

THE EFFECTS OF THE WAR UPON THE GRAIN TRADE.

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Address delivered by

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The Effects of the War Upon the Grain Trade.

A war involving so many of the commercial nations of the world is bound to affect the grain trade profoundly sooner or later, and it has done so to a degree not yet realized by the general public. It may be worth while to attempt to give a more or less descriptive sketch of the main effects of the war upon the grain trade of this continent.

Grain Exchanges.

The outstanding feature of the marketing of grain in North America during the years of peace was the development of the grain exchanges. I do not propose to sketch that development; it is enough for my purpose to say that these organizations were due to commercial evolution, that they were not created by the governments, and that they served a necessary economic purpose. It was the grain exchanges that found the way to collect the grain at country points, assemble it in vast quantities at the terminal points, and distribute it among the mills of this continent and the mills of Europe. It was they that developed the system of classification of grain into grades, that developed the use of warehouse receipts, that perfected the system of insurance against fluctuation in prices known as future trading, that made possible the financing of grain by the banks without incurring undue risks, and that in time developed the most complete machinery for taking the grain from the producer and putting it in the hands of the consumer at the lowest possible cost.



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But if the machinery of the grain trade was created by commercial evolution in times of peace, it is a machinery capable of being thrown out of gear by such a war as that now being waged. For some time after the outbreak of war the effects upon this machinery were not very marked, but as the war proceeded one result after another followed, until the whole system of marketing grain upon this continent has been revolutionized to a degree which a couple of years ago would have been considered impossible and almost inconceivable.

Effect Upon Exporting.

At an early date after the outbreak of the war the problems of ocean tonnage, marine insurance and ocean freight rates became acute, and also the problem of the international rate of exchange. Naturally the exporting of wheat under these conditions became a most difficult matter, and these were the first effects which the war had upon the grain trade of this continent.

The rising prices of bread in the United Kingdom, as in other European countries, soon forced the British government to consider ways and means of protecting the consumer, and the British government decided to create an agency upon this continent for the purchase of wheat. The result was that a company was named at Winnipeg and authorized to purchase wheat for the United Kingdom. At a later date this company was entrusted with the buying of all the wheat for the Allies in Europe, especially for Great Britain, France and Italy.

When this stage was reached, the exporters of wheat in Canada found themselves deprived for the time being of their business and an important section of the grain trade was thus made to feel the full consequences of the war.

The War Corner.

The company that purchased for the European Allies made use of the machinery of the grain exchanges. It bought for future delivery in the ordinary commercial way, but representing as it did the treasuries of Great Britain, France and Italy, its operations were upon an enormous scale. During the times of peace in which the grain exchanges had been developed and had taken care of the wheat of the continent of North America no company had ever appeared which had behind it such enormous resources, which had furnished to it orders for such tremendous quantities of grain, and which consequently had such a predominating place in the exchange markets.

I am not at the present registering or reporting anything in the way of blame or censure either of the Allied Governments which adopted this method of buying their grain, or of the methods of the company which they authorized to purchase for them. My object is neither praise nor blame; it is simply

a descriptive sketch, and I am confident you will agree with me in the statement that I have made as to the resources, the orders and the power of the Wheat Export Company.

Buying through the winter and spring months for May and July delivery—and of course they were not the only buyers, as the Canadian mills were doing the same—a situation arose, which, as the month of May approached, brought to a head the accumulating effects of the war upon the grain business of this country. The gatherers of grain at country points had hedged their holdings in the usual way. Much of the grain so hedged did not come up to the contract grades, and the result was that as the month of May approached there was heavy bidding for the contract grades and prices went skyrocketing. Had the holders of May and July stuck out for their pound of flesh, they would have brought about a disaster to the Canadian grain trade, and, as it appeared later, to the grain trade of the whole North American continent, unparalleled in commercial history. To avoid this the Winnipeg Grain Exchange took hold of the situation, and the result was the next profound effect of the war upon the grain trade.

