

THE NATIONAL FALLACY AND THE WHEAT ECONOMY:

NINETEENTH CENTURY ORIGINS  
OF THE  
WESTERN CANADIAN GRAIN TRADE

by

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The Faculty of Graduate Studies,  
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## ABSTRACT

Scholars have long assumed that the Western Canadian wheat economy of the early twentieth century was the consequence of a nineteenth century federal government program, known as the 'national policy', inspired by Sir John A. Macdonald. However, when the basic elements of this alleged policy are investigated, it becomes apparent that no systematic strategy to promote an agricultural staple economy was forwarded by the federal Conservative government. Indeed, the concept of fostering another export staple economy was anathema to nineteenth century Canadian toryism. As such, the development of the Western Canadian grain industry must be re-examined from a perspective that recognizes alternative causation.

When the various components of the developing nineteenth century grain trade are unravelled, the immense impetus provided by indigenous regional elements becomes apparent. Hamstrung by federal government policies, early western branch line construction was made possible only through the financial aid of the Manitoba legislature and the municipal bonusing craze. Although the initial impetus was provided by CPR regulations, the pressures of world economic deflation caused local grain men to develop and utilize vast grain elevator networks. Also, by virtue of the contrary designs of the Eastern Canadian milling establishment, Winnipeg grain interests were forced to erect a powerful, centralized marketing apparatus to secure international demand for Western grain. Operating in tandem, these components created a great wheat funnel which was able to competitively spout the prairie staple onto the world's markets and usher in the wheat 'boom' of the early twentieth century.

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## Acknowledgments

This thesis is the final result of a long and trying fascination with the mysteries of the Canadian grain trade. It began all too many years ago in my father's livingroom where he and his good friend Professor W.D. Smith once shared with me some stories surrounding that infamous 'house with the closed shutters,' The Winnipeg Grain Exchange. These tales of decadence and commercial piracy so sparked my curiosity that when I eventually found myself in a graduate thesis program the subject of my studies was never at issue.

Many people have assisted me in this project and before I single-out the very special few to whom I am particularly indebted, I wish to acknowledge the unqualified support and assistance I received from the entire Department of History at the University of Manitoba. Whenever difficulties arose, there wasn't a member of the faculty, support staff or student body who didn't do everything in his or her power to help. Moreover, without the financial support it provided through various assistantships and a Manitoba Graduate Fellowship, it would have been practically impossible to carry out this venture. Thus, to 'The Department' I express my unreserved gratitude.

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To my Mother and Father,  
for their support and inspiration.

What is history but a fable agreed upon?  
Napoleon Bonaparte



## INTRODUCTION

The dawn of the twentieth century witnessed the transformation of the isolated pockets of Confederation into an integrated and prosperous transcontinental economy within the confines of the Canadian state. The principal agent of this transformation was the development of a booming staple trade in Western Canadian wheat initiated by a 'fortuitous conjuncture' of world events.<sup>1</sup> By the end of the nineteenth century, the great western powers had completed a phase of structural economic transition which enabled them to enter a new period of unprecedented industrial growth.<sup>2</sup> This 'second industrial revolution'<sup>3</sup> not only undermined much of Europe's ability to feed itself, but fostered a new dietary preference for 'whitened' breads and flour<sup>4</sup> - necessitating the importation of ever greater quantities of 'hard' wheat peculiar to North America. Industrial upheaval also fostered a vast exodus of population bound for the new world. With the successful application of new dry-farming techniques<sup>5</sup>, these immigrants were able to settle the semi-arid belt of the Canadian Prairies and produce the massive grain surplus necessary to satisfy the European demand. Arising in tandem, these forces ushered in the grandiose staple trade known as the Canadian Wheat Economy.

