

*Saskatchewan***ECONOMIC
REVIEW****The International Wheat Agreement**

Each year, throughout the months of August and September, lumbering combines move across the plains of western Canada to harvest the annual crop of hard spring wheat. Their appearance signals the beginning of a golden flood of grain down the market roads to the country elevators, the long trains of box cars, and the waiting holds of cargo ships that transport it to the seaports of the world.

This year the Federal Department of Agriculture has forecast an all-time record wheat crop of 656 million bushels, an increase of more than 13 percent over the previous record set in 1928. The anticipation of this bumper crop is a matter of profound satisfaction to the wheat producers of the prairies, but before their record harvest can be turned into cash, more than 70 percent of it must find an export market. For this reason the renewal of the International Wheat Agreement, due to expire on July 31, 1953, is a matter of great importance both to them and to the nation as a whole. Currently up for re-negotiation, the Agreement has already become the subject of much controversy, especially in the wheat province of Saskatchewan.

**I. AGRICULTURAL PERSPECTIVE
SASKATCHEWAN****PRODUCTION**

There are cogent reasons why the marketing of wheat receives special consideration by the farmers of Saskatchewan. Not only is wheat the chief staple product of the west; it is the very backbone of the entire prairie agricultural economy. In fact, almost every other agricultural product has to be considered

either as an alternative or as an adjunct to it. In no other province is dependence on a single commodity so marked. During the period from 1941 to 1951, cash income from wheat alone averaged four-fifths of the cash receipts from all grains, more than half of the cash income realized from the sale of all farm products, and over one-third of all income received by individuals.

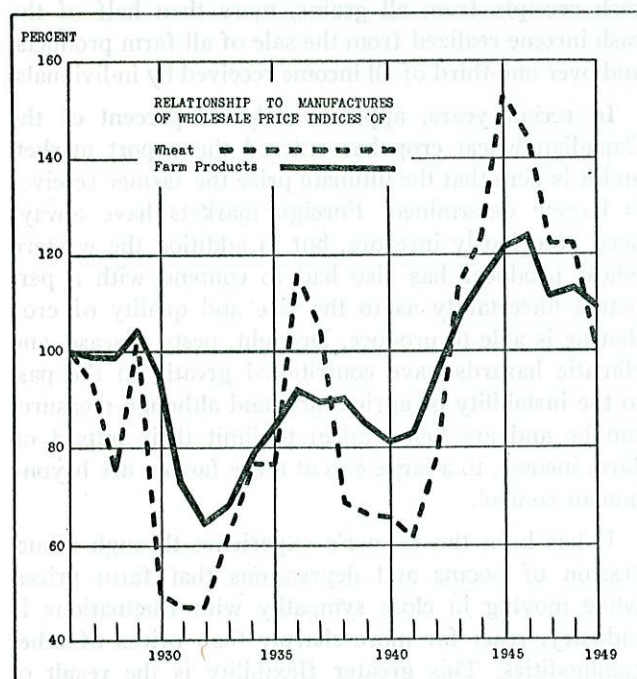
In recent years, approximately 70 percent of the Canadian wheat crop has entered the export market, and it is here that the ultimate price the farmer receives is largely determined. Foreign markets have always been notoriously insecure, but in addition the western wheat producer has also had to contend with a perpetual uncertainty as to the size and quality of crop that he is able to produce. Drought, pests, disease, and climatic hazards have contributed greatly in the past to the instability of agriculture, and although measures can be and are being taken to limit their impact on farm income, to a large extent these factors are beyond human control.

It has been the farmer's experience through a succession of booms and depressions that farm prices, while moving in close sympathy with fluctuations in industry, react far more sharply than prices of other commodities. This greater flexibility is the result of difficulties inherent in the transfer of agricultural resources to other uses. Wheat production, for example, does not adjust quickly to changes in demand or price, and the traditional pattern of production is generally adhered to throughout the course of a business cycle. In contrast, firms operating in the industrial segment of the economy are better able to maintain price levels by curtailing production in the face of a declining demand for their product.

The net result of this interplay of supply and demand has been to induce wide fluctuations in wheat prices and farm incomes, and price stability over the long run has been the exception rather than the rule. Saskatchewan, in particular, has experienced these fluctuations to an extreme degree. In the 22-year period from 1926 to 1948 the annual average variation in farm cash income in Saskatchewan was ± 24.9 percent, by far the largest of any province in Canada. Ontario, with its more diversified agriculture has, in comparison, suffered less than half of this year to year variation. Inevitably the fluctuations in Saskatchewan have exerted a depressing effect not only on farm family living standards but on the ability of the individual farmer to adjust his operations to meet changing conditions of demand and cost.

RELATIVE VARIABILITY OF WHOLESALE PRICE INDICES OF WHEAT AND FARM PRODUCTS AS COMPARED WITH MANUFACTURES

Saskatchewan 1926-49



While proposals aimed at achieving a more diversified agricultural base have met with little success, on the other hand, changes in production techniques have kept pace with scientific progress in farming. Improved cultural methods, including the use of herbicides and insecticides, soil conservation measures, irrigation, re-settlement from submarginal lands and crop insurance, have served to reduce output uncertainty to reasonable limits. A much greater degree of farm mechanization, made possible by the increasing size of farm units, has opened the way to the attainment of increased

farm productivity. As a measure of this increase, in 1951 the index of physical volume of agricultural production in Saskatchewan reached 214.9, representing an increase of 114.9 percent since 1935-1939, and the highest of any province. By comparison, Manitoba had an index of 142.9, and Alberta, 161.4. The significance of this fact is that this increase in physical product was achieved in spite of a loss of one-fifth of Saskatchewan's farm population between 1941 and 1951, and a decline during the same period in the number of occupied farms of almost 12 percent.

An indication of the increase in farm mechanization is clearly shown in the following figures. In 1941 the estimated value of implements and machinery on the province's farms totalled \$143 million; by 1951 this figure had soared to \$526 million. Allowing for the 72.3 percent inflation in farm machinery prices since 1941, the real increase in the amount of implements and machinery exceeded 166 percent. This is even more remarkable because farm implements were in very short supply throughout the war and immediate post-war period.

