

HOW THE WHEAT BOARD ACQUIRED ITS MONOPOLY

IN BRIEF: THREE PRAIRIE POOLS RAN UP DEBT AFTER THEY UNWISELY SPECULATED ON HIGH FUTURE PRICES. THE FEDERAL GOVERNMENT BAILED THEM OUT BY FORMING THE CANADIAN WHEAT BOARD TO SELL OFF STOCK-PILED GRAIN. WARTIME SUBSIDIES AND PRICE CONTROLS LED TO THE IMPOSITION OF A MONOPOLY IN 1943. THE SINGLE DESK ARRIVED WITHOUT CONSENT, TO KEEP PRICES LOW.

Although we're now hearing arguments that Prairie farmers should decide the issue by means of a vote, the Canadian Wheat Board's mono-poly was not originally imposed by popular demand. Nor was it created to enhance the financial well-being of Prairie farmers. It was implemented in the autumn of 1943 as a wartime price-control measure.

The board was started in 1935, the result of a series of very bad managerial decisions by the three Prairie wheat pools. In the 1920s, the Saskatchewan Wheat Pool, Manitoba Pool Elevators and the Alberta Wheat Pool jointly operated a voluntary board called the Central Selling Agency (CSA), and it operated successfully in a free market.

The agency's troubles began in 1928 when it decided not to sell 50 million bushels of wheat, but to carry them into the next crop year, in the false belief that it could then dictate what buyers would have to pay for it. These bushels were unhedged and without price protection. That arrogant decision led the *Winnipeg Free Press* to declare that the CSA was engaging in the "biggest game of stud poker the world had ever witnessed."

Prices did not co-operate. Argentina and Europe posted bumper crops, and for the first time since the Communist revolution, Russia emerged as an international wheat exporter. In 1929, the stock market collapsed. Its gamble brought the CSA to ruin.

As market prices fell, the CSA's bankers grew increasingly nervous. The gap between what the pools owed and what they could get gain if they sold their inventories kept growing. Eventually, the banks fore-closed. The losses were so extreme they threatened to precipitate a collapse of the entire Prairie economy. Ottawa stepped in, assumed responsibility for the CSA's financial obligations and took over the agency.

But instead of disposing of the unsold inventory, it continued the same foolish policy of holding on to grain in the hope that conditions would improve. Finally, on July 5, 1935, Parliament created the CWB and charged it with the disposing of existing CSA stocks, more than 200 million bushels. The new board did that in the context of a free market.

A few years later, concerned with wartime inflation, the federal government froze the price of every single commodity in the country, except for wheat. It was exempted because the Prairie provinces were still reeling from the Great Depression. Yet, to ensure that bread prices would not rise for consumers, Ottawa froze the price millers paid for wheat at the then-prevailing price of 77 cents a bushel, and the federal treasury agreed to pick up the difference between that price and whatever the market was paying farmers.

The net result was that every time the price increased by one cent, the federal treasury was compelled to pay out a \$2.5-million subsidy. By September, 1943, open-market prices had climbed to \$1.23 a bushel. The pressure on the already war-ravaged federal budget was enormous. The cabinet granted the CWB a temporary monopoly on wheat to contain prices and stop any further drain on the treasury.

After the war, Ottawa kept extending the monopoly so it could provide low-cost

wheat to a struggling Britain. The postwar Canada-U.K. Wheat Agreement obliged Ottawa to supply wheat at bargain prices, this time with no offsetting payment to Prairie farmers. "Fine, help Britain; I am all for it," John Diefenbaker declared. "But if gifts are made to Britain of aircraft, war material, or anything else manufactured, the cost doesn't come out of the manufacturer's pocket. You are treating farmers unfairly!"

In March, 1947, the *Canadian Press* estimated that the CWB's monopoly had cost Prairie farmers \$535 million in lost wheat revenue. And the Wheat Agreement ran for three more years after that, and was followed by similar International Wheat Agreements. After years of short-term extensions, in the 1960s a quiet and largely unnoticed decision turned the CWB monopoly into a permanent fixture.

This history teaches three major lessons. First, a voluntary wheat board can operate effectively in a free market. Prior to the CSA's unwise decision to carry millions of bushels of non-price-protected wheat into the uncertain conditions of a pending crop year, it had successfully and profitably handled as much as 50 percent of the annual wheat harvest within that context. Second, the CWB was not established to deliver farmers better prices, which is no doubt why it operates in secrecy, exempt from *Freedom of Information* laws.

Third, and most important, there have always been ardent supporters of a government-controlled wheat export monopoly. But the CWB's monopoly did not emerge because their advocacy was successful and they convinced growers or Parliament that it was superior public policy.

-By Kevin Avram