The rising prices of wheat, accompanied as they were by parallel increases in the cost of flour, produced a clamor amongst the consumers of the country, and as usual this outcry was very largely directed against what is popularly called speculating or gambling in the bread of the people. The Winnipeg Grain Exchange began by instituting a censorship in order to ascertain accurately the extent and character, if any, of illegitimate speculating in wheat. Very little of such business was found by the board of censors, and after the first surprise due to the creation of the board of censors was over, and the first fall of prices that resulted therefrom prices began to mount skyward again.

The Winnipeg Grain Exchange then decided upon the fateful step that took away the facilities for future trading in wheat in the Winnipeg Exchange, and proceeded to take all the other steps rendered necessary thereby. The last closing price was taken as a basis of closing trades in the Clearing House, and after a great deal of trouble the May and July accounts were all cleared as satisfactorily as it was possible to clear them to the various interests involved.

I need not describe these steps in detail as they are familiar to every member of the Exchange. You will recall, I am sure, the days of the crisis—it is unique in the history of the Winnipeg Exchange. You will recall the censoring. You will recall the withdrawal of facilities for future trading. You will recall the negotiations with the longs and with the shorts, with the scalpers and the spreaders, and with the agencies that gather the grain throughout the country. And you will not forget that on the one hand the Wheat Export Company met the Exchange in a generous way, and that on

the other, the agencies which collect the grain in the country guaranteed to sell 90 per cent. of all the wheat they controlled for the balance of the crop year to that company. And you will permit me to recall the fact that while many members of the Exchange were financially injured, yet all the members were dominated by the one spirit, the spirit, namely, of give and take, and of doing the best in the interest, not of their own particular line of business, but of the country during the period of stress and war.

I mark this as the next great effect of the war upon the grain trade. It is true that the fact that much of the hedged grain did not come up to the contract grades contributed to the intensity of the crisis, still the major causes of this effect were undoubtedly war causes, and I think it is worth while to particularize to some degree the war causes to which I refer.

To begin with there was a loudly proclaimed shortage of the supply of available wheat. This shortage, for some reason or other was emphasized in the speeches of some of the most prominent men in the British Empire and also in the United States. Ministers of the Imperial government, high officials in both countries and hundreds of newspaper editors emphasized the fact that the surplus wheat in Russia was locked up by the war, that the surpluses in such countries as India and Australia were not available through conditions of transportation and that Argentine had no surplus at all. They proclaimed the dependence of the European Allies, so far as wheat is concerned, upon the continent of North America, and they devised ways and means of eliminating waste, of husbanding the resources and of persuading or coercing their peoples to use substitutes for the white bread to which they had become accustomed.

Next, there was this imperious need of the allied peoples for our wheat at a time when their men in uniform had been withdrawn from productive work, thus causing a labor shortage in agriculture as in other interests on the one hand, and on the other increasing the normal consumption of bread. The soldiers at the front must be fed, and well fed; the workers in the United Kingdom were demanding and receiving higher rates of wages; the ranks of the workers had been increased by thousands and hundreds of thousands of women workers, so that the masses of the people in the United Kingdom had more money to spend than for some years previous.

Next, the war had affected profoundly the money situation, and in so far as currency had been inflated or increased in any of its forms, higher prices were inevitable.

Lastly, it must be noted that the concentration of the buying for the European Allies had been only slowly carried out and imperfectly at best. For example, in the Winnipeg

market there were some who bought wheat for the Belgian Relief Commission; there were others who bought wheat for France; others again who bought wheat for the United Kingdom, and these were buying in open competition with one another in the Winnipeg market. Further, these were buying not only in competition with one another, but also in competition with Canadian millers and American millers, who themselves were buying wheat in order to fill flour sales to the same Allied Governments.

It was inevitable that a crisis should develop under such conditions as these, and the only wonder is that it was not worse.

