERS LTD. SPECIAL SUSPENSE ACCOUNT AND HOLDINGS IN THIS ACCOUNT AT END OF CROP YEARS.

—	Farmers' marketings	Special Suspense Account, Canadian Co-operative Wheat Producers Ltd.	
		Gross pit purchases	Gross pit sales
	(000 bushels)	(000 bushels)	(000 bushels)
1931			
July	5,436	3,178	–
August	11,862	1,740	–
September	47,441	3,428	–
October	76,321	2,510	–
November	41,735	–	2,105
December	18,768	–	–
1932			
January	10,851	–	–
February	12,245	–	–
March	12,948	1,050	315
April	5,982	445	610
May	7,514	520	155
June	16,274	8,356	4,022
July	3,238	12,993	2,085

HOLDINGS IN SPECIAL SUSPENSE ACCOUNT AT JULY 31, 1932—23,602,000 BUSHELS.

1932			
August	17,634	679	21,430
September	120,539	2,680	10,922
October	81,038	64,260	657
November	38,122	15,247	1,820
December	18,486	5,512	1,429
1933			
January	11,299	1,187	–
February	11,544	270	–
March	20,849	–	4,509
April	10,313	840	1,485
May	10,849	–	850
June	19,465	300	2,128
July	10,523	31,772	27,817

HOLDINGS IN SPECIAL SUSPENSE ACCOUNT AT JULY 31, 1933—73,297,000 BUSHELS.

1933			
August	25,624	5,496	2,877
September	55,586	29,736	2,079
October	46,414	27,880	1,728
November	23,011	7,175	3,890
December	10,293	1,156	757
1934			
January	10,422	1,080	1,299
February	8,263	1,340	3,851
March	9,087	850	10,010
April	7,349	45	13,721
May	8,338	263	12,459
June	12,314	4,738	2,466
July	10,937	8,268	6,067

FARMERS' MARKETINGS OF WHEAT IN PRAIRIE PROVINCES, GROSS PIT PURCHASES AND SALES OF CANADIAN CO-OPERATIVE WHEAT PRODUCERS LTD. SPECIAL SUSPENSE ACCOUNT AND HOLDINGS IN THIS ACCOUNT AT END OF CROP YEARS—*Concluded*

HOLDINGS IN SPECIAL SUSPENSE ACCOUNT AT JULY 31, 1934—100,120,000 BUSHELS.

—	Farmers' Marketings	Special Suspense Account, Canadian Co-operative Wheat Producers Ltd.	
		Gross pit purchases	Gross pit sales
	(000 bushels)	(000 bushels)	(000 bushels)
1934			
August	30,775	12,135	6,597
September	55,583	24,430	456
October	30,816	30,445	1,021
November	25,402	842	1,205
December	12,514	265	125
1935			
January	3,874	25	57
February	8,816	387	510
March	8,129	254	500
April	6,577	507	6,127
May	5,626	4,250	1,394
June	9,334	330	7,044
July	12,586	2,637	10,749

HOLDINGS IN SPECIAL SUSPENSE ACCOUNT AT JULY 31, 1935—137,573,000 BUSHELS.

1935			
August	13,256	1,620	5,314
September	73,176	8,116	9,894
October	59,999	400	1,759
November	21,044	–	–
December	14,217	–	–

HOLDINGS IN SPECIAL SUSPENSE ACCOUNT TRANSFERRED TO CANADIAN WHEAT BOARD AS OF DECEMBER 2, 1935—130,409,000 BUSHELS.

N.B.—The purchases and sales exclude spreading transactions.

Apart from the Special Suspense Account, there was the 1930 Pool wheat accumulated during the crop year 1930-31 and amounting at July 31, 1931, to 75,164,000 bushels and at August 31, 1931, to 76,648,000 bushels. The total amount of these holdings did not vary significantly throughout 1931-32, 1932-33, 1933-34 and 1934-35, being 76,370,000 bushels at July 31, 1932, 76,375,000 bushels at July 31, 1933, 76,117,000 bushels at July 31, 1934, 76,115,000 bushels at July 31, 1935, and 74,778,000 bushels when taken over by the Canadian Wheat Board as of December 2, 1935.

"PEGGING" OF WINNIPEG PRICES

Mr. McFarland says that in the fall of 1932 he "attempted to support the market at 50 cents" (p. 101 Evidence, 1934 Banking and Commerce Committee). This was unsuccessful as his credit was exhausted on October 25 and the price fell. This was not strictly a price peg.

On August 14, 1933, at Mr. McFarland's request, an order of the Winnipeg Grain Exchange prohibited trading in the October future below 70⅛ cents a bushel. The price then remained at or slightly above this figure but from September 8 to 13 all trades were made at the pegged level. Mr. McFarland had to buy heavily (14,653,000 bushels) in order that hedging could be done. On September 15, the peg was removed and the

October future price fell during the next 30 days to 54¼ cents on October 16, despite net purchases of 31,756,000 bushels by Mr. McFarland.

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

Effects of Stabilization

As to the effect of price stabilization measures on overseas markets, I must say that the unanimous opinion obtained from millers, merchants and traders was unfavourable to the system. They all expressed the belief that its results were injurious to the sale of Canadian wheat in the market. The market dislikes selling monopolies or near-monopolies, the retention of wheat from sale, or anything which looks like an attempt to secure prices out of line with those paid currently to other sellers. They blamed the stabilization measures for all these things.

On the other hand Mr. McFarland had some valuable approval of his policy at least in so far as his actions resulted in giving producers a higher price than they would otherwise have received. One of the outstanding figures in the British grain trade was the late Sir Herbert Robson. Certain correspondence between Sir Herbert Robson and Mr. McFarland (Ex.380) shows that the former approved of the latter's activities. Particular reference is made to a statement made by Sir Herbert Robson in a letter written by him on April 4, 1935, where he says:

> "I most emphatically agree with you that it would have been impossible for the organized Winnipeg market to have carried the burden of hedges in Canadian wheat without complete disaster to the three Canadian Western Provinces. Further, with free and open markets there would not have been a solvent wheat farmer left in any part of the world. Every single Government has had to assist its wheat farmers. The measure of assistance given in Canada seems to me to be far less than that given anywhere else. It is therefore to my mind ridiculous for anyone to complain that the Canadian Government has supported the wheat market."

The trouble begins when the overseas consumer is asked, in turn, to pay these relatively high prices for Canadian wheat.

Stabilization was begun in abnormal times. Speaking of such times, the Stamp report says at page 70:

> "In abnormal times conditions exist for working this system of futures and, indeed, any rival systems of handling grain, on unusual lines, and no inferences drawn from the practical observation of the behaviour of prices and of markets at such times have any necessary validity as indications of the economic value of futures

in normal times. It is at such times that some features of the futures system may be most open to criticism, and it is at such times that the disposition to criticize will be most excited, but it is precisely at such times that fair tests of the normal working of the futures system can least satisfactorily be made."

The abnormality of the times in the summer of 1931 and afterwards was evidenced by the absence from the futures market of the speculator, and initially, it was this fact that led to the institution of Mr. McFarland's activities as a buyer of futures. The policy of withholding supplies was not necessarily bound up with that of buying futures. It was rather this withholding of wheat from the market, giving rise to a fear among buyers of an attempt to extort unreasonable prices, that led to the criticism overseas, and caused consumers to turn elsewhere for their requirements.

In any event, stabilization was an exceptional incident in the Canadian grain trade resulting from the misfortunes of the Pools and the unprecedented world-wide depression. It is to be hoped that similar conditions will not occur again. If they do it may be better to meet them by some other form of intervention. Mr. McFarland had an unusually heavy burden thrown upon him,—a series of years of unprecedented character, with no guide to be found for him in the past experience of the grain trade. The example of the United States Federal Farm Board was not of much use, because the work of that Board, as it said in its third annual report, was "to throw the full weight of its resources in support of domestic prices." But the domestic price problem in the United States, with the great bulk of the crop necessarily consumed at home, is a different thing from the problem of a Canadian price for wheat by far the greater portion of which has to be sold in other countries in competition with other wheats. The probable effect of our policies upon overseas markets is a consideration we must always keep in view.

From the financial point of view the policy of piling up immense holdings was naturally a hazardous one. There was no saying how it might turn out. Mr. McFarland agreed that the success of the holding policy depended on Nature reducing the surplus by short crops. He said, "I think we should depend somewhat on nature, I do."

I have already shown how this "stabilization" wheat was finally disposed of by the Canadian Wheat Board at a net profit of $9,628,881.23 after four years of disastrously small crops. (See Chapter III, page 38.)

The Conclusion of Stabilization Operations

"The Canadian Wheat Board Act, 1935," came into operation on July 5, 1935. The members of the Board were appointed on August 14, Mr. McFarland being appointed Chief Commissioner. He continued also as General Manager of the Canadian Co-operative Wheat Producers Limited. The Wheat Board's initial payment on deliveries of the 1935

wheat crop was announced on September 6 and on the 25th the Board commenced to receive deliveries of such wheat.

Section 7 (*f*) of the Act authorized the Board

"to acquire from Canadian Co-operative 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."

Section 8 of the Act defines the duties of the Board, special reference to the sale of wheat being found in paragraphs (*b*), (*c*), (*i*), (*j*). These paragraphs are as follows:

"8. It shall be the duty of the Board:

(*b*) 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;

(*c*) to sell and dispose of stocks of wheat and contracts for the delivery of wheat acquired from Canadian Co-operative Wheat Producers Limited and the wheat represented by such contracts as may be reasonably possible, having regard to economic and other conditions;

(*i*) in selling and disposing of wheat as by this Act provided, to utilize and employ without discrimination such marketing agencies, including commission merchants, brokers, elevator men, exporters and other persons engaged in or operating facilities for the selling and handling of wheat, as the Board in its discretion may determine;

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

The Act was apparently intended to terminate stabilization operations. It provided a Government-controlled and financed voluntary pool, so that any farmer dissatisfied with the price available under the unrestricted open market could deliver to the Board and be sure of getting not only a Government-guaranteed price, but a share in any surplus in case the Board should succeed in selling the crop at higher prices. There was thus no need for stabilization purchases in the autumn of 1935, and the Board itself was forbidden to make open market purchases by paragraph (*b*) of section 7 which provided that "no wheat shall be purchased by the Board except from the producers thereof." But the Act not only ended further stabilization purchases, but provided by section 7 (*f*) above quoted for the disposal of stabilization holdings.

An agreement between the Canadian Co-operative and the Board was entered into on October 8, 1935, and ratified by Order in Council P.C. 3199, dated October 10, 1935, providing for the transfer of the stabilization and old Pool wheat to the Board in pursuance of the Act. The transfer of the stabilization wheat had not been effected by December 2, 1935, the date of Mr. McFarland's resignation as Chief Commissioner of the Wheat Board although negotiations were under way. The relations between the stabilization agency (which was what the Canadian Co-operative had virtually become) and the Wheat Board were very intimate, however, by reason of the transfer of staff, of high officers of the one being also high officers of the other, of the use of the Canadian Co-operative's membership in the Clearing House for clearing the futures trades of the Wheat Board, and of the fact that Mr. McFarland, who was in complete charge of stabilization, was also Chief Commissioner of the Wheat Board.

However, since the actual transfer of holdings was not formally completed, Mr. McFarland, who as Chief Commissioner of the Wheat Board was forbidden by statute to make purchases of futures in the open market on behalf of the Board, nevertheless felt himself free to do so as manager of the stabilization agency. Stabilization operations from the 1st of August were as follows (000 bushels):

1935	Sales of 1930 Pool Wheat	Stabilization			Total holdings at end of month
		Pit purchases	Pit sales	Other sales (net)	
August	425	1,620	5,314	*(214)	209,783
September	626	8,116	9,894	270	207,109
October	259	2,009	3,458	159	205,332
November	147	nil	nil	120	205,065

*Acquisition, not sale.

At November 30, therefore, the holdings of the stabilization agency (including 1930 Pool wheat) were 205,065,000 bushels; at the same date the Wheat Board held 90,189,187 bushels, so that the combined holdings amounted to 295,254,187 bushels.

During this period of August, September and October, when stabilization operations were continuing, country deliveries were 145,670,535 bushels and deliveries to the Board were 63,789,477. Evidently a part of the country deliveries not received by the Board was still held by farmers, for in November the Board received 38,977,378 bushels although country deliveries were only 21,043,204 bushels. The decline of the market price in late October below 87½ cents also indicates that speculators who had bought the non-Board wheat at more than 87½ cents were taking a loss—for no farmer's wheat, presumably, would be hedged when the price was less than what the farmers could get by delivering to the Board.

Mr. McFarland's Operations under the Canadian Wheat Board Act, 1935

Mr. McFarland started his operations under the new Act on September 12 by making sales on the futures market. In the four month period August to November, country deliveries amounted to 167,475,000 bushels, of which the Board received 102,766,855 bushels (Exhibit 428). Net sales during the same period amounted to only 12,577,668 bushels. While considerable quantities of cash grain were sold (34,960,668 bushels), futures were acquired in exchange to the extent of 34,778,000 bushels. It has been pointed out earlier in this chapter that market prices for cash wheat remained above the initial payment of the Board until late October. With such prices prevailing and having in mind heavy deliveries to the Board, it is hard to conclude that the intentions of the Act (particularly Section 8 (*j*)), were carried ont.

Operations in Coarse Grains

Mr. McFarland was also examined on his handling of coarse grains belonging to the Pools and it will be well to refer briefly to these transactions. With the exception of one occasion, hereinafter referred to, there were no open market purchases of any of the coarse grains oats, barley, rye and flax during the period of stabilization operations.

When Mr. McFarland became general manager, the Canadian Co-operative was conducting the usual pools in these grains. Mr. McFarland stated he left these matters in the hands of the regular coarse grains department of the Company at first, he himself not exerting direct authority until the end of July, 1931.

> "From that time on we did no stabilizing or anything else" (evidence p. 7304).
>
> "None of the coarse grains were at any time stabilized" (evidence p. 7398).

