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SOME APPLICATIONS OF CLASSIC ECONOMIC THEORY

TO PIONEER CONDITIONS.

by

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Thesis submitted by Candidate for the

Degree of Master of Arts.

University of Manitoba, 1926.

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No man, however great, can escape from his environment. The conditions of his life will colour his thoughts and his conceptions, even when he aims at generally or abstraction.

Nowhere is this truth more clearly illustrated than in the development of economic theory. Some of the bitterest controversies of Political Economy centre round the question of the extent to which the theories of the founders of the English school of Classic Theory have been invalidated by assumptions based on conditions of their own time and place, but not capable of general extension to other times and to other countries.

In the light of a century or more of economic development such limitations are thrown into bold relief. It is quite easy today to recognize in ADAM SMITH the reaction of an expanding industrial era against the restrictions of a worn-out past. It is quite as easy to trace in the much-criticised assumptions of RICHARDO the actual conditions of his own immediate environment: Economic man, Equality of opportunity, freedom of competition and of contract, and perfect mobility were no mere assumptions on the Stock Exchange.

The England of the day was the England of the Poor Laws: when the falling of the wages below a fixed minimum tended automatically to throw the labourer on the parish for relief; while the congested condition of the labour market, following the French war, as steadily pressed wages down toward that bare subsistence. The threefold land system, with its landlord, capitalist tenant, and labourer, all sharing in the returns from the land, gave its characteristic form to the classic analysis of Income; and the farmer capitalist represented a condition approximating to perfect mobility. Such a capitalist would demand Normal Returns, or failing to obtain them through a lower rental, he would move his stock and implements to more promising fields. Thus Margin, Prices, Rent, Cost of Production, were seen as Definite Mutually Adjusting Variables, acting with automatic precision. It was the England of the Corn Laws, where the food demands of a rapidly increasing industrial population were forcing the margin of cultivation higher and higher up the barren hillsides; where Diminishing Returns was no speculative theory; but the Negligibility of Nature a menacing reality.

Theories coloured by such environment were formulated with qualifications it is true, but often these qualifications were waved aside as negligible or silently ignored.

Our present inquiry is, to what extent such absolute treatment has limited the validity of Classic Theory; and to what degree the theory can be extended in time and space. An exhaustive inquiry of this nature would be an ambitious one indeed; but a more limited one may be made with some benefit, we hope, by means of a comparative survey of the working out of economic tendencies in a pioneer region in northern Manitoba at the present time. A New World, a new century, and pioneer conditions in the newest part of a new country should offer a searching test of the economic theory of a crowded industrial country forced to produce its own food.

THE INTERLAKE.

For this survey we have chosen an outlying territory on the east side of Lake Manitoba. It is a thinly settled strip, averaging about thirty miles in width, tributary to the Gypsumville line of the Canadian National Railway. It is isolated on the north and east by wilderness, on the west by the lake, while its southern neighbours have economic conditions quite distinct. Young though it is, it has seen the ebb and flow of the margin of cultivation, with the most tremendous inflation and deflation of prices within the memory of the oldest citizen of Canada. To this restricted area, fairly representative of conditions between the two great lakes, I have given the name Inter Lake. (Appendix A).

GEOLOGY AND TOPOGRAPHY.

The flat InterLake is the youngest part of Manitoba, both in geology and in settlement. It was the last portion of the ancient lake bed to emerge from the waters. As the Great Lake receded, it left a series of lesser lakes, separated by mud bars or linked by sluggish channels. A glance at any older map of the province will show that the struggle with the waters has extended down to our own day. Most of the lakes so thickly studded on the map have ceased to exist, or have shrunk to reedy ponds or sloughs, or grassy flats; but the boulder-strewn wave-scarred beaches far inland still bear witness to the fury of storms in the not very distant past. Many of the older settlers came in by canoe. Even recent arrivals can recall the difficulties and even dangers of trails where now the automobile is a familiar sight. The long lines of railway ditches, and the breaking up of the soil were the decisive factors in the battle.

Every acre broken absorbed the surface drainage of another and hastened the reclamation of the country.

Probably the wide-flung protection of the waters saved the young forests from the all-destroying sweep of the prairie fires and left the InterLake what it is today, a region of woods and forests intersected by marshes and meadows. Beside the ubiquitous poplar, there are wide areas of spruce, ridges of jack-pine, isolated uplands of oak, tracts of birch and belts of maple along the lakes.

The lowlands have a rich black soil, sometimes tending to peat or alkali, but deep and free from stone. The uplands have a shallow soil with dense sub-soil. Many portions are stony or scrubby; and difficult to bring under cultivation; but its limestone foundation makes it yield largely to manure without souring, and yield well to continuous cultivation.

SETTLEMENT.

