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Being a thesis respectfully submitted to the
University of Kentucky under the direction of the
Department of Economics as partial fulfillment for the
degree of Master of Arts.

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C O - O P E R A T I O N I N G R A I N

M A R K E T I N G

with

SPECIAL REFERENCE

to

THE CANADIAN WHEAT POOL

Being a Thesis respectfully submitted to the
University of Manitoba under the direction of the -
Department of Economics as partial requirement for the
degree of Master of Arts.

Robert McKee Frayne.

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"ECONOMICS IS A STUDY OF MANNEID IN THE ORDINARY
BUSINESS OF LIFE;

CO-OPERATION IN THE WAY OF CONVICTING CERTAIN PARTS
OF THIS BUSINESS. "

*****MARSHALL AID PAY.

P R E F A C E.

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This Thesis aims to set forth the marketing problem that has forever confronted the grain producers of the Canadian West, and attempts to portray the relationship of Co-operation in Grain Marketing to the solution of that problem.

The method adopted has been, first of all, to place agricultural co-operation in its' natural setting; and it has therefore been necessary to introduce considerable historical narrative, as well as accredited technical data.

The writer has discovered that co-operative marketing has developed in the Canadian West with little regard to pure theory or to established principle; therefore, of necessity, the subject of our enquiry forces us to approach it from the practical side-- the resulting deductions being formed upon the facts revealed by investigation.

It has been the aim of the writer to treat the subject as a dispassionate outsider, and not from the point of view of any particular group interested in the problem.

The hypothesis is that prior to the instigation of the large Co-operative movement,

there was amongst the Canadian farmers a chronic state of dissatisfaction with prevailing system of marketing their grain. The widespread belief that certain "middlemen" were consuming a share of agricultural sales out of all proportion to the services rendered, either to consuming companies, or to the producers, and were making an excessive profit, became acute. The Canadian Wheat Pool is the physical evidence of this dissatisfaction.

The importance of the grain trade to Canada is noted in the first chapter--"Canada as a Grain Producer", and because of this importance the most efficient system possible should be established for the marketing of Canadian Grain. To what degree the Wheat Pool adds to "Grain marketing efficiency" will be seen in the final chapters of this study.

The reference plan is as follows:- An alphabetical Bibliography is given after the closing chapter. Each book report, or article is numbered-- and when referred to, these numbers will be quoted, and the page cited. The graphic figures, of which there are four, will be referred to by their corresponding numbers.

.....R.M.F.

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CO-OPERATION IN ITS' RELATIONSHIP

TO MARKETING

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"As an aspect of life, co-operation is concerned with free men in self-regulated action." It is not a form of charity organization. The latter is concerned with the sick man, as such: it exists to heal his wounds and send him out whole from the hospital for another venture on the path of free life. In proportion to its success, its field of activity diminishes; for the aim of charity is, or should be, to abolish charity. "The poor always ye have with you" is not an ultimate pronouncement, but a practical truth. Co-operation is to charity organizations as prevention is to cure. Its first concern is the weak, but it is the concern of weak men for themselves, so to conduct the ordinary business of life that they may develop to the full their own welfare and that of their fellows.

Being not only concerned with business, but actually one way of conducting business, co-operation has a range of potential activity that is as wide as the business of life itself. It is only limited in the sense that in some departments a form of organization which is not co-operative is at present from a business point of view superior.

What then, is this way of conducting business which forms the subject of our inquiry? It is the way of co-operation or working together." (No 10, Page 1)

Agriculture is characterized by individual production. All other industries have group production and with it group financing, group distribution, and group marketing. Individual production methods do not handicap agriculture, because the most efficient unit, generally speaking, is the family-size farm.

Individual marketing is another story. Unorganized growers must deal with organized buyers, who not only command the available market information, but who understand how to use it for strategic purposes in price-making. The obvious remedy is to meet group action with group action, but long experience has abundantly shown that unified movement is secured only through unified control. Hence the pool in co-operative marketing.

"Co-operative marketing is the organized sale of farm products on a nonprofit basis in the interest of the individual grower. It is business engineering applied to agricultural commerce. Its utility consists in the ability to combine the advantages of individual production with the advantages of joint sale. It owes its widespread adoption to a belief, on the part of organized farmers, that without the aid of co-operative marketing the products of the soil cannot be distributed to yield satisfactory returns." (No 22, Page 2)

Pooling was a characteristic of the earliest known efforts in co-operative marketing in Switzerland, and has been a feature of most co-operative associations in the United States except the Rochdale group. At first it was merely a method or device to equalize returns between growers, usually being based on some sort of grading. Pooling still has that

function, which is important, but with the development of co-operative marketing on the commodity basis it has also become recognized as the key to the control that makes merchandising possible.

Where growers want to meet organized buying with organized selling--and in a certain sense that factor is always prominent--it is not enough merely to form a co-operative association. If it is to be effective, then co-operative must have control over the products which it handles. Given control, it can regulate the rate of movement to market, and it can regulate the distribution of products as to place. These two factors include virtually the whole process of orderly marketing, and to a large degree they are the strategic powers in price-making as far as producers are concerned.

According to the Oxford Dictionary, to "Co-operate" means to "work together, act in conjunction with another person or thing, to an end or purpose, or in a work." The legal definitions are likewise abstract. "Co-operation", which in college sport, for example, may include actual playing or merely rooting, has no universal connotation. Similarly, in economics the application may be to a simple manual operation such as pulling along a weight, to the broad field of division of labor, or to a particular type or formula of business organization. J.A. Hobson, a British economist, states that the word "co-operation" is the most confused in the entire terminology of economics.

The word "marketing" is less likely to be misinterpreted because of freedom from a social connotation. Yet this word likewise needs to be defined, since it is used in both a broad and a narrow sense. Professor B.H. Hibbard speaks of a market as "the sphere within which price-determining forces operate."

"The market" is a term which has come to mean something more than a place. It is used to describe the collective mind that finds expression in the fluctuating prices at which property is bought and sold. One of the leading financial dictionaries defines the word "market" as follows "in general the meaning is the predominating feeling as to values" (No 27, Page 3)

Marketing does not necessarily require a market-place, but it does require that there be a seller and a buyer. For the purposes of this thesis it is wise to limit its meaning to the methods employed in getting the commercial farm product from the grower to the consumer. Actually, the cause or the effect of the sale frequently reaches back to the first stages of the growing-process, including the factors of location and the selection of stock or seed; therefore production cannot logically be divorced from marketing.

Co-operative marketing, then, to quote E.E. Faville, editor of the Western Farmer, is "a sane and sound business application of business methods to farm merchandise."

Webster refers to pooling as "any aggregation of the interests of property of different persons made to further a joint undertaking." In the pooling contracts used by many co-operative associations it is provided that "the association may pool or mingle all products of equal grade," etc. Pooling may therefore be regarded largely as the transfer of control over the direction and rate of movement of products to market from a large number of individual growers to a co-operative association. In one sense it is wholly a physical process, in which all products of equal grade are thrown into one lot and then allowed to move into trade channels as rapidly or as slowly as the judgement of the co-operative managers determine. Properly speaking, however, the rate of movement into consumption is not a part of pooling at all. Rather that is merchandising, while pooling refers chiefly to transfer of control and division of the proceeds. Pooling is thus readily discovered as the basis for all effective co-operative merchandising.

The part which pooling plays in co-operative marketing needs general clarification. It is not an end in itself, but purely a means to an end. The object of co-operative marketing is intelligent merchandising, which depends for its success upon control over the product by the association. Pooling gives the association the necessary control. Pooling is not primarily for holding, but for merchandising. That point is often confused.

Pooling in itself has no special merit. It does a group of growers little good to pool their product unless they also merchandize it. Hence pooling is of doubtful utility without

marketing. On the other hand, it is unfair and unwise to attempt pooling without equitable grading. Pooling and grading are therefore inseparable--each implies the other.

Amongst many peculiar characteristics of man, is one which might be termed a "capacity for co-operation," and this faculty like all others, tends to improve by practice, and becomes capable, as John Stuart Mill says, by assuming" a constantly wider sphere of action."

We witness many associations of individuals voluntarily combining their minor contributions to perform a greater work, both in the realm of industry and agriculture. And by so doing an end is attained which no one person, or small number of persons are economically strong enough to accomplish.

Co-operation in its simpler forms has always played an important part amongst our farmers, both in the United States of America and in Canada. Especially this can be said of settlers on the frontier. Before a real state of independence was attained it was almost compulsory to help one another, to co-operate. The early pioneers had their barn-raisings and their threshing bees. The railway was generally a great way off and we find organized ^{beef} rings, wherein every farmer took his turn to supply a whole animal which, when divided up amongst the members secured to each a regular supply of fresh meat. The beef ring lives in many parts today. The earliest form of co-operative marketing was developed about one hundred and fifty years ago, as far as the United States is concerned.

and putting it in the words of today, we termed a "livestock shipping association."

Livestock was the staple product of the pioneer; the market was distant; transportation was on foot, by trails and bad roads. We find that the first co-operation marketing enterprises took the form of driving big droves of hogs and cattle to the distant city markets. This method of procedure was an absolute success.

Is it not an economic truism that, as civilization advances, the individual must give way to the group; the interests of the one must be sacrificed to the rights of the many; self-interest must give way to co-operation. In recent years, this trend towards co-operation has become very marked, until today the word is on the lips of everybody. There is, however, a great wall between lip service and real service which must be torn down--the wall of ignorance and self-interest. It is then of paramount importance to educate society as to the value of co-operation as a whole, but all great movements are born of necessity, and since one of the great necessities at the present time is the equitable marketing of farm products, now is the time to exert every effort to convince the producer of the great benefits to be derived from marketing his product co-operatively, and once having realized these he will turn to the other, wider fields of co-operation as a whole.

There is no magic about co-operation; it is not worth while to co-operate just for the sake of cooperating. There must be some real service to perform--either because of a lack of marketing facilities, or dishonesty of local buyers, or some other vital reason, before a farmers' economic organization should be called into existence-- and then only unless steps are taken to insure efficient management,-- at least as efficient as that of the individuals or firms with which the new organization must compete. The "co-operative spirit" we hear so much about is apt to be a result of successful economic endeavor, rather than the cause of it.

"Under co-operative marketing the fever and the fear are removed from the season of the harvest. The farmer who is favoured by season or seedtime with an early harvest pools his crop with that of his neighbour. For like quality and grade of product they receive the same price. Their crop moves to market from their common bin in orderly fashion. There is no "surplus" bugaboo chasing relentlessly on their heels and breathing the scorching fire of ruinous price. The farmer retains his individualism as a producer, but he puts group selling to work as his sales manager. Neighbour joints with neighbour, they pool their product, each man has one vote in the control, and they share and share alike in a new system of economic justice for agriculture." (Ref. # 7. Page 1X)

Sound co-operative marketing enterprises, like sound business institutions of every kind, succeed chiefly because they

are constructed and operated according to plans devised and approved by experience. There are necessarily variations to meet local conditions and the requirements of different commodities, but after all the basic principles of success in co-operative marketing are the same, no matter what the commodity nor where tried. The variations are chiefly in details of operation.

The characteristics of co-operative marketing enterprises as they have been developed by the most successful experience may be summarized thus:-

Their primary purpose is to merchandise the products of their members. An orderly and even movement of product to market, regulated as closely as possible to market demand at a fair price, coupled with more economical selling and plans for broader markets, is substituted for the method under which producers dump their crops after harvest and make necessary a speculative system to carry them to the period of consumption. It is at this point that co-operation and speculation part company forever. Merchandising is the heart of all successful co-operative marketing, for it stabilizes crop movement, stabilizes prices, and stabilizes agriculture.

They are based on legal, binding contracts, under which growers pledge their products for a term of years to the associations. Contracts prevent disruption of co-operative associations by their enemies; permit permanent

business relationships and acquisition of necessary processing and storage facilities; provide a sound method of financing; and stabilize the operation of associations. (# 35. Page 4)

Products are pooled according to grade, size, or other physical characteristics. Some commodities are best pooled for the season, others for a part of the season, others by shipments. Pooling equalizes returns between growers in exact proportion to amount and quality of product supplied by each. It is the cornerstone of merchandising, for it passes the control of the commodity from thousands of independent producers to one organized unit.

They are managed by experts who specialize in marketing that particular product. Managers of co-operative marketing associations are often regarded as the ablest men in their respective industries. This principle precludes "dirt farmer" management; the farmer is a highly trained specialist in production, but that does not qualify him as a marketing expert.

They are organizations of producers only, and are controlled as to policy and procedure by their members. Co-operative marketing is a business of, by, and for farmers, and exists for the sole purpose of marketing farm products. An organization of producers only, on the non-profit basis, permits complete unity of purpose. Every member is usually on an equal plane with every other member in voice and vote. Control is vested in a grower president and grower board of

directors, who must be members, and all matters of policy must be decided by them. Directors are usually chosen annually by districts small enough to permit adequate representation to all.

They are operated as semi-public bodies. Farmers are kept completely advised concerning all activities of co-operative associations and are furnished with readable financial statements. Their business operations and procedure are conducted openly. Boards of directors' meetings and annual conventions are open to all members, and to the public also. Many co-operative associations have one or more public directors named by the Governor of the state or agricultural college head. Co-operative associations have no secrets either from their members or from the public which they serve.

CANADA AS A WHEAT PRODUCER.

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Wheat is Canada's premier product, and about 90% of it is grown on the western plains. Eastern Canada, including Ontario, Quebec, and the Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edwards Island, practices mixed farming. In the Ontario peninsula and the St. Lawrence valley, dairying and horticulture have been highly developed. Wheat is grown chiefly as a rotation crop and is of less importance than oats. The acreage in the five Provinces has shown little increase during the last decade and is usually only about 10 percent of the total acreage of Canada. Soft winter varieties are usually sown. The Laurentian Plateau, a rugged region of eastern and western Canada, produces practically no wheat. British Columbia also has a very small acreage. The immense crops of hard spring wheat that give Canada a dominant position among wheat exporting countries are grown on the prairies of Manitoba, Saskatchewan, and Alberta.

The wheat belt stretches across the southern portions of the prairie Provinces from a little east of Lake Winnipeg to the foothills of the Rocky Mountains in Alberta. In rough outline, it forms a triangle with the apex somewhat north of Edmonton and the base resting upon the international boundary from Winnipeg to Calgary. In Manitoba the belt is narrow, but in Saskatchewan it reaches northward to Prince Albert, and in Alberta runs into the Peace River country. Its general position is indicated by the railroad lines crossing the Prairie Provinces.