Yet it is doubtful that the development of this lucrative staple trade would have been realized had its entire success been dependent upon this 'fortuitous conjuncture' of European demand and prairie production alone. In his

Principles of the Grain Trade of Western Canada, C.B. Piper cites three basic factors required before a grain trade can be considered feasible: a grain surplus, a purchaser for this surplus, and the "necessary machinery of commerce" by which to transfer this surplus to the purchaser.<sup>6</sup> With this very elementary market model in mind it becomes quite apparent that given all the supply and demand impetus of the early twentieth century, the Western Canadian wheat boom would have been an impossibility without an effective mechanism by which to transfer the commodity from the producer to the consumer. To accomplish this task, a vast grain handling and marketing apparatus was required to harness the prairie region into a 'Great Wheat Funnel',<sup>7</sup> ready to spout the golden elixir through the head of navigation at Thunderbay on to its intercontinental destinations. By 1900 the massive structure of capital equipment, marketing regulations and human expertise creating this funnel had been erected, enabling the full potential of the 'fortuitous conjuncture' to be realized and, in turn, used as an engine of economic growth and development.

But despite its crucial relationship to the establishment of the Wheat Economy, scant attention has been directed toward the early creation of the grain handling and marketing apparatus. Although the major studies of the trade have clearly recognized its importance, and a few have gone into detail concerning the economies provided by some of its components, none have adequately tried to

uncover its pre-boom origins. This inadequacy leads to a number of questions concerning the accuracy of the historical analysis of certain turn of the century issues directly related to the grain trade - particularly the Western farm protest movement and its implications. Indeed, much of the early prairie agitation focused on the trade's handling and marketing apparatus. Yet scholars seeking to understand its operation have been limited to two Dominion Royal Commission Reports<sup>8</sup> - produced by Western farmers<sup>9</sup> - which provide little account of its development prior to 1899. Obviously, a void of significant implication exists with regard to ~~this~~ crucial element in the establishment of the Wheat Economy.

Historians, however, have had little desire to investigate this void. For although they have neglected to thoroughly research the origins of the Wheat Economy, they have nonetheless established a theoretical explanation of its creation. Influenced by intellectual trends in the United States, depression era historians evolved a belief that the Wheat Economy was the result of a nineteenth century federal government fiat known to the profession as the 'national policy'.<sup>10</sup> Although an entertaining and persuasive thesis, its monolithic framework has proven far too overbearing to accommodate the diversity of interests which combined to create the early Western grain trade. Unfortunately, this correlation of nineteenth century intent with twentieth century reality has become so axiomatic to contemporary historiography that it is necessary to first trace its

tenuous origins and re-evaluate its premises before the historical evolution of the Western grain trade can be presented.

Accordingly, Part I of this study provides a general overview of the traditional literature affecting the early trade, a discussion of the historiographical trends which caused historians to accept fantasy over fact, and a re-evaluation of the national policy. After a brief presentation of the early agricultural development of the Canadian West, Part II illustrates the rise of the basic infrastructure of the 'necessary machinery of commerce': the establishment of an efficient branch line and elevator system. Focusing on the problems of railway finance, economies of transportation, and the evolution of the elevator companies, it uncovers the development of the grain handling system the prairie producers found so offensive. Part III discusses the origins of the grain inspection system and its crucial relationship to facilitating not only the bulk handling apparatus established under Part II, but to the problems of grain marketing as well. Consequently, the rise of Winnipeg as the market centre of the trade and the creation of its Grain and Produce Exchange will also be incorporated within this discussion. Part IV seeks to evaluate the operation of the handling and marketing system in relation to the agrarian onslaught at the end of the nineteenth century. Particular emphasis will be placed upon the creation of the Manitoba

Grain Act of 1900 which seriously undermined the basis of the established handling system for political self-interest.