With these solid achievements in mind, the Saskatchewan farmer has asked why similar progress cannot be made in the vital link between production and consumption—the distributing or marketing process. It is his conviction that wheat prices which fluctuate wildly, and bear little or no relationship to the actual cost of production, should be as outmoded as the horse and buggy. The long drawn out struggle by the wheat producers to create an alternative to the speculative open market characterized by alternate gluts and surpluses and unpredictable price levels, has run like a thread through the political and economic history of the prairies.

THE ROLE OF GOVERNMENT

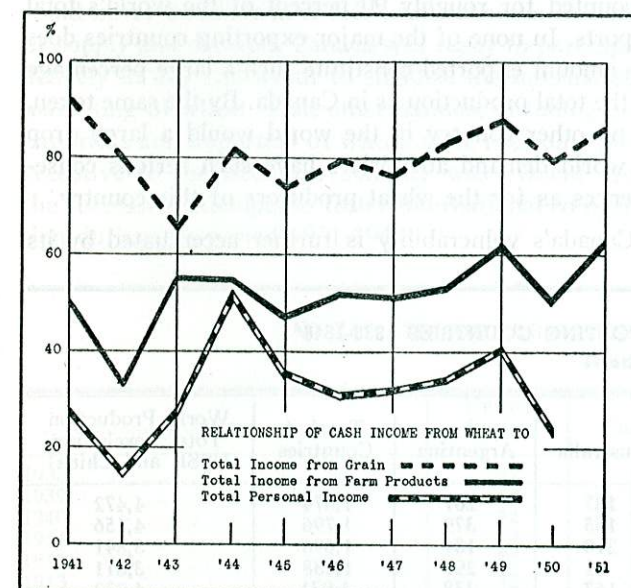
It has now come to be almost universally accepted that governments have a large role to play in ensuring the long-term stability of the agricultural segment of our economy. Constitutionally, jurisdiction over inter-provincial and foreign trade is vested in the federal government, but until quite recently it has evinced a marked reluctance to enter the field of market and price control of wheat.

The federal government was first forced into direct participation in the Canadian wheat trade during World War I. At that time, the Allies so dominated the North American wheat market by centralized buying that futures trading had to be temporarily suspended. In 1917 the federal government, by order-in-council, established the Board of Grain Supervisors and vested in it monopoly rights in the marketing of Canadian

wheat. Under this regime the price which the producer received from the board was fixed and final.

The Canadian government deemed this action merely a temporary expedient, and its intention of permitting the private grain trade to reassume control of the marketing of grain as soon as circumstances would permit was realized with the reopening of futures trading in the latter part of 1919. However, it soon became evident that market conditions were as yet far from normal. The end of the First World War coincided with a sharp drop in farm income as a result of declining wheat prices and a prolonged drought, while the prices of manufactured goods remained at wartime levels. The Canadian Council of Agriculture demanded the re-establishment of a national monopoly in wheat trading, and after consultation the government established the first Canadian Wheat Board. This Wheat Board of 1919-1920 differed from its predecessor, the Board of Grain Supervisors, in that it paid an advance to the producer together with participation certificates which entitled him to share in any surplus above the initial price.

RELATIVE VARIABILITY OF FARM CASH INCOME FROM WHEAT AS COMPARED WITH TOTAL INCOME FROM GRAINS, ALL FARM PRODUCTS, AND TOTAL PERSONAL INCOME, SASKATCHEWAN



In July of 1920, the federal government, satisfied that the unusual war engendered circumstances were at an end, subscribed to the view that wheat marketing should again return to the open market. But once again world export markets collapsed, and the price of wheat dropped drastically. Prices received by the farmer fell from \$1.55 a bushel in 1920 to 76 cents in 1921. Agricultural producers agitated in vain to have the Wheat

Board re-established, but the idea of a government marketing agency for wheat had been shelved.

With the failure of the government to act, hopes became focussed on the possibility of co-operative marketing. In 1923 and 1924, provincial pools, and a central selling agency known as the Canadian Co-operative Wheat Producers Limited, were established in the three prairie provinces. As a substitute for legislative enactment, voluntary co-operation functioned with some success from 1924-1931, and during that time the pools handled approximately one-half of the wheat marketed in western Canada.

The depression of the thirties brought new problems that the co-operatives were unable to cope with. Falling prices and shrinking demand were largely beyond their control, and the ruinous collapse of wheat prices after 1929 again forced the federal government to act. It initiated market stabilization measures which consisted principally of the holding of cash grain and the purchasing of wheat futures at appropriate times so as to stabilize the market. By 1931, the provincial co-operative pools had been divorced from their central agency, the Canadian Co-operative Wheat Producers.

CANADIAN WHEAT BOARD

The transition from the government wheat stabilization program to the Canadian Wheat Board took place in 1935. The experience of the depression had shown clearly that the only hope for the wheat producer lay in the assumption by the national government of greater responsibilities in interprovincial and export trade. Viewed in this light the establishment of the Wheat Board in 1935 was a natural development from past experience in this field.

The Canadian Wheat Board Act provided merely for a voluntary marketing organization, and the farmer was free to exercise his own discretion as to whether he would deliver to the board. If at any time the open market price fell below the fixed price established by the board, it would naturally receive practically all the wheat offered by farmers. If, on the other hand, the prevailing market price was higher than the fixed price to be paid by the Wheat Board, then the farmer would have the option of selling his wheat through whatever medium he chose. The Board's actions were to be confined to the marketing of wheat entering interprovincial and export trade only.

The act contained four sections which would have established the Canadian Wheat Board as an absolute monopoly in dealing with the primary movement of wheat, but these did not come into force until September 27, 1943. At that time the discontinuance of

trading in wheat futures on the Winnipeg Grain Exchange was announced and the board acquired all stocks of unsold cash wheat. This action was taken by the federal government under the War Measures Act with the basic purpose of protecting the Canadian agricultural producer from adverse developments in the international wheat market. The compulsory powers thus vested in the board were continued under the National Emergency Transitional Powers Act, passed in 1945.

These compulsory powers were first extended to cover the life of the bilateral agreement with the United Kingdom, and later the life of the International Wheat Agreement which is scheduled to expire July 31, 1953. It is a moot question whether such compulsory controls would still be invoked if there were no international obligation or commitment to fulfill, but there can be no question that the existence of a regulatory marketing agency at home has facilitated satisfactory international marketing arrangements abroad.