In the Provinces of Manitoba, Saskatchewan, and Alberta, known as the "Prairie Provinces", agriculture is the important industry and the production of wheat the principal occupation of farmers. In these three Provinces there are 256,000 farms, which, on the basis of the 1926 crop of 383,440,000 bushels, gave in that year a production of nearly 1,500 bushels per farm. Since there are regions within these Provinces in which oats, barley, and flax are grown extensively, and other regions where the production of livestock still predominates, it will be recognized that the output of wheat per farm in the more exclusive wheat areas is much larger than is shown for the Provinces as a whole.

Canada, by virtue of the vast stretches of level fertile soil in the prairie Provinces, is the most important competitor of the United States and Russia in the world wheat trade. The fact that Canada has expanded her wheat production from an average of 197,000,000 bushels before the war to 470,000,000 in 1923 shows the rapidity with which this country is developing. Because of her relatively small population some 70 percent of Canada's wheat must be sold abroad. The necessity of moving most of this wheat quickly and cheaply a distance of some 2,000 miles to the Atlantic seaboard has been the incentive to develop a marketing system which is remarkably efficient.

Thirty years ago, the western plains were virtually untouched by the plow. The advance of settlement followed the construction of the railroads from Winnipeg to the Pacific Ocean in the eighties of the last century. Since 1900 the wheat industry has developed with astonishing rapidity, both in production and

facilities. In that year the territory that is now embraced within the prairie Provinces contained approximately 2,000,000 acres of wheat, 500 grain elevators, 5,000 miles of railroad, and 400,000 inhabitants. In 1923, the area devoted to wheat was 21,665,000 acres; the number of elevators about 4,200; the railway mileage, more than 19,000, and the population about 2,000,000. Despite this phenomenal development, the limits of cereal production have as yet hardly been approached. Of the 170,000,000 acres of arable land in Manitoba, Saskatchewan, and Alberta, less than \$40,000,000 acres have been brought under cultivation. As recently estimated, there are still some 25,000,000 acres of unoccupied fertile land lying within 15 miles of existing railroads. And cultivable land in the west is cheap. Railroad lands reputed to be suited to general farming are offered at \$18 an acre on easy terms, and considerable tracts are still open for homestead entry. A recent official report gives the average value of occupied farm land, including both improved and unimproved, in Manitoba as \$28 per acre, and in Saskatchewan and Alberta as \$24 per acre. Further increase in wheat production appears to depend upon market conditions for the amount of land available will not be a limiting factor for many years. The following quotation from the report of the grain markets commission of the Province of Saskatchewan, issued in 1924, states fundamental reasons for the development that has taken place and may be prophetic of what is to follow; "The prosperity of Saskatchewan" in the words of the commission, "depends and must always depend on agriculture. This is a pioneer Province, and pioneer agriculture

must with us consist principally in grain production. Under our conditions of soil, climate, and markets, grain production offers at once the simplest, easiest, and quickest means to permanent agricultural development. A large proportion of our settlers are not equipped at the outset with either the knowledge or capital to enable them to embark in other lines of farming as well, desirable as it is that they should do so as soon as they can." And again, "Our grain trade is at present of prepondering importance. For decades to come it must continue in that position, for Nature through thousands of years has been storing up fertility in our virgin soils, and the growing of grain offers at once the most natural, most speedy, and easiest method of turning that fertility to the use of man." (Report of Saskatchewan Grain Markets Commission-1914)

The grain trade itself excites wonder--not by its' remarkable growth alone. Its' task calls for a marvel of organization. As soon as threshing commences in the autumn an avalanche of grain begins to move forward from the farms of Manitoba, Saskatchewan, and Alberta. The volume of wheat to be marketed is immense, the wheat fields are far removed from the seaboards, and the Pacific ports as yet are equipped to handle only a small share of the movement. The great problem is to forward as much of the crop as possible before the winter closes navigation on the unique Great Lakes-- St. Lawrence system of inland water ways leading to Montreal and the Atlantic ports.

There is nothing more impressive in Canada's commercial life than the precision and smoothness with which the machinery of the grain trade performs its huge task. Railways, banks, grain dealers, lake carriers, ocean port authorities,

the elevators in the wheat fields at the head and foot of the Great Lakes, and at the sea-board--these and other interests work at top speed to receive, clean grade, and forward inconstant flow as great a stream of grain as the various carrying and transshipping facilities can handle. The rapidity of the movement is astonishing.

The importance of the wheat crop, not only to farmers but to the people of Canada generally, insures to the producers of this crop the sympathetic consideration of all classes whenever the prosperity of the wheat farmer is threatened. This fact explains the support accorded farmers in matters effecting the production and marketing of the grain crop of Canada by legislatures, both Dominion and Provincial, and by organizations and individuals not directly concerned with agriculture.

WHEAT PRODUCTION IN PRINCIPAL
PRODUCING COUNTRIES 1922-25

(In thousand bushels; i.e. 000 omitted)

COUNTRY	1922	1923	1924	1925
ARGENTINA	195,842	247,807	191,138	214,765
AUSTRALIA	109,455	124,993	164,612	107,000
CANADA	399,786	474,199	262,097	411,376
INDIA	366,987	372,363	360,640	324,651
RUSSIA	202,368	326,885	381,727	661,130
UNITED STATES	867,598	797,381	862,627	669,365

EXPORTS OF WHEAT FROM PRINCIPAL
EXPORTING COUNTRIES 1923-1925

COUNTRY	Year ending June 30			AVERAGE
	1923	1924	1925	
ARGENTINA	145,428	170,009	127,029	147,489
AUSTRALIA	49,625	83,384	123,580	85,530
BRITISH INDIA	24,148	18,924	45,209	29,427
CANADA	274,886	343,781	194,849	271,172
UNITED STATES	221,923	156,430	258,023	212,125

MARKETING CANADIAN WHEAT PRIOR
TO THE WHEAT POOL.

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Up to sixty years ago the territory now included in the provinces of Manitoba, Saskatchewan and Alberta was private property, owned and governed by "the Governor and Company of Adventurers trading into the Hudson's Bay", by virtue of a charter of monopoly granted by Charles the Second in 1670. Over this vast area the hunter and the fur trader had roamed, with only a small region occupied by men who cultivated the soil and endeavoured to found permanent homes. In 1869 the Company surrendered its charter to the Crown for the sum of £300,000, the territory was included in the newly constituted Dominion of Canada, and two hundred million acres of agricultural land were opened for colonisation and settlement by the more humble adventurers from the crowded areas of Europe. Colonisation at first was slow, but as the land was taken up and grain produced for export, private capital was attracted to the building of country elevators and large terminal elevators at the head of the Great Lakes, where the western wheat is loaded into vessels for transport to the seaboard, and there was gradually built up one of the most efficient grain-marketing systems in the world.

In 1885 the Canadian Pacific Railway was completed across Canada. This provided an eastern outlet for grain from the prairie region of the west.

With the construction of railway branch lines and the opening of new regions for settlement and cultivation, there arose an

acute need for country elevators. Storage facilities at country points were inadequate and the railway car supply was not sufficient to move the grain from the prairies to the lake ports before freeze up. The Canadian Pacific Railway, even had it deemed the policy advisable, could not itself construct elevators because of a shortage of capital. It seemed advisable, therefore, to encourage the building of grain elevators on the railway right of way by outside interests.

As a special inducement to those who would build elevators of 25,000 bushels capacity, having cleaning facilities and elevating machinery operated by steam or gas engines, the railway offered free sites, and agreed that at such points they would not provide cars for loading from "flat warehouses" (grain warehouses without elevating machinery) nor allow farmers to load grain directly from their own vehicles into cars. The effect was to force producers to use the facilities provided by the elevator companies. The companies, in turn, under their agreement with the railway, were required to furnish storage and shipping facilities to the farmers.

The apparent monopoly enjoyed by elevator companies was the cause of much complaint between 1887 and 1898. The Royal commission of 1899 found "little if any competition" in the making of prices at country points. Farmers charged that they were subjected to excessive dockage and short weights. Special bins for storing grain were not available in many cases, and farmers who wished to store grain were compelled to place it in bins with other grain. Since elevators were not required to

guarantee delivery of the same grade of grain as that taken in (except in the case of special bin grain) farmers complained that, in some instances, the grain loaded out for their account was of lower grade than that which they had delivered to the elevator. The charge for receiving, elevating, cleaning, and loading was $1\frac{1}{2}$ cents per bushel. Many farmers preferred to load their own grain directly from their wagons into cars, thus saving the elevator charges, although by so doing they were subject to the cost of freight on screenings if their grain was not clean.

The present Winnipeg Grain Exchange was organized as a voluntary nonincorporated association in 1908. As such, it is a self-governing institution, founded on the consent of its members, based upon a mutual contract set forth in its constitution. The functions of the exchange, as stated by the secretary, are to provide a market place, market news, and a system of arbitration; to fix minimum commission rates; to regulate the forms of contracts used in futures trading; and to make rules and regulations required by these functions. The affairs of the association are managed by a president, vice president, a secretary treasurer, and a council of 12 members, elected at the annual meeting of the membership. The committees of arbitration and appeals are also elected at the annual meeting, while other committees are appointed by the council.

The members of the exchange are individuals, but through them firms and corporations are accorded trading privileges.

The number of members is not fixed, but in recent years has been about 350. A large majority of the members are primarily engaged in handling cash grain. These include the elevator managers, millers, shippers, exporters, cash commission men, and cash brokers. From the point of view of the main business done by them, the 355 members of the exchange in 1921 have been grouped as follows, a classification that would be approximately correct today:-

Elevator managers	120
Millers and malsters	21
Cash grain commission merchants	32
Future brokers	50
Cash grain brokers	13
Shippers and exporters	81
Vessel and insurance agents	10
Bankers	8
Officials	5
Nonactive	<u>17</u>
TOTAL.....	355

The following are extracts from the report of the Royal Grain Inquiry Commission (Ref.# 25) printed by order of parliament and chairman'd by W.F.A. Turgeon, it reads in regard to the complaints against the Winnipeg Grain Exchange as follows:-

"In so far as the exchange, therefore, is an organization to provide for the maintenance of a market place, it forms, without undue restriction, a necessary and beneficial link in the marketing of western grain. The Exchange does not of

itself buy or sell grain. It does set up the machinery under which grain can be conveniently bought and sold. It does not appear, then, that there are any undue restrictions placed either upon obtaining membership in the exchange, or upon making use of this machinery in the buying.

On July 20th, 1926, Dr. R. McGill made the following statements:-

"The Winnipeg Grain Exchange is a machinery for grain trading. What the Grain Exchange does is to provide the best machinery it can devise, equip it thoroughly, keep it working smoothly, and in that way facilitate the work of collecting the grain crops of the West, and of marketing them in the markets of the world.

I pass now from that to international wheat marketing. The two things are closely related. The Winnipeg Grain Exchange is in reality an international body. It admits members of all nationalities and races. It includes members who are American citizens resident in the United States. It has members from Great Britain, from France, from Belgium, and even from Japan. And the grain business in Canada is mainly an international business because most of our wheat is exported in the form of wheat."

We read from the report (Ref # 25) in regard to the complaint of hedging, the following:-

"In the first place country elevators, operators of private terminal elevators, exporters, foreign importers and millers all use the futures market for purposes of hedging. Prof. A.B. Clark, Professor of Political Economy in the

University of Manitoba, points out that "hedging on the Grain Exchange is simply a device by which the holder of wheat seeks to protect himself against the risk of loss resulting from an actual sale or purchase, through fluctuations in price by balancing against it an equivalent purchase or sale for future delivery."

"It must be pointed out, too, that hedging operations furnish a very large part of the volume of business done in the futures market. At every stage in its progress from the producer to the consumer the grain is hedged. In every instance there is the same motive in doing so, the limitation of risks.

Apart altogether from the question of the value of legislation, we think it will be of interest to cite here a statement made by Mr. Julius H. Barnes, quoted in the Chicago Journal of Commerce of May 10th, 1924. Mr. Barnes is one of the leaders in the world's grain trade, and he enjoys in Canada as well as in the United States, a reputation which will allow no suspicion of his motives and no doubt of his ability to speak with accuracy on matters pertaining to the marketing of grain. Mr. Barnes was recent President of the United States Chambers of Commerce, and during the war he was head of the American Government's Grain Corporation. The statement which we cite was made by him at a time when grain exchanges in the United States had not yet emerged from the period of lessened activity to which we have referred. His statement, which follows,

is a tribute to the benefits of future trading even when carried on under restricted legislation:-

"Trading in futures is the one thing which has kept prices up and the market steady. All wheat is traded on the basis of Chicago market prices and for seven months the trading on this market has held wheat from ten to thirty cents above the world market rate. The sole reason for this difference is because American future trading has held prices above the world level by investment and speculative dealing in futures." (Ref # 25)

The conclusions drawn from this survey of futures trading and a future market are given as follows by the Royal Commission:-

(1) That a futures market permits hedging and that hedging by dividing the eliminating risks in price variations reduces the spread between the prices paid to the farmer for his product and those obtained for it upon the ultimate market.

(2) That hedging facilitates the extension of credit and thereby reduces the cost of handling grain by making it possible for grain dealers to operate on less capital than would be the case otherwise.

(3) That for the same reason hedging makes a larger degree of competition possible in the grain trade, on a given amount of capital.

(4) That hedging is of advantage to exporters so that even in instances where grain is handled under a pooling organization where the initial risk is carried by the farmer himself, in order to handle successfully the export trade such organizations find it desirable to make use of the futures market.

(5) That a competent speculative element in the market ensures a continuous and searching study of all the conditions of supply and demand affecting market prices.

(6) That speculative transactions tend to keep prices as between the contract grades and as between present cash prices and case prices in the future in proper adjustment to each other and to future conditions of supply and demand.

(7) That prices thereby tend to be stabilized and fluctuations reduced.

(8) That a speculative element is necessary in an exchange to ensure a continuous market so that when a crop is dumped upon the market in the fall the farmer will not suffer loss by a heavy drop through absence of demand for immediate use.

(9) That individuals who engage in speculative transactions without adequate knowledge or capital not only usually close heavily but also are a disturbing element upon the market. Their transactions become mere gambling.

(10) That it does not seem possible to legislate effectively so as to eliminate such individuals without disturbing the general and genuine usefulness of the exchange; but that legislation should be directed towards preventing the incompetent from being lured into speculation.

(11) That Parliament should not at present enact restrictive legislation in the expectation of tempering fluctuations on the exchange, or of improving and stabilizing prices, but that time should first be taken to allow the new American law on this subject to demonstrate its efficacy.