PART I

CHAPTER ONE

MYTHOLOGY OF THE EARLY GRAIN TRADE



Despite an onslaught of Royal Commission investigators, grain trade 'insiders', and professional historians armed with extensive research grants from the likes of Carnegie, the American Social Sciences Research Council and Canada Council, the early development of Western Canada's grain handling and marketing system has remained a mystery shrouded in illusion. Serving merely as a forum for agrarian discontent, the early Royal Commissions provided a decidedly one-sided interpretation of the apparatus they sought to unravel. Subsequent grain trade handbooks produced by a number of knowledgeable 'insiders' offered great complicated studies of the trade structure but were fraught with idle conjectures and neglected historical development. When professional historians finally entered the field of grain trade investigation, they were content to accept the incidental findings of their predecessors and apply them to deterministic themes and concepts. Operating in this fashion, historians have done more to enhance the primordial mythology surrounding the trade than to uncover its actuality.

The earliest investigations of Western Canada's grain trade were performed by a number of Dominion Royal Commissions. Long convinced of the existence of a capitalistic conspiracy to extort their wealth, prairie farmers pressured the Laurier government to unmask the hydra of corruption lurking within the system. Consequently,

two Royal Commissions were initiated: the first in 1899 to investigate the handling apparatus and a second in 1906 to study the entire trade structure.<sup>1</sup> But unlike later years when 'objective' academics were the major benefactors of Royal Commission boondoggling, Laurier's regime believed the investigations should be carried out by those already familiar with the situation. Perhaps because the business interests denied knowledge of the alleged conspiracy, the administration decided the best approach would be to encourage those who believed in the plot to perform the investigation. As such, the commissioners for both of these inquiries were all farmers.<sup>2</sup> Although these Commissions compiled a great quantity of what one Chairman referred to as "groundless complaints"<sup>3</sup> and very little evidence of conspiracy, they did provide a considerable list of recommendations, usually adopted by the government, to enable farmers to better profit from their labours and prevent the 'non-producing' interests from combining against them. Unfortunately for the historian, these Commissions provided very little information concerning the evolution of the system and are only useful in their description of the trade as the great wheat boom set in. However, because of the obviously limited perspective of the Commissioners, the information provided should be heavily qualified by the scholarly investigator. Subsequent historians have not only failed to do this, but have reiterated the multitude of accusations the Commissions were unable to find evidence of.<sup>4</sup> Yet this is not surprising

given the agrarian faith in the existence of the illusive conspiracy. Indeed, during the first half of this century alone, succeeding federal governments were persuaded to initiate four more Royal Commissions of Inquiry into the operations of the grain trade.<sup>5</sup> These also proved unable to legitimate the accusations of the prairie producer and made no further attempt to uncover the evolution of the trade structure.

When the Great War interrupted Canada's brief sojourn with booming prosperity, a retrospective realization of the economic miracle wrought by wheat initiated a new enthusiasm for the workings of the grain trade. The following decade and a half witnessed the publication of a small number of descriptive handbooks purporting to unlock its secrets. Unfortunately, most of these handbooks are disappointing. Written by knowledgeable 'insiders', the focus is confined to the intricate workings of the system at the time of publication and little concern is expressed on historical development.

The first of these handbooks, C.B.Piper's Principles of the Grain Trade of Western Canada, developed from a series of lectures given to the students of the Manitoba Agricultural College and was published in this form during 1915. It was extensively re-written in 1917 only to be seriously outdated by a revision in government grain regulations before it rolled from the presses.<sup>6</sup> Nevertheless, this publication clearly set the structural format employed by its successors: taken on a guided tour of the trade apparatus, the reader is

treated to a graphic description of its parts. Fortunately, the author often neglected his desire for objectivity and digressed into defensive analyses of the necessary integration of the system's major components - raising a number of issues virtually ignored in subsequent handbooks.

As an executive director of two elevator companies, Piper was not only well versed in the intricacies of the 'necessary machinery of commerce', but uncomfortably aware of the Western farmers' continuous assaults on its operation. Thus, amidst the comparisons of the relative cost of various modes of transportation and the capital requirements of infrastructure, the author delved into the economies provided by the Western elevator system over the use of flat warehouses and loading platforms.<sup>7</sup> When further elaborations are made concerning the importance of grain inspection to bulk handling and market value,<sup>8</sup> the crucial interlocking nature of the system becomes self-evident. Accordingly, attempts to circumvent the efficient operations of one component, such as the substitution of direct loading platforms for elevators, are likely to undermine the effectiveness of the entire apparatus.