ONE WORLD

In the final analysis, it must be admitted that the mere existence of a Canadian Wheat Board representing the interests of the wheat producers does not by itself guarantee the long-term price stability of wheat. Any unilateral action taken by a national government agency to control a product whose price is largely determined in export channels is at best apt to prove a temporary palliative. Only when multilateral action is taken by both producing and consuming countries in order to achieve a balanced pattern of trade at prices satisfactory to both producers and consumers can any lasting success be attained.

Canada's peculiar vulnerability to price fluctuations stems from the fact that although wheat is the most important grain product entering world trade, the bulk of the world's grain is consumed in wheat producing areas and a relatively small proportion enters international trade channels. During the period from 1938 to 1948 Canada produced only some 10 percent of the world's supply, exclusive of the U.S.S.R. and China. Generally speaking, with the exception of the United Kingdom, most wheat importing countries are also substantial producers of wheat in their own right, and consequently, they import only a relatively small margin sufficient to bridge the gap between their domestic production and domestic requirements. It is this margin which is most likely to be curtailed when a drop in demand occurs. The potential danger of such a situation is accentuated by the fact that even a slight increase in world supply of wheat can, under certain conditions, lead to marked declines in the price of wheat.

On the other hand, a disproportionate volume of wheat exports originate in a few countries, including Canada. In the decade from 1938 to 1948, Canada alone accounted for some 41 percent of the world's wheat exports, while the four major exporting countries—the United States, Canada, Australia and the Argentine—accounted for roughly 90 percent of the world's total exports. In none of the major exporting countries does the amount exported constitute such a large percentage of the total production as in Canada. By the same token, in no other country in the world would a large drop in world demand and prices have such serious consequences as for the wheat producers of this country.

Canada's vulnerability is further accentuated by its

WHEAT PRODUCTION OF THE CHIEF EXPORTING COUNTRIES 1938-1948*
(millions of bushels)

Year	United States	Canada	Australia	Argentina	Total 4 Countries	World Production Total (excluding USSR and China)
1938.....	920	360	187	207	1,674	4,472
1939.....	741	521	155	379	1,796	4,456
1940.....	815	540	210	131	1,696	3,841
1941.....	942	315	82	299	1,638	3,811
1942.....	970	556	167	238	1,931	4,032
1943.....	844	284	156	236	1,519	3,819
1944.....	1,060	417	110	250	1,837	4,013
1945.....	1,108	318	53	150	1,629	3,233
1946.....	1,153	414	142	144	1,853	3,852
1947.....	1,367	341	117	206	2,031	3,591
1948.....	1,288	393	220	245	2,146	4,308
Av. 1938-1948.....	1,019	405	145	226	1,795	3,948
% of world production.....	25.6%	10.3%	36.7%	57.2%	45.5%	100.0%

*—Calendar years except for Australia where data covers twelve months commencing July of year stated.

practice of trading with too few partners, and over the years its dependence on virtually a single market has become even more pronounced. In 1938 the United Kingdom imported some 54 percent of Canada's total wheat exports, while in 1948, just prior to the conclusion of the International Wheat Agreement, this percentage had risen to 86 percent. This increase was due mainly to the bilateral agreement which existed between Canada and the United Kingdom. The possibility of losing this all-important market has haunted those responsible for the export of wheat from Canada, and the continuing currency exchange difficulties of the United Kingdom make this possibility a very real one. Her chronic shortage of foreign exchange has not only made it extremely difficult for her to obtain necessary food supplies from dollar areas, but was a major reason for the failure to renew the Anglo-Canadian Wheat Agreement of 1946-1950.

II. THE INTERNATIONAL WHEAT AGREEMENT

EARLY ATTEMPTS

The sharp lessons of the thirties, together with the wheat marketing experiences of the forties, convinced most Canadian producers that wheat price stabilization could never be attained if left to the random interplay of supply and demand. Canada was ready to participate actively in any endeavour to stabilize the international marketing of wheat. That other nations, including both exporters and importers of wheat, were becoming more receptive to the need for stability was evident from the successive attempts to foster international co-operation during the period 1931-1949.

Prior to 1939, six International Wheat Conferences were held in Rome, London and Washington, but the time was not yet ripe to translate the recognized need for international co-operation into a practical international agreement. Competitive national interests, constitutional doubts, and a lack of enthusiasm on the part of the United States, foredoomed these gatherings to failure.

Their most substantial accomplishment was the laying of the foundations for the Seventh International Wheat Conference which met in Washington on January 26, 1949. By the time it adjourned on March 23, an international agreement had been concluded. Its negotiation at that time was successful largely because of the "common cause" philosophy brought about by war and post-war co-operation between "allies," and the example of the Anglo-Canadian Wheat Agreement which embodied the idea of market and price stabilization through bulk buying and selling.

THE PICTURE PRIOR TO 1949

Early in 1948 representatives of the major importers and exporters of wheat met to formulate a five-year international agreement. Both sides had compelling motives for such an undertaking. Areas deficient in wheat shared a mounting fear that high prices might continue, causing a further depletion of their scant dollar reserves. They also recognized that the assurance of a guaranteed supply would afford desperately needed time in which to recover from the dislocation of production caused by the war.

Since the end of the war there had been a heavy demand for the available supplies of grain under allocation. Although producing nations had anticipated

WHEAT EXPORTS FROM PRINCIPAL EXPORTING COUNTRIES 1938-1948*
(millions of bushels)

Year	United States	Canada	Australia	Argentina	Total 4 Countries	World Total Exports*
1938.....	87	114	63	71	335	439
1939.....	63	163	48	174	448	586
1940.....	14	139	47	134	334	414
1941.....	13	197	22	88	320	354
1942.....	7	143	23	80	253	289
1943.....	12	219	34	72	337	362
1944.....	10	292	32	85	419	443
1945.....	129	330	12	87	558	562
1946.....	187	158	12	51	408	416
1947.....	167	160	60	84	471	485
1948.....	326	136	83	81	626	628
Av. 1938-1948.....	92	186	40	92	410	453
% of world exports.....	20.3%	41.1%	8.8%	20.3%	90.5%	100.0%