(12) That the penalties and precautions against rigging the market, or dishonorable trading, seem calculated to make such practices rare and unprofitable (Ref # 25.)

FARMERS STILL DISSATISFIED.

The Winnipeg Grain Exchange has not been popular with western farmers. Farmers' objections to this organization are based upon the principle of marketing represented by it. They have felt that selling, as conducted on the exchange, depressed the price of grain during the period of heavy marketing and that there was unnecessary speculation (Fig. 2, Page 48). Many have held that hedging of grain was detrimental to the producers' interests.

As indicative of the part played by the producers of grain in bringing about the various changes referred to, it is of interest that, between 1897 and 1914, 13 investigations were made by commissions appointed by Federal or Provincial authorities. According to the report of the 1925 Royal Grain Inquiry Commission "all of these investigations were prompted by complaints emanating from the producers of grain and they all resulted in the bringing about of at least some beneficial changes in the conditions complained of."

The various farmers' organizations in the Prairie Provinces, including those of an economic nature, as well as the co-operative associations handling grain, were formed to assist in bringing about the improvements referred to. To a very large extent they are tangible evidences of the farmers' dissatisfaction with the conditions under which grain was being handled.

In 1899 there were 447 elevators in operation in the Prairie Provinces. Two large milling companies owned 95 of these elevators, 3 line elevator companies owned 206, individual millers

and grain dealers owned 120, and 26 were owned by farmers' companies. The fact that it was difficult to make an elevator successful without the profits made by buying grain forced many small elevator companies to seek consolidation with larger organizations represented on the Winnipeg Grain Exchange.

Local farmers' elevators found it difficult to compete with line elevators and milling companies. In only a few cases were they able to obtain volume enough to operate successfully on a storage and handling basis. Furthermore, they were unable to compete in the purchase of grain for the reason that their larger competitors, with elevators at many points, could pay more than the market justified at points where farmers' companies operated and could balance their losses by profits at other points.

The adoption of the Manitoba Grain act did not entirely remove the causes for complaint. It provided that railways were to supply cars to farmers for direct loading, but many producers did not realize the full significance of the legislation. Furthermore, the conditions under which cars were provided were not specifically set forth, with the result that farmers were often unable to get cars when they were wanted. Although the law provided that elevator companies were to receive cars in rotation with farmers, the latter felt that the companies often received more than their share.

Shortly after the Manitoba grain act was passed in 1900 the grain dealers organized the North West Elevator Association. This association was organized for the purpose of avoiding duplication and unnecessary expense in deciding on prices and in transmitting them to local elevator managers, but farmers felt that it was a combination of grain dealers to reduce competition.

The feeling amongst farmers, aroused by their inability to get cars to ship grain, was very keen. They saw the principal decision of the Royal Commission in their favour nullified by the failure, as they believed, of the railway to live up to the intent of the commission's recommendation as expressed in the Manitoba grain act. Added to the discontent was the feeling of suspicion aroused by the action of the grain dealers in forming their trade association. The outcome of this situation was the formation in December 1901, of a farmers' organization known as the Territorial Grain Growers' Assn. Membership in the new association increased rapidly during the summer of 1902, and in the fall of that year, this newly organized farmers' association took legal action against the Canadian Pacific Railway for violation of the car distribution and other clauses of the grain act. The decision of the lower court, later confirmed by the supreme court, was in favor of the farmers.

In the history of the co-operative movement in the Canadian prairie, therefore, we find the "confluence" of two streams, the informal co-operation of the farmer pioneers and an increasing dissatisfaction of the wheat grower with the treatment received from the railway companies and the line elevators. In the pioneer days barn-raising and threshing bees were found most convenient and after the passing of the Manitoba Grain Act of 1900 the Magna Charta of the west, which gave the farmers the right to a car, neighboring farmers from necessity joined together to fill the car allotted to one of them. "It was in 1901 and 1902

that Grain Growers' Associations sprang up to enforce and revise the Grain Act." Protests were lodged. These protests in their turn led to investigation. And we discover that out of this advance for legislative reform there grew a co-operative movement which succeeded in building up two large co-operative grain companies, the United Grain Growers' Limited, and the Saskatchewan Co-operative Elevator Company, undoubtedly the two largest elevator operators in the West, and together handling about a third of the total crop.

The crisis came with the heavy crop of 1901. The railroad made a dead letter of the car distribution act, and the elevators forced prices to an abnormally low level. The wheat growers were angry and threatened a revolution. Cooler counsel prevailed, however, and the first constructive step was taken on Dec. 18, 1901, when seventy-five settlers around Indian Head, Sask., under the leadership of W.R. Motherwell and Peter Dayman formed the Territorial Grain Growers' Assn. Locals were quickly organized throughout the territory.

By 1904 the farmers wanted more than fair distribution of cars and the right of shipment--they wanted honest grades. They tackled the problem from every angle, and that soon took them to Winnipeg and to the establishment of their own sales agency on that great grain market.

The man who led the farmers to Winnipeg was E.A. Partridge. His experiences there convinced him that the ultimate solution of the grain growers' troubles was the establishment of their own selling agency. Partridge

and his neighbours at Sintaluta, Sask., organized the Grain Growers' Grain Company on January 27, 1906, \$25,000 in \$25 shares was subscribed, mostly in Manitoba, and the little company opened for business on September 5, 1906. It secured a seat on the Winnipeg Grain Exchange, and its plan was to sell grain consigned in carloads by farmers.

On the major economic issues confronting agriculturists in the region between the Great Lakes and the Rockies there is a remarkable unanimity of viewpoint. It is not surprising, therefore, that when the farmers of the three Provinces had established associations within their own boundaries to better economic conditions they should attempt to strengthen their position by interprovincial action along the same lines. The outward expression of this feeling was the formation, in 1907, of the interprovincial council, a central body made up of the executives of the provincial associations.

In 1909 farmers of Ontario thought they had enough in common with western farmers to justify uniting with the latter in a national agricultural organization. Accordingly, the interprovincial council was reorganized and renamed the Canadian Council of Agriculture. The Dominion Grange represented eastern agriculture in the new council.

Since 1909 other farmers' economic associations and business organizations of a provincial nature have been formed. Many of these have been added to the membership of the council. For the year 1926 the following organizations were represented; United Farmers of Manitoba, United Farmers of Ontario, United Farmers of Quebec, The Grain Growers' Guide, United Grain

Growers (Ltd), United Farmers Co-operative Co. (Ltd.) of Ontario, United Farmers of Alberta, and Saskatchewan Grain Growers' Assn. (Ltd.)

The Canadian Council of Agriculture has represented farmers on most of the major economic issues that have arisen since 1909. The council has adopted a definite policy on many questions, such as the tariff, taxation, rural credits, grain trade legislation, and freight rates.

It is noteworthy that Canadian farmers have had a national organization combining the larger provincial associations and working in their interests for nearly 20 years. The existence of a national body of this kind has done much to formulate agricultural policies and to present the viewpoint of farmers to legislative bodies, both provincial and federal. It has also widened the perspective of farmers and farm leaders giving them an interprovincial or national, rather than a local, point of view.

THE WORLD WAR AND THE EFFECT OF
THE ECONOMIC DEPRESSION AFTER THE WAR
ON PRICES.

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The last few years have brought an especially rapid development of co-operative marketing. This has been partly due to natural progress, but it also has resulted to some extent from conditions brought on by the World War.

When the Canadian Wheat Board was discontinued in 1920, the price of wheat went down very quickly, and during the next few years the farmers of Western Canada experienced about the hardest times in the history of the Canadian West. In fact, the price of everything they produced went down, while at the same time the price of the things they had to buy advanced. (Fig. 1 Page 42) While the rest of the country was still prospering and prospering partly as a result of wheat crops grown on the farms, conditions on these farms were going from bad to worse. It is only necessary to glance at some of the official figures given by the Federal Department of Agriculture for the past few years to show conditions as they affected farmers. For a wheat crop of 474,000,000 bushels in 1923 the farmers received a little over \$316,000,000. For the wheat crop of 1924 of 262,000,000 bushels, the farmers received approximately \$320,000,000. or \$4,000,000. more for a crop that was over 200,000,000 less than the previous year. These figures would make one wonder which was the most profitable-- a good crop or a poor crop. From a comparison of the net results of these two years, it would appear that the harder a

farmer worked and the more wheat he produced, the less he received for it and the poorer he became.

It was evident something had to be done, and when every effort to re-establish the Wheat Board failed, the farmers decided to take things into their own hands, on the principle that God helps only those who help themselves.

The price of wheat advanced much more rapidly during the war years than did the price of things which farmers had to buy. In 1917 a bushel of wheat was worth nearly one and one half times as much, in terms of other commodities, as it was in 1913. Some of this apparent advantage was lost because of reduced yields, which in certain regions amounted to crop failure; but, considered as a whole, the Prairie Provinces experienced a period of prosperity. As a result farmers expanded their operations through the purchase of additional land and equipment, improved their farmsteads, and increased their standard of living.

It is not intended to suggest that these expenditures by farmers were extravagancies, although in some cases there may have been evidence of extravagance. Neither should it be assumed that the expansion was confined to farmers. City

dwellers and business interests in general reflected the conditions of agriculture. In most cases the money spent during the period under discussion was no more than would seem justified by people, many of whom had for years undergone the privations of pioneer life, who suddenly received an unexpected addition to their income.

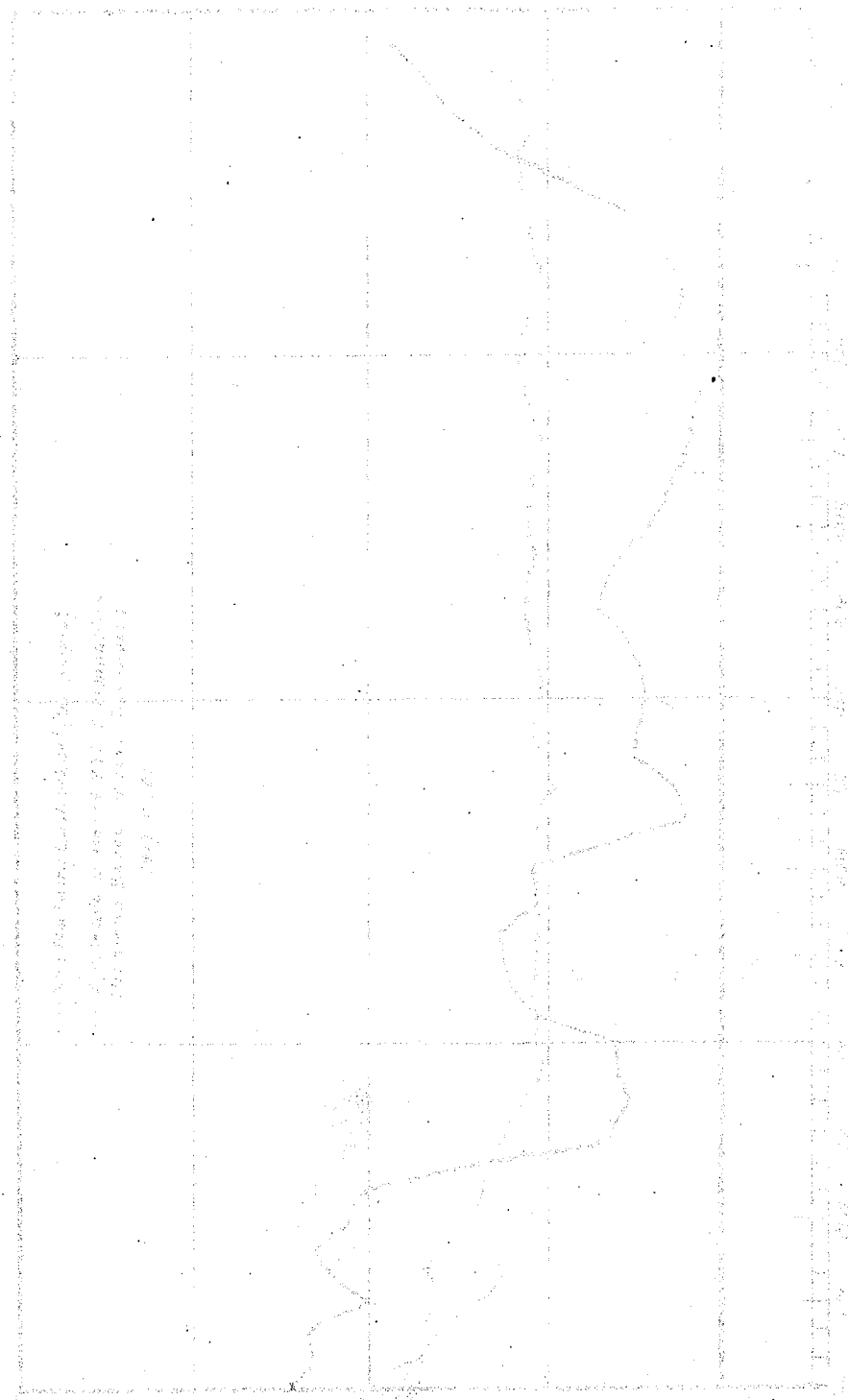
Unfortunately, as we are now able to see, this apparent

-- prosperity was based on a temporary condition arising out of the war; and expenditures, however justifiable they may have been, only aggravated the farmers' position a few years later.

After cessation of the wheat board's activities in August, 1920, and with the resumption of future trading, the price of wheat increased for several weeks to a point about 20 cents per bushel higher than the base price of \$2.63 paid by the board on the 1919 crop. Prices then declined rapidly during October, November and December 1920, the total decline amounting to about \$1 per bushel. This decline brought an agitation in some quarters for the re-establishment of the wheat board and in others for the organization of wheat pools. During the years 1920 to 1923, inclusive, public attention in western Canada was centered upon first, one, and then the other of these two methods of marketing.

The readjustment from the high prices of the war period brought agricultural prices down more rapidly than prices in many other lines. The farmer had been in the position of selling many of his products at low prices and finding that supplies and equipment which he needs are still high in price. (Fig. 1, Page 42.) This situation has stimulated the farmer's interest in organization as he has felt that he must do something to improve conditions and in many instances he had turned to co-operative marketing. Needless to state, many farmers give credit to organizations in other lines for having more power than they frequently possess, and the idea

that organization if sufficiently strong can overcome economic laws is entirely too prevalent.