The Pool had received these grains in 1930-31 at varying initial payments, as in the case of wheat, the initial payment being lowered on one or two occasions as the market prices progressively declined. Since no surplus accrued from sales during 1930-31, it followed that different Pool members had received different prices. Accordingly, said Mr. McFarland:

> "We were holding the oats, the barley, the rye and the flax, trying to wait for a time until probably the market might be good enough so as to sell it and get back for those farmers who had received a low initial payment enough to bring them up on a level with those who had received the highest payments." (Evidence p. 7304.)

Only small quantities were left.

> "There was not any volume at all, and it was a matter of holding with the possibility of securing for the lower price farmers

something in the shape of a payment that would even up with the higher price farmers." (Evidence pp. 7388-89.)

Here it may be mentioned that all Dominion Government guarantees always referred to "wheat and other grains" so that there was as much legal authority for stabilization operations in coarse grains as in wheat. Mr. McFarland maintains, however, that there was in fact never any stabilization.

The quantities of coarse grains held by the Company are set forth below (carry-over being given as at August 31, the end of the Pool fiscal year):

	Delivered to Pool by members during 1930-31	Remainder of 1928 and 1929 crops, all sold during 1930-31	Total quantity to be sold	Sales to end of November 1930	Sales from Dec. 1, 1930 to Aug. 31, 1931	Unsold at Aug. 31, 1931
	(000 bush.)	(000 bush.)	(000 bush.)	(000 bush.)	(000 bush.)	(000 bush.)
Oats	5,317	1,618	6,934	1,677	3,973	1,285
Barley	6,356	4,594	10,950	3,759	5,439	1,752
Rye	2,257	984	3,241	1,353	1,130	758
Flax	1,431	284	1,715	651	659	405

All the carry-over from 1928 and 1929 was sold by the end of July, 1931, so the unsold carry-over at August 31, 1931 was entirely 1930 crop. Of this amount, Mr. McFarland spoke as follows (evidence p. 7399):

> "We were simply holding a small quantity which was left over from the fall of 1930 as at August 1, 1931" (this should be August 31); "we were simply holding those, which could have little, if any, effect on the market . . . I can see no evidence in the figures of the quantities we held where it could in any measure be said that it was stabilization of prices in coarse grains."

It thus appears, according to Mr. McFarland's evidence, that in the case of the coarse grains, unlike that of wheat, action was taken only for the benefit of members of the Pools. The policy was to hold until prices rose, in the hope of realizing a profit.

In carrying out this objective, the sales policy adopted seems to have been fairly successful in the case of rye and flax, but not in the case of barley and oats.

The rye was sold in November, 1931, March, 1932, June, 1933, and July, 1933, at prices very much higher than those ruling during the year 1930-1931. Likewise the flax was sold in May, June and July, 1933, at substantially better prices than those of 1930-31. In both cases a surplus was realized over the amounts paid out as initial payments, and the costs of carrying the grain until sale.

In the case of barley, 152,000 bushels were sold during the price rise in November, 1931. In July, 1933, there were sold up to the 17th a total

of 1,318,000 bushels during the bull market which developed in coarse grains as well as in wheat. The net long position was only 280,000 bushels on that date. It is difficult to see why the 280,000 bushels were not sold either during the early part of the month, or on July 18 when prices were still strong, but on which day no sales were in fact made.

When the bull market collapsed, 396,000 bushels of barley futures were bought, and at prices higher than the previous cost of the barley on hand; total holdings were thus raised to 676,000 bushels. This was the only period in which purchases of any coarse grain futures were made in the market. These transactions were not profitable. The initial payments to Pool members for 1930 barley had been on the basis of 25 cents for No. 3 C.W. barley for 5,511,015 bushels and 20 cents for 844,352 bushels. In the spring and summer of 1931 cash prices were over 30 cents but sales tapered off, as already noted, and there was a carry-over of 1,752,000 bushels at the end of August. In November the average daily price was 42½ cents but sales were only 152,000 bushels. Again in April, 1932, the average price was 41 cents but no sales were made. Meanwhile carrying costs were mounting up. In July, 1933, the average price was 50¼ cents, and during the bull movement the daily prices were considerably higher. Sales and purchases at that time have been stated above. Ultimately the remaining 676,000 bushels were sold in July, September and October, 1935, when average prices were 35½, 35¾ and 33⅞ cents respectively.

With regard to the barley transactions in July, 1933, Mr. McFarland said (evidence p. 7394) that they were very busy with wheat, and that in any event, he didn't think all the barley could have been sold (evidence p. 7395) since the market broke on the 19th. Specifically, with regard to the purchases after the break, he said that they had sold too much July futures and had gone short 396,000 bushels, and that they had to cover this by purchases. There seems to have been available, however, the other recourse open to a short-seller, namely, to deliver actual grain in pursuance of the sales contract. On July 18 the agency held 678,000 bushels of cash barley that could have been delivered, being part of deliveries which it itself had received through the Clearing House earlier in the month.

In the case of oats, final disposal resulted in the securing of a price less than what had been paid Pool members plus carrying costs. Of 5,317,795 bushels of 1930 Pool oats, 823,917 bushels had received an initial payment of 30 cents basis No. 2 C.W. oats, and 4,493,878 bushels had been paid on the basis of 25 cents. At August 31, 1931, there remained unsold 1,285,000 bushels. The market price had been under 30 cents since the previous November. In May, 1932, the month's average cash price was 35½ cents but no sales were made. About the same average existed in July and sales were 18,000 bushels. As with other grains there were comparatively high prices in July, 1933, and also in August in the case of oats, but no sales were made. In the autumn of 1934 there was another price rise, the average price in September being 45¾ cents, but there were still no sales. Ultimately 302,000 bushels were sold in July, 1935 (average

cash price 42¾), 729,000 in October (34 cents) and the remaining 238,000 bushels in November when the average price was 31⅞ cents.

Mr. McFarland said he doubted if prices in July, 1933, were high enough to permit equalization of payments to Pool members (evidence p. 7388), although perhaps they were at the peak, that he was very busy with wheat and "may have overlooked a point there" (evidence p. 7389). He also pointed out that most of the oats on hand were No. 2 C.W. and fit for seed, and said that in the autumn of 1933, and again in 1934, he was holding them in case they should be required for relief purposes, at the request of the Saskatchewan Relief Commission and with the approval of the Dominion Government (evidence p. 7390). As events turned out, these oats were not needed for seed relief. He doubted if prices in the autumn of 1934 were high enough to permit a surplus over the original initial payments plus carrying charges (evidence p. 7392).

As was the case with the barley, the oats were sold out in the autumn of 1935 because the Wheat Board was going to take over the Company's wheat (evidence p. 7392), but was not authorized to take over the coarse grains.

Chapter VIII

THE QUALITY, GRADING AND HANDLING OF CANADIAN WHEAT

Under paragraph four of the Order in Council, I am directed to inquire into "The effect of the practice of mixing and of the selection of grain for protein content by millers and exporters."

The main evidence against the practices of mixing and selection was presented to the Commission by Dr. W. R. Motherwell, M.P., at Regina and by Mr. John Glossop of Santa Monica, Cal., formerly in the employ of the Canadian Government and the McCabe Grain Co. at Port Arthur, Ont. Subsequently, officials of the Board of Grain Commissioners appeared before me to report upon the measures taken to prevent mixing and also upon the prevalence and effects of selecting wheat for protein content.

Other complaints and suggestions regarding the quality, grading and handling of Canadian wheat were heard both in this country and overseas and it has been thought advisable to treat them all under the general heading assigned to this Chapter.

The stage may be set for such a discussion by a brief description of the variable conditions under which wheat is grown in Western Canada and the methods by which the wheat is graded and handled under the Grain Act and the regulations of the Board of Grain Commissioners.

Basic Differences in Quality

Wheat is grown in the Canadian West under a considerable variety of soil and climatic conditions which is the essential cause of variation in the product. The southern short-grass plains are typified by a combination of limited rainfall, high day temperatures, cool nights and favourable soil conditions for the production of hard, high-protein wheats of great strength. With a longer growing season free from damaging frosts, these areas can concentrate on the best varieties such as Marquis, Reward and Red Fife. Further east, mostly in the Red River Valley of Manitoba, the threat of rust has led to the production of a high proportion of Durum wheats. (This type of wheat is used in the manufacture of semolina, macaroni and like products and only rarely and sparingly in the making of bread flours.) Along the northern park belt and the northwestern fringe of the Alberta foothills, there is commonly more moisture in the soil and also different atmospheric conditions which tend to delay ripening and reduce the percentage of protein. The soils of this area, especially those of the grey-wooded type, are also not so well adapted to high protein wheat production. In addition, as was pointed out in evidence, the lower quality of wheat in these areas is accentuated by the fact that the variety Garnet

finds its greatest concentration there. As stated by witness Dr. A. G. McCalla, Research Assistant, Associate Committee on Grain Research, Department of Field Crops, University of Alberta, at Edmonton:

> "the protein content of Garnet in every zone is less than for any other variety, furthermore, the loaf volume for Garnet in every zone is less than for any other variety and very substantially less." (Evidence p. 5093.)

These differences in the product constitute a natural handicap to any system of grading. The basic lack of uniformity cannot be entirely removed. The objective is to achieve the best possible result in conjunction with the economical methods of bulk handling.

Grading and Recent Difficulties

The Canadian system of grading is based upon a physical examination of such factors as weight per measured bushel, varietal content, percentage of hard, vitreous kernels, degree of soundness, and amounts of foreign material and wheats of other classes. The minimum requirements of each statutory grade are set out in the Canada Grain Act. The standards of commercial grades are fixed by the Grain Standards Board as it meets each year. As explained by Mr. E. B. Ramsay, Chief Commissioner of the Board of Grain Commissioners (evidence p. 12753), protein content—

> "is not mentioned specifically in the legal definitions of the grades, but in a rough and ready way it is recognized by the percentage of 'hard red vitreous kernels' necessary to permit wheat to be allotted to any specific grade."

As the basis of the grades, standard samples must be set early in the crop year; variations above these standards within the grades occur as a result of the basic climatic and geographical factors outlined above. Mr. Ramsay pointed out (evidence pp. 12756-7) that western Canadian wheat is graded to the highest standards in the world.

> "It is not until you come into the neighbourhood of Manitoba 3 Northern that you reach the price level of competing wheats graded under other methods or shipped on the f.a.q. system."

Separate export standards have been in force since 1930, being 75 per cent of the average quality of the grade passing the initial inspection points and 25 per cent of the minimum of the grade, the standard sample. There is, of course, a wide variation in the protein content within the grade at primary inspection. During the bulk handling system this variability is reduced before shipment. (The matter of variation within the grades is considered again under Overseas Criticism on page 114.)

In recent years, it must be acknowledged that two factors have been unusually prominent in their effects on the Canadian grading system. In

the first place, the carry-overs built up from successive crops in the period 1930-1935 were from different crops graded under different standards and were being shipped overseas concomitantly, especially in 1936. Of this, Mr. E. B. Ramsay (evidence p. 12756) said:

> "The Canadian grading system is further primarily based on an annual clean-up of each crop as it occurs so that the recent situation in respect to accumulated carry-overs has probably occasioned more unrest with the buyers than would otherwise be the case where the annual standard actually represented the wheat being shipped."

This undoubtedly caused more variation than usual. Secondly, there is the fact that in greater or less degree in the years since 1928, the southern areas producing the highest quality, highest protein wheat have been ravaged by drought and in 1935, by rust. Near-average crops of this period were in 1930 and 1932; since the latter date, with drought persistent in the south, the northern areas producing wheat of lower protein content have supplied an unusually high proportion of the western output. This has reduced the average quality of shipments, especially those out of Vancouver. Vancouver, as was pointed out in evidence, drains a territory where lower quality wheat is a high proportion of the total. The same area is also characterized by high percentages of Garnet wheat in the crop. This recent shift in production, which we hope and expect is temporary, has also tended to increase variation within the grades, especially those into which Garnet has previously been admitted.

In normal seasons, the resultant lower protein content and variation within the grades are most evident in the lower grades. The higher grades from the south of the province usually go through without much admixture with Northern Alberta wheat, simply because a smaller fraction of the Northern-grown wheat enters these higher grades.

The Place of Canadian Wheat in Domestic and Foreign Milling Practices

The particular quality of Canadian wheat that makes it desirable is strength. This quality renders it

> "particularly suitable for counterbalancing deficiencies in the gluten quantity and quality of weak wheats." (Dr. Geddes, evidence p. 704.)

The lower grades of Canadian wheat are relied upon not so much for strength but as valuable fillers to increase diastatic activity or gassing power.

The Canadian mills, it is evident, use wheat of the highest grades for the domestic market. United States millers also take the highest grades under the milling-in-bond for re-export privilege because of a specialized export demand for high quality flour. In years when the

United States must import for consumption, the tendency is also to buy the higher grades when a 42 cent tariff has to be paid. Overseas millers commonly use the higher grades of Canadian wheat for blending purposes. Canadian wheat is rarely used exclusively in a grist because of several factors in the baking trade, notably the short fermentation process, baking in pans to support the sides and the "working" of cooler doughs. Such methods make possible the use of weaker and cheaper flours and reduce the necessity of strong wheat content in the flours. In Scotland, a much higher proportion of Canadian wheat is used because of different baking methods and the higher quality bread desired by the consumer. European millers use Canadian wheat for blending in much the same way as the English miller, although in more limited quantities. The need for strong wheats is greater in most European countries because of the enforced use of weak, domestic wheat, but with present import restrictions the use of Canadian wheat is limited.

There are two counteracting factors influencing the demand for Canadian wheat. On the one hand, the increased use of home-grown wheats, low in protein makes an added demand for strong wheat, such as Canadian, to maintain quality. On this point, Dr. J. H. Shollenberger, who made a special study, reported:

> "The quality requirements for foreign wheat in European markets will tend toward higher levels in the future. In other words, the demand for strong-quality wheats will be even more insistent than in the past, with the result that price differences on account of quality will be more marked." ("Wheat Requirements in Europe." Technical Bulletin No. 535, U.S.D.A., September, 1936, Exhibit No. 679.)

Or, as Dr. Geddes phrased it (evidence p. 877):

> "the one encouraging feature is that with the increased production of weak wheats in Europe the demand will be for high quality wheat and from that standpoint, it is more than ever essential that in Canada our quality must be maintained if we wish to retain our share of the export market or if we wish to secure a larger share."