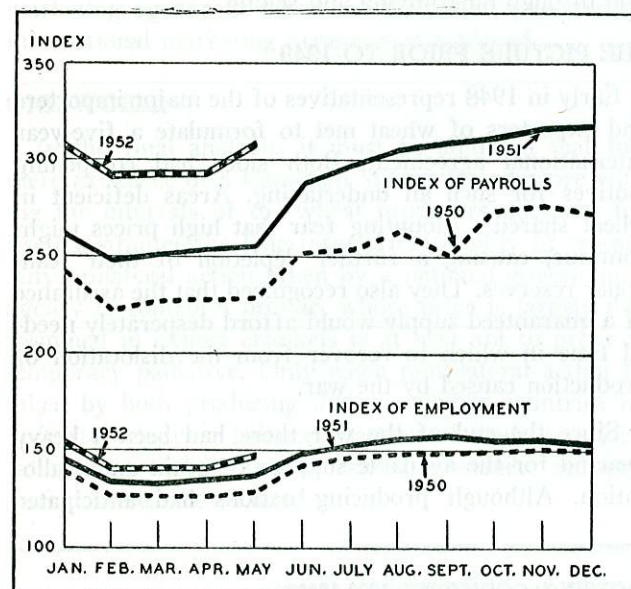
*—Calendar years except for Australia where data covers twelve months commencing July of year stated. Totals are exclusive of the U.S.S.R.

Current Economic Trends

FARM FAMILY LIVING COST INDEX
(1935-39 = 100)

Group	April 1952		April 1951	
	Western Canada	All Canada	Western Canada	All Canada
Food.....	234.6	239.6	239.1	243.9
Fuel.....	208.0	194.0	191.4	177.7
Clothing.....	240.3	239.8	216.4	216.7
Household Equipment.....	239.5	229.3	216.2	204.9
Health Maintenance.....	176.2	176.2	158.2	158.2
Miscellaneous.....	124.2	124.8	119.2	119.7
Total.....	211.2	209.6	199.1	197.1

INDEXES OF EMPLOYMENT & PAYROLLS
1950, 1951, 1952 (1939=100)



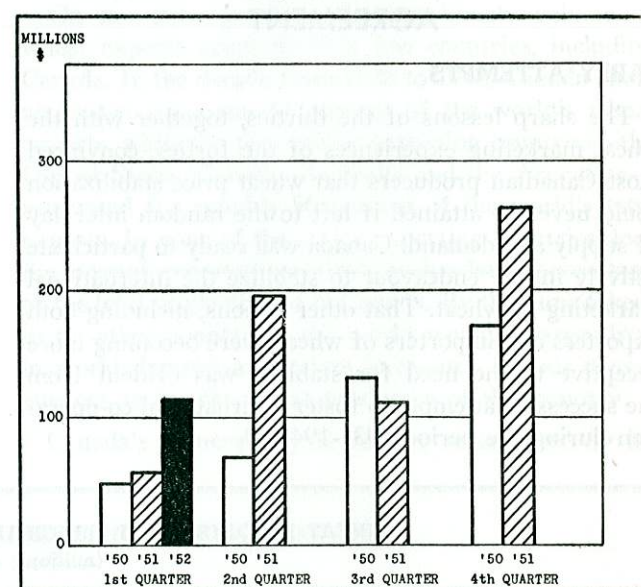
LABOUR STATISTICS OF EIGHT LEADING INDUSTRIES IN SASKATCHEWAN
(1939 = 100)

Description	1952		1951	
	May	June	May	June
Index of Employment.....	147.3	156.7	137.9	149.8
Average Weekly Salaries & Wages (Industrial Composite).....	\$50.66	\$51.05	\$45.43	\$46.62
Real Wages (in 1939 dollars).....	\$27.99	\$28.22	\$25.38	\$25.86
Unplaced Applicants (N.E.S.).....	4,944	2,932	7,463	3,389
Unfilled Vacancies (N.E.S.).....	3,472	3,299	2,316	2,643

CONSTRUCTION ACTIVITY IN SASKATCHEWAN

Month	Value of Building Permits	
	1952 (\$000)	1951 (\$000)
February.....	359	183
March.....	663	681
April.....	3,182	1,455
May.....	5,145	3,838
Description of Units	Number of Dwelling Units	
	1952	1951
Under Construction Jan. 1.....	1,200	1,060
Started Jan. 1.....	11	11
Completed Feb. 29.....	125	180
Under Construction Feb. 29.....	1,085	891

FARM CASH INCOME BY QUARTERS
1950, 1951 & 1952



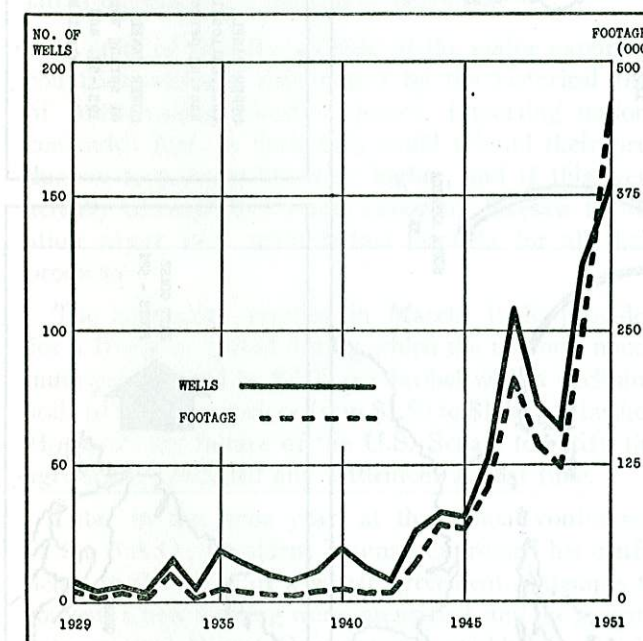
CASH INCOME FROM THE SALE OF FARM PRODUCTS, SASKATCHEWAN
First Quarter

Commodity	1952 (\$000)	1951 (\$000)	1950 (\$000)
Wheat.....	78,442	17,149	15,183
Coarse Grains.....	11,483	9,730	2,608
Livestock.....	14,399	18,491	16,292
Dairy Products.....	3,892	3,654	3,578
Eggs and Poultry.....	2,600	2,599	1,937
Other.....	2,475	1,634	1,225
Cash Income from Farm Products.....	113,291	53,257	40,823
P.F.A.A. Payments.....	1,109	4,742	7,932
Total Cash Income.....	114,400	57,999	48,755