Graph showing the trend of the...
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INDEX OF WHEAT AND WHOLESALE COMMODITY PRICES IN CANADA
1921-1924

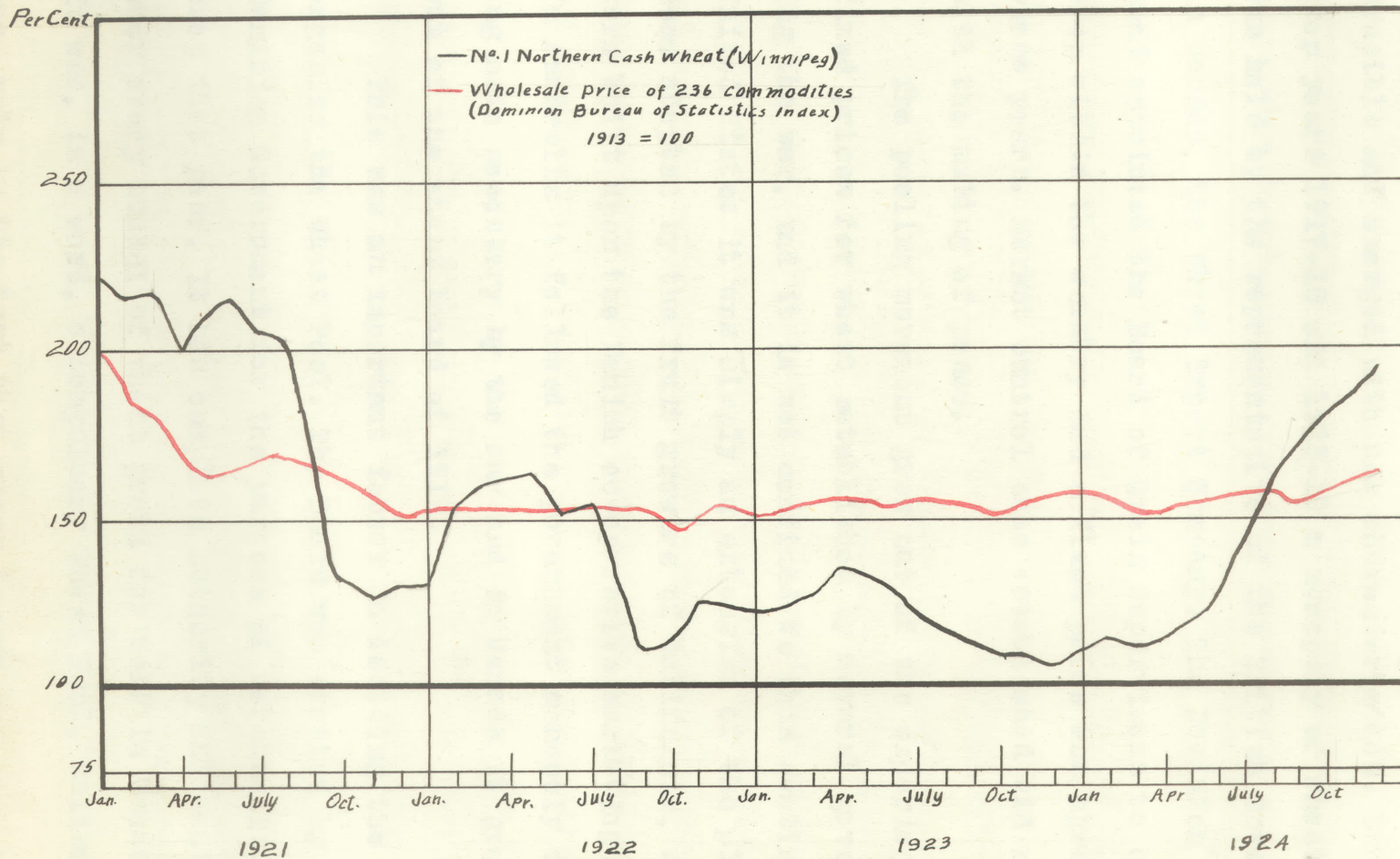


FIGURE 1.

Wheat prices declined drastically between 1920 and 1923, resulting in discontent which had much to do with the formation of wheat pools.

THE PRICE MOTIVE -

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During the war, many institutions went into the crucible and emerged with new characteristics. During the crop years 1917-18 and 1918-19 a monopoly of wheat export was held by the representative of the British Government in Canada, the Wheat Export Company. The Dominion Government appointed the Board of Grain Supervisors to control the crop within the country and a fixed price was agreed upon for these years. Market control once established did not cease with the making of peace.

The pooling movement grew out of the experience of fixed prices for wheat established by several governments during the war, and it is not confined to this continent. In the United States it was simply an extension of the plan that had been adopted by the fruit growers of California, who in turn built upon the Danish co-operative marketing system. In Australia it followed the government monopoly of wheat marketing made necessary by the war and in Canada it grew immediately out of the wheat board of 1919.

This was an important factor in deciding the farmers to organize the Wheat Pool. The Board was created by the Dominion Government for the purpose of merchandising the wheat crop that year. It had complete authority and control over every bushel of wheat grown for sale in Canada in 1919. It was, in a word, a compulsory Wheat Pool, unlike the present one, only in the fact that every farmer was compelled to

deliver to it all the wheat he grew for sale, and also that it was a Government appointed Board. The results of its operations were very satisfactory to the farmers, and for some years they were very desirous of having it become a permanent institution. However, the Federal Government was not anxious to establish as a permanent policy the selling of Canadian wheat through a Government appointed Board. The farmers were thus thrown on their own resources to find a way out of the very difficult conditions under which they were living. The agricultural industry in the three Prairie Provinces was in a deplorable condition in the years following the war.

In many countries the heavy fall in agricultural prices which took place in 1920, gave great concern to the respective governments and the resultant condition of agriculture in these countries has been the subject of considerable investigation by specially appointed bodies of economic experts. In every case these investigations have pointed to the great desirability of stabilizing prices of agricultural products as far as ever possible and to the development of cooperative marketing as the supreme hope of agriculture everywhere. Thus it has come about that during the last few years the co-operative marketing of farm produce has received a great stimulus in all parts of the world and in this important movement, the farmers of the Canadian prairie provinces, who had already achieved a place in the front rank of agricultural co-operation through their own commercial companies the United Grain Growers Limited and the Saskatchewan Co-operative Elevator

Company, have taken the most prominent place.

Instead of invoking the members' idealism, the large scale co-operative formed by nonfarmers appeals to the purse and, if that fails, to the law. Not that it does not appeal also to the ideal of co-operation. All associations talk about co-operation abstractly. But in one type of association the co-operative spirit precedes the association; in the other, if it comes into existence at all, it follows the association. A local association would not be formed unless the farmers were willing to get together to organize it. Actually co-operation builds the local association. But the centralized association builds co-operation, deliberately educating its members to co-operative ideals. When fourteen thousand raisin growers are "signed up" to an association amid the emotional hysteria of a huge drive, they are not affected by the co-operative impulse primarily. Farmer A in southern California is not thinking so much of co-operating with Farmer B in northern California as of "getting even" with the packer and of securing a higher price for himself.

An interesting light is thrown on the Motive prompting co-operation by the following quotation:-

"Co-operative spirit does not go far when the farmer is not getting a good price for his product. Consequently it is possible to build a co-operative association without appealing primarily to the ideal of co-operation. Instead, a successful centralized association can be created by appealing to the farmers' desire for a higher price and by building

a co-operative spirit upon the basis of economic gain."
(Ref. 22, Page 89).

In the absence of potential financial rewards, co-operative marketing would be a dead issue.

The objectives of the organizers of the wheat pools of Canada were similar to those of the organizers of most of the larger centralized associations formed in the United States during the same period. These briefly states, were; (1) to obtain control of a large proportion of the available crop by means of long-term contracts signed by the growers of such crops; and (2) by means of the volume control thus acquired to market the crop to better advantage than could be done by many smaller competing agencies, whether private or co-operative in nature. Later, other objectives were sought in the case of the wheat pools, such as the operation of country and terminal elevator facilities with a distribution of profits to growers on a patronage basis. During the organization campaign, however, emphasis was placed on the ability of the pooling method to change the existing method of marketing and, through control of large volume, to bargain for better prices. It is to be noted that many farmers and some agricultural leaders believed it within the power of such an organization to control the price of wheat. Others, on the contrary, though disclaiming any possibility of control, believed that such a pool would have a stabilizing effect on the market.

There has been very prevalent in the mind of the western farmer one predominating idea in regard to the market- in of his wheat. The gist of this idea being that he was

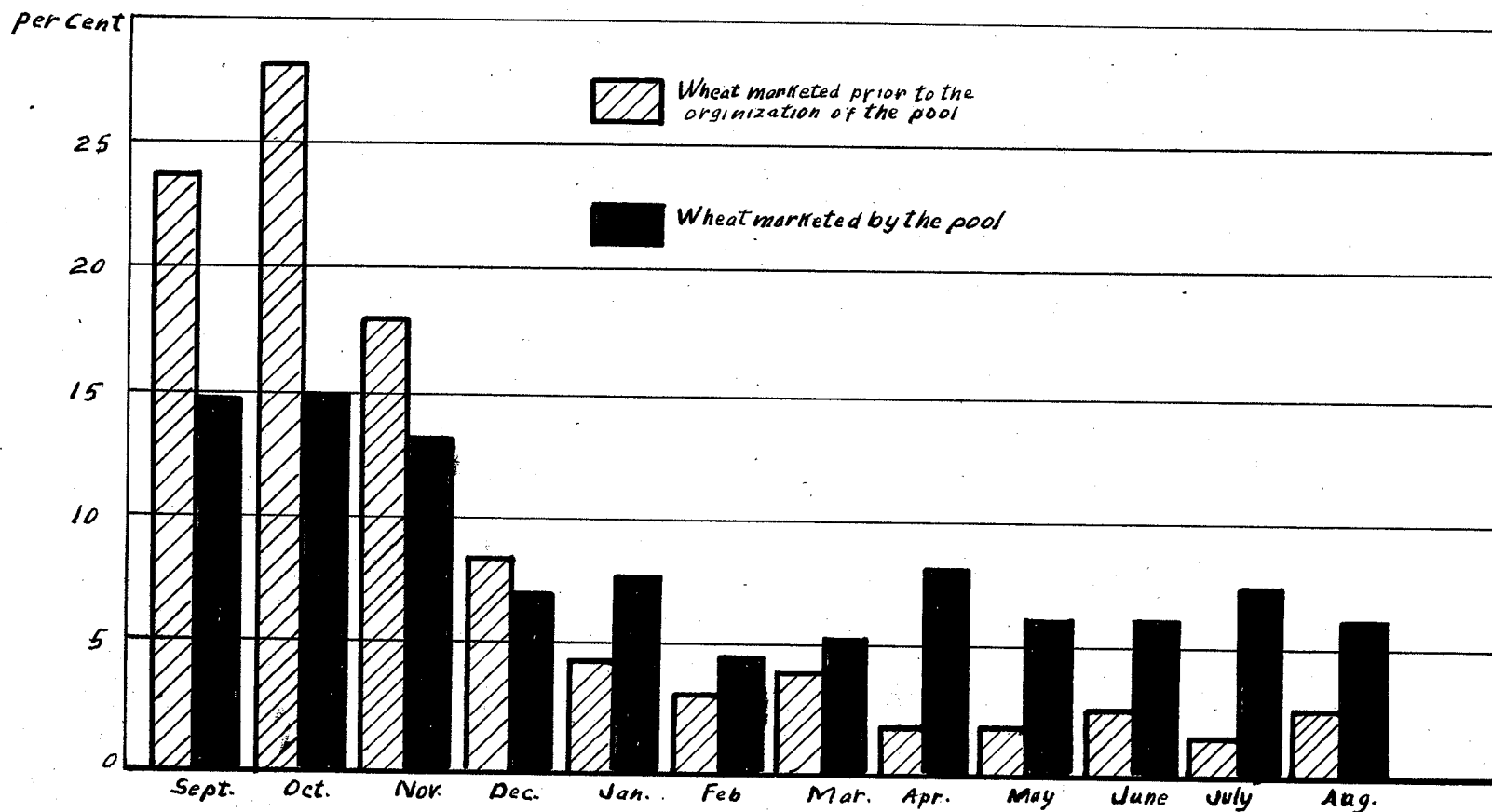
producing the wheat and others were obtaining the profits. Not only this but there was also another idea which held the supreme place in the mind-ladder of our wheat growers, that being, that in the fall when the wheat was ready for the car, prices slumped, the farmer suffering (Fig. 2 page 48.) Therefore we come to the two specified purposes which lead to the formation of the Wheat Pool.

(1) To eliminate speculation in wheat.

(2) To stabilize the wheat market.

There was, away back in the minds of the promoters of this new scheme the idea that in time, the Grain Exchange would be completely annihilated and a new system brought into vogue.

A COMPARISON OF THE MONTHLY SALES BY THE WHEAT POOL DURING 1925-26, WITH THE QUANTITY OF WHEAT MARKETED MONTHLY AT COUNTRY POINTS IN WESTERN CANADA DURING SIX YEARS PRIOR TO THE ORGANIZATION OF THE ALBERTA POOL, 1917-1922



Over 70 percent of the wheat crop of western Canada was marketed during the three months of September, October, and November. The wheat pool, on the contrary, which handled 52 percent of the 1925 crop, marketed only 41 percent of its wheat during this period, thus distributing the sale of Canadian wheat more uniformly throughout the year. (Marketing in this particular instance refers to deliveries.)

FIGURE 2.

THE CANADIAN WHEAT POOL.

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The failure to obtain the reestablishment of the wheat board at once put farmers entirely on their own resources. The Canadian wheat pool as we know it today is the outgrowth or culmination of twenty five years of effort on the part of Western Canadian farmers. The Co-operative movement had its beginning in Saskatchewan the first year of the present century, when a few farmers who were goaded into action by the evils then existing in the grain trade, formed themselves into an association known as the Territorial Grain Growers' Association. The name was later changed to Saskatchewan Grain Growers' Association in 1905, when the Province was formed. This organization grew very rapidly and with its sister organizations in Manitoba and Alberta succeeded to a very large extent in remedying the particular evils complained of at that time. These associations carried on continuous educational work along many lines, and laid the foundation of the large co-operative enterprises which have grown up in the West.

It had already been pointed out that the Canadian wheat pool is the physical evidence of a dissatisfaction with the existing method of marketing grain in western Canada. It was held by farmers and farm leaders that the system of marketing exemplified by the grain exchange resulted in the bulk of the Canadian crop being sold during a period of three or four months and under conditions of competition which forced lower prices than, it seemed, might be obtained by such a method as that represented by the wheat pool.