On the other hand, the trend toward the short baking process and accompanying methods reduces the need for strong flours. Dr. Geddes concludes that:

> "The result of this trend will inevitably be a reduction in the purchases of Canadian wheat." (Evidence p. 795.)

It was carefully pointed out in evidence that in England, uniformity was considered more important than high quality, strong flours. Bakers' methods are standardized and any change in flour quality (even an improvement in strength) may lead to poorer quality bread. This uniformity is secured by skilful blending, using different proportions of

the various wheats in accordance with their relative supply and cheapness. Argentine and Australian wheats are commonly regarded as "fillers" and as such, used in quantity when available in much the same manner as domestic wheats. The Argentine wheat preserves a balance between strong and weak types, while Australian wheat is valued as having high bushel weight and flour yield and good flavour and colour (evidence pp. 706-7). Canadian wheat is regarded as desirable, but not essential and the—

> "quantities included in the mill mix depend upon several factors among which price is important" (Dr. Geddes, evidence p. 719).

Criticism Within Canada

Complaints from farmers regarding the grading system were much less marked than has been the experience of previous Commissions. There was a feeling that farmers in the southern areas were not getting full advantage of the higher protein and lower moisture content of their wheat. There was also a suspicion of the practice of diverting cars of selected wheat to mills in Canada and the United States. Resulting from this view there were ideas that the farmer did not always secure premiums resulting from diversion and that the quality of overseas shipments was lowered thereby. There was a definite complaint from farmers of the Peace River country on the grading of the 1937 crop. Chemists generally were alarmed at the high proportion of the variety Garnet in northern wheat and were critical of the baking quality of resultant flour. While mixing is now restricted under the Canada Grain Act to grades below No. 3 Northern (Section 125), both general and specific complaints regarding this practice were heard. Mixing in the grades Nos. 1 Hard to 3 Northern is illegal. In these top, non-mixing grades, objection was taken to the practice of binning "tough" wheat with wheat of the same grade. This, we were told, was done under regulation of the Board of Grain Commissioners as an accepted and economical method of drying. In wheat grading below No. 3 Northern, mixing is legal and permitted, but, of course, it may be objectionable. The admixture of screenings was also deprecated, although it is difficult to see how this can be carried on when it is strictly illegal under Section 130 (Subsections (3) and (4)) of the Canada Grain Act.

The Evidence Heard

It seems necessary to introduce at this point a summary of the more important evidence submitted under the heading of this chapter.

Dr. L. H. Newman, Dominion Cerealist

The Dominion Cerealist, Dr. L. H. Newman, appeared before the Commission in Saskatoon to outline some of the agronomic problems of the western farmer and the steps being taken by the Government, in co-operation with other organizations, to provide solutions for these problems. The benefits of improved varieties and better seed were described and

stress was laid upon the value of the Crop Testing Plan in improving the quality of seed grain. In essence, the Crop Testing Plan is a co-operative linking of the Government and University workers with agents of six elevator companies, the objects being to test farmers' seed for purity and to improve the quality of seed sown. It has various ramifications. This, to my mind, is a scheme that deserves every possible encouragement and support. It is especially important in view of the efforts being made in other competing countries such as Argentina, Australia and Russia to increase the quality and uniformity of their wheat. Dr. Newman also traced the results of the development of new early, higher-yielding and rust resistant varieties of grain and left with us an impression of optimism regarding future possibilities.

The results of testing samples of outgoing cargoes of wheat for their varietal composition were given. According to Dr. Newman's conclusions, the "slight deterioration" in the quality of Canadian wheat noted recently is not alarming and is probably due to the greater proportion of northern wheat in the drought years. Dr. Newman also stated that the growing tests from cargo samples prove the ability of the grain inspectors to distinguish varieties and thereby keep the grades up to a high standard (evidence p. 1009).

The Canadian Seed Growers' Association

Mr. F. L. Dickinson, Vice-President, presented a well-documented and helpful brief for the C.S.G.A., describing their regulatory efforts in the development and distribution of pure, high quality seed. The Association is financed largely through a Dominion Government grant and very evidently serves a commercially useful purpose. A permanent Seed Purchasing Commission, similar to that which operated for a number of years (Report of Minister of Agriculture, Ottawa, 1913, Ex. No. 569) was advocated to help the financing of seed growers, to deal with seed shortages and to avoid, as far as possible, the use of unsatisfactory seed grain. It was pointed out (Ex. No. 570) that 80 million bushels of seed grain are used in Canada annually. Canada is fortunate in having strict regulations governing the production, multiplication and distribution of pure seed grain. In this connection, the greatest care is necessary to make sure that no new variety is licensed until fully tested and approved from the standpoint of quality. Because pure seed of good varieties is a basic consideration in obtaining a quality production and further because quality is so important in our export supplies, I have no doubt that the activities of this Association will always continue to receive the best consideration of the Government.

The Glossop Case

Mr. John Glossop of Santa Monica, California, appeared before the Commission at Vancouver. Mr. Glossop was formerly Superintendent of the Canadian Government Elevator at Port Arthur. After July 31, 1933, the elevator was leased to the McCabe Grain Co. by the Government and

Mr. Glossop became track-man for that company. He made certain specific complaints of irregularities in the handling of grain and the loading of vessels, while the elevator was leased by the McCabe Grain Co. Mr. Glossop had made notes at the time regarding these alleged irregularities, but it appeared on examination that most of his complaints concerned mixing in what was called in the evidence, "non-Government" grades. By this, is meant that the firm had, for their own purposes subdivisions of No. 1 Northern, for instance; they had their own grades such as "1 Select Northern, 2 Select 1 Northern and 1 Northern" within the Government grade, No. 1 Northern (evidence p. 4586). This was selection, rather than mixing, and, as will be pointed out later, selection is not prohibited by law. In other cases where Mr. Glossop mentioned mixing of "Garnet No. 2" with No. 1 Northern, such a mixture could not possibly pass inspection with a Garnet proportion of 16 per cent, according to Mr. Ramsay.

Mr. Glossop also complained of the mixing of tough with straight grade grain of the same grade. Mr. Ramsay pointed out that this is permitted under regulation of the Board (Ex. No. 607), mixing in reasonable amounts having been found to be the most satisfactory way of handling tough grain.

Mr. Glossop recommended that travelling auditors make surprise visits to elevators in addition to the year-end weigh-overs. He also thought that the Government inspector should watch bins and blackboard while an elevator is loading a boat. These and other suggestions will receive consideration under a later section on mixing.

Dr. W. R. Motherwell, M.P.

Dr. Motherwell, a former Minister of Agriculture, first in the Government of Saskatchewan and later in the Government of Canada, appeared before the Commission in Regina. Dr. Motherwell felt that protein selection resulted in impoverishment of "the great bulk of the wheat that goes overseas where we have the keenest competition" (evidence p. 7846). He believed that prices were thereby lowered because overseas buyers bid on what they have been getting, not on the statute or the samples. They usually go by the last load bought. (Evidence p. 7873.) He urged that this practice of selection for protein content be prohibited by law. He further objected to the practice of mixing tough and damp wheat with dry wheat of the same grade, and complained about elevators putting screenings in wheat to bring it up to the maximum permitted in the grade.

His definite views and recommendations on the matters dealt with in this chapter may be stated briefly, as follows:

(1) An objection to the practice of mixing dry and damp wheat in order to bring the latter into straight grades.

(2) A proposal that investigation be made into the moisture content of cargoes loaded at the Head of the Lakes.

(3) That the advisability of continuing to export No. 6 wheat be considered.
(4) A complaint that screenings are sometimes mixed into the grades.
(5) Recommended the automatic sampling of vessel loadings.
(6) Recommended supervision of binning and loading within the elevator.
(7) A proposal that the abolition of the Appeal Tribunals be considered. In Dr. Motherwell's opinion, this appeal is of very doubtful value.
(8) A complaint about what was called "switching certificates" at Montreal.

On examination of the evidence I find that the case given as an example was one that occurred in 1928 where a shipment was said to have gone forward accompanied by a certificate which did not belong to it. The law on this subject has since been changed. In 1933, in order to ensure the orderly despatch of grain from sea-ports, the Act was amended to provide for regulation by the Board of the delivery of grain to ocean vessels. At Montreal, when grain required for immediate shipment to ocean steamers is in canal boats in the Harbour or adjacent thereto, the Harbour Commissioners may deliver to such ocean vessel from their elevators grain of like quantity, kind and grade under guarantees satisfactory to them. While this practice may be open to abuse no complaints arising out of it have been made to the Board since the amendment was passed.

Dr. Motherwell regarded mixing and "protein poaching" with drought and soil drifting as the four scourages of western farmers.

Mr. D. M. Kennedy

This witness, who is from the Peace River area and, formerly, a member of Parliament for many years, appeared before me in Winnipeg (evidence p. 13597). He complained of discrimination against non-Garnet wheat in the 1937-38 grading and advocated some encouragement in the grading system to farmers who do not grow Garnet. Dr. Geddes reported that the reduction in grade complained of was due to bronzy-green kernels (a rather general characteristic of the 1937 crop) and to a greyish tinge in the resultant flour and bread.

Overseas Criticism

There were two main complaints from overseas sources against Canadian wheat and the grading system under which it is marketed. One was the matter of variation in strength within the grades and the other, the need of some more direct and satisfactory method of settling buyers' complaints.

With regard to the first criticism, we were advised by Dr. Geddes (evidence p. 727) that mill chemists—

"expressed the view that Canada should seriously consider ways and means of rendering different shipments of corresponding grades less variable."

It was pointed out, however, that Canadian wheat is grown under a wide range of soil and climatic conditions and that there are difficulties inherent in any grading system designed for the classification and transportation of grain in bulk. It was stated (evidence p. 736-7) that—

"the protein content of individual carlots of Canadian wheat may vary from as low as 8 per cent to over 20 per cent"

but that—

"the bulk system tends to reduce that variability."

Dr. McCalla (evidence p. 5126-8) felt that the relatively high proportion of wheat from northern areas (mostly of the Garnet variety) being exported from Vancouver—

"undoubtedly accounts for the large number of complaints with regard to lack of uniformity of Canadian wheat within grades during the past few years."

He recommended that Garnet be excluded from all the northern grades (evidence p. 5141). He felt that one purpose of the creation of separate grades for Garnet has been defeated by selling Garnet as 3 Northern. (Evidence p. 5144.)

Unfavourable comments regarding Garnet wheat were also made overseas by merchants and millers who appeared before this Commission. It was commonly stated to be the principal cause of complaints when unusual difficulties in milling and baking were encountered.

In England, members of the grain trade, replying to a question regarding their views on the Canadian grading system, said: (Evidence p. 10172.)

"The grading of Canadian wheats has not been regular and satisfactory in recent years. Export Official Standards are received in this country not truly representative of the actual shipments. When compared with samples of deliveries, Standards are sometimes so low that importers receiving inferior wheat have very little chance of compensation. The variety of wheat included in the modern Canadian grades is also a matter of serious complaint, as both the standards and the deliveries lack uniformity."

One prominent miller went further (evidence p. 10173):

"What happens is this, or what has happened is this, and I say it without fear of contradiction, that we have had deliveries of 'No. 1 Northern Manitoba' wheat that were no better than pre-war No. 3's. That is a big thing to say. . . . I think that your grading year by year has got worse and worse. (Mr. ————): I entirely agree."

This general complaint regarding our grading system was not borne out by the evidence of other witnesses, particularly those in Scotland and on the Continent.

Mr. Fernand Stuyck, of G. L. Stuyck and Company, Grain Merchants and Brokers, Antwerp, Belgium, when questioned on our grading system said: (Evidence p. 10177.)

> "The Canadian grading system is no doubt the most perfect that we have experienced in the last 25 years. It is very seldom that we have any complaint on the part of buyers. On the whole it gives full satisfaction."

Regarding the difference between the standards and the actual shipments, it was stated that importers bid for our wheat on the basis of the shipments they have been getting rather than on the standards and that therefore they are disappointed when they receive a shipment below their expectations but still above the standard. In Liverpool we were told: (Evidence p. 10177.)

> "Your export standard does not represent your crop. What is the good of it if it does not represent the crop?"

The standard, of course, is by definition a minimum of the grade, not an average. It represents in each case the lower limit of the grade. It was further pointed out in defence of the Canadian grading system that the crops of recent years had been abnormal. A high percentage came from the northern districts and disposition of the carry-overs made annual standards unrepresentative (evidence p. 12756).

My conclusion with regard to this lack of uniformity within the grade is that it has largely resulted from the undue proportion of the Garnet variety in the Northern grades and to abnormal growing conditions in the southern, high protein areas. For example, Mr. Eric Snodgrass, a Glasgow merchant, had this to say:

> "I detest Garnet wheat, the one wheat which has done more damage in Scotland to Canada's reputation is this Garnet wheat. Garnet wheat is useless from the point of view of the long process, and all our interest in buying Canadian wheat is to try and avoid getting any Garnet" (evidence p. 10442).
>
> Mr. COYNE: It has been suggested that you (we) should exclude Garnet from Nos. 3 and 4 and set up additional Garnet grades?
>
> A. That would suit me because my difficulty is to spot the kind of Canadian wheat I can buy which does not have Garnet in it. I never buy No. 3 or No. 4 from Vancouver, because I know that contains a larger proportion of Garnet than the Atlantic ones do." (Evidence p. 10443.)

Since this evidence was taken, segregation of Garnet from the Northern grades has been enacted by an amendment to the Canada Grain Act passed

at the present session of Parliament. If this legislative change, and the return of normal growing conditions, do not increase the uniformity of Canadian wheat within the grades, new consideration should be given to alternative methods now under study, involving minimum protein contents for each export grade.

Secondly, it was felt by some Old Country millers that the buyer's recourse in case of an unsatisfactory parcel or cargo was at present too indirect and unsatisfactory. The present method is by correspondence forwarded through the Canadian Government Trade Commissioner in London to the Board of Grain Commissioners for Canada. With competing wheats sold on a f.a.q. basis there are arbitration committees that handle such complaints on the spot. Members of the Glasgow Corn Trade Association advised me that there was less difficulty with South African grain, for which certificates final are also used. Mr. McDonald, one of their representatives said: (Evidence p. 10386.)