The action of the Winnipeg Grain Exchange did not commend itself at first to the other grain exchanges of North America; indeed, the tendency in the exchanges of the United States was to question the wisdom of the steps taken in Winnipeg. It soon appeared, however, that the whole grain trade of this continent had been swept within the area of trouble and within a very few days the leading exchanges of the United States were forced to take steps almost identical with those taken at Winnipeg.

Without the least desire to pose as having led the great exchanges of this continent, we can reflect that our Exchange was the first upon this continent to seriously investigate the question as to whether there was any illegitimate gambling in wheat in war time. It was the first also to take steps to prevent prices going higher still, and it was the first to work out and apply the remedy—and the only remedy within the hands of the Exchange—to the situation.

By virtue of this fact, the Winnipeg Grain Exchange got into a better position with the general public than it ever had been. Responsible business men in all lines gave expression to their opinion that the Exchange had acted wisely and well in a very difficult crisis, and it dawned upon the public in general that the men engaged in the grain trade might be just as conscientious and just as patriotic as the men engaged in any other line of business in the world. Certainly the action taken by the Exchange contributed largely to the fact that the government at Ottawa was prepared to give a sympathetic hearing to the representatives of the Exchange on the whole matter of the marketing of grain during war time.

Government Regulation.

This brings us to the next great effect of the war upon the grain trade of this continent, namely, the beginning of government regulation of the grain business. Every European country engaged in the war had found it necessary to under-

take the regulation of grain supplies, grain distribution and grain prices. I do not now say whether the steps taken by the European governments were justifiable or not from the standpoint of sound business method or of sound economic principle. One may perhaps believe that the people of Great Britain, or of France, or of Italy, living within the sound of the guns, personally involved through their sons and brothers in a terrible slaughter upon the battlefield, straining every nerve and making every sacrifice for their countries, were not exactly in the mood for the consideration of the soundest economic doctrines or of the soundest commercial methods, and that in their demands for state regulation they may have led to steps being taken which could not be economically justified. For weal or woe, however, the period of state regulation was inaugurated in the warring countries of Europe one after another, and the mounting prices of bread upon this continent and the action of the grain exchanges compelled the governments of the United States and Canada to consider what they could do under the conditions. In the United States, as you know, a food controller was appointed, Mr. Herbert Hoover, and the Food Control Bill tabled, which has resulted in the creation of the most gigantic wheat monopoly the world has ever seen.

The United States Grain Corporation.

This corporation will be the only buyer of wheat at the great terminal markets, and will be the only distributor and seller of wheat from those markets to the American mills, the European Allies and the neutral countries. In the United States the exporters were first thrown out of business. Then it was decided to create this great grain monopoly; then prices were fixed by a commission appointed by the president, at which prices the Grain Corporation will buy all the wheat; then future trading was prohibited, and finally the mixing of the grades of grain at the great terminal markets was made impossible. If we add to this the fact—although this was not due to the war—that the United States government had taken over the matter of the inspection of grain, had standardized the grade, and taken the inspection out of the hands of the different state legislatures, boards of trade and grain exchanges, I think you can realize the statement that this war has absolutely revolutionized the whole grain business of the United States. Who four years ago could have imagined that as the result of a European war the United States government would purchase all the wheat of the United States; that a government body would fix the prices; that the government would prohibit future trading, and that the government would prevent the mixing of grades, which was the very foundation of the splendid sample markets of the United States. Yet this is what has happened.

Board of Grain Supervisors for Canada.