The 1928 Year Book of Agricultural Co-operation in the British Empire tells the story of the formation of the Canadian Wheat Pool as follows:-

"The first proposal of a wheat pool was made by a farmers' organization in the State of Washington in January 1920. The plan was brought to the attention of the farmers of Western Canada in the same year and during the agitation for re-establishment of the Canada Wheat Board. The subject was given considerable attention by the Canadian Council of Agriculture, which, as previously explained, is a conference of organised farmers and the farmers' commercial companies; but that body found it impossible to agree on a plan, and finally it was taken up by the provincial organisations acting independently, the United Farmers of Alberta taking the lead. The Saskatchewan farmers' organization first proposed a purely voluntary pool, without a contract; but the proposal met with so much opposition, that it was eventually abandoned, and the farmers united on a contract pool.

After a three months' hectic drive for signatures to the pool contract, in which a large number of business men assisted, the Alberta Wheat Pool opened for business on October 19th. 1923, with a membership of 26,000 and 2,536,300 acres under contract, or 48 percent of the total acreage under wheat.

Saskatchewan and Manitoba were later in starting, and it was not until the following year that their organisations were complete, the Manitoba Pool opening for business on September 2, 1924, with 8,000 members and 720,000 acres

(one third of the total wheat acreage) under contract, and the Saskatchewan Pool on September 8, 1924, with 47,000 members and approximately 7,000,000 acres (over 50 percent of the total wheat acreage) under contract. The Saskatchewan Pool, it should be stated, was bound by its contract to obtain 50 percent of the acreage under wheat before the pool could be opened for business; the other pools, in the discretion of their provisional boards, might start with less.

In July, 1924, after the three pools had been duly incorporated, the provisional boards of each met in Regina and completed an agreement for the formation of a central selling agency. This body was incorporated under a Dominion Charter as the Canadian Co-operative Wheat Producers, Limited, in August 1924. Through this institution, all pool grain is placed on the world's market." (Ref. 1, Page 98 & 99).

The wheat handled by the Alberta Pool in 1923 was sold through its own sales department, but upon completion of the organizations in Manitoba and Saskatchewan a central selling agency known as the Canadian Co-operative Wheat Producers (Ltd) was formed, and incorporated under a Dominion charter. This organization is the central sales agency for the provincial pools of Manitoba, Saskatchewan, and Alberta. The incorporated name of each of these associations, also, includes the words "co-operative wheat producers (Ltd.)" prefixed by the name of the Province. Collectively these four associations are known popularly as "The Wheat Pool"

In his "Cooperation at Home and Abroad" C.R. Fay states, "It is thus clear that the wheat pool movement in the Canadian

West is based on strong co-operative precedent and that it has reached its present form by an intelligible historical evolution. For good or for evil, for success or for failure, it is no mushroom of the night."

(Ref. 10 Page 461)

The Canadian pools, both provincial and central, are capital-stock organizations, but the capital raised from the sale of stock is small compared with the total amount used.

In the case of each of the provincial pools shares of stock have the nominal par value of \$1. New members are required to subscribe for one share of stock and pay an organization fee of \$2. During the organization campaign the money obtained from organization fees was used for the expenses of the campaign. To the extent that organization work is now conducted, funds obtained in this way are still used for the same purpose. Overhead expenses had to be met, and it was for this purpose that organization fees were necessary.

Additional funds for organization purposes were supplied in the form of loans by the two co-operative elevator companies. United Grain Growers (Ltd.) loaned \$7,000 to the Manitoba pool and \$5,000 each to the Alberta and Saskatchewan pools. The Saskatchewan Co-operative Elevator Co.(Ltd.) loaned \$15,000 to the latter pool. A further advance, amounting to \$45,000, was made to the Saskatchewan pool by the government of that Province and the sum of \$5,000 was loaned by the Alberta government to the provisional committee in charge of the organization of

the Alberta pool. All of these loans were repaid during the first year of operation.

Aaron Sapiro defines a co-operative as:

"A co-operative marketing association is an organization by which the farmers get together by commodities to sell their products, through a central office, taking in as many growers of one product as can be reached geographically."

The Canadian Wheat Pool is a non-profit association with a membership of a hundred and thirty-eight thousand farmers in the three prairie provinces of Manitoba, Saskatchewan, and Alberta. There are three provincial pools, each one a separate entity, self-controlled in every respect, with its own plan of organization and management. Its own officials, administering its own internal affairs and collecting its own grain. The Central Agency handles the grain collected by the three pools. This Central Selling Agency handled during the crop year 1925-26, the enormous total of 215,016,000 bushels of grain, made up of 187,500,000 bushels wheat; 11,024,000 bushels oats, 13,221,000 bushels barley, 1,597,000 bushels flaxseed and 1,674,000 bushels rye.

The three provincial wheat pools handled more than 56 per cent of the entire wheat crop of western Canada. The approximate gross returns to the provincial pools was \$271,500,000, of which, \$22,500,000 went to Manitoba, \$188,500,000 to Saskatchewan, and \$60,500,000 to Alberta. This did not, of course, all go back to the farmers, as it included, for

example, freight and local handling charges on wheat shipped through private elevators. Of the grain handled 27,000,000 bushels went through Pool terminals, and shipments were made to twenty-five countries. The overhead selling cost of the Central Selling Agency amounted to one-fifth of a cent per bushel.

The Alberta Pool was the first to commence operations, with approximately 46 per cent of the wheat acreage of the province for 1923 or a total of two million, six hundred and two thousand, seven hundred and ninety-seven acres under contract. The first carload of Pool wheat was accepted on October 29, 1923 and the world's largest co-operative marketing enterprise had hung out its shingle and started on its business career. Both the Manitoba and the Saskatchewan Pool commenced operations the following fall.

Membership in the Provincial Pools is open to those who are directly or indirectly engaged in the production of wheat. Every member on joining the pools pays \$2.00 fee, which goes to pay organization expenses and also pays \$1.00 for a nominal share in the organization to comply with the company laws of the province. He signs a five-year contract binding himself to deliver all the wheat which he produces directly or indirectly to the Pool. All present contracts terminate with the 1927 crop. Those who joined the Pool since the first year have therefore signed only for the balance of the period. An exception to this is the case of members signing a contract with the Manitoba Pool in connection with the

acquisition of pool elevators. All such contracts are for the full vital five-year period.

These contracts form the foundation of the organization and through the democratic methods which prevail, in the election of delegates and directors to the central bodies, members are in continual touch with, and control of, the entire organization. Each provincial pool is self-governing and while the general form of organization, the terms of the contracts, and the methods of business are similar in all three pools, there are certain differences in detail.

The provincial pool has complete control of its members' wheat from the time of delivery at the country point of shipment until it reaches the terminal elevators at Fort William or Vancouver, as the case may be. At these terminal points the grain is turned over to the Central Selling Agency which is under the control of a board of directors consisting of nine members, three from each of the provincial boards of directors.

The federal charter for the Canadian Co-operative Wheat Producers Limited, the official title of the Central Agency, was issued in August 1924. The keynote of the whole movement is outlined in the second clause of this charter, which states the purpose of the Central Selling Agency as follows:-

"To be an agricultural organization instituted for the purpose of mutual help to serve as the Central Marketing Organization for the corporations and persons mentioned in section A hereof, 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."

The Canadian Wheat Pools had no elevators when they started operations, but a clause in the contract provides for a deduction of two cents per bushel for the purpose of acquiring facilities for the handling of grain. The Saskatchewan Pool constructed or purchased outright 90 elevators in 1924-25, and by an agreement with the shareholders purchased in 1926 for a little over eleven million dollars the Saskatchewan Co-operative Elevator Company's system, and now owns and operates 587 elevators, including several terminals. The Alberta Pool already has 42 elevators under its control and has now decided to build or acquire one hundred additional country elevators in the province in time to handle the 1927 crop.

The Manitoba Pool now owns fifty-eight elevators and should double this number by the end of the present year.

In addition, the Alberta Pool has leased the terminal elevator at Prince Rupert, and another at Vancouver. The terminal elevators owned by the Saskatchewan Co-operative Elevator Company system are included in the deal of eleven million dollars between the Pool and this company. The Central Selling Agency has three terminal elevators at Fort William, Ontario, with a total capacity of more than two million bushels.

Referring to the relationship of the Central Selling Agency to the Provincial Pools, E.B. Ramsay, member of the Central Board and Secretary of that body, states:-

"The Central Selling Agency is not an institution from the Provincial Associations, but is owned, lock stock, and barrel, by them. The ownership is based on capital stock which is owned in the proportion of one-third by each of the three prairie pools, irrespective of the proportion of grain handled in the individual pools. The Central Selling Agency is directed by a Board which is nominated annually by the provincial associations and each member pool nominates from its own board three representatives. These nine men constitute the governing body of the Central Selling Agency and this system enables the Provincial Boards to keep in close touch with all policies and activities of the Central Selling Agency in a manner which would be impossible to a separate Board of directors at Central. It also insures that the viewpoint of the country will be the guiding factor in determining the policies of the Central Board and maintains a unity throughout all Pool developments which is an essential part of an organization which, in three short years, has developed business activities in all parts of the wheat importing world."

DIFFERENCES BETWEEN POOL
METHODS AND THOSE OF THE GRAIN TRADE.

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While it is true that the Central Selling Agency has a seat on the Grain Exchange, and also true that options are being dealt in, it is nevertheless a fact that there is very little comparison between the two methods of marketing. In order to understand what is involved in the usual method of marketing by the Elevator Companies, it must first be understood that an Elevator Company is buying grain, and consequently the Elevator Company has to have protection, otherwise it would perforce be compelled to handle its business on a wide margin.

In speaking of the Grain Trade there is included, of course, the milling industry. The large mills in this country, and in other countries, are quite incapable of storing sufficient grain for their own requirements at any particular season of the year. It is, therefore, very much in their interests that they should be able to arrange for periodical deliveries, hence the organization of the Grain Exchange. It is an Institution which enables Milling Companies to insure delivery to them of their estimated requirements periodically throughout the season. This not only enables them to stabilize their prices and ensure more economic handling, but also gives them the opportunity of determining their operating costs considerably in advance of their operations.

On the other hand the Elevator Companies, which are not

in the milling industry are, by virtue of the fact that they have access to the Grain Exchange, able to complete transactions with the milling industry and exporters, which guarantee to them a certain working margin on all the grain which they buy in the country. The elevator Companies can sell their grain to the mills for future delivery, and are thereby enabled to fix a spread at which to buy the grain and protect themselves in this manner in the conduct of their business.

The essential difference between the Pool Methods and those of the grain trade might be summed up in one phrase-- The Pool is co-operative and the Grain Trade is an open competitive. When we say this, we infer that a member of the Pool has binding obligations and is governed by the laws of his organization, while on the other hand a non-pool member is not bound to any marketing laws whatsoever. The control of membership is usually an essential feature in co-operative marketing. Its usefulness as an aid to genuine loyalty, however, is limited. Legal documents enforce an artificial loyalty, but the spirit of the members is the real uniting force.

The form and provisions of the contracts used by the provincial wheat pools are similar to one another and to those used by co-operative associations in the United States, with such changes as are necessary to comply with Canadian laws and trade practices. In brief, the more important features are: The association to take title to the grain and to make an advance payment at time of

delivery, the balance, if any, to be paid as interim and/or final payment; all grain of like grade to be pooled and producers thereof to receive the same base price; provision of a clause entitling the association to collect a per bushel charge from the grower for breach of contract on his part; the association to make all contracts for the receiving, handling, and sale of grain; and the contract to run for a period of five years without provision for withdrawal during that time.

There is a vast difference between the mechanical structure of the two systems.

The Pool has as its digit the pool members. This in turn finds itself in the local organization of Pool Elevator Subsidiary Company; this in turn gives way to the Provincial Pool represented by the Board of the Provincial Pool--which is attached by this representation to the Central Selling Agency; the movement of grain being from the Provincial Pool to the Central Selling Agency. The head control is found in the Board of Directors which derives its membership from the respective boards of three Provincial Pools.

In contrast to the above, the Grain Trade has no such mechanism, but consists of individuals or individual companies without any affiliation whatsoever.

The Central selling agency of the pool is vested with authority to sell grain to the best possible advantage. Realizing that there might be times when it would find it advantageous to sell to firms represented on the grain exchange, and the organizers provided that such sales might be made and to that end acquired representation on the Winnipeg Grain Exchange.

This policy proved to be a wise one, inasmuch as it provided an outlet for the pool's grain during the first years of operation, before many of its own trade contacts, discussed above, had been made. About 40% of the grain handled during the first year of operation was sold through the exchange. Since that time direct sales to domestic mills, plus those made through branch offices and agencies, have amounted to about 75 percent of the total grain sold by the pool. In actual practice, the central selling agency is in daily contact with its branch offices and agency connections by telegraph and cable. It is also in constant touch with the Winnipeg and other grain exchanges by means of a ticker tape, and in the case of Winnipeg, through its own representatives on the grain exchange. It is, therefore, in a position either to accept telegraph or cable bids to sell.

Thus we see that in the very nature of the methods of "securing grain" the Pool methods differ vastly from those of the open Grain Trade. Taking "Title" to grain--differs from "buying" grain. An "Advance payment" differs from "payment" A "Provision clause" entitling the Pool to collect a per-bushel charge from the grower or Board of Control on his part--differs from "No provision". Dictated delivery" and "determined handling" and "sale of grain" differ from "undertermined delivery, handling and sale".

Under the Open Market System :

- (1) It is not necessary to bind oneself by a contract for a five-year term.

- (2) There are no penalties, injunctions, or imprisonment, for making a change in the method of marketing, whenever a farmer chooses to do so.
- (3) There are no special deductions from the sale price, such as those taken by the Pool, to be held at its pleasure and with or without interest as it alone decides.
- (4) There is no enforced waiting for the balance of the money realized by sales over a period of 12 months, with instalments and dates fixed by the Pool, but any farmer can secure his money as he wants it simply by giving an order to sell.

There are certain possibilities in Co-operative Marketing which have some bearing on this phase of our inquiry. For instance, the farmer who is a non-pool member, does nothing to standardize or improve the marketing side of production, whilst Co-operative Marketing has the tendency to do so. The Open Grain Trade does nothing to regulate the flow to market nor improve the distribution between markets. This is one of the objectives of the Co-operative Market.

It must be remembered also--that the Grain Trade exists for the Grain Trade, whilst the Co-operative Market exists for its members. The Co-operative gives the co-operating farmer the net profits--if there are any. This is just a small part of the so-called gross profits, which include all the expenses of marketing. (Ref. 35 Page 15)

Then again, by obtaining control of "volume" the cost of marketing can be reduced, and as far as possible, it is the aim of the Pool to do this.