> "One thing about the South African Government, they are always very ready to meet claims if the quality is not in accordance with what it should be, and we have not found the same with the Canadian Government in one or two cases."

We were favoured by the Liverpool Corn Trade Association with samples of Nos. 1, 2 and 3 Northern from specified cargoes. These were submitted to the Board of Grain Commissioners and while variation was apparent, all were attested by the Chief Inspector to be above the standards of the grade.

Without a doubt, there seems to be a pronounced difference of opinion overseas regarding our grading system. A closer contact of the Board of Grain Commissioners with the buyers is advisable.

Protein Selection

There is no doubt that selection is a legal practice (evidence p. 12229) and, in the opinion of the Chief Commissioner of the Board of Grain Commissioners (evidence p. 12767), it is not deemed to be of major importance. This conclusion was arrived at after a comprehensive protein analysis of shipments through the various ports. Dr. Geddes concluded (evidence p. 12876) that selection by Western Canadian mills west of Winnipeg would not be noticed in the quality of overseas shipments. With the exception of New No. 2 Northern in 1935-36—

> "the data indicate that the wheat consumption of Eastern Canadian mills has a negligible effect upon the average strength of the wheat available for export abroad." (Dr. Geddes, evidence p. 12887.)

With regard to United States mills, however, the situation is different and there was definite evidence that United States mills had selected high protein wheat in Grades Nos. 1 Hard to 3 Northern (evidence p. 12888) and that over the period 1933-37, the United States shipments from Fort

William-Port Arthur were 0·15 percentage points higher in protein content than the Canadian shipments from the same ports. (Evidence p. 12895.)

Dr. Geddes believed that even this definite evidence of selection was "insignificant statistically, comparing Fort William and Montreal" (evidence p. 12895). He proceeded to say (evidence pp. 12902-3):

> "There is a definite high protein requirement for certain interests in the United States. We have made a study of certain markets, for example, certain flour markets, and the protein content of the flour has to be, we find, from 14 to 14·2 per cent, which means that that flour is milled from wheat running about at least 15 per cent protein, and these shipments are made from Buffalo, and it is known that Canadian wheat is bought for that purpose, to make that special flour for certain markets.
>
> Mr. MILLIKEN: Domestic or export?
>
> WITNESS: It is export.
>
> Mr. COYNE: They would not buy Canadian wheat at all if they were not getting an especially high protein wheat?
>
> WITNESS: Well, I suppose to a certain extent, yes.
>
> Q. Well, if you say they are buying Canadian wheat because they need it for a special purpose—
>
> A. It is a special market, and they come up here to get it.
>
> Q. If they could not get a wheat that satisfied their special purposes there would be no point in their buying Canadian wheat?
>
> A. I think that is true, yes.
>
> Q. And we would lose this market, which from the point of view of Canada itself is an export market.
>
> A. I think so, yes. These are market questions."

Because of drought in the high protein areas of the Canadian West and the deficiency of high protein wheat in the United States, the effect of wheat selection in these years (1933-37) would be expected to be greater than the long term average (evidence p. 12915).

PROTEIN SELECTION AND PREMIUMS

The question of distributing premiums for high-protein wheat is a troublesome one under the bulk-handling system. Only a very limited overseas demand for shipments of a special protein content has developed, some orders of French origin being mentioned in evidence. The main demand comes from North American mills and these orders are particularly keen in years when the United States crops of hard red spring or hard red winter are short. It is from such demand that protein selection and car diversion have begun. With these practices, there has developed the need for acquainting farmers with the value of their wheat. It is by no means certain that the enhanced prices or premiums of such wheat are carried back to them. This is particularly true of farmers selling in less than carload lots on the basis of street prices.

The same lack of knowledge on the part of farmers was evident in the United States prior to about 1923 and described in U.S.D.A. Misc. Publ. 140 (Ex. No. 655). Protein tests should be made available to producers who wish to have such tests made and producers should be made better acquainted by publicity under Board regulation with the values of their wheat in years when protein premiums are being paid. Early-season protein premiums often do not adequately reflect the higher value of high protein wheat. The problems of the country elevator in buying wheat on a protein basis must also be considered. On the whole, this is a question requiring careful consideration before any decisive action is taken. I believe that the Board of Grain Commissioners might well investigate the advisability of increased publicity at country points regarding any premiums that are not expressed in the commonly-quoted cash price of wheat. If periodic notice could be given at country points of the extent of protein premiums being paid at Fort William, then the farmer will not be at a disadvantage from lack of knowledge, at least.

Conclusions re Selection

The evidence given before me by those whom we consulted overseas does not indicate any bad effect of selection on the wheat marketed there. Dr. Geddes, however, has reported to us (evidence p. 728) that several overseas millers and mill chemists whom he consulted—

> "thought the average quality of export shipments was greatly lowered as a result of selection by Canadian and American Mills."

The persistent drought of recent years has helped to maintain a high protein level and has probably decreased the unfavourable effect of protein selection, to some extent. We had evidence that some mills had to select wheat of low protein content to keep their flours from becoming too strong. Through protein testing of shipments from the various ports, the Board of Grain Commissioners has the situation under constant review, and I believe the whole matter should be carefully watched.

The selection of wheat for its protein content and diversion of cars for special-binning with the object of keeping such wheat separate have apparently been an outgrowth of exceptional conditions which may or may not occur again. Under normal supply conditions in both Canada and the United States, I feel that these practices would be of minor extent. There will, I believe, be some selection each year and some efforts towards publicizing the extent of protein premiums, if any, should be made. Provided that such premiums are carefully carried back to the producer and further that the practice of selection does not become extensive, I see no reason for suggesting a change in the present official attitude toward selection.

Mixing

The producer is naturally very concerned that the top grades of Canadian wheat be binned with grain of the same grade, as now required by law, and that the official grade, whether judged by domestic or export standards, should be respected throughout the movement of the wheat to overseas markets. The Canada Grain Act, Section 125, prohibits mixing of wheat graded No. 1 Hard and Nos. 1, 2 and 3 Northern. This section resulted from a full discussion of the question in Committee during the 1929 session of the House of Commons. This non-mixing provision, linked with the establishment of high export standards, is regarded as an effective deterrent to mixing, but is strengthened by other regulations and safeguards of the Board of Grain Commissioners. These are the official inspection and the weighing in and out of terminal elevators and the registration of warehouse receipts. A terminal would be unable to obtain a clearance for grain in excess of existing warehouse receipts, even if it were technically possible to promote lower grades into a higher grade and still meet the export standards of a higher grade. The annual audit also provides that overages in excess of one-quarter of one per cent shall go to the Crown. This, in itself, would be a severe penalty, but in addition very severe penalties are provided by Section 125 Subsection (5) of the Act.

Generally, on the question of mixing, I am disposed to agree with Mr. Ramsay's statement: (Evidence p. 12286.)

> "I would however make the statement that Parliament's desire to suppress mixing in the grades under review has been very substantially carried out."

In Appendix No. VIII, I have included a table prepared by the Board of Grain Commissioners (Ex. No. 614) to show the extent of overages and shortages in handling the different grades of wheat at the terminal elevators of Fort William-Port Arthur, August 1, 1933, to July 31, 1937. In the non-mixing grades, the overages are shown to be far below the legal allowance of $\frac{1}{2}$ of one per cent. In the grades below No. 3 Northern, wherein mixing is permissible, there are notable differences between receipts and shipments within the grades.

While I have expressed a general agreement with the present regulations on mixing, I regard it as a field in which constant vigilance is necessary. No suspicions should be left outstanding regarding such an important phase of the Board's work. The Board should not hesitate to make special audits or weigh-overs in an effort to satisfy themselves and others that confidence in the present regulations is warranted. I fully realize the technical impossibility of complete supervision of binning and loading within the terminals, but I feel that some measure of watchfulness might be necessary as an additional safeguard.

Chapter IX

DECREASE IN EXPORTS

The Order in Council directs me to inquire in the next place into "the causes of the decrease in Canadian grain exports in recent years." The considerations involved in this subject are three-fold. A pronounced decrease has assuredly taken place. Its causes can be found only by a study of conditions (1) in importing countries; (2) in other exporting countries, and (3) in Canada.

The Market for Wheat

The wheat importing countries constitute our market. Beginning with them, the case will be clarified by a perusal of the following table which is abridged from Table IV in Ex. 465 submitted by Mr. Andrew Cairns:

WORLD NET IMPORTS OF WHEAT AND WHEAT FLOUR

Average of 5 years	United Kingdom and Irish Free State	Continental Europe	Ex-Europe	Totals
	(Millions of Bushels)			
1909-14	217·7	326·7	98·0	643·2
1922-27	224·4	373·1	128·5	740·2
1927-32	230·3	373·9	159·4	780·7
1932-37	225·8	170·8	126·8	543·6

The net shrinkage in the world market is apparent from these figures and it is clearly seen that the Continental importers account for the changed situation. United Kingdom imports have remained fairly constant through the years, while in countries outside Europe, reduced imports in Japan, Egypt, South Africa and New Zealand have been offset by increases in South America, China and certain parts of Asia.

It will be seen that average yearly Continental imports of the past five years (1932-37) are 203·1 million bushels below those of 1927-32 and 155·9 million bushels below the pre-war average, 1909-14. This is the real change in the world situation. Bringing this down to specific countries, France, Germany and Italy account for most of the change. These three countries had estimated net average annual imports of 164·3 million bushels in 1909-14, 200·6 millions in 1922-27, 171·0 millions in 1927-32 and only 35·0 millions in 1932-37. Most of the smaller countries also show reductions, notably Poland, Austria, Czechoslovakia, Sweden and Portugal.

On the other hand, the total consumption of wheat in European countries has increased, this increase being provided from domestic productior

Mr. Broomhall's estimate of world importers' requirements for 1937-38 is 500 million bushels. Shipments to date have substantiated this figure. He estimates that Europe including the United Kingdom, will import 409 million bushels. Over one-half of this amount, or 212 million bushels, will go into the United Kingdom and of the remaining 197 million bushels, 74 millions will be imported by countries like Belgium, the Netherlands, Spain and Finland, where there is more or less freedom of import by traders, under regulation. In Spain, a high proportion of the imports, approximating 10 million bushels, are for Government account. Spain has recently been self-sufficient and the imports result from unusual conditions.

France is expected to import 8 million bushels. While the Wheat Office is in practically complete control of the industry, millers having import permits arrange their own purchases.

The remaining 115 million bushels will be imported by countries (Italy, Germany, Greece, Switzerland, Portugal and Czechoslovakia) where the buying is done either by Governments or State Monopolies direct or by agents for these organizations. Austria is included in this group in the light of recent events.

Non-European imports are expected to reach about 91 million bushels, of which Brazil will take about one-half, the West Indies about 10 million bushels, Oriental countries about 10 million bushels and the remainder rather widely scattered.

Causes of Change in European Wheat Situation

While agricultural protectionism was a policy of several European countries for many years in the 19th Century, there was really no decided tendency toward exclusion until 1925, when Italy and Germany increased their duties on imported wheat. In 1927, France practically doubled her wheat import duty through two increases. In 1929, all three countries made further tariff increases. Really severe tariffs became evident in 1930, the Italian figure reaching $1.07 per bushel, the German $1.62 per bushel and the French, 85 cents per bushel on imported wheat. As foreign wheat prices fell and domestic wheat production increased, these severe tariffs were supplementel by milling quotas, fixing the amounts of domestic wheat to be used. The movement spread to the smaller importing countries. Quantitative restrictions were again strengthened when the currency fluctuations of 1931 partially vitiated the effectiveness of tariffs. The benefits to exporting countries of inflated currency were thereby offset to some extent. While the main reason for these new devices was probably to ensure a prosperous and contented farm population through the medium of higher prices for a larger wheat production, there were other considerations in mind. One was to reduce imports and protect domestic currencies and another the fear of war and the inadvisability of dependence on foreign

supplies of food. Even the most casual study of factors such as wheat acreage, production and imports must impress one with the evident success of these efforts of European importers.

This whole situation, and particularly the change between pre-war and post-war conditions, is well described in the following three paragraphs quoted from "Wheat Requirements In Europe," Technical Bulletin No. 535, September, 1936, United States Department of Agriculture, by J. H. Shollenberger (Ex. No. 679):

> "In the thickly populated countries of western Europe the domestic wheats are not only notoriously inferior in baking quality but the cost of producing them is relatively high. Prior to the World War, while European manufacturers still reigned supreme in the markets of the world, these countries had little objection to the importation of foreign wheats which were not only better in quality than the home-grown product but could be obtained at prices below the cost at which the latter could be produced. In those days, foreign trade balances gave western European countries little cause for worry. Their exports of industrial products and services supplied them with enough foreign exchange to pay for their imports (including wheat which overseas countries could sell cheaper than the European countries could produce it) and to invest abroad.
>
> "The war brought about a marked change. The enormous quantities of materials required in Europe for conducting the war, together with the goods required for ordinary living purposes, not only taxed the productive energies of European countries to their full capacity but also provided a market for great quantities of goods from overseas countries. This unusual market situation in Europe greatly stimulated both industrial and agricultural production in other parts of the world, with the result that the close of the war found a greatly restricted market for European industrial products and plenty of foreign competition for what markets remained. Furthermore, the great cost of the war resulted in budgetary difficulties in the European countries involved. Their money was inflated. Domestic capital fled. Hence, their demand for foreign exchange was great, while the supply was small.
>
> "With their foreign markets for industrial products either lost or greatly reduced and with their financial condition virtually one of bankruptcy, they found it imperative to give intensive consideration to the domestic-market situation with the idea, on the one hand, of reducing to a minimum their expenditures abroad and, on the other, of increasing employment at home. This resulted in the adoption of a self-sufficiency policy of production in whatever commodities the individual countries were capable of producing. With the adoption of this policy, the domestic-wheat producer was given governmental assistance in some form and protection from foreign competition. Under this policy wheat production has not

only reached the pre-war level but, in many of the European countries, has expanded considerably beyond that level."

The Present Situation in Europe

There are 19 European countries which were on a net import basis prior to this exercise of quantitative controls, viz., France, Germany, Italy, Belgium, Denmark, the Netherlands, Austria, Czechoslovakia, Switzerland, Norway, Sweden, Latvia, Estonia, Finland, Greece, Portugal, Spain, the United Kingdom and the Irish Free State.