In Canada a different course has been followed. The government of Canada took into conference representatives of the producers and also of the trade, and especially of the Grain Exchange. The government heard all that our most experienced members had to say about the marketing of grain, and as a result of these negotiations the government of Canada created a body called the Board of Grain Supervisors for Canada, and clothed it with certain authority by an order-in-council under the Defence of the Realm Act. This Board is not a great buying corporation like that of the United States, on the one hand, and on the other it is not intended to usurp any of the functions proper to the Board of Grain Commissioners. This Board is a regulating body, not an operating body. Its primary functions are: First, to regulate the price at which grain shall be bought and sold during the period of its existence; and, second, to regulate the distribution of the grain so that the grain will go to the Canadian people and the Allied powers. It has sometimes been said that the Board has power to commandeer all the grain in Canada. It has no such power; it cannot go to the farms, for example, and commandeer the wheat there, and its power to commandeer at elevators is a power to enforce the price it has set. If the owner of the grain that is in an elevator refuses to sell at the price set, the Board has power then to take the grain at that price.

It has sometimes been said that this Board is a Grain Exchange body. Five of the eleven members of the Board are not members of the Winnipeg Grain Exchange. Of these five, one is the president of the Canadian Council of Agriculture, one is the representative of the unorganized farmers, two represent labor organizations in eastern Canada, and the fifth represents the remaining body of eastern consumers. Of the six members of the board who are also members of the Winnipeg Grain Exchange, one is the president of the Grain Growers' Grain Co., one is the president of the Wheat Export Company which buys for the Allies, and one represents the flour milling interests. It is a very curious mind that supposes that these three members represent the Winnipeg Grain Exchange on the Board of Grain Supervisors. It is safe to say, indeed, that the Winnipeg Grain Exchange has had but two representatives upon the Board.

The Board, in accordance with its authority, has fixed prices upon Canadian wheat. It has also, in conjunction with Mr. Hoover's department, put into effect the regulation of the export of wheat between Canada and the United States. It has prohibited future trading, which is no longer necessary when prices are fixed, and it has organized ways and means for seeing that its decisions and plans for price and distribution are properly carried out.

The fixing of prices, with the consequent prohibition of future trading, has affected certain sections of the trade and

added them to the number of those to whom the war has meant the loss of their business. The outlook for these members of our Exchange at the moment is anything but bright, but I have not heard up to the present, of any member of this Exchange who has not shown the same spirit of sacrifice that was manifested in the month of May during the crisis the Exchange then passed through. The loss of money is bad, and the loss of a permanent business is still worse, but bad as these things are every member of the Exchange knows that still greater sacrifices have had to be made by many Canadians, and still greater sacrifices will be made by land and sea throughout the burning area of the war, and the spirit that every member has shown is that if the loss or interruption of business is a necessary thing, and if it proceeds from methods necessary for the defence of the realm, they will carry their burden and will do so without anger and without complaint.

Effect Upon Reciprocity.

One peculiar effect of the war has been in regard to the free interchange of wheat between Canada and the United States. I am not going to introduce even a political reminiscence, but my sketch would not be complete if I did not add this detail to it. The Canadian government removed the duty upon wheat, as you know; then by and by, the agencies that collect wheat in western Canada signed a contract with the Wheat Export Company to sell them at least 90 per cent. of all the wheat they owned or influenced; then the United States undertook to stop the shipment of food supplies from this continent to enemy countries, and they prohibited the export of wheat, as of other foodstuffs, to any country whatever, including Canada, without a permit or license; then it was discovered, in conference between the Food Controller's Department of the United States and the Board of Grain Supervisors for Canada, that it was advisable to regulate shipments across the line by this system of permits; that is to say, that American orders for Canadian wheat must have the approval of the Food Controller's Department at Washington and the Canadian shipments of wheat across the line must have the permission of the Board of Grain Supervisors for Canada. These steps are temporary, they are war measures, and they are designed for good purposes and sufficient reasons, but to the popular mind they are interferences with the sacred pact of reciprocity. A greater interference remains to be mentioned, and that is, that the United States congress has guaranteed a minimum price of \$2 per bushel for wheat for the crop of 1918, and has clothed the president with power, should he see fit, to impose a duty upon wheat that might try to slip into the United States, and without right or title, command the same guaranteed minimum. What effect this guaranteed minimum of the United States will have upon wheat growing in Canada during the coming year it is too soon to say.