THE POOL'S RELATIONSHIP TO
ORDERLY MARKETING AND GRADING.
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(A) Orderly Marketing.

Much attention has been devoted by Pool protagonists to the claim that by "orderly marketing, organized selling or merchandizing", a higher average price might be obtained for the producer without attempting to raise the level of world prices. This claim is based on one of two assumptions; (1) That the price of wheat is depressed in the months of September, October and November during which more than 75% of the crop is marketed. (2) That daily and weekly fluctuations in the market result in more of the farmers' grain being sold at the low than at the high prices since all that matters to the merchant or agent is the margin which he obtains.

The Stewart-Riddell report of 1921 reads:- "Under a pool with proper financial and other support the movement of the crop would be more evenly spread over the whole crop year, thereby undoubtedly avoiding gluts of grain and consequent depression of prices, which usually occur during the first three months of the crop movement!"(Ref. # 25)

It must, of course, be remembered that wheat cannot be held over without incurring the cost of storage and of insurance and the loss of interest on the capital involved. It is therefore necessary that the price of wheat should be higher in the later months of the crop year if any wheat is to be held over without loss. This cost, however, would not absorb more than half of the difference shown in the figures

quoted by Messrs. Steward and Riddell for the seven crop years from 1910-11 and 1916-17 which showed that the average price from September to December was \$1.08 per bushel, the average price from January to August \$1.22 7/8, and the average price for twelve months was \$1.18; or a difference of 14 7/8 cents a bushel on the average. If these figures are representative it is clear that "orderly marketing" offers the possibility of substantial gain.

In Figure 2, (Page 48) a comparison of the quantities of grain marketed monthly at country joints, as reported by the pool, for the crop years 1917-18 to 1922-23, inclusive, is made, with the quantities of grain sold monthly by the pool. The pool claims to have marketed only 41% of the grain of its members during the period of heavy deliveries, namely, the months of September, October and November, whereas, under the old system over 70 percent was marketed during this period. In this comparison, deliveries at country points are used to indicate the quantity marketed.

Since the pool began operating, the quantity delivered at country points is less significant as a price-making factor, because more than 50 percent of such deliveries are to the pool. Pool wheat is not hedged and, to the extent that it is withheld from sale, may have a tendency to lessen the depression that might otherwise result from the pressure of deliveries.

The principle of orderly marketing; i.e. "the movement of wheat to be more evenly distributed throughout the year, to the advantage of the farmers who could deliver so as not to interfere with any other work on the farm, and to the

advantage of the railways by reduction of costs" would, in turn, make considerable reduction of rates.

The North West Grain Dealers' Association asks, has the Wheat Pool abandoned its policy of orderly marketing? And writes the following:-

"Everyone knows what the farmers were told about Orderly Marketing when they signed the Pool contract, and how it was the basic principle on which the Pool was formed. By means of Orderly Marketing, the Pool was to be able to control market prices and get a better return than under the open market system.

In his speech at the annual meeting of the Saskatchewan Pool, on October 27, last, Mr. D.L. Smith, Sales Manager of the three Pools, stated that between September 1, and December 15, 1925, the Pool shipped out or sold at Ft. William 111,500,000 bushels of wheat, as follows:-

From Pt. Arthur - Ft. William	83,000,000 bushels
From Vancouver	7,500,000 "
Sales Ft. William	<u>21,000,000 "</u>
	<u>111,500,000 "</u>

The Pool's total handlings for the year are given as 187,500,000 bushels. Therefore, only 76,000,000 remained for all the rest of the year.

About $1\frac{1}{2}$ times as much in $3\frac{1}{2}$ months as in the remaining $8\frac{1}{2}$ months. On a monthly basis.

During $3\frac{1}{2}$ months, 31,850,000 bus. per month

During $8\frac{1}{2}$ months, 8,940,000 " " "

If the Pool's doctrine originally was to distribute

evenly over the twelve months, we must conclude that this doctrine has not been adhered to very closely.

Mr. A.J. McPhail, President of the Central Selling Agency is quoted as follows in the Western Producer of November 11:-

"The impression that farmers who held their wheat back were helping the Pool was wrong. Wheat should be moved to selling position in the fall as rapidly as it could be got out.... You have got to sell when the demand exists or you will find yourself holding the bag in your hands"

It has been the pool's policy to move its wheat to a position east of the Great Lakes before the close of lake navigation in December. The advantage of lake rates over all-rail rates from western lake ports to eastern points encourages the movement of wheat to eastern lake terminals or to terminals at ocean ports before the close of navigation each year. The pool's policy has been to place about the same quantity of wheat east of the lakes as was done in years prior to its organization. (See Fig. 4 Page 79)

B. Grading.

"The degree of equity in pooling usually coincides with the degree of efficiency in grading." (Ref.22 Page 309)

In connection with organized produce markets, there has grown up gradually a system of grading or classification of grains in order to facilitate both home and international trading. Consumer, Millers, etc., for the purpose of purchasing ahead at what they may consider an advantageous time or price, can do so only if there are some definite standards of quality, backed up by certificates or warehouse receipts

upon which they can rely. If the standards are not reliable, the miller or merchant, or both, will buy on wide margins to the disadvantage of the producer of superior quality grain.

The United States now has a federal system for interstate and international trading, which is having a beneficial effect upon the grain business of the country as a whole. Canada has one national system, adapted to take care of the variety of grades occasioned by climatic and other conditions.

The standards for the principal grades of grain for export should be such as will permit of the admission of large quantities within the grade, in order that it may be handled economically in bulk, through terminals, transfer houses and in cargoes. At the same time, the quality of the grade must be maintained at a fixed standard of excellence.

The nearer the grading is done to the source of supply--the wheat fields--consistent with efficiency, economy and accuracy, the more satisfactory the system is to both the consumer and the producer. The Old Country buyer, especially the miller, has learned through experience to be much concerned about the quality of his shipments, especially if they are subject to two gradings. As an example, take Duluth shipments of hard, red, spring wheats from the prairie states some years ago. Confidence became established in the State system of grading, but the English buyer was much disturbed over what might happen to Duluth wheat after it reached Buffalo and Atlantic ports.

Britain has three methods of buying wheat on contract, viz:-

- (1) Official certificate of inspection to be final as to quality.
- (2) of fair average quality of the season's shipments at time and place of shipment;
- (3) about as per sample.

Canadian wheat is sold almost entirely on the Certificate Final. Small amounts are sold on sample. The Argentine and Australian crops are sold largely on the f.a.q. (fair average quality) plan, which means that samples of the crop are taken at the port of discharge. These are kept over a period of perhaps a month and an average sample drawn. A given weight per bushel is arrived at, and specified in the contract. When the shipment arrives, say at Liverpool, samples are taken, and in most cases arbitration awards are made by a committee appointed for that purpose by the "Corn Trade Association in the interests both of the buyer and the seller.

Of late there has been considerable dissatisfaction in Great Britain over the unsatisfactory condition in which wheat is reaching British markets, and quite recently one of the most important "Grain Exchanges" of Great Britain has been forced to appeal directly to the Prime Minister of Canada for an investigation into "the very unsatisfactory condition" of Canadian Wheat when received.

W. Smith, director of all milling activities of the Scottish Co-operative Wholesale Society, writing from Edinburgh under date of February 23rd says: "We have further

discussed with our millers here the variations in Manitoba wheat, and the conclusion arrived at is that the wheats we have been receiving from Canada have varied materially in the past few years. They seem to be losing the characteristics as they obtained 15 years ago. We are finding a difference in one parcel from another, and also a variation in the quality of one arrival; that is, the milling results may appear one day materially different from another, using the same wheat, shipped from the same port, arriving here at the same time, and in the same vessel. Bakers complain that our flours vary too much. This has been a problem for the miller, knowing as we do, that we are working on what is supposed to be the same class of wheat and still the baker is finding a variation in the manipulation of his bread.

The council of the National Association of British and Irish millers protect strongly against the practice of the Canadian Grading Authorities in certifying as straight grades wheat which has been artificially dried.

The council consider that the official grades should consist of natural wheat only, separate certificates being given for dried wheat, as is done already in the case of tough wheat.

The council also considers that the custom of shipping treated wheat under official certificates for straight grades is certain to effect adversely the value of Canadian grain in the world's markets.

A few years ago there were many denunciations on the part of many farmers of the practice of mixing grain. Often such denunciation were made by farmers who are now leaders in the Wheat Pool movement, but they no longer express themselves on the subject, now that the Wheat Pool themselves are conducting mixing on the largest scale ever known in the West. There is no reason for criticising the Pool on this account; its leaders have simply discovered in this respect, as in many other respects, that they have to conform to the ordinary trade practices in handling grain, if they are to do so to advantage.

The primary reason for mixing grain is the fact that grain reaches the terminal elevators in a multiplicity of grades, and must be shipped abroad in large consignments of a comparatively few grades. In the West, for example, there are six primary classifications of grading, from No. 1 down to No. 6, while wheat below No. 1 is classed as feed. Each of these grades is subject to modifications on account of being tough, damp, rejected for admixture of other grains, or as being damaged by smut. Then there are corresponding classifications for Durum wheat, and some other different classifications. The possible number of grade combinations runs into the thousands, while several hundred grades have actually been experienced in recent years. A single carload of wheat may be handled as far as a terminal elevator under any conceivable grade, but single carloads of wheat cannot be shipped abroad. Carloads must be combined into cargoes, and whole cargoes, or large parcels making them up, must be given

some grade, consequently it is a necessity of the trade to combine together different grades of wheat. If it were not for mixing, the market on off grades of wheat would be extremely poor. The fact that mixing-houses are competing for supplies of such off grades has meant much better prices for such grades in recent years than would otherwise prevail.

It is apparent that whether any evils grow out of mixing depends largely on the disinterestedness of the inspection service, and on its ability to maintain the same grading standards throughout the year. If it is more liberal in its grading in the spring than in the fall, the elevator companies will find it easier to make the contract grade and injustice will have been done to shippers; if the grading is more severe, the terminal elevators suffer unjustly.

As the grading of Canadian Grain is established by the Canada Grain Act, the Pool's relationship (195,491,473 bushels annually) to grading and mixing is very readily seen, and owing to the quantity of wheat of new varieties being produced on the prairies, it is expedient that the best possible method of grading this grain be followed, for unless this is so, the British and Foreign millers will look to the United States, Argentina and Russia for the better grades. The Canadian Government now has the whole question of grading under consideration.

PROGRESS AND ATTAINMENT OF AIMS
WITH
TECHNICAL STUDY AND SALES ANALYSIS.

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The progress, accomplishments, and the attainment of aims of the Canadian Wheat Pool are not all tangible, or capable of measurement in precise terms. There are, undoubtedly, certain intangible accomplishments to the credit of the Wheat Pool; for example, the Pool has been instrumental in obtaining a revision of the Canadian Grain Act, as well as obtaining legislation affecting assignments and the adjustment of debts; and has been more or less a factor in securing freight reductions on the movement of grain. These, of course, are only indirectly related to the marketing of grain.

The aroused interest in grain marketing has done much to acquaint farmers with some of the problems involved in grain marketing. Private Grain Companies, owing to the interest taken in the Pools by such a number, have risen to defect their system of marketing. Much information has been published and circulated by these agencies, and this has contributed to a wider knowledge of grain marketing and has stimulated discussion on the merits of the respective methods of marketing. The Wheat Pool movement has stirred the interest of the farmers of Western Canada in a way that no other peace-time movement has ever done.

One cannot help but notice that the Canadian farmer has psychologically benefitted by the introduction of the Wheat Pool although, perhaps, he has not received any more for his

wheat than he would have received on the open market. He at least feels that he belongs to an organization which is doing its best under its most able leaders to give him the rightful share of his own crop. During the early morning chores, he and his hired men are building castles, the foundations of which rest on the Wheat Pool. At the breakfast table while partaking of the oatmeal and the eggs, fresh from the nest, the kind house-wife joins also in the appraisals. On the seeder, the farmer muses by himself, and occasionally shouts out to the Clydesdales, "Come on, we are going to get our share at last," In the gleaming, the Wheat Pool has taken on such an absolute form that it has become a marked reality, and the farmer lies down to rest on the feathered pillow of co-operation.

In regard to membership, we find that the total for the three pools as given in March 1927 is 140,208. All of the three Provincial Pools were engaged during 1927 in re-signing their membership for a further period of 5 years. In Saskatchewan the Field Service Staff had signed up 50 percent of the provincial wheat acreage before the campaign began; and this means that the existence of the largest pool is already assured until 1933 so far as contracts are concerned.

Regarding volume of wheat we find a total of 178,567,000 bushels passed through the hands of the Canadian wheat Pool in 1925, which is a considerable increase over the amount handled in 1924, and we might add that the larger pool membership is responsible for most of the increase.

In other words, the Pool handled 37% of the 1924 crop deliveries and 52% of the 1925 deliveries of 361 310, 442 bushels.

The per-bushel cost of handling grain bears a direct relationship to the volume of business handled, and the increase in the volume of business passing through the Pool elevators makes it possible for the farmer, through the selling Agency, to save one cent and a fraction on the per-bushel cost of handling grain. Therefore, the aim of the Pool is to sign up and maintain as large a membership and acreage as possible, so that through this increased volume of business the cost per bushel of handling grain will be reduced to the minimum, thereby benefitting the producer. The general conclusion from this finding is illustrated by Fig. 3 Page 78) which shows that the per-bushel cost of handling is closely related to the volume of grain handled.

The influence of the Pool on the price of wheat is a subject of great difficulty. Certainly the great advances in price, both in 1924-25 and in November-December 1925, were due to basic factors rather than to marketing machinery or practices. On the other hand, it is conceivable that the Pool offered some resistance to the decline of prices in the late summer and early autumn of 1925; and it is reasonable to infer that the comparative stability of wheat prices in the first seven months of 1926, in Canada and in lesser degree in other active international markets, was due in part, though in unascertainable measure, to the sales policy of the Pool and its operations in futures. On occasions the Pool,

already a heavy holder of wheat, has even bought cash wheat on the open market in order to sustain the price. The great power of the Pool has been clearly exerted, during the past year, in the direction of reducing rather than accentuating price swings.

Recently, the Secretary of the Saskatchewan Pool publicly stated:- "There is little doubt in the minds of reasonable observers of the market that the existence of the Wheat Pool is the chief contributing cause for the steadiness of the market and the prevalent level of prices." (Western Producer, July 29, 1926).