Such a territory offered no inducement to the first wave of home-seekers in the early seventies. These were in search of grain lands which could be quickly brought into extensive cultivation and made to produce an early return. Of grubbing and stone picking, they had seen more than enough on pioneer farms in the east. So the tide swept west across the prairies, leaving the InterLake a backwater.

The barrier of two great lakes deflected railway construction in the same direction. Winnipeg became the centre instead of Selkirk, the original choice; and construction was pushed south and west, leaving the InterLake far to one side.

The difficulties of wagon traffic were also a very serious obstacle to development, especially in field cultivation. The first settlement therefore came as an influx of ranchers and fishermen, - a development of some economic significance as we shall notice later.

The original Hudson's Bay Railway survey skirted the east side of Lake Manitoba to the Narrows, but only the first sixty miles were constructed, and this was not put into regular operation. The line fell into decay until the Canadian Northern, in consolidating their scattered lines into a system, acquired the right of way. The line was built to Oak Point, and put into operation. The gypsum and lime development in the north soon led to further extensions to Gypsumville and Steep Rock.

Each railway project was accompanied and to some extent anticipated by a certain amount of actual settlement, and a greater amount of speculative appropriation. The lake front had already been largely appropriated by the first ranchers and a substantial colony of Icelanders; Settlement began to spread outward from the railway into the woods; Settlements began to gather about the gypsum works; and an immigration of Swedes and Germans began to fill in the intervals.

The outbreak of the Great War, the demand for greater and yet greater production, - reinforced, as time passed, by the prospect of three dollar wheat, - brought a rush of land appropriation, some speculative, some by real settlers.

NATURE OF THE APPROPRIATION.

Most of the new arrivals sought grain lands, either for cultivation, or for the expected rise in land values. The large investor had the same ultimate purpose, which led them all to select the lands apparently most suited for field cultivation. This was in contrast to the ideas of the first settlers, who preferred the grassy flats along the lake fronts and seemed to regard distance from water frontage as more serious than distance from market. They had rejected lands on the wooded uplands, which the new settlers now cleared and broke up at great cost. Some of these lands, with the minimum of stone picking, cost from fifty to seventy dollars an acre, - a staggering capitalization for pioneer land under present agricultural conditions.

The great strike of 1919 brought an influx of trades-labour men, mostly in search of a garden and a rent-free holding, which might some time have a selling value. Many were transients fluctuating between their trades and their limited farming operations. Their direct influence on the economic situation was less important than their introduction of certain social and political ideas, which indirectly influenced economic development.

A large number of the least desirable farms were bought up for the ill-starred Soldier-Settlers at prices out of all proportion for even these times of inflation. With few exceptions, the soldiers lost their investment and the money advanced by the government; and abandoned the land, leaving paralyzed School Districts and crippled municipalities in their wake, as a result of the board repudiating its legal obligations as a trading company.

A Jewish Colonization project was equally unfortunate.

In developing his theory of Rent, RICARDO distinguished lands as to quality - Marginal, above margin or below margin. The classification had re-

lation to the market conditions, and the "Natural and Indestructible Powers of the Soil". (1). It is to be noted that he made no allowance for the most im-

portant condition of successful cultivation - the intelligence and industry of the cultivator; but assumed a trained farmer of average ability and industry.

Assuming this as a fixed element, under given market conditions the Margin be-

comes a physical rather than a psychological phenomenon. Despite the fact that subsequent analysis has led to the elimination of the terms "natural and inde-

structible" as limiting the qualities too narrowly, this distinction still holds. Marginal land can therefore be determined with fair accuracy at any time and

place. But this method, while necessary to give objective significance to the conception, makes it necessary in a new country of unsurveyed possibilities,

and miscellaneous population with widely differing skill in agriculture, to dis-

tinguish carefully between Margin of Actual Cultivation, and True Economic Margin. Considering the difficulties arising from the amount of speculative appropriation,

which is quite different from cultivation (and will proceed most actively near the Margin, if the prices are sufficiently tempting), the best general method

of classifying the "qualities of land" would seem to be based on the relative prices at which they are sold to actual cultivators.

"Qualities of the Soil" has been found a misleading term, for even RICARDO found himself obliged to make allowance for "Distance from Market"; but under

English conditions he laid less stress on this factor than he should for purposes of general theory. This factor has been elaborately worked out from personal

experiments and records by VON THUNEN (2) who lays more stress on distance than on soil.

Combining these factors, we would expect the settlement of the Interlake to show the following tendencies :

A. With reference to soil fertility, - the soils chemically or mechanically best suited for production would be the first appropriated;

B. With reference to climate, the natural market, - the lands nearest the city would be appropriated before the more distant.

(1) Principles of Political Economy and Taxation, Ch. 11. p. 47.

(2) Von Thunen - The Isolated State.