PERCENTAGE CHANGE IN SELECTED AND ALL RETAIL SALES IN SASKATCHEWAN, 1952 OVER 1951

Group	Mar. %	April %	May %	Jan-May %
Department Store.....	+ 7.1	+ 2.1	+ 4.9	+ 7.2
Country General.....	+ 7.4	+19.2	+ 0.6	+11.0
Family Clothing.....	+ 8.8	+53.4	+14.7	+24.4
Furniture.....	+13.3	- 7.4	+10.1	+ 8.9
Motor Vehicles.....	+58.1	+21.9	+14.9	+23.6
All Groups.....	+43.4	+25.4	+ 3.1	+18.6

OIL & GAS DRILLING—SASKATCHEWAN
1929 to 1951



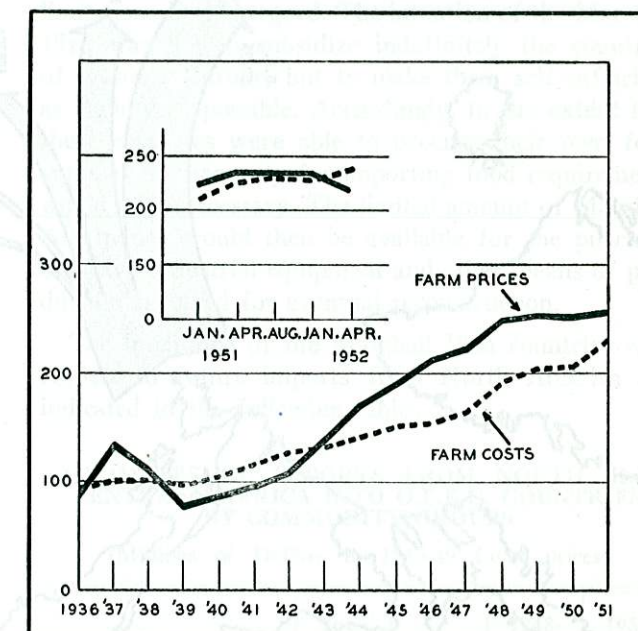
SASKATCHEWAN MINERAL PRODUCTION
1951 and 1952

	First Quarter, 1951		First Quarter, 1952	
	Amount	Value \$	Amount	Value \$
Gold, ozs.....	30,980	1,119,321	22,884	791,783
Silver, ozs.....	450,299	422,227	308,431	265,097
Copper, lbs.....	15,742,785	3,853,047	17,046,063	4,374,531
Zinc, lbs.....	18,009,501	3,259,900	22,555,051	4,686,870
Cadmium, lbs.....	31,239	80,598	19,911	47,320
Selenium } lbs.	Not Reported This Quarter			
Tellurium }				
Total.....		8,735,093		10,165,601
Coal (short tons).....	722,770		719,012	
Crude Oil (bbl.).....	304,312	365,174	357,036	428,443
Natural Gas (m.c.f.).....	296,194	29,618	320,947	32,093
Bulk Salt, tons.....	4,700		6,765	
Sodium Sulphate, tons.....	42,269	509,502	37,351	518,768

COST OF LIVING INDEX
(1935-39 = 100)

Group	July, 1951		July, 1952	
	Saskatoon	Dominion	Saskatoon	Dominion
Food.....	254.5	249.7	239.9	239.5
Fuel & Light.....	145.9	147.2	151.7	149.8
Clothing.....	205.6	202.9	217.7	209.1
Rent.....	128.6	139.8	132.3	147.9
Home Furnishings & Services.....	201.0	197.4	203.2	196.7
Miscellaneous.....	132.7	142.2	133.9	147.4
Total.....	184.4	187.6	183.0	188.0