There are six European countries that were formerly self-sufficing with regard to wheat or net exporting, viz., Poland, Lithuania, Bulgaria, Hungary, Roumania and Yugoslavia.

Considering first the 19 net importing countries, each one of these has taken some action with regard to wheat since the 1929-30 fall in wheat prices; in most cases, their actions have tended toward virtual exclusion of foreign wheat. Twelve of these nineteen countries have either government monopolies or monopoly power invested in a state-supported company. The remaining seven countries have various forms of government control over imports; these being of a minor nature in the United Kingdom, Belgium, Denmark, the Netherlands and Finland and more extreme in Austria and Spain.

The six self-sufficing or net-exporting countries of Europe have government monopolies or state-supported companies in practically complete control.

The following short sketches describe the essential features of control in each country.

A. *Twelve European Importing Countries Under Government Monopoly.*

1. *France*—agricultural protection dating back to 1885; Government "Wheat Office," permanent body to control entire wheat industry, fixes prices of wheat and flour, controls import and export trade and milling, plans to control production; no open market; these measures have increased production and lowered imports.

2. *Germany*—net exporting country in middle of 19th Century; agricultural protection dating from 1879, not operative 1914-25; cessation foreign loans 1929 made balance of trade necessary; free market replaced by complete State control (Reich Bureau for Cereals), finally effected in 1934; high fixed prices, prohibitive tariffs, import licences, trade and milling quotas, baking regulations; imports made under licence are usually exempt from tariff, but importers required to pay monopoly tax to Bureau equal to difference between purchase price and fixed domestic price; rigid control of foreign exchange; great increase in production of wheat.

3. *Italy*—protection since 1887; Battle of Wheat, 1925, designed to increase production; complete government control of storage, internal and external trade; high fixed prices; aims at complete agricultural autarchy;

Government now purchase through agents; foreign exchange control through Bank of Italy; large increase in production.

4. *Czechosolovakia*—protection began 1925; marketing monopoly organized in 1934 called "Monopoly Grain Company," composed of producer and trade interests; fixed prices of wheat (to producer and consumer), flour and bread; subsidized exports; moderate tariff; plans to reduce wheat production to assist trade policy and maintain domestic prices.

5. *Switzerland*--agriculture long protected; State grain monopoly since 1915; State Grain Office established 1929 replacing direct governmental monopoly of buying and selling grain that was created in 1915; fixed prices, grinding subsidies, grain reserves, import quotas and permits, moderate tariffs.

6. *Norway*—government monopoly since 1917; State Grain Office established 1926; Grain Monopoly Law, 1928, established a state monopoly under name of "Statens Kornforretning"; fixed prices, no tariff, licensed importers; Monopoly buys direct on basis of offers, both f.o.b. and c.i.f.

7. *Sweden*—Swedish Grain Company, joint stock company, in which Government principal shareholder; fixed prices, milling quotas (90 per cent domestic at present); tariffs low and unchanged since 1911; export certificates; safety reserve of wheat; wheat production increased to practically balance consumption.

8. *Latvia*—milling quotas and fixed prices since 1930; complete government control began 1932, with fixed prices of wheat and flour, milling quotas and general supervision; since 1934 Ministry of Agriculture has licensed dealers.

9. *Estonia*—Government monopoly since 1930; fixed prices; prohibitive duty on flour; some recent slackening of control over mills; import licences.

10. *Greece*—Government Central Concentration Committee buys all domestic wheat at fixed prices; very high tariffs, import permits and quotas, milling quotas; also indirect aid to producers; reduced imports now come principally from Danubian countries.

11. *Portugal*—Rigid governmental control of imports for many years; fixed prices; variable price, equalizing duties; regulated production; exchange control; open market transactions in wheat prohibited; wheat imported and purchased from farmers by National Federation of Wheat Farmers, a compulsory co-operative; imports of wheat flour into continental Portugal prohibited..

12. *Irish Free State (Eire)*—Complete government control; fixed prices, import licences and restrictions, milling quotas (now 29 per cent domestic), registration of growers, trade and millers.

B. *Seven European Importing Countries With Various Forms of Governmental Regulations.*

1. *United Kingdom*—The Wheat Act of 1932; standard price prescribed for home-grown, millable wheat of stated quantity; levy on all imported and home-milled flour, with export rebates; Wheat Commission administers Act, working with Flour Millers' Corporation; duty of 2 shillings per quarter (480 lb.) on non-Empire wheat and 10 per cent ad valorem on non-Empire flour under Ottawa Agreement of August, 1932; policies have increased British wheat acreage and production.

2. *Belgium*—No import tariff on wheat but had import licence from 1930 to February, 1937, which, with turnover tax, was effective; milling quotas to assure use all domestic wheat 1932 and 1933; millers' agreement since; policies aimed to balance agriculture and industry; little change in imports.

3. *Denmark*—uses exchange control, import licences and duties; only import licences now; no milling quotas, subsidies nor fixed prices; wheat prices maintained by restrictions on imports.

4. *The Netherlands*—like Belgium and Denmark, policies based on foreign trade; import control became necessary in 1930-31; Wheat Act of 1931 set milling quota for domestic wheat; excise and import taxes raise prices; almost complete government control started with Agricultural Crisis Law of 1933; Central Wheat organization set up; discouraging live stock in favour of wheat; agriculture, divided into groups, is planned and under elaborate governmental machinery; only moderate reduction in imports due to these measures.

5. *Austria*—has sought to reduce extent of net importing position by means of tariffs, import quotas and licences, trade and clearing agreements and currency restrictions; 1924—grain tariffs adjusted to domestic prices and several upward revisions since; flexible prices.

6. *Finland*—net importing; raised tariffs at onset of depression were very effective in increasing wheat production; Government measures mostly indirect.

7. *Spain*—previously a net importing country but recently self-sufficient; controlled imports for many years; since 1930, imports prohibited except under Government licence; maximum and minimum prices in force since 1929; exchange control previous to hostilities.

C. *Six Self-Sufficing or Net Exporting Countries of Europe With State Monopolies or State-Supported Companies in Complete Control.*

1. *Poland*—Protectionist since the War; has developed wheat production and exports since the depression; export bounty, 1931; more complete methods of control began in 1933; has strived to lower production costs

and farm indebtedness; State Agricultural and Industrial Establishments, 1932, stabilized wheat prices.

2. *Lithuania*—Usually self-sufficient, tariffs effective only when there is a shortage; fixed prices since 1929; Central Society of Agricultural Co-operatives purchases for the Government; 1930-31 to 1934-35 Government subsidies to maintain minimum price.

3. *Bulgaria*—Net exporter; 1931, Government bought wheat in competition with dealers thus forcing up price; 1932, Government monopoly buying at high fixed price; 1933, Government stabilization purchases; 1934, Government monopoly restored; 1936, fixed price system abolished; now exclusive rights purchase and sale of all cereals vested in permanent Government monopoly, fixing prices grain, flour and bread and controlling milling industry.

4. *Hungary*—Wheat is the chief export product; 1934 agreement with Italy to take much of surplus at fixed prices; Futura Company (Hungarian Co-operative Societies' Trading Company Limited) makes purchases whenever market price falls below fixed minimum, also allocates export quotas; has other measures of farm relief; exchange control; has had a protective tariff on wheat since beginning of century.

5. *Roumania*—Net exporter; export bounties; Central Marketing Co-operative now makes stabilizing purchases at prices fixed by Government; also indirect methods of assisting farmers; exchange control.

6. *Yugoslavia*—net exporter; Privileged Export Company established 1930 to maintain prices of domestic wheat above export level; complete monopoly, 1931; return to Privileged Export Company, 1932; exports now free except to Czechoslovakia; also has exchange control and clearing agreements and co-operates with Roumania and Bulgaria to avoid undue competition for export markets.

The extent of modification of the economic laws of international trade is plainly evident in the above description. Immediate self-interest and fear are the dominant factors and the force of external economic argument is limited. Present considerations in dealing with the depression problems and adverse trade balances are uppermost. Emergency measures supersede permanent policies in a period of rapid change; unfortunately for Canada, the most restrictive of these emergency measures seem to become integrated into the economic policies of the countries. Since their end product is an increased domestic price, any advantage that might spring from increased demand with lower external wheat prices is precluded. So the "law" of supply and demand as well as the principles governing international trade are offended.

Ex-European Importing Countries

While there are many countries outside Europe that import small quantities of wheat, the major importing countries are Brazil, Japan and

China. The others are situated in South Central America, in Asia and Africa and information regarding their governmental actions is not available.

Brazil—is attempting to increase wheat production by means of a broad governmental program of assistance to wheat areas, including milling quotas, bonuses on production, freight rate reductions, sale of farm machinery at cost, tax on milling imported wheat, etc. It is now obligatory for Brazilian millers to use 30 per cent of national products in the making of bread flour mixtures. Selected seed of suitable varieties is distributed in State of Rio Grande del Sud. As yet, the adopted measures have had no noticeable effect in reducing imports. A high proportion of the wheat imports comes from Argentina.

Japan—systematic governmental encouragement through gold embargo and tariff; in 1935, became self-sufficient after three years' effort and by increasing wheat production 60 per cent at the expense of barley; weather and new varieties also helped; future wheat imports (according to Food Research Institute, Wheat Studies, Vol. XII, No. 3, November, 1935) will be modest and mostly for re-export as flour to Manchukuo, Kwantung, etc. Australia is the main source of supply.

China—also working toward self-sufficiency under government direction; low wheat import duty, December, 1933; Bureau created in October, 1935, to study improvement of wheat and rice production in China. Imports are extremely variable.

Information is also available regarding New Zealand and South Africa. In New Zealand, the Government is encouraging domestic production of wheat. A Wheat Committee is striving to increase wheat acreage to provide, as far as possible, for the whole of New Zealand's requirements. In South Africa, wheat imports have been reduced greatly in recent years by governmental encouragement of domestic production.

Exportable Supplies of Wheat

It is also important to consider the countries that provide the exportable supplies. The following table is illuminating:—

WORLD NET EXPORTS OF WHEAT AND WHEAT FLOUR

Average of five years	Four overseas exporters	Seven European exporters (including U.S.S.R.)	Nine ex-European exporters	World totals
	(Millions of Bushels)			
1909–14	315·3	278·0	57·4	686·2
1922–27	689·8	43·5	29·5	776·2
1927–32	692·9	86·1	14·7	802·2
1932–37	468·5	58·1	27·3	574·8
1936–37	457·2	98·5	36·3	622·0

Source.—The International Wheat Situation. Wheat Advisory Committee, London.

The 1937-38 world figure is currently estimated to be about 100 million bushels below that of 1936-37 and rivalling the 1935-36 figure of 515·6 millions as the lowest in modern records.

In studying the change in net imports, we have seen that the bulk of the reduction is accounted for in the imports of European countries, particularly France, Germany and Italy. In net exports the reduction has been noted largely in the exports of the major exporting countries, particularly Argentina, Canada and the United States. Exports from Australia have shown little contraction. North African dependencies have increased their exports. The others have been erratic.

The four major exporting countries had 50·3 per cent of total world trade in 1909-14, 88·9 per cent in 1922-27, 86·4 per cent in 1927-32 and 81·4 per cent in 1932-37. Before the War when Russia was prominent, European exporters had 40·5 per cent of the total world trade; in 1932-37, this had declined to 10·1 per cent. Similarly the share of other ex-European exporters has declined from 8·4 per cent in 1909-14 to 4·7 per cent in 1932-37. India is mainly responsible for this change.

The necessarily sharp reduction in exports came as the depression deepened in continental Europe and these countries took various measures to protect their farmers from the impact of low wheat prices. The big declines in exports came between 1928-29 and 1929-30 and between 1931-32 and 1933-34.

It is important to us to consider what has been done in the competing export countries to assist the farmer during this period of adjustment.

Argentina

Argentina has protected her wheat producers from the full effects of the depression by foreign exchange regulations and the creation of a Grain Regulating Board, using fixed minimum prices. In addition, a new Grain Act was passed in September, 1935, which established a new grading and inspection service. An expansion of the country and terminal elevators is also planned by the Government; the work on the first terminal at Buenos Aires actually started on February 11, 1938. Thirteen other terminals and 321 new country elevators are planned but no definite steps taken toward their erection. A Government Commission to control the distribution of seed grain is also in operation.

Exchange control has been in effect in Argentina since 1931. Like Canada, Argentina is a debtor nation, mostly as a result of borrowings for development purposes. Unlike Canada, Argentina has little industrial development and depends on agriculture for 95 per cent of her exports. When the depression began, it was necessary to limit and redirect imports by means of a preferential rate on sales of foreign exchange. Exchange is sold at a lower rate for imports from all countries up to the amount of the respective country's purchases from Argentina, with due allowance for interest payments on the Argentine Government external debt but with

no provision for returns abroad to private investors in Argentina at the lower rate. The differential in exchange fluctuated between 5 and 15 per cent up to April, 1935, when it was fixed at 20 per cent. The first measures were, from all accounts, drastic and somewhat arbitrary; now, with an official Exchange Control Board, there is less dissatisfaction.

The Board procedure is to buy exchange from exporters at a fixed rate and sell it again to some importers at a higher rate. The exchange control system has become an important source of revenue to the state and some of the profits are used to stimulate exports. An example was the maintenance of minimum wheat prices in 1933-34 when the Grain Regulating Board handled about three-quarters of the crop, amounting to approximately 147 million bushels.

The official rate of exchange on Argentine pesos declined in 1930 from 95 per cent of post-war gold parity in January to 78 per cent in December. Further declines in 1931 brought the figure down to 62 per cent in December. The rate was very stable at 60 to 61 per cent of post-war gold parity in 1932 and up to November, 1933, when the Government devalued the currency by 20 per cent. The official rate during 1934, 1935, 1936 and 1937 has varied between 44 and 50 per cent of post-war gold parity. In November, 1933, also the free rate was established and during the past four years, 1934-37, this has varied from 33 to 42 per cent of post-war gold parity. The higher figure was common throughout 1937. It is apparent that Argentina devalued her currency sooner and further than Australia, Canada and the United States, except for the period November, 1931, to November, 1933, when the Australian devaluation was greater.