Piper also noted the major historical deformity of the Western grain trade - the fact that Winnipeg, and not Thunderbay, was its marketing centre. As the railhead, where the staple is stored and transshipped to lake vessels, Thunderbay was the natural geographic point for the grain market to be centred. Indeed, the Western Canadian grain trade is the only one in the world where the marketing

centre is not at the point of transshipment. Unfortunately, Piper's talent for noting this peculiarity did not extend to providing a satisfactory answer for the condition:

...it is impracticable to operate the grain business as a whole from (Thunderbay).... Because of the time consumed in transit of mail....<sup>9</sup>

Despite the naivety of this solution, it has still gained a certain historical precedence as the cause of Winnipeg's hegemony over the grain trade.<sup>10</sup>

Yet if Piper's work provided only a few minor insights into the delicate operations of the grain trade, the subsequent handbooks offered their audiences considerably less. In 1919 the University of Manitoba's world renowned botanist A.H. Reginald Buller published his Essays On Wheat. Although the work contained a valuable account of the development of marquis wheat, its chapter on early grain growing in the West provided little of substance on the origins of the handling and marketing apparatus. According to Buller, with the mere completion of the eastern leg of the transcontinental railway "the agricultural progress and prosperity of the west (was) assured."<sup>11</sup> Having thus settled the fate of the near vacant prairie, the author continues on a guided tour of the vast and complicated network of the grain trade circa 1919 without the benefit of analytic digression or clear insight. The frustrated reader is forced to conclude that this tangled enigma somehow arose upon the completion of the Canadian Pacific Railway.

Any further need to publish descriptive travelogues of the grain trade was withstood until major changes had transformed the system into an even more octopus-like assortment of heavy machinery, federal regulations and vested interest groups. Over the 1920's, farmers' cooperatives, wheat pools and added government controls significantly complicated the apparatus and thus gave W.W. Swanson, an economist at the University of Saskatchewan, and P.C. Armstrong, an agricultural consultant, cause to produce their definitive statement on the great staple trade - aptly entitled Wheat.<sup>12</sup> Enlarging upon the inadequacies of their predecessors, Swanson and Armstrong not only avoided placing their subject in any sort of historical perspective, but lost sight completely of the interlocking nature of the apparatus. Consequently, the work provided only a collection of minutely detailed descriptions of box cars, grain elevators, inspection procedure and so forth without justification for the entire exercise. It remains one of the least used references of the grain trade.

The most well known handbook on the trade is Duncan MacGibbon's The Canadian Grain Trade, published in 1932. Having served as professor of political economy at various Western Canadian universities, a member of the Royal Grain Inquiry Commission of 1923-4, and on the Board of Grain Commissioners, MacGibbon was perhaps the most qualified of the knowledgeable insiders to produce what he deemed as "a comprehensive picture of the Canadian grain trade."<sup>13</sup> Unfortunately, it too compounded the inadequacies of its

predecessors. Though clearly focusing his attentions on the existing system, MacGibbon acknowledged the need to provide a preliminary study of the earlier grain trade before a true understanding of the apparatus was possible.<sup>14</sup> But while he provided a useful summary of wheat production from the time of the French Regime to the first exports shipped from Western Canada in the 1870's, the reader is again forced to assume that with the completion of the transcontinental railway in 1885, the vast handling and marketing apparatus - meticulously detailed over the space of 400 pages in the book - miraculously appeared without due circumstance.<sup>15</sup> Indeed, the author found little difficulty in announcing that by 1900 the essential hardware of the grain trade was in place but desperately needed the regulation imposed upon it by the Manitoba Grain Act.<sup>16</sup> Nevertheless, having accomplished this leap between transcontinental railway construction in 1885 and the need for government intervention in 1900, MacGibbon's volume continued with another of the now familiar travelogues of the great staple trade.