INDEXES OF FARM PRICES & COSTS—1936-52
1935-39 = 100



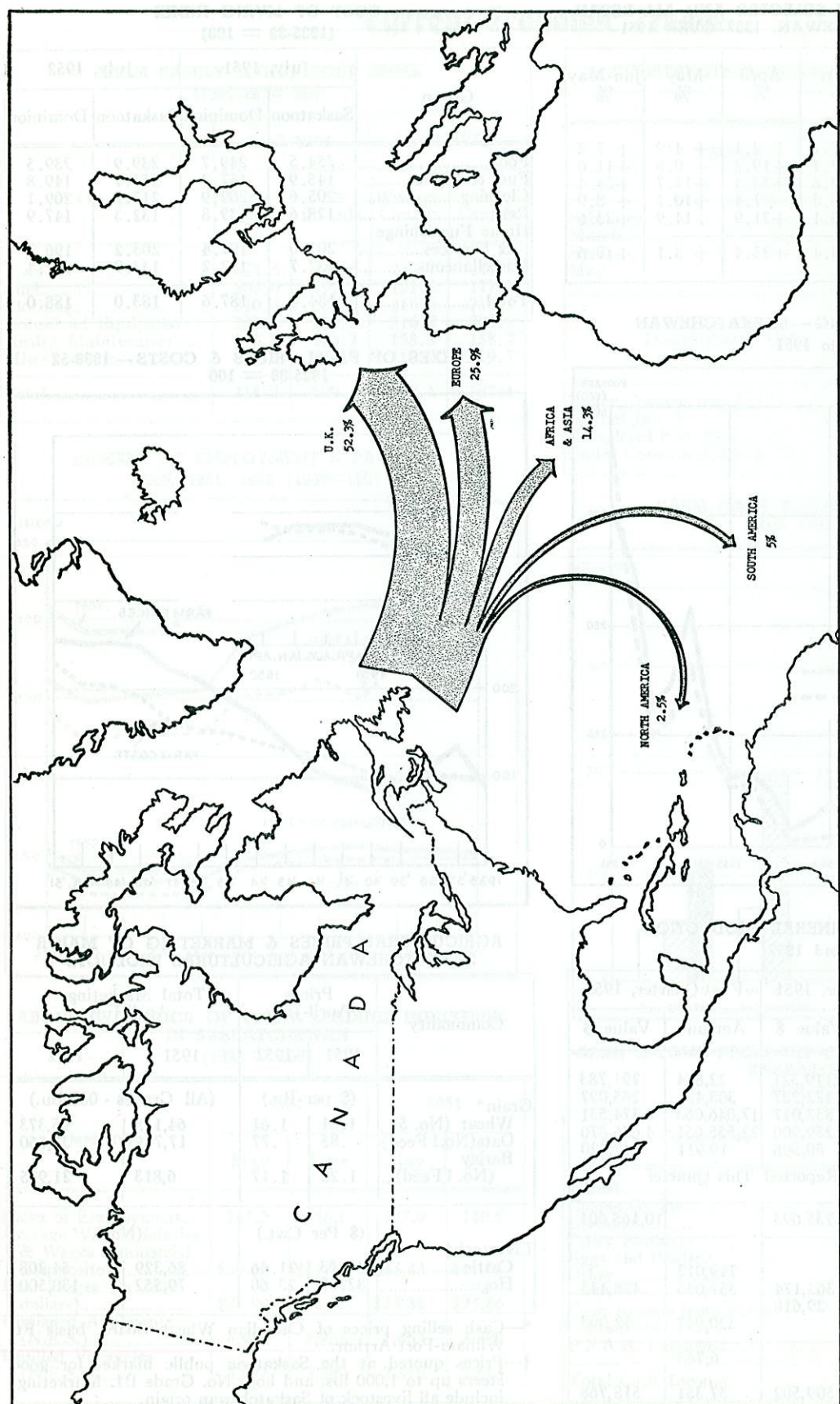
AGRICULTURAL PRICES & MARKETING OF MAJOR SASKATCHEWAN AGRICULTURAL PRODUCTS

Commodity	Prices April-July		Total Marketings April-July	
	1951	1952	1951	1952
Grain*				
	(\$ per Bu.)		(All Grades - 000 Bu.)	
Wheat (No. 5) ..	1.81	1.61	64,115	95,373
Oats (No. 1 Feed) ..	.85	.77	17,775	31,560
Barley (No. 1 Feed) ..	1.25	1.17	6,813	21,935
Livestock†				
	(\$ Per Cwt.)		(No.)	
Cattle.....	31.73	21.46	86,329	54,208
Hogs.....	32.59	23.60	79,552	130,500

*—Cash selling prices of Canadian Wheat Board basis Ft. William-Port Arthur.

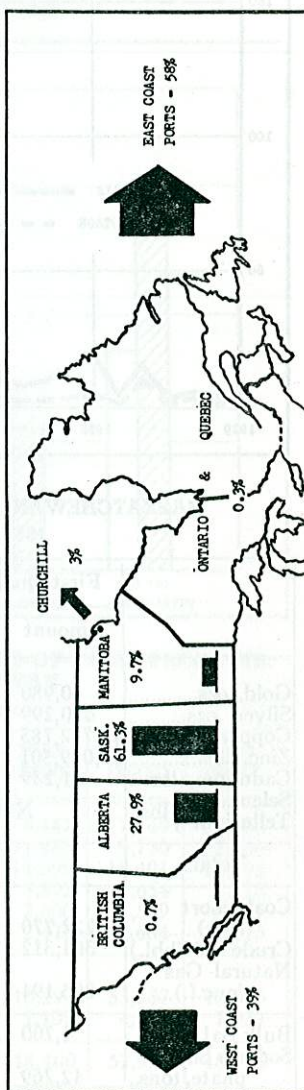
†—Prices quoted at the Saskatoon public market for good steers up to 1,000 lbs. and hogs No. Grade B1. Marketings include all livestock of Saskatchewan origin.

WHEAT EXPORTS AND PRODUCTION 1951-2



UPPER PANEL: Overseas exports of wheat under the International Wheat Agreement for crop year 1951-52, showing percentage distribution by importing regions.

LOWER PANEL: Percentage distribution by province of spring wheat production in Canada for crop year 1951-52, and cumulative overseas clearance of Canadian wheat by ports, Aug. 1 to July 24, 1952.



that large resources would be required at the end of the war in order to feed liberated and conquered territories, and although considerable stocks had actually been kept in reserve, these surpluses had been largely liquidated by the end of 1945. Areas which were unable to finance the imports required to maintain minimum standards of nutrition were supplied by U.N.R.R.A. Subsequently, Marshall Plan countries were assisted by American aid. Supplies had not, however, kept pace with requirements owing to the slow recovery of production in devastated areas, to the dependence of modern agriculture on scarce mechanical and chemical aids, and to the world's substantial population increase since the end of hostilities.

In spite of this, the attitude of the major exporting countries was still conditioned by the historical fear of embarrassing wheat surpluses. Importing nations contended that, in time, they could rebuild their production to pre-war levels or higher, and if this were actually accomplished wheat exporters foresaw a situation where they again lacked markets for all their products.

The agreement reached in March, 1948, provided for a five-year period during which the uniform maximum price would be \$2.00 per bushel with a declining scale of minimum prices from \$1.50 to \$1.10 per bushel. However, the failure of the U.S. Senate to ratify the agreement precluded any settlement at that time.

Later in the same year, at the annual conference of the F.A.O., President Truman expressed his confidence in the value of a wheat agreement. Attempts to convene a new meeting were intensified, and the seventh International Wheat Conference assembled in Washington in early 1949. By this time, unfortunately, shadows of the impending trade crisis were appearing, making it unlikely that exporters would obtain major price concessions.

During 1948 exports from the United States reached unprecedented levels, rising to nearly twice the total of the previous year and to almost four times the pre-war level. The greater part of these exports went to Europe under the European Recovery Program. As a result, the United States loan-support program supplanted export demand as the chief factor affecting the price received by the United States wheat producer. The accompanying table shows that in 1948 exports of wheat from the four major wheat exporting countries were almost twice as large as in 1938.

By the autumn of 1948 two factors were threatening to limit the major foreign market of the North American wheat producer. The most important was the success of the 1948 harvest in Europe, which reduced the

dependence of continental countries on trans-Atlantic supplies. Before the war, continental Europe, although an important producer of wheat, was nonetheless one of the world's chief deficit areas, and usually imported about as much as the United Kingdom.

This reduction in the continental market was further aggravated by the severe monetary measures then being adopted by the United Kingdom, in common with her European neighbors—measures designed to ensure the utilization of limited exchange resources for only the most essential purchases from the dollar areas. While the European Recovery Program had done much to maintain the ability of its member nations to buy exports of wheat from dollar areas, it clearly had its limitations in this regard. The intention of the Marshall Plan was not to subsidize indefinitely the countries of western Europe, but to make them self-sufficient as rapidly as possible. Accordingly, to the extent that these countries were able to procure their own food supplies the necessity for importing food requirements would be unnecessary. The limited amount of Marshall Aid money would then be available for the purchase of heavy industrial equipment and other means of production required for eventual reconstruction.