It would appear that, by reducing the number and depth of price breaks, the Pool has tended to restrain the customary practice of British merchants in buying on price breaks in exporting countries and selling on bulges in importing countries. Fortunately, for the Pool as well as other interests concerned, the experience of the year has not justified fears that it might use its power to extort monopoly prices.

In a technical analysis of the average monthly exports of wheat and flour from Canada during the years 1924 and 1925-26, or since the Wheat Pool has been in operation, and in a comparison with the findings of this analysis to the average monthly exports during the five years prior to the formation of the pool, it is clearly pointed out that delayed selling on the part of the pool has not materially changed the rate of exporting wheat from Canada throughout the year. This is illustrated by Fig. 4 Page 79)

It is believed by pool authorities that their sales

policy during 1925-26 resulted in higher prices than would have been the case had the pool's sales been made on the basis of distribution followed by farmers prior to the advent of the pool. Pool officials believe that their 1925-26 sales distribution is desirable in certain years, but they also recognize that there may be years when it would be to their advantage to sell more grain during the earlier months.

As an illustration of the physical progress of the Wheat Pool, figures for the Manitoba Pool will suffice. The Manitoba Pool handled the following volume of grain of the crop of 1926-27:-

Wheat.....	16,196,342	bushels
Oats.....	2,159,165	"
Barley.....	9,466,325	"
Flax.....	405,260	"
Rye.....	935,219	"

Manitoba Pool's share of Pool Terminal Elevator net earnings 1926-27 was \$304,219 -

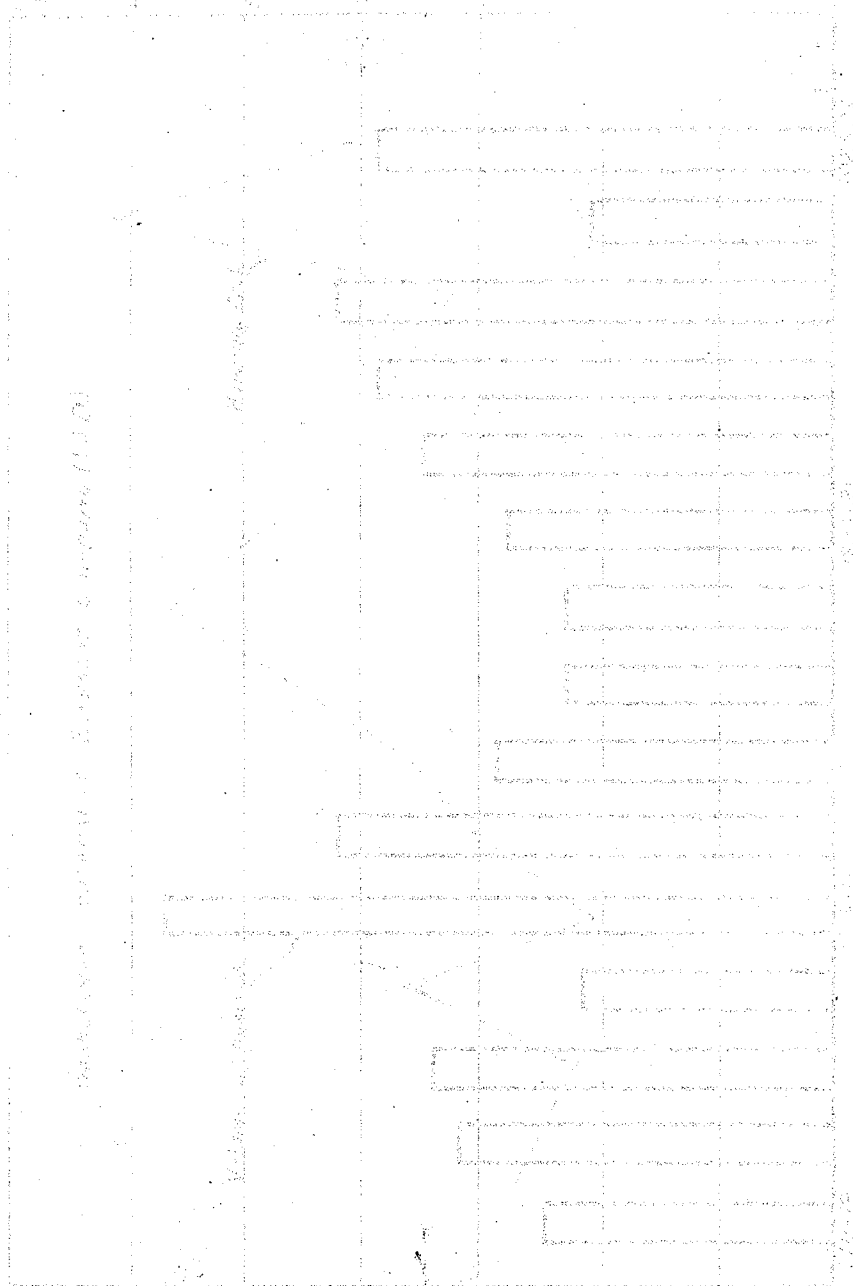
Manitoba Pool Elevator Associations for years 1925-1928 inclusive were as follows:-

1925.....	8
1926.....	30
1927.....	58
1928(estimated)....	100

Manitoba Pool Elevator Associations in 1927 divided among them a patronage dividend of \$140,000,000; and since its commencement this Pool has paid every year an initial price on wheat of \$1 a bushel, basis No. 1 Fort William.

The Canadian Wheat Pool has thus far achieved an outstanding success. Utilizing existing marketing facilities, and favoured by the homogeneous character of the wheat of the Prairie Provinces and the relative simplicity of marketing operations in Canada, as well as by world price conditions, it has handled a huge

volume of business with reasonable smoothness and economy, without serious blunders. It has the respect of the trade, especially abroad, although seemingly handicapped by the prevailing methods of Governmental grading, and mixing. It has handled difficult negotiations and increasingly won the confidence of Canadian Farmers.



This is a rough sketch of the handling system in which the volume of business is indicated by the number of boxes. The diagram is intended to show the flow of business from the Canadian Farmers to the various departments of the company.

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VOLUME OF BUSINESS AND COST OF HANDLING GRAIN FOR 15-YEAR PERIOD
1911-12 to 1925-26.

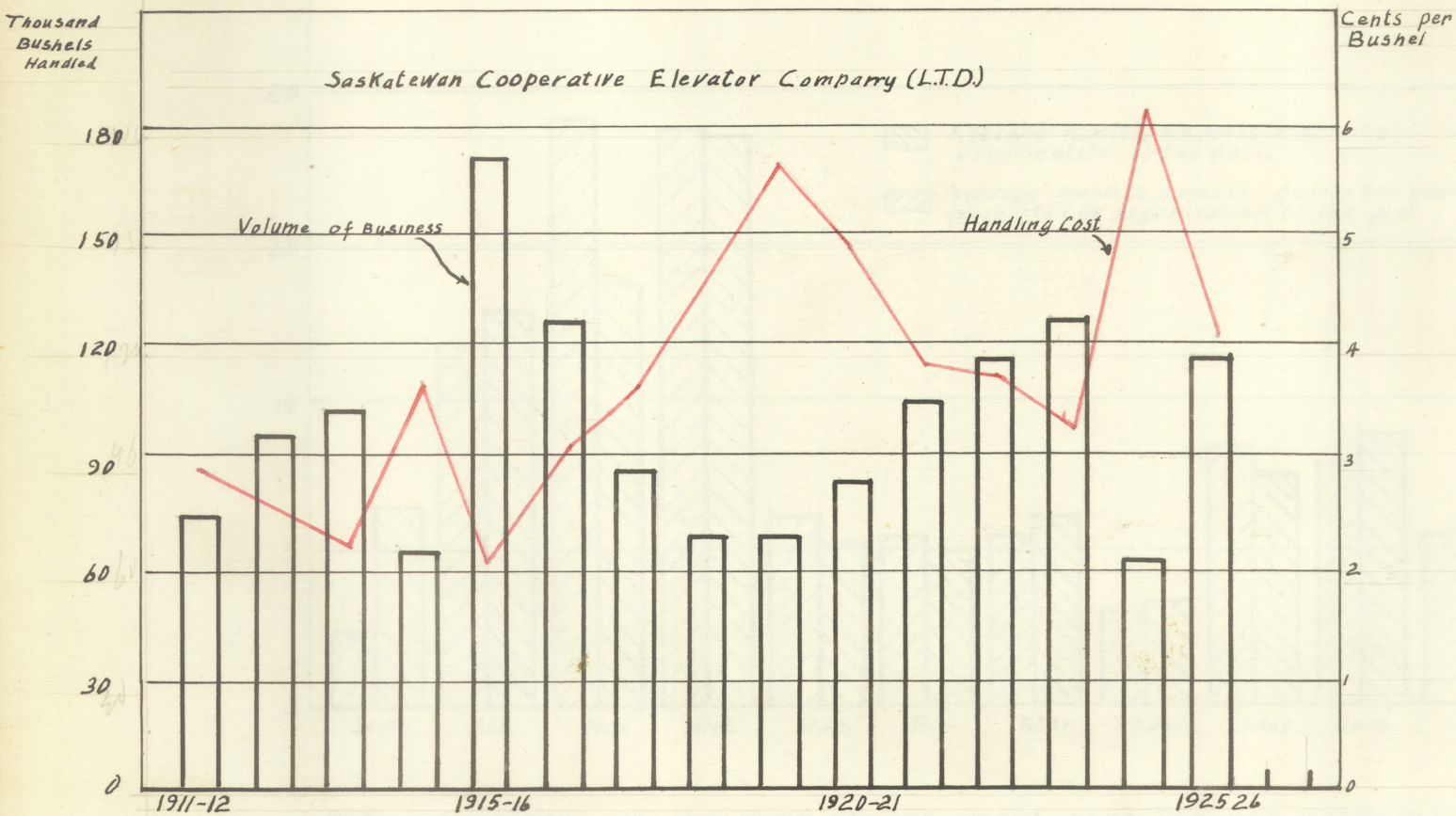


FIGURE 5.

That the per bushel cost of handling grain is closely related to the volume of grain handled is indicated by the experience of the Saskatchewan Cooperative Elevator Co. (Ltd.) during 15 years' operation.

COMPARISON OF THE AVERAGE MONTHLY EXPORTS OF WHEAT AND WHEAT FLOUR FROM CANADA DURING THE YEARS 1924-25 AND 1925-26, OR SINCE THE WHEAT POOL HAS BEEN IN OPERATION, WITH THE AVERAGE MONTHLY EXPORTS DURING THE FIVE YEARS PRIOR TO THE ORGANIZATION OF THE POOL

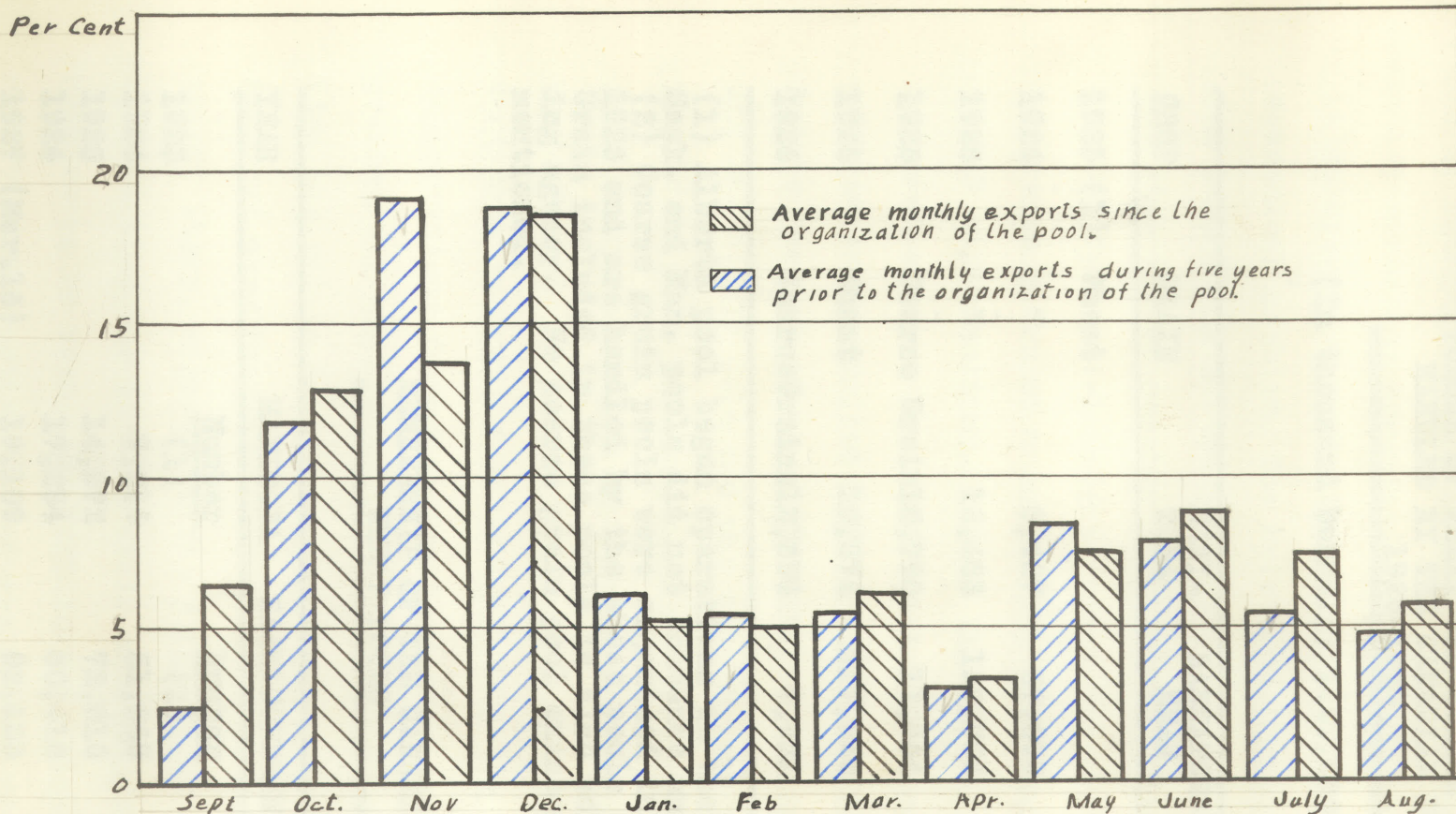


FIGURE 4.

Delayed selling on the part of the wheat pool has not materially changed the rate of exporting wheat from Canada throughout the year.