Fortunately, MacGibbon's magnum opus proved to be the last of the general grain trade handbooks to appear.<sup>17</sup> The historical value of these works remains in their recognition of the existence of the vast and efficient apparatus of the trade. Yet its conception and evolution remained shrouded in mysterious circumstances: somehow, between the construction of the CPR and the turn of the century, a marvelous network of railways, storage elevators, inspection procedures,

market centres and grain companies arose to handle the prairie staple. What endured from these lost years was the multitude of unproven agrarian accusations of corruption and conspiracy within the system.

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Thus, after having served almost three decades as the engine of the national economy, the origins of the grain trade remained unknown. And, provided the trade continued to perform accordingly, there was little cause to believe that anyone cared otherwise - least of all professional historians whose concern for healthy subjects was notoriously limited. Yet almost as soon as it gained national predominance, this economic colossus began to display symptoms of ill health. Despite the findings of the early Royal Commissions, Western agrarian interests remained convinced of their exploitation by the 'non-producers' and, harnessing themselves into powerful political and economic organizations, set out to correct the situation. Through their efforts it became apparent that massive injections of capital were required to enlarge a seemingly inadequate infrastructure. Consequently, two additional transcontinental railways were constructed on the public's largesse. Increased government intervention into the trade was sought and obtained, while direct participation in the handling and marketing apparatus was secured through the creation of farmers' grain companies, cooperatives and wheat pools. Nevertheless, the collapse of artificially high grain prices at the end of the Great War<sup>18</sup>



sparked a fresh wave of agrarian discontent and left the country's two-party political system in its wake.<sup>19</sup> With these events historians took an immediate delight and a small library of publications purporting to explain the cause of the malady quickly appeared<sup>20</sup> - a glaring display of that profession's preoccupation with symptoms instead of the disease.

Although the mid-1920's seemed to witness a return to the prosperity encountered before the War, even more dangerous problems began to arise. The same industrial transformation which had provided the impetus for creating the Wheat Economy contained also the seeds of its destruction. Rapid technological advances in agriculture and an alteration in nutritional demands began to undermine European needs for North American grain.<sup>21</sup> More importantly, the continued international economic imbalance and a wave of nationalistic protectionism placed greater restrictions on world trade<sup>22</sup> precipitating a drastic fall in Canadian grain exports. With the subsequent collapse of the Wheat Economy in the early 1930's, the time had arrived for professional historians to begin their autopsy.

Yet much more than a tumultuous economic catastrophe was necessary before Canadian historians could exercise their forensic arts in the service of the grain trade. Indeed, the all-dominating conceptual thrust of the local historical community had long been confined to political and constitutional issues revolving around the glamorous theme of the rise to independent nationhood.<sup>23</sup> This provided little accommodation

for the likes of business and agricultural subjects. However, with the nominal independence achieved with the Statutes of Westminster in 1931, interest in constitutional matters waned and an opening was thus provided for the importation of a number of American historical themes sympathetic to mundane economic pursuits. But though these themes enabled historians to direct their attention to the Wheat Economy, they subtly submerged the subject into the deterministic confines of prairie settlement and national policy.

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Over the first decades of the twentieth century the scope of American historical thought underwent an unprecedented series of upheavals - a process which would be repeated in Canada a generation later. The historical writing of the nineteenth century had been dominated by political and military subjects dealt within the familiar context of constitutional evolution. But with the publication of Frederick Jackson Turner's "Significance of the Frontier on American History" in 1893 the chains of tradition were removed and an onslaught of new historical interests overwhelmed the old school. Turner's work immediately fostered a now well known interest in the all-persuasive force of western settlement, with its emphasis on environmental determinants, while economic history received a significant boost in 1909 with G.S. Callender's Readings From the Economic History of the United States. An added emphasis on economic