The intentions of the Marshall Plan countries with respect to future imports from North America are indicated in the following table:

ESTIMATES OF IMPORTS FROM NORTH AND CENTRAL AMERICA INTO O.E.E.C. COUNTRIES BY COMMODITY GROUPS

(Millions of Dollars in 1948-49 f.o.b. prices)

Commodity	Pre-War	1947	1948-1949	1952-1953
Bread grain.....	398	1,216	1,121	633
Coarse grain.....	179	115	185	106
Fats and oils.....	66	100	187	109
Meat & dairy products....	112	277	180	38

Source: Economic Survey of Europe in 1948. United Nations Economic and Social Council, Washington, 1949, p. 303.

This combination of circumstances to a considerable extent influenced the negotiation of the International Wheat Agreement in 1949, and resulted in a reduction, both in the maximum price and in the guaranteed purchases of importers, from the figures proposed in the unratified agreement of 1948.

TERMS OF THE 1949 AGREEMENT

The agreement of 1949, subsequently ratified by most governments, except those of the Soviet Union and the Argentine, provided for trading of 456 million

bushels of wheat annually among 41 countries within stated price ranges. The objective of the agreement was to "assure supplies of wheat to importing countries and markets for wheat to exporting countries at equitable and stable prices". It was to run from August 1, 1949, through July 31, 1953.

A maximum price of \$1.80 per bushel was to be effective during the life of the agreement. The minimum price, on the other hand, had a sliding scale. In the first season, 1949-50, the minimum price was fixed at \$1.50, falling by 10 cents per bushel in each succeeding year. These prices were in terms of the exchange value of Canadian currency as of March, 1949, and in terms of No. 1 Northern Manitoba wheat in store Port Arthur-Fort William.

Prices were to be free to move within these ranges. Exporters would have no obligation to sell unless buyers offered the ceiling price and importers would have no obligation to buy wheat unless it was offered at the floor price. Member countries could buy and sell any amount of wheat outside these price ranges, but such transactions would not count toward fulfillment of their respective quotas.

The 456 million bushels of wheat to be sold annually were to be divided among the exporting nations as follows: Canada, 203 million bushels; United States, 168 million bushels; Australia, 90 million bushels; France, 3 million bushels; and Uruguay, 2 million bushels. Since that time the quotas of the exporting countries have been increased in accordance with additions to the ranks of the importing nations. At present, the total guaranteed purchases covered by the agreement total 581 million bushels, of which Canada has 233 million; the United States, 255 million; Australia, 89 million; and France, 4 million.

The administrative machinery set up was to be controlled by an International Wheat Council, representing all nations ratifying the agreement. Exporters were given a total of 1,000 votes, distributed in accordance with their guaranteed quotas, and a similar provision was made for the importers. Decisions of the council were to be by majority vote, except in the matter of amendments to the agreement, where a two-thirds majority would be required.

III. EVALUATION OF THE INTERNATIONAL WHEAT AGREEMENT

ADEQUATE OR INCOMPLETE?

The International Wheat Agreement may be viewed as one of many possible international commodity agreements. As such, it may be considered in the light of

the principles of international commodity agreements outlined by the F.A.O. Preparatory Commission on World Food Proposals:

"Regardless of the particular form which commodity arrangements take, they should all be motivated by genuinely multilateral considerations. They should all of them meet three requirements: First, they should contribute toward stabilization of agricultural prices at levels fair to producers and consumers alike; secondly, they should, so far as possible, avoid any restriction of production and should stimulate an expansion of consumption and improvement of nutrition; thirdly, they should encourage, consistently with considerations relevant to the national economy of each country, shifts of production to areas in which the commodities can be most economically and effectively produced."

The first point raised is the crucial one; price stabilization at prices which are at once fair both to producer and consumer. To dwell exclusively on the "bargaining strength" of producer and consumer nations would, in the case of wheat, be oversimplifying the basic issues. Actually, with the exception of the United Kingdom, most importing nations are major producers of wheat, and with the possible exception of Canada, most exporting nations are major consumers of wheat in their own right. In the long run, the surplus areas would probably have a slight edge in "bargaining power," if for no other reason than that there are more potential bulk buyers than bulk sellers of wheat. At present, 42 importing and four exporting nations are signatories to the International Wheat Agreement. However, if temporary "bargaining strength" were to be used simply to lower or raise prices it would be self-defeating in purpose. No nation, whether buyer or seller, will continue to participate in an agreement which is greatly disadvantageous to its national interests, and without general participation, a multilateral international wheat agreement would prove impossible.

The second principle enunciated, that is, non-restriction of production by wheat exporting nations, follows from the first and is ancillary to it. The existence of artificially high wheat prices would be theoretically possible if surplus areas resorted to a policy of curtailing production. It is significant that no acreage restriction controls were written into the terms of the 1949 International Wheat Agreement. Instead, it was stipulated that "in order to encourage and expedite the conclusion of transactions in wheat between them at prices mutually acceptable in the light of all the circumstances, the exporting and importing countries,

while reserving to themselves complete liberty of action in the determination and administration of their internal agricultural and prices policy, shall endeavour not to operate those policies in such a way as to impede the free movement of prices between the maximum price and minimum price in respect of transactions in wheat into which the exporting and importing countries are prepared to enter". The alternative to restricted wheat production is the "expansion of consumption and improvement of nutrition".

The third principle expressed by the F.A.O. is the converse of the second. It states that production should be shifted to areas in which the commodities can be most economically produced. A major cause of instability in the wheat industry in the pre-war period was the expansion in Europe of high-cost production under government sponsorship, and the development of producing areas on marginal and submarginal lands. So concerned were the exporters with this matter that the U.S. delegation tried in vain to have the following amendment inserted into the Wheat Agreement:

"The participating countries agree to modify domestic programs which may tend to aggravate the anticipated surplus in wheat and agree, as necessary to adopt programs of internal domestic adjustment which they believe adequate to ensure as much progress as possible within the duration of the agreement toward the avoidance of such surpluses."