Reference may be made to Appendix VII, which gives the index numbers of exchange rates, 1929-38, in the terms of post-war gold parity for Argentina, Australia, Canada, Great Britain and the United States.

At the end of 1937, the figures for the four exporting countries in terms of the post-war gold parity were:

Argentina { Official rate	46
Argentina { Free rate	42
Australia	48
Canada	59
United States	59

A Central Bank for Argentina was established in June, 1935. It operates an exchange equalization fund to keep fluctuations in rates within certain limits and to satisfy the day-to-day demand for exchange.

The Grain Regulating Board was established by executive decree in November, 1933, and empowered to make purchases of wheat, corn and linseed at specified minimum prices whenever the world price, as reflected in the Buenos Aires market, should fall below the fixed price. The price for wheat originally fixed was 5·75 paper pesos per quintal. In 1933-34 the Board purchased 147 million bushels of wheat or about 75 per cent of the surplus. The final loss of about $3 million was reimbursed from the much more extensive profits of Exchange Control Regulation. Since

the "world price" of wheat remained above the Argentine fixed minimum price in 1934-35, no purchases were made by the Board.

The minimum price of wheat was increased from 5·75 to 10·00 paper pesos per quintal on December 12, 1935. This change was made in view of the short Argentine crop and the improvement in the world wheat situation. On the Buenos Aires market, wheat that had been selling well below the level of the new minimum price promptly rose above it and has remained above it since, so that the Government has not purchased any more wheat.

In September, 1935, the Argentine Government passed a new Grain Act, embodying an official grading system and containing provisions for the control of the distribution of seed. The wheat will be divided into Hard, Semi-Hard and Soft classes and there will be subdivisions I, II and III. The varieties admissible to each grade are specified. These measures, along with controlled distribution of seed, are designed to improve the quality of export wheat.

The capacity of port elevators in Argentina is about 19,344,000 bushels and the Government plans to add capacity for about 21,907,000 bushels by building new terminals, within the next four years. Country elevators to the number of 321 are also planned with a capacity of about 42 million bushels. No definite steps towards this construction have been announced but the first terminal at Buenos Aires was started in February, 1938. A national system of grain elevators is planned and then bulk handling will replace bagging and grade certificates will at least supplement the f.a.q. system.

Australia

Australian wheat farmers have secured assistance since the early part of the depression. The first measures taken in 1929-30 were towards debt adjustment and reduction of interest and rent charges. Wheat bounties by the Commonwealth Government were begun in 1931-32 and continued up to 1934-35; New South Wales also supplemented the Commonwealth grants with a sum of £300,000 in 1931. The currency depreciation early in 1930 is said to have assisted the exporters, but the main depreciation did not take place until 1931. As in Argentina, the rate has been very steady since February, 1934. A Royal Commission of Enquiry, with a broad remit, was appointed in January, 1934.

The following are the bounty and relief payments for wheat-growers listed in the Australian Year Book, 1936, pp. 700-02:

Bounty, 1931-32	£ 3,429,314
Bounty, 1934-35	1,462,414
Relief, 1932-33	2,000,000
Relief, 1933-34	3,053,000
Relief, (Special)	573,250
Relief, 1934-35	2,034,944
Relief, 1935-36	1,878,906
	£14,401,828

The distribution was made to the States on a production basis, with the State deciding how it would be distributed. In addition to bounties and relief, the wheat growers have also benefited under the Loan (Farmers' Debt Adjustment) Act of 1935 which allotted £12 million to the States for adjustment of farmers' debts. Only £10 million has been allocated to date. This is mainly used by wheat farmers (evidence of Mr. Harper, p. 10017).

Unsecured creditors lose about two-thirds of the debt; the Commonwealth pays about one-third on the average.

The rate of bounty was 4½ pence per bushel in 1931-32. In 1932-33 and 1933-34, the payments were made through the Governments of the States on an acreage basis. In 1934-35, the bounty was three pence per bushel, plus a further relief payment of three shillings per acre. Evidently, only the relief payment was made in 1935-36. No bounty or relief distribution was made in 1936-37 and 1937-38, prices having advanced materially.

To pay the bounty and relief a flour tax was used, first in New South Wales, then in the Commonwealth.

The Australians who appeared before me in London regarded the abandonment of the gold standard early in the depression as having operated to the benefit of the exporting producers more than anything else. (See Appendix VII).

The State also helps the farmers by low freight rates on fertilizers and farm products, and in Western Australia no wharfage charge is made on any primary product exported.

The United States

Of all the exporting countries, the United States has shown the closest approximation to methods used in importing countries to aid wheat farmers in depression. These endeavours have been favoured by drought that reduced supplies to a domestic basis on several occasions.

Among the more important methods of assisting the wheat farmer were protective tariffs, direct market support by Grain Stabilization Corporation beginning early in 1930 and continuing until completion in May, 1933, surplus-relief market operations in October, 1933, currency depreciation, Governmental credit to encourage purchase of United States wheat by other countries, export subsidy, 1934, Agricultural Adjustment Act of 1933 involving benefit payments for acreage reductions and a processing tax, and the Ever Normal Granary plan.

The earlier plans of the Government were directed toward improved functioning of the existing marketing machinery, e.g., by open market purchases and aids to export. Since 1933, the problem has been approached from another angle and an effort made to regulate supplies by means of bonuses for co-operation in acreage adjustment.

The United States tariff on Canadian wheat is 42 cents a bushel (established April 6, 1924), except for feed wheat in which case it is 10 per cent ad valorem. There are, of course, duty-free privileges in bond for re-export. The tariff is effective in raising domestic prices in short crop years, especially for hard red spring wheat.

The Agricultural Marketing Act was passed in 1929 and the Federal Farm Board, with a revolving fund of $500,000,000, came into existence in July, 1929. As prices weakened, the Federal Farm Board made fixed loans to wheat co-operatives in late October, 1929. The Farmers National Grain Corporation made small market purchases in January, 1930, but extensive buying really began with the establishment of the Grain Stabilization Corporation on February 11, 1930. At June 30, 1930, its holdings were 65 million bushels (Ex. 127). Buying steadily and virtually pegging United States wheat prices from November 15 on, the Corporation held 257 million bushels out of a total United States carry-over of 340 millions on July 1, 1931. Liquidation began in 1931-32 through sales on the market, relief distribution and sales to Brazil, Germany and China. In May, 1933, the process was completed at a net loss of $184,000,000 (Ex. 44).

In October, 1933, there were "surplus-relief operations" to the extent of 16 or 17 million bushels involving wheat purchases on the market and distribution for relief.

Under the National Recovery Act, codes were established for the Grain Exchanges on March 31, 1934, the country elevators in May, 1934, and the terminal grain elevators in December, 1934. The Grain Exchange Code barred trading in indemnities, established margin requirements to check excessive speculation, and placed limits on daily fluctuations. The elevator codes were designed mainly to check unfair competition.

The United States currency was depreciated at a later date than the other wheat exporting countries. It was not until April, 1933, that the exchange rate was allowed to decline from post-war gold parity. In February, 1934, the United States dollar in foreign exchange reached a level of 59 per cent of post-war gold parity and it has been maintained at this rate ever since. (See Appendix VII.)

An export subsidy of 6·1 million dollars are paid for wheat mostly grown on the Pacific Coast in 1933-34. Some 21·85 million bushels of wheat and 6·54 million bushels as flour were sold, mostly to the Orient. Loans were made to the Chinese Government to enable purchase. The necessary subsidy amounted to about 23 cents a bushel and, it is claimed, prevented movement of the surplus eastward to depress markets there.

The Agricultural Adjustment Act, 1933, involved benefit payments to wheat growers who contracted to reduce their seeded wheat acreage. These benefit payments were to be secured by a processing tax on wheat consumed in the United States. This was fixed at 30 cents per bushel on June 26, 1933, and the first benefit payment was set at 20 cents on July 24. It is reported that total payments as "benefits" under this

Act, 1933-35, amounted to $331,196,117.03 (Ex. 44). Dr. J. S. Davis in "Wheat and the A.A.A." (Ex. 402) concludes:

> "The A.A.A. can justly claim that it enhanced wheat growers' incomes by something like 120 million dollars in 1933-34 and perhaps 100 million in 1934-35."

The legal basis of payments to contract signers was upset by the United States Supreme Court. A new Act

> "providing an adequate and balanced flow of the major agricultural commodities in interstate and foreign commerce, and for other purposes"

has recently been passed. It aims to maintain prices for the wheat grower, among others, with purchasing power as great as in 1909-14. Further, it establishes an ever-normal granary plan in the interests of both consumers and producers and seeks to prevent wasteful use of soil fertility. Adjustment payments will be continued under new conditions.

Other Exporting Countries

The methods employed by the Balkan countries that have net exportable surpluses have been previously described. Only two others are worthy of particular mention, at present—Russia and India. In Russia, state regulation, in varying degree, has been in force since 1917.

> "All grain collecting activities are now controlled, regulated and directed by the People's Commissariat of Commerce (previously the Commissariat of Interior Commerce), which also manages the elevator system and the milling industry and controls the grain-exporting organization, the *Exportkhleb.*" (Wheat Studies, "Russia as a Producer and Exporter of Wheat," Vol. VIII, Nos. 5 and 6, March and April, 1932).

We were advised overseas that their wheat is sold on a sample basis, f.a.q. and that there is quite a variation between samples, the best being only second to Canadian in quality. In the United Kingdom, all Russian wheat is handled by one firm.

After favourable growing seasons, Indian wheat is exported in appreciable volume. The domestic and export trade is in private hands. Two principal varieties, Red and White Karachi, are sold on an f.a.q. basis, in bags, principally in the United Kingdom. We secured no evidence on government efforts to assist the wheat-grower in India.

Canada

Farmers in Western Canada have been given governmental aid to assist them in meeting the problems of drought and low grain prices. Guarantees of the Dominion Government to the banks enabled the carrying-

on of stabilization price measures that have been previously described. Since the Unemployment Relief Act, 1930, the Dominion Government has made large contributions as grants or loans to the provinces to enable them to cope with extraordinary conditions. In 1931-32, a bonus of five cents per bushel was paid by the Dominion Government on wheat grown in 1931 and delivered up to July 31, 1932. Debt adjustment legislation was provided to enable consideration and revision of farmers' debts. The Prairie Farm Rehabilitation Act has given direct attention to the problems of the worst drought area. These measures are, of course, in addition to the continuing importance of experimental and research work that is striving to improve the farmers' position in production.

Five Cent Bonus

A bonus of five cents per bushel was paid on wheat grown in Alberta, Saskatchewan and Manitoba in the year 1931 and delivered up to July 31, 1932. The distribution was handled by the Board of Grain Commissioners and amounted to $12,719,900.73, of which approximately $1,169,000 went to Manitoba farmers, $5,669,000 to Saskatchewan, $5,858,000 to Alberta and a small amount to farmers in the Peace River district of British Columbia.

Farm Relief

The primary responsibility for relief of agricultural distress is presumed to rest with the rural municipality or local improvement district. Where the need is too great, the provincial government is called upon. Likewise, under extraordinary conditions, the Dominion Government may assist the provinces. This understanding, I believe, dates from December, 1921 when assistance to the provinces was first granted.

Under such conditions it will be seen to be practically impossible to state with any great degree of accuracy the amounts expended by the different authorities for the relief of western farmers as a result of drought, low prices and other causes. Little information is available for the municipalities and only sketchy data for the provinces. The lack of data for the municipalities is not very bothersome because the need soon became so extreme as to place main reliance on Provincial and Dominion Government funds.

Government officials of the three provinces appeared before this Commission to describe their methods of making advances to the municipalities, particularly for seed and feed relief. The province of Alberta between April 1, 1930, and October, 1937, made net payments for agricultural relief of $3,904,861.02 (Ex. 301 and evidence p. 5256). With treasury bills issued to the Dominion Government for $3,202,748 and stock on hand valued at $218,841.09, the actual payments of the Provincial Government were about half a million dollars.

A general statement of the assistance given by the Governments of Canada and Saskatchewan to maintain and re-establish the agricultural

industry in those portions of Saskatchewan that have suffered so severely from diminished farm income since 1930 was given to the Commission by Dr. F. H. Auld, Deputy Minister of Agriculture for Saskatchewan (evidence pp. 11743-11792). Only with ultimate adjustments will it be possible to determine the provincial share, but it was stated that an expenditure of about $85 million has been made. In the case of Saskatchewan, a write-down of $17,682,157.61 was made by the Dominion in 1936-37 (Public Accounts for the fiscal year ended March 31, 1937, p. x) as part of a co-operative program for the adjustment of farmers' debts in the drought area. Dr. Auld fixed the aggregate cancellation at about $36,000,000 (evidence p. 11755), with a possible addition of $9,000,000. These amounts covered feed and seed and direct relief.

The railway companies, it was noted, had generously provided for movement of relief supplies at reduced rates, representing a contribution of several millions of dollars during the current relief period (evidence p. 11773).

In Manitoba, approximately $1,800,000 was appropriated between 1933 and 1937 for feed, seed and other relief as guarantees to municipalities or by purchase and distribution of seed in unorganized territory. A large proportion of this total has been repaid by the municipalities or farmers, or written off. Subsequently, the Manitoba Government wrote off farmers' debts including some of the above items to the amount of $804,897.02 and the Dominion in return cancelled Manitoba Treasury Bills to the same amount. (Public Accounts for the Fiscal Year ended March 31, 1937, p. x.)

Dominion Government Disbursements

It is quite impossible to differentiate the federal appropriations for farm relief as distinct from other relief expenditures. The following table, however, lists those Dominion Government disbursements made under relief legislation since and including the Unemployment Relief Act, 1930, and up to December 31, 1937, that at least in part went to farm relief.

—	Manitoba	Saskatchewan	Alberta	Prairie Provinces
	$ cts.	$ cts.	$ cts.	$ cts.
Direct relief	5,537,681 50	21,692,225 75	3,888,498 02	31,118,405 27
Grants-in-Aid—August 1, 1934, to December 31, 1937	6,714,018 75	9,742,250 00	4,981,125 00	21,437,393 75
Agricultural relief other than Direct Relief in Drought Areas*	159,324 83	8,336,536 78	495,224 91	8,991,086 52

Source: Dominion Unemployment Relief Commission, Ottawa.
*Includes movements of stock and equipment, feed and fodder, agricultural resettlement and assistance to settlers moved, etc.