**VOLUME OF WHEAT AND COARSE GRAINS
HANDLED BY THE CANADIAN POOLS
1923-1926**

(In thousand bushels; i.e., 000 omitted)

CROP	GRAIN	MANI- TOBA	SASKATCH- EWAN	ALBERTA	TOTAL
1923 (1)	Wheat			35,250	35,250
1924	"	8,427	50,093	22,880	81,400
1925	"	12,488	129,708	45,167	187,363
1925	Coarse Grain	13,790	11,364	(2)	25,154
1926	Wheat	15,874	117,066	43,627	176,567
1926	Coarse Grains	12,594	7,981		20,575

(1) Alberta pool began operations in the fall of 1923, but the Sask. and Man. pools did not commence until fall of 1924.

(2) Coarse grain pools were organized in Sask. and Man. during 1925 and are handled by the wheat pools of these Provinces. Grain included in these pools is also sold by the central selling agency. No coarse grain pool existed in Alberta at time mentioned.

**MEMBERSHIP OF THE CANADIAN
WHEAT POOLS**

YEAR	MANITOBA	SASKATCHEWAN	ALBERTA	TOTAL
	Number	Number	Number	Number
1923	(1)	(1)	25,601	25,601
1924	9,216	51,268	30,711	91,195
1925	14,372	72,016	35,997	122,385
1926	17,234	80,418	38,460	136,112
1927 (Mar. 15)	19,109	82,133	38,966	140,208

(1) The Manitoba and Saskatchewan pools began operations a year later than did the Alberta pool.

LIMITATIONS OF CO-OPERATIVE
MARKETING.

.....000-----

"There is nothing magical of a cureall character in a co-operative marketing association." (Ref.22 Page 34)

(1) Co-operative marketing is not a legal but rather an economical problem. The spirit of attraction which draws men into it is not simply a joyful anticipation but an anticipation of greater cash returns. Co-operative societies are not for social entertainment but are created for service; a service given at a lower cost than that by competed profit organizations. One of the criticisms which has been launched against the Wheat Pool in the Canadian West as well as in the United States has been that of 'promotion'. Drives are put on in a semi-military fashion by promoters who are highly paid and who are brought into strategic points to give the necessary evangelistic speeches. The critic says that this is propoganda and not education. As we look back in the early forms of co-operation we discovered that they took the form of evolution and not creation. The co-operations formed in the last five years have been mostly created and whether or not they will stand the test of time has yet to be proved. Whether or not the canvassers sent out over the territory in high powered automobiles for quick, sharp, sign-up of the progress of the crop in a limited time can justify their salesmen's promises also remains to be seen. And just here we might comment from the report of the activities of the Office of Farm Markets, State of Washington, July 1, 1927 to November 1, 1918, page 14, which says;

"The greatest demand for any one type of marketing work is that of the establishing Co-operative Selling Associations. Practically the entire time and attention of one man is devoted to this work.....Experience has shown that the success of co-operative effort depends largely upon the interest taken and the spirit of sacrifice shown by those who make up the organization. Consequently, it is believed that the desire to organize should come from the farmers rather than be promoted by an outside agency."

One of the outstanding objections to the Wheat Pool has been that the payment for the farmers' grain is delayed. Under the regular trade system the farmer receives a cash payment. When he sells to the Pool he receives but a partial payment and in the meantime awaits his final settlement and is taking the risk of speculative loss or profit.

Another inherent weakness which is found in co-operation of the big-central-type is that the expectations relative to the stabilizing of the basis price of wheat are most extravagant. We must always bear in mind that Canadian Wheat is not produced primarily for home consumption but rather for an over-seas market. It so happens that the world's wheat harvests arrive in an over-lapping sequence and the records for forty-three years from 1871 to 1915 very definitely show that the monthly prices on the average, rise slowly during the winter by an amount " not more than sufficient to cover carrying charges." The law of Supply and Demand is ever in operation and can not be set aside by any co-operative organization, however strong it may be. In the trade history of the United States and England we find several co-operative marketing organizations,

which became 'monopolies' in the sense that they control from 75 to 95% of the products. The result of this was that the price was set above the general Supply and Demand level and over-production took place. The resulting surplus almost immediately broke the price. So many co-operative enterprises are falsely informed when they conclude that by controlling the 'flow to market' they can also control the price. The study of economics teaches us one unchangeable fact that 'the flow to market' has no effect whatever on the price of the world's staples, e.g. grains, cotton, and wool, etc.. The co-operative marketing association, and more especially the Wheat Pool, cannot reduce the cost of distribution to any noticeable degree. As we examine the nature of the Pool machinery we find that it performs the same service as that of any middle man and very often by holding grain for higher prices which, by the way, is "speculation" severe losses are incurred.

The North Dakota spring wheat pool of 1922 may be taken as an example of speculative losses. This pool handled approximately three million bushels of wheat. Nominally, the pool closed in June, 1923. However, about one million bushels of wheat (one third of the year's receipts) were sold after that period, so that final settlement was not made till August. At no time after June 1. however, did the price of wheat touch the high price of wheat reached during the week ending June 1. The price trend was downward. No. 1 northern spring wheat sold in Minneapolis for the week ending June 2, 1923, at a weighted average of 127cents per bushel (see U.S. Weather, Crops and Markets, Vol. 5, p. 567). During the next nine weeks (to August 3)

it ranged between a high of 126 and a low of 114, the average being 120. (Weather, Crops and Markets, Vol. 3, pp. 567-645, Vol. 4, pp. 14-127). In other words the wheat held by the pool for a rising market sold for an average decline of 7 cents a bushel, this speculative loss on the million bushels, therefore, amounting to \$70,000.

Professor H.C. Grant summarises the limitations of co-operative marketing as follows:- (Ref.35 Page 15)

- 1 It cannot fix prices that are out of line with supply and demand conditions.
- 2 It cannot eliminate all the middleman services.
- 3 It cannot reduce costs greatly except in so far as increase in volume of business makes for lower costs.
- 4 It cannot operate automatically. What is everybody's business is too often nobody's business.
- 5 It does not permit of a farmer holding his products for higher price without running the risks of getting a lower price.

We agree with Professor Grant that the law of Supply and Demand is in operation, and cannot be set aside by any co-operative organization, however strong it may be.

The principle of the Pool being accepted, this common limitation should be noted, that any extravagant expectations of the extent to which the basis price of wheat can be stabilized at a more remunerative level, may lead to disappointment.

CONCLUSION.

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To an impartial onlooker with some experience in the handling of the business there is no doubt that the pool method of marketing grain comes to the ideal method from the farmer's viewpoint than any other system which has so far been originated. The pool will, of course, eventually be in a position to market grain more economically, and with a greater degree of confidence in its ability to get the best price for the producer, than is possible at the present time. Careful plans should be laid as early as possible to get reliable information covering the crop conditions in all countries of the world where there is a surplus of wheat for exporting. This information should be obtained, if possible, from Farmers' Associations which are in direct contact with the grower and from which it is more than likely reliable information can be obtained. There should not be any great difficulty about organizing this, and no doubt farmers' organizations, wherever they are located in countries from which grain is exported, will not only be willing to co-operate to this end, but it will also mean a direct link of association with these organizations, and this in itself may eventually be of considerable value to our organizations.

I believe the Pools are giving, and should continue to give, a most valuable service to the Western farmers. Having looked rather closely into their organization and methods, I believe that they can compete, on the basis of service with all merits,

One weakness, however, seems to stand out, this being the irrevocable contract. In contrast to what farmers have been taught, that in this contract lies their greatest strength, the writer sees a distinct threat to the permanency of the Pool. The only permanent basis on which any co-operative can build is a satisfied membership; and as the Honorable Ernest C. Drury, former Prime Minister of Ontario, says in the Financial Post of March 23rd, 1928, "Contracts are worse than useless-- they are dangerous." If the Wheat Pools were to consider the modification of their contract so as to allow withdrawals, under some reasonable provision that would safeguard their business, they would be following the example of the Staple Cotton Association of Greenwood, Miss., which deemed it expedient to modify its' contract to this effect some two years ago. The officers of this Pool give the following statement:- "The management is firmly convinced that freedom of action in regard to withdrawals is not only just to the member, but is also very real asset to the Association, as it makes for a satisfied membership. Withdrawing members are constantly coming back."

A great deal of the Pool propaganda has been based on the assumption that there was, of necessity, enmity between the older system of Commission selling, and the Pool system. This has probably been good policy from the standpoint of increasing Pool membership. The members and leaders of the Wheat Pool should realize that as long as there is grain to be marketed there will be those who prefer to sell it through other channels of trade than those established by the Pool. The Grain Trade and Wheat Pool are not two rival systems, one of

which is to be destroyed. The Grain Trade will not be destroyed by the Pool, neither will the Pool be destroyed by the Trade. Instead of active antagonism, a state of mutual tolerance should exist, and competition for market patronage should exist solely on the basis of service rendered.

Another modification in the Pool's policy and propaganda which is very timely, is that of Orderly Marketing. It has been found that delayed selling on the part of the Wheat Pool has not materially changed the rate of shipment of wheat over the Great Lakes, nor has it materially changed the rate of exporting wheat from Canada throughout the year. (Fig. 2 and Fig. 4.)

In regard to the price motive and its attainment, it must be said that the only Non-Pool average price which would be comparable with the Pool price, would be one based upon average quantities sold, and prices actually received by individual farmers. Unfortunately, however, the quantity of Non-Pool wheat delivered daily at country points is not known, and because of the inadequacy of satisfactory data, it is believed that comparisons between Pool and Non-Pool prices at present have little, if any, value.

In conclusion it may be said that the farmers of western Canada have demonstrated the desirability of large-scale business organizations in the marketing of grain. Early experience with local co-operative elevators proved that much good could be accomplished in improving the conditions surrounding the handling and shipment of grain at local points. They showed also, however, that such elevators were at a decided disadvantage when purchasing grain in competition with strongly organized line elevator or milling companies engaged in other phases of the

grain business. This led to organization by farmers on the same basis, and it is no exaggeration to state that the companies thus created have been dominating influences in the marketing of Canadian grain for many years.

Thousands of new settlers are pouring this year into Western Canada. They are coming full of hope and confidence. I believe that the community spirit which is fostered by the Pool will be a potent factor in bringing these newcomers into touch with our institutions and our ideals. I believe also that the great venture in co-operation which is rapidly passing the experimental state, even in the minds of those who, at one time thought it was a risky experiment, will be a powerful force in welding our many nationalities into one people. And as the business and professional men of the Dominion understand more clearly what it is hoped will be accomplished through the Pool, we know that a wider measure of confidence and support will be given for the great joint enterprise in which the farmers of these three Western provinces are engaged, a truly great venture that has for its goal better living conditions for the men and women and children who toil on the farms of this country, better homes, more comforts, more leisure, less drudgery and a greater measure of happiness among the people of a chosen calling in this great country. And, a greater prosperity -- true prosperity for the whole country -- through a better balanced economic relationship between the agricultural community and other classes.

Whether public opinion will change cannot be foretold.

The fact is that after four years of operation, sentiment is very favorable toward the Pool. In any case, the point that

should be emphasized is that the organization of the wheat pools is the outcome of an honest conviction on the part of farmers that the system of marketing represented by the grain exchange, which the co-operative elevator companies supported, is not the best that can be devised.

- REP. 5 AGRICULTURAL MARKETING IN CANADA
- REP. 6 MARKETING OF CEREALS IN CANADA
- REP. 7 **F.i.n.i.s.** MARKETING OF CEREALS IN CANADA
- REP. 8 CO-OPERATIVE MARKETING IN CANADA
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- REP. 9 MARKETING OF WHEAT IN CANADA
- REP. 10 MARKETING OF BARLEY IN CANADA
- REP. 11 MARKETING OF RYE IN CANADA
- REP. 12 MARKETING OF OATS IN CANADA
- REP. 13 MARKETING OF SORGHUM IN CANADA
- REP. 14 MARKETING OF MILLET IN CANADA
- REP. 15 MARKETING OF BUCKWHEAT IN CANADA
- REP. 16 MARKETING OF PASTURE GRAIN IN CANADA
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- REP. 19 MARKETING OF GRAIN IN CANADA

B I B L I O G R A P H Y

- REF. 1 AGRICULTURAL CO-OPERATION IN THE THE HORACE PLUN-
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- REF. 2 AGRICULTURAL MARKETING.....HORNER
- REF. 3 AGRICULTURAL CO-OPERATION IN THE
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- REF. 4 AMERICAN CO-OPERATION--1926 Vols 1&2..UNIVERSITY OF
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- REF. 5 CANADIAN WHEAT POOLS.....W.A.McINTOSH
- REF. 6 CO-OPERATIVE MARKETING IN WESTERN
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- REF. 7 CO-OPERATIVE MARKETING.....HERMAN STEEN
- REF. 8 COMMERCE OF AGRICULTURE.....BUEHL
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- REF.11 CO-OPERATION IN THE UNITED STATES.....THE GRAIN DEALERS
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- REF.12 ELEMENTS OF POLITICAL ECONOMY.....NICHOLSON
- REF.13 EFFICIENT MARKETING FOR AGRICULTURE...MACKLIN
- REF.14 GRAIN MARKETING.....THE NORTH WESTERN
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WINNIPEG, MAN.
- REF.15 INTERNATIONAL GRAIN MARKETING.....DR. R. MACILL
- REF.16 MARKETING OF FARM PRODUCTS (THE).....L.D.H.WELD
- REF.17 MARKETING OF FARM PRODUCTS.....BENTON
- REF.18 MARKETING OF AGRICULTURAL PRODUCTS....B.H.HIBBARD
- REF.19 MARKETING CANADIAN WHEAT.....THEO.D.HAMMATT

- REF.20 POLITICAL ECONOMY IN ENGLAND.....L.L.PRICE
- REF.21 PRINCIPLES OF MARKETING.....CLARK
- REF.22 PRINCIPLES & PRACTICES OF CO-
OPERATIVE MARKETING.....MEARS & TOBRINER
- REF.23 PRINCIPLES OF POLITICAL ECONOMY.....J.STUART MILL
- REF.24 PROBLEMS OF TODAY.....RICHARD T. ELY
- REF.25 REPORT OF THE ROYAL GRAIN INQUIRY DOMINION OF
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- REF.26 SPEECH TO THE CANADIAN CLUB,
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- REF.35 TECHNICAL BULLETIN ON CO-OPERATIVE H.C.GRANT &
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ALL AVAILABLE REPORTS ON GRAIN
TRADE & POOL INQUIRY

ALL GENERAL TEXT BOOKS HAVING A
BEARING ON THE SUBJECT OF OUR
INQUIRY.

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