When the desire of European importers to increase production at least to the pre-war levels is considered, the failure of this amendment is not surprising. The realistic viewpoint adopted was that no compulsion could be exercised in this type of International Agreement since success depended upon the goodwill of the contracting nations. In this regard, the agreement contains a section dealing with "escape clauses," euphemistically entitled "adjustment of obligations". It was held that an exporter would be exempted from its full share of obligations in case of a short crop and an importer would find its commitments curtailed in case of balance of payment difficulties. Although they were, undoubtedly, realistic, these "escape clauses" also had the effect of diluting the security afforded the contracting nations by the agreement.

Another possible source of difficulty was the failure to define the method to be used to fix prices within the range between the maximum and minimum. Presumably annual prices would have to be negotiated on the basis of current conditions. In practice, this difficulty has been by-passed since the selling price has been at the maximum prescribed under the International Wheat Agreement.

Some of the provisions of the International Wheat Agreement, viewed in the light of present circumstances, seem a bit distorted. On balance, however, its principles have conformed fairly closely to those enunciated by the F.A.O. as requisites for commodity agreements.

THE SITUATION TODAY

The experience of the past four years has not justified the fear of an impending wheat surplus which gripped the major exporting nations in 1949. This is due in large measure to the increasingly tense political situation which, coupled with the outbreak of hostilities in Korea, has served to keep wheat prices buoyant. Almost overnight, agricultural surpluses which had presented serious disposal problems became "strategic reserves". In spite of the rapid recovery of agricultural production in Europe—which was last reported at 10 percent above the pre-war level—supplies are barely adequate to meet the requirements of the defence program, emergency stockpiling and the growing population.

Latest reports indicate that the total exports of the four major surplus areas for the 1951-52 crop year will exceed the previous season's levels. At the same time the current estimate of supplies available for export and carry-over, excluding the new crop, is 898 million bushels, 17 percent under last year's corresponding total of 1,084 million bushels. It is apparent that, insofar as the situation may be compared with 1949, the pendulum of "bargaining" advantage has swung decidedly in favor of the exporters.

However, experience warns the Saskatchewan producer against being lulled into any false sense of security. During the crop years 1949-50 and 1950-51, Canada experienced considerable difficulty in selling its quota at the maximum prices under the agreement, even though Class II wheat sold for prices substantially above this amount. The failure of the import nations to purchase their complete quotas from the dollar areas was due partly to the relative shortage of good milling grades, and partly to their ability to manage with lower imports than were at first anticipated. Yet non-dollar areas such as Australia had no difficulty whatsoever in disposing of their quotas and indeed managed to sell substantial quantities of wheat at prices in excess of the maximum wheat agreement prices in both years. It seems obvious that importers prefer to purchase their wheat in "soft" currency countries even if they have to pay higher prices for it.

One further factor that must be recognized by the Saskatchewan producer is that Canadian wheat is meeting with keener competition from the United States

where a high level price support program has substantially increased the acreage seeded to wheat. At present Marshall Plan Aid is facilitating the movement of U.S. wheat, and offshore purchases of Canadian wheat. What would happen to the demand for Canadian wheat should the political situation permit the termination of economic assistance to Europe is a problem which vitally concerns the Saskatchewan producer.

These facts should somewhat temper the present optimistic outlook for Canadian wheat in the world export market, and dissuade any attempt to skyrocket demands for prices beyond the importers' ability to pay.

IV. PROPOSED REMEDIAL MEASURES COST CONSIDERATIONS

While the Saskatchewan producer endorses the principle behind the Wheat Agreement, it is quite evident that he has some justifiable complaints with regard to its actual functioning.

The world price for wheat sold outside the agreement has at all times been higher than the maximum price obtained under the agreement. The extent of this "loss" is difficult to estimate since Class II wheat does not represent an appreciable proportion of world exports. Nevertheless, the Saskatchewan producer feels strongly that no contract should be a one-way proposition, and that these losses would have been avoided had the contract terms allowed for gradual price increases as well as decreases.

Admittedly, no international agreement can take into consideration changes in the cost of production in the various wheat exporting countries. Yet, since the agreement was negotiated, the Canadian farmer's costs of production have increased by 17 percent, while the price that he receives for the bulk of his wheat is actually less today than in 1949. In other words, in order to obtain the same purchasing power from a bushel of wheat today as at the time of the agreement, the price of wheat would have to be increased to \$2.11. The Saskatchewan producer is on firm ground when arguing that no international agreement which fixes the price of the commodity which he sells can be equitable if no corresponding measures are taken to ensure that the cost of the commodities and services which he buys are kept within reasonable limits.

This parity principle would be exceedingly difficult, if not impossible, to incorporate into an International

Wheat Agreement. Consequently, the Saskatchewan producer would consider an agreement allowing for two-way price flexibility a sufficient guarantee of stabilization at prices fair to producers and consumers. On the other hand it is well within the competence of the national government to ensure that the prices he receives for wheat on the domestic market are in line with his costs of production. The terms of the present agreement specifically state that exporting and importing nations "reserve to themselves complete liberty of action in the determination and administration of their internal agricultural and price policies".

PRICING PROPOSALS

The basic idea involved in satisfactory pricing arrangements is to give some flexibility to wheat prices in accordance with changes in production levels and demand, but to confine these price changes within reasonable limits in order to attain price stability. It should be possible to negotiate a fair price between producers and consumers in 1953, bearing in mind the then current demand and supply conditions. This price could then be used as the basing point, allowing a maximum of 10 cents above this amount and a minimum of 10 cents below this price for the current year. Subsequently, each year the actual average price of I.W.A. sales could be used as the basing point with 10-cent maximum and minimum graduations.

Since domestic prices of wheat are left to the discretion of the national government, they should be divorced from the international price under the agreement in order to ensure that consideration is paid to changing levels in the cost of commodities and services used by farmers. If this were done a 20-cent change in the price per bushel of wheat would today affect the price of a loaf of bread to the consumer by less than one-third of a cent.

If these modifications were adopted and similar international commodity arrangements were concluded covering world export trade in other food products, the Saskatchewan farmer would be assured of a degree of economic stability for which he has long been striving.

Enquiries concerning the Saskatchewan Economic Review should be directed to the Secretary, Economic Advisory & Planning Board, Legislative Building, Regina, Saskatchewan.