The Direct Relief expenditures and the Grants-in-Aid shown above are for both urban and farm assistance and it is practically impossible to separate the two items. Based on certain months, however, it would appear that approximately 20 per cent in Manitoba, 80 per cent in Saskatchewan and 70 per cent in Alberta went to rural areas. The above figures do not represent the total of relief disbursements in these provinces. For such data reference should be made to the tables following.

Department of Agriculture.—Expenditures for feed and fodder in 1936-37 and 1937-38 and direct relief in 1937-38 in the Prairie Provinces were made by the Department of Agriculture and are additional to those listed in the table above.

DEPARTMENT OF AGRICULTURE RELIEF EXPENDITURES

—	Manitoba	Saskatchewan	Alberta
	$ cts.	$ cts.	$ cts.
Feed and Fodder, 1936-37	200,078 12	2,399,698 09	1,007,556 49
Feed and Fodder, 1937-38	50,000 00	8,341,302 28	450,468 59
Direct Relief, 1937-38	–	6,976,146 06	333,363 18
Special Foodstuffs, 1937-38	–	969,299 83	

Source: Department of Agriculture, Ottawa.

Relief Throughout the Dominion

It must not be assumed from the above listing of amounts spent for relief in the Prairie Provinces that such expenditures are confined to those provinces. The following table is included to correct any such impression. It also gives the percentage rural of the population in each province:

—	Dominion disbursements under Relief Legislation, 1930 to March 31, 1938	Percentage rural in total population, (Census of 1931)	
Prince Edward Island	1,199,035 22	76·9	
Nova Scotia	8,485,794 80	54·8	
New Brunswick	6,202,323 89	68·4	Census
Quebec	56,007,586 14	36·9	of 1936
Ontario	94,715,433 27	38·9	
Manitoba	24,087,129 05	54·9	(56·3)
Saskatchewan	49,851,713 71	68·4	(69·9)
Alberta	18,282,900 43	61·9	(62·9)
British Columbia	29,117,044 67	43·1	
Yukon and N.W.T.	49,101 31	–	
Miscellaneous	2,564,833 24	–	
	291,800,186 26	46·3	

Source: Dominion Unemployment Relief Commission, Ottawa.

For the Prairie Provinces, the above figures do not include feed and fodder relief, 1936-37 and 1937-38, and direct relief, 1937-38 administered by the Department of Agriculture (see page 137). The main constituents of the total given above are:

	$ cts.
Grants-in-Aid	£3,500,793 97
Direct Relief	84,320,008 15
Public Works	70,530,296 88

Agriculture and Industry in Depression

In connection with the burden of relief in depressions, it seems pertinent to emphasize that agriculture in Western Canada and industry in Eastern Canada react quite differently to low prices and reduced effective demand. Farming, as has often been emphasized, is a mode of living as well as a business occupation. When prices fall, the farmer commonly stays on the land and keeps on producing. In the West, he has really no alternative. (The Census of 1936 revealed that in each Prairie Province, between June 1, 1931, and June 1, 1936, rural population actually increased, the total increase being about 69,000 head while the urban population declined about 2,500.) As income is reduced, the farmer must lower his standard of living and, as conditions become extreme, cease paying his debts. The final stage is relief, when income is insufficient to pay for food, clothing and fuel. It is notable that drought and other factors limiting production were more cogent reasons than low prices in forcing relief measures for western agriculture.

When depression strikes industry, there are various alternatives open, among them being reduced production, lower wages, reduced hours and staffs. If these fail, the plant may be closed. The effect of depression in industry can be shifted in a variety of ways. As depression deepens, the burden is in large measure thrown on the municipality and finally on the provincial and federal governments. To the extent that the municipalities absorb this burden, relief to industry is not as apparent as in agriculture. Agriculture cannot shift the burden of depression; it, by its very nature, must take nearly the full shock—and keep on producing.

Prairie Farm Rehabilitation Act

Expenditures under the Prairie Farm Rehabilitation Act up to January 31, 1938, amounted to $2,302,206.

Manitoba	$ 215,620
Saskatchewan	1,772,468
Alberta	314,118

The expenditures under the P.F.R.A. include a wide range of activities, but the principal items cover water development, district experiment substations, reclamation projects, grass seed developments, soil survey and research, tree planting and distribution of pure seed.

Farmers' Creditors Arrangement Act

The following table summarizes the work of this Act, in force in the Prairie Provinces since September 1, 1934:

—	Manitoba	Saskatchewan	Alberta
Number of applications for adjustment	3,596	6,454	4,714
Number of cases adjusted	2,610	4,383	2,458
Total debt of cases considered	$18,542,819	$37,944,486	$21,097,400
Total amount of reduction	$7,879,589	$13,433,867	$8,125,850

In addition to the above reductions in the total debt the interest rates in most cases were scaled down. The total estimated annual saving to the farmers resulting therefrom is Manitoba, $617,742, Saskatchewan $949,119, Alberta $791,564.

Causes Within Canada

The foregoing is a short résumé of conditions surrounding the production and the trade in wheat in importing and exporting countries. Viewed in relation to the subject now under discussion, "the causes of the decrease in Canadian grain exports in recent years," it is clear that the outstanding factor is the great shrinkage which has occurred in the importation of wheat by the countries of continental Europe. (See Table on page 121.)

The question which remains to be answered, therefore, is whether Canada has contributed in any way to the production of this shrinkage or to any decrease in our share (compared with other exporting countries) of the market, such as it is.

Again I may say that the background of this question and the importance of it lies in the fact that Canada is, and, according to the opinion I have formed in pursuing this inquiry, must remain, a large-scale exporting country, and that wheat is one of our main export commodities, representing an average over the last 15 years for wheat and wheat flour of 28·7 per cent of our total domestic exports, with an average annual value of $279,000,000.

In the course of time our producers may find it to their advantage to devote their activities, in a larger degree than at present, to some other form of agricultural production. But our present problem is to find markets for the whole of the wheat surplus we are producing and are likely to continue to produce for a long period of years.

Canada has had the following percentages of world total net exports of wheat and wheat flour in recent years:

	Per Cent		Per Cent
1922-23	39·0	1930-31	32·1
1923-24	41·2	1931-32	25·8
1924-25	24·8	1932-33	41·0
1925-26	46·0	1933-34	34·5
1926-27	34·3	1934-35	30·3
1927-28	39·0	1935-36	47·8
1928-29	42·4	1936-37	33·8
1929-30	31·0	1937-38*	16·3

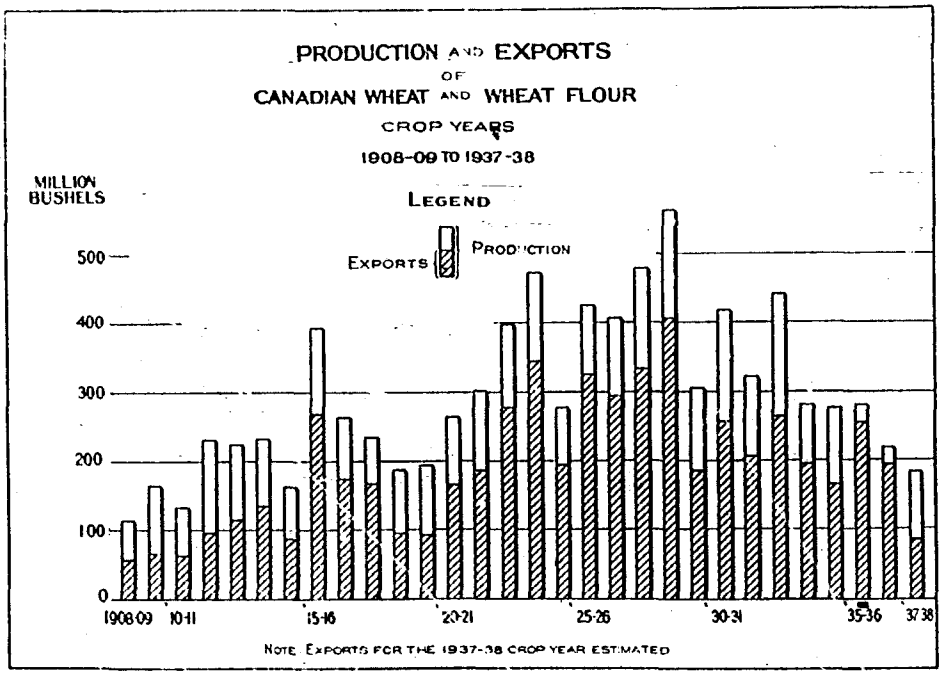
*Partly estimated.

Source: The International Wheat Situation, Wheat Advisory Committee, 1938.

The period covered in this table was marked by the reduction of the share of the United States in the world wheat trade. In the period 1922-27, the United States' percentage of world wheat trade was 23·2; in 1927-32, 17·7; and in 1932-37, 9·0. This certainly left an opening for the other exporting countries, including Canada, to fill. Up to and including the crop year 1934-35, Canada did not secure her fair share of the market resulting from this development. Argentina and Australia took advantage of the opportunity and generally followed a policy of selling their annual crops within the same crop year while Canada accumulated a surplus of over 200 million bushels. When this surplus was exported in 1935-36 and 1936-37, our share of world trade rose again to the figures shown in the above table. The decline in 1937-38 is a product of the short crop of 1937, the poorest since that of 1914.

Looking then at a reduced overseas market and at a reduction in our share of that market during most of the depression period, I find certain factors in the situation which we ourselves have contributed.

In the first place we have had a succession of short crops with a relatively small exportable surplus (See Table on page 24). This is one of the causes of our decreased share in international wheat exports, and is one which is usually overlooked when the question is under discussion. For this misfortune no blame can be attributed to anybody. The following chart will illustrate this situation and will also show the close relation



between production and exports through the years. There are some exceptions to this correlation, notably in those years when the large carry-over was being accumulated and later in 1935-36 and 1936-37, when it was being disposed of.

In the second place we have Canada's tariff policy which, inevitably, came up for some discussion on an inquiry of this nature. I do not think that it is within my remit or within my competence, to deal with the Canadian tariff question in all its bearings on our national life. There is however no doubt, in my opinion, that the customs laws of other countries, including Canada, played some part in the adoption of policies that led to a shrinkage of wheat imports into the following countries: Switzerland, Italy, Belgium, Holland, and in a less degree, Germany and France. Whether or not disadvantages in respect to wheat may, within Canada, have been offset in whole or in part, or may have been totally overborne, by advantages in other directions, is not for me to attempt to say. But speaking only of wheat, I think from the evidence, that we have contributed to some extent to the shrinkage in the available market by our customs tariff laws. On the other hand, it was pointed out to me with some force, that in view of our small population (only 11 million consumers) it would be hard for us in any event to offer worthwhile advantages in the way of tariff concessions to such countries as might thereby be induced to buy more wheat from us.

However, speaking only of our wheat, I agree with what was said in evidence by Mr. J. R. Murray, former Chief Commissioner of the Canadian Wheat Board, that tariff or other arrangements which will result in each case in disposing annually of even only small quantities of wheat, such as say 5 million bushels, are worth while striving for. The sure disposal of these additional quantities, here and there, will count in the aggregate and will tend to prevent the accumulation of surpluses from year to year.

For a full, expert, treatment of the whole tariff problem in its bearing upon wheat, I would refer to exhibits 19 and 713.

In the third place, I think some contribution to the narrowing of the export market was made by the announcements of policy tending towards an international selling monopoly and high prices, made on such occasions already referred to as the conferences held at St. Paul and Kansas City in 1926 and 1927 and in which representatives of our Wheat Pools took part.

Fourthly, we have the incidents attending our 1929-30 crop year and which have been dealt with at length in discussing the Wheat Pools, including the unfortunate pronouncements which accompanied the withholding of our wheat supplies.

And finally we have the effect of our stabilization measures, particularly in 1934-35. In that year there was a maintenance of out-of-line prices and a consequent accumulation of unexported supplies which undoubtedly had a bad effect on our overseas customers. Our farmers who sold at these prices received the immediate benefit of the policy; but our export market suffered.

Speaking of these last two incidents, I must say that I am also satisfied, on the evidence I received overseas, that their unfavourable effect has now disappeared, having been removed by the policy of continuous offering carried on by the Board under the provisions of the Canadian Wheat Board Act, 1935, and which resulted in the liquidation of our accumulated surplus. From now on, with a reasonable selling policy, there is no reason why we should not receive, from year to year, the share of the overseas market which the quality of our wheat deserves.

CHAPTER X

DURUM WHEAT, COARSE GRAINS, FLOUR AND RESEARCH

ALTERNATIVE CROPS

While the future of the world wheat market remains clouded and uncertain, it is pertinent to inquire into the economic possibilities of shifting some wheat acreage into alternative crops. In 1937, the acreages of the grain crops in the Prairie Provinces were:

Wheat	24,599,000
Oats	8,579,000
Barley	3,562,300
Rye	808,200
Flax-seed	233,300
	37,781,800

Since the total field crop area in the same year was 40,314,000 acres, it is seen that these five crops account for 93·7 per cent of the total. Other crops are of minor importance, except in certain favoured areas.

Durum Wheat

Firstly, something should be said regarding the possibilities of Durum wheat. Durum wheat is a special type that is practically rust-resistant during growth and therefore particularly suitable for parts of Manitoba and Eastern Saskatchewan. It is utilized mainly in the making of semolina, macaroni and like products and only on rare occasions and in limited amounts in the manufacture of bread flour.

In 1937, due to exceptionally favourable weather in Manitoba, the Canadian production of Durum wheat reached the large figure of 26,400,000 bushels, of which 24,400,000 bushels originated in Manitoba and the remainder in Saskatchewan. The large production in Canada coincided with big crops in the other producing areas, particularly Italy, the United States, Turkey and North Africa. The demand for the Canadian product was limited and only about 6 millions have been exported to date, with the likelihood that perhaps 8 or 9 million bushels will be shipped during the whole crop year ending July 31, 1938. A large proportion—possibly one-half—of the small Canadian wheat carry-over at July 31, 1938, will be of the Durum type. Prices for Durum in Canada have been at large discounts under the Northern grades throughout this crop year.

In the next few years, there does not seem to be any possibility of diverting much bread wheat acreage to Durums. More likely, there will be a decrease in Durum acreage at least until the large 1937 crop is exported. In Italy and Germany, substitutes for Durum are becoming important. In France, a government decree forbids use of any wheat except Durum in the manufacture of semolina but consumption is said to

be declining and, in addition, Algeria is becoming an important source of semolina.

Durum wheat acreage cannot be relied upon to absorb any decrease in bread wheat acreage.

Flax

The Canadian Flax Association submitted a brief (Ex. No. 707) pointing out that the acreage devoted to flax-seed has been declining during the past thirteen years. Flax was a common crop on new breaking during the development of the West. Canadian acreage reached a peak of 2,021,000 in 1912 and was high again in 1920 (1,428,164 acres), and 1924 (1,276,667 acres). In 1937, the acreage was only 241,300 and the production 697,600 bushels.

It is emphasized in the brief that the Canadian crushing industry requires approximately 2,500,000 bushels of flax-seed annually, while domestic seed requirements account for another 200,000 bushels. Further,—

> "Canadian imports of flax-seed and equivalent linseed oil during the past number of years (1926-35) have averaged 722,000 bushels annually, representing a sum of $1,200,000.
>
> "Flax-seed is used almost exclusively for the manufacture of linseed oil, which in turn is used in the manufacture of paints, enamels, varnishes, lacquers, soap, linoleum, oilcloth, patent leather, putty, printers' inks, etc. Linseed oil is appreciated above most other vegetable oils for the above mentioned processing industries, because its chemical composition permits it to dry rapidly in the air to a hard, non-tacky mass.
>
> "Canadian flax-seed is undoubtedly the best securable both as regards quantity and quality of oil."

This superiority prompts the Association to suggest that Canada would have an advantage in export markets, particularly in the United States, and that

> "this country would dispose of some 10 million bushels annually without substantially affecting the Argentine trade."

The brief goes on to mention that "the best quality flax-seed is obtained from areas of average or low protein content wheat," for instance the Goose Lake area, the Red River valley, along the Manitoba-Saskatchewan border and in the irrigated areas of Alberta. The dollar return per acre from flax-seed in these favoured areas exceeds that of wheat and other grains.

The Association recommends:

1. More research, especially that directed towards development of early-maturing wilt-resistant varieties.
2. More education among producers on varieties and cultural methods.
3. Study of tariffs, especially that on soya bean meal which enters duty free and competes with superior Canadian linseed meal.

Oats

The use of oats as a cash crop is limited mainly because of the price factor. Oats have a high proportion of hull and are best utilized on the farm for feed. Their low value per unit will not withstand costs of transportation and, in fact, only a small proportion of the crop is marketed in Western Canada and a still smaller percentage moves into world trade.

Oats are grown in certain central, northern and far western regions of the Prairie Provinces because they are a safer crop than wheat, having a shorter growing season and thereby more likely to escape frosts. In the southern districts, wheat is a much more suitable crop but oats are grown in rotation with wheat to provide feed and to utilize labour and machinery to better advantage by stretching out the seeding and harvesting seasons.

It is the park lands, the northern and western parts of the Prairie Provinces, that are best adapted to oat production and in these very regions we have noted that wheat of lower quality results. Garnet wheat, having a shorter growing season, caused a shift from oats in these areas and it is quite possible that the segregation of Garnet from the Northern grades will divert some acreage back to oats. The oats grown in these areas are of high quality. Mr. John MacLean of the Glasgow Corn Trade Association confirmed this (evidence p. 10404):

> "Q. Are Canadian oats regarded as of good quality?
> A. (Mr. MacLean) I should say so. Canadian oats are the nearest we can get to Scottish, barring New Zealand."

While there will usually be a small overseas market for high quality oats, it will continue to be relatively unprofitable to ship the lower grades any great distance and the main market will be in live stock feeding, particularly for horses, cattle and young stock of all classes. The future of oats as a western crop is therefore closely related to the future of the live stock industry.

Barley

Barley is a crop with a shorter growing season than wheat or oats, but it requires more rainfall than wheat for optimum growth. In Western Canada, the highest yields and best quality of barley are produced in the so-called park lands to the north and west of the agricultural area. This is the area where wheat is more inclined to be starchy and of lower protein content. To the extent, therefore, that barley can be grown profitably in this area, it will displace wheat of lower quality.

From what I have heard in the course of this inquiry, it seems to me that more attention might be given to the production of malting barley in these areas. This appears to be a promising alternative to wheat.

At this place, it is interesting to refer to the following portion of the record taken at Glasgow, Scotland, during discussion with representatives of the Glasgow Corn Trade Association:

"Mr. PITBLADO: Has there been any (Canadian Barley) come over during the last year?

A. The Distillers' Company Ltd. are big users of No. 3 Canadian barley; they buy it all the year around, when the price is in line. Last year Canadian barley was out of line, and they bought mostly Danubian barley.

Q. When they bought, did they buy through the trade here?

A. Yes.

Mr. COYNE: When you are buying Canadian barley, have you any guarantee that it will be for malting, or feeding barley, as you want it?

A. We buy it in grade; nine times out of ten, if a distiller buys it, it serves his purpose. Occasionally it has not malted? Is that right?

Mr. MACLEAN: I suppose there have been such cases.

Mr. AITKEN: Very little Canadian barley is malted. The real high-class distillers here do not go in for Canadian barley; that is what they call the raw grain distillery. The malt and barley has to be of a superior type altogether. I do not think much comes from Canada. We get a good deal from California.

Q. You do not need the malting barley for distillery purposes?

A. Not for our grain distilling. There are two types. You can make whisky out of maize, or anything, out of potatoes, if you like. That is what you call the raw-grain distillers. The high-class Scottish whisky is made from the very best malting barley, either Scottish or some Californian, probably. It is wholly malt, and the whisky is made entirely from the malt. These raw-grain distillers sometimes use a good deal of the No. 3 Canada Western, but it is not malted.

Q. No. 3 Canada is not malted, but what we call Canada Western Extra is a malting-grade, is it not?

A. Mr. MACDONALD: No. There is 3 Canada Western barley. The Distillers' Company here were practically the only users of it for a long time for distilling. It is not used for malting; now they have come on more to 3 Canada Western, 6 Row variety; that is another of their grades.

Q. Is that a malting variety?

A. No, it is a distilling barley. They use it for distilling, not malting. It is a similar operation.

Mr. AITKEN: There used to be a considerable trade done in oats and barley for feeding. That has been going down rapidly in the last 10 or 12 years, simply because of the decrease in the horse population. The number of horses in the City of Glasgow now is very small compared with what it was 20 years ago, there is so much motor-haulage. Feed oats and feed barley have gone down

very much indeed. There is a certain amount of barley ground up for cattle feeding.

Q. Did you ever hear of any complaint about the condition of Canadian barley coming over here, too much foreign matter in it, or something of that sort?

A. Yes, there have been one or two complaints.

Q. As in the case of wheat, would it be isolated cases?

A. I think probably as far as Scotland is concerned, there would be more complaints about Canadian barley than wheat. There have been one or two cases where the distillers could not use it.

Q. Was that because of the condition of the barley itself or of the admixture of foreign matter?

A. It just happens sometimes that barley does not germinate." (Evidence pp. 10398-10400.)

It developed later in the course of questions (evidence p. 10403) that the real malting grades (for instance, No. 3 C.W. Extra) were not coming to Scotland. Recently, largely as a result of drought, the production of malting barley in the West has been no more than sufficient to meet domestic and United States demand. Premiums have often existed and there has been little for overseas trade. It appears to me that more publicity among our producers regarding malting varieties and the best cultural methods should be undertaken. At the same time, overseas buyers should be made better acquainted with the malting grades of our barley. There is also need for further study of environment, barley variety and malting methods in their effect upon the diastatic activity of the resultant malt.

Flour

Representatives of the Canadian National Millers' Association and the Ontario Flour Millers' Association appeared before me in Winnipeg on January 29, 1937.

Mr. G. S. McArthur of Toronto, Secretary of the Ontario Flour Millers' Association, made the following representation:

"We desire that our views be heard and considered for the following reasons:

(1) That Canadian flour in foreign markets creates a demand for Canadian wheat.

(2) That Canadian millers over a period of the last 20 years have ground over 20 per cent of the wheat produced in Canada and nearly 25 per cent of the wheat marketed.

(3) That Canadian millers are creatures of circumstance in that they can only sell flour for export when Canadian wheat is on a world's parity of value, and any marketing policy that contemplates withholding supplies from world markets over a long period in the hopes of realizing higher prices stifles their operations.

(4) That the successful merchandising of any food product depends on being able to give consumer steady supplies in relation to demand 52 weeks in the year.

(5) That the industry itself is inherent to Canada, and represents a huge capital investment spread from coast to coast." (Evidence p. 3951.)

The recommendations of the organization were:

"As to ways and means, we respectfully submit—

(1) The Federal Government be urged to make Reciprocal Agreements with countries offering possible markets for Canadian wheat and flour.

(2) The removing of transportation barriers so that flour, as a factor in maintaining and increasing wheat sales, will move at freight rates more in line with rates on wheat.

(3) Co-operative methods be accepted by making known in potential markets the superior quality of Canadian wheat and flour." (Evidence p. 3961.)

"In conclusion we respectfully ask:

(1) That there be a continuation of an open market in Winnipeg with its day by day reflection of actual values and price.

(2) That no government agency be again permitted to purchase options.

(3) That as soon as practicable the present most efficient Wheat Commission (the Canadian Wheat Board) be permitted to clean up their operations and withdraw.

(4) That Canadian Millers, in whatever proposals be made for the betterment of conditions, be given their rightful place as a most important selling force, and as such, and in the general interests of the Country as a whole, be never again placed at a disadvantage as compared with foreign mills grinding Canadian wheat." (Evidence p. 3964.)

The last reference to being "placed at a disadvantage" refers to those occasions when the Pool offered wheat overseas at less than the domestic price at Winnipeg, plus transportation and other necessary charges.

The recommendations made by Mr. D. S. MacLachlan for the Canadian National Millers' Association were:

"Finally, we suggest for the consideration of the Commission the following ways and means for extending the sale of Canadian wheat and flour—

(1) A free and open market.

(2) Reciprocal trade treaties.

(3) Stabilization of exchange.

(4) Equalization of all freights on wheat and wheat products from inland points to seaboard.

(5) Maintenance of a fair differential between wheat and wheat produots for ocean shipment." (Evidence p. 3843.)

Overseas Evidence

In London, I had the benefit of the views of representatives of the National Association of Flour Importers. Like the Canadian millers, these men favoured a free market; premiums in such a market represented the intrinsic value of the wheat and are not resented. "Free trading leads to confidence and confidence tends to increased trade," in their opinion. Regarding flour, they desired a free market, stable exchange and no discrimination as compared with wheat in inland or ocean freights. At present, it was stated (evidence pp. 9706-08) the rates on wheat, both inland and ocean, are considerably lower than on flour.

The British market imports some 2·3 million barrels of Canadian flour annually, equivalent to about 10 million bushels of wheat. Further, the importation of Canadian flour implies or forces the importation of Canadian wheat. They believed that if it were not for the constant push and energy of the flour importers and of Canadian millers, the British miller would tend to reduce the use of Manitoba wheats to a minimum (evidence p. 9668). The majority of flour importers do not hedge, it was stated, but it is an added facility when somebody wants that protection.

Freight Rates

On the question of relative freight rates on flour and wheat as well as on the question of domestic and export freight rates on grain (raised in evidence at Vancouver and Edmonton, particularly), I have been careful to inform those concerned that their representations should be made to the Board of Railway Commissioners for Canada. This is the Board having jurisdiction in such matters.

Research

I have made some inquiry into researches made to date into the question of industrial uses for wheat, other than the manufacture of flour, macaroni, semolina and similar products. I learn that wheat starch shows excellent promise from the technical point of view, but that economic considerations usually lead to the use of corn in starch manufacture. I am informed that in years of low wheat prices, the lower grades of wheat, having a starch content equal to or higher than that of the top grades, might be partially utilized in this way. It was pointed out in reports of the National Research Council (See for instance "The Relative Merits of Wheat, Corn and Other Starches, A Survey of Current Literature" by C. A. MacConkey and "Industrial Uses for Wheat Starch" by W. Gallay) that the consumption of starch in Canada annually is about 100 million pounds, mainly as confectioners' glucose and for culinary purposes, but also

in the manufacture of baking powder, in laundry work and to a small extent in several other processes. About 95 per cent of the starch used in Canada is derived from corn because of the lower cost. Wheat starch, however, has some superior qualities in textile finishes, culinary pastes and baking powder.

Researches into the use of grain alcohol in motor fuel have also been carried on. A report has been prepared on this subject by Mr. C. Y. Hopkins of the National Research Council. While some desirable qualities in alcohol as a motor fuel were evident, the cost seems to be out of all proportion to gasolene, at present.

> "It is estimated that the cost of producing alcohol from grain is three or four times the cost of producing gasolene."

Further, however, it was found that

> "The use of alcohol in proportions of 10 or 15 per cent of the total motor fuel consumption might render unnecessary the importation and use of tetraethyl lead as an 'anti-knock' agent."

Barley, as a matter of fact, seems to be a more economical source of motor fuel than wheat.

The Associate Committee on Grain Research

This committee associates the workers of the National Research Council, the Dominion Department of Agriculture, the Board of Grain Commissioners and four Universities, McGill, Manitoba, Saskatchewan and Alberta. Other Government departments, laboratories and commercial organizations have co-operated from time to time. Some of the studies made under this committee's supervision have covered the drying of tough and damp wheat, the feasibility of using protein content as a factor in wheat grading, the testing of varieties and strains of grain, frosted wheat and its grading, investigations of malting barley, the oil quantity and quality of western flax-seed, drought resistance in wheats, and Durum wheat research.

There can be no doubt that these studies have greatly advanced our knowledge of Canadian grain and that they have had important commercial applications of substantial value to the producers of grain. It is of interest to know that such co-operation and unified action is available to meet the scientific problems affecting grain as they arise. I feel sure that the Government will continue to give to such work the consideration and support that it deserves.