

**INTERNATIONAL
JOURNAL OF
AGRARIAN AFFAIRS**
Vol. I, No. 3, September, 1949

International Wheat Agreements



Price 5s. 0d. net
OXFORD UNIVERSITY PRESS
LONDON: GEOFFREY CUMBERLEGE

By H. G. L. STRANGE

Director, Research Department, Searle Grain Company Ltd., Winnipeg, Canada.

KINGS, princes, dictators, and governments have, it seems, even from the remote ages been intrigued with the idea of setting a price for wheat—and sometimes for other commodities—that would be satisfactory to both producers and consumers; so that farmers would produce sufficient for the needs of the people, and so that the people would each year purchase the quantities that farmers would offer. At times even several governments have banded together to make international pacts to try to bring about these results. Sometimes such pacts have contained a preamble to the effect that ‘the agreement is a definite and concrete indication that many nations can work together towards a common goal’.

The idea of making such pacts is usually born either in the minds of exporting countries when large burdensome surpluses are on hand and which surpluses have consequently reduced price, or in the minds of importing countries when scarcity of the product abounds and when in consequence prices have risen to high levels. The proposed international wheat pact has, however, its genesis in a different condition which presently will be disclosed.

Wheat and rice, because they have been for years the most important foodstuffs of man, have been more often the subject of such price-setting and pacts than any other commodity. The records of the details of such efforts by kings and emperors of the past include Babylon, Egypt, China, Greece, and Rome of ancient times and by the governments of almost every country in the world up to the present time.

The records reveal that all such pacts or agreements had but one thing in common—they all failed, and usually made the situation, which was sought to be bettered, merely worse. In consequence eventually emperors, kings, princes, and dictators lost their thrones and sometimes their heads, and governments usually lost office.

A study of the sayings and statements by those who put forth the ideas for such laws and regulations and agreement appears to show that these people had, and still have, the most unbounded faith that the future prices of any commodity can be set to the satisfaction of farmers and the people, and that the laws and regulations and agreement would result in there being always a sufficiency of the product, and no more, for the needs of the people of the world.

Placing before such minds the simple fact that innumerable similar

agreements have always broken down; that such pacts appear to be contrary to human nature and in consequence must fail, has not the slightest effect. Evidently, then, those who believe in and support such pacts seem to be afflicted with what can only be termed 'economic colour blindness'. They have also a naïve belief that a small handful of functionaries sitting in one place can direct the day by day production activities of all the farmers of the world and the buying habits of all the consumers, far better than can the 'unseen hand' so often mentioned by economists, which by the device of fluctuating price has somehow managed throughout the ages to induce farmers to produce to the utmost of their ability and to persuade consumers to use up quickly any temporary surpluses that from time to time have appeared.

The reason that such pacts break down is that they ignore the instincts of self-interest so deeply imbedded in human nature, and that while governments can by the threat of fine and imprisonment *prohibit* people from doing this and that, no way has yet been discovered to force people to *perform* this or that action when such actions were against their own self-interest.

So it is evident that regardless of prices set and quotas agreed upon for farmers to produce and to deliver, and for the people to consume, in the end farmers will refuse to produce to their utmost when prices seem to them to be too low, and consumers will refuse to buy when prices seem to them to be too high.

These are the economic rocks upon which all such agreements in the past have eventually foundered; these are the same rocks, I venture to say, upon which all economic pacts of this kind in the future likewise will founder.

It is a striking comment on the type of mind of those who set about designing such agreements that when international conferences are held, only those are permitted officially to attend and are given credentials to engage in discussions who are well known beforehand to be entirely in favour of such agreements, whereas those who hold critical views on the possibilities of such pacts are in the first place never given credentials and, if by some chance they should appear upon the scene of the conference, are never permitted either to address the delegates, to join in any discussions, or to attend committee meetings. These precautions apparently are taken by those responsible for promoting the proposed agreements because evidently they know perfectly well that such pacts would never stand up under frank and

critical discussion. And yet in modern times one often hears the expression 'This pact has been democratically arrived at!' The truth is, of course, that such agreements are arrived at by a group of people of one type of mind only; such agreements are never the result of free discussion.

The last instance we have of an agreement for wheat, that was actually signed by a number of exporting and consuming countries, was in 1933, when prices were set for the then present and future, and when exporting countries agreed to deliver during each year of the Agreement definite quotas to consuming countries, and when consuming countries agreed to accept and pay for such quotas. Because it was feared that consuming countries might increase their own production of wheat and so not need the quota of export wheat allotted to them, such countries agreed not to increase their acreage in wheat; because it was also feared that exporting countries might produce more than the consuming countries required, such exporting countries agreed to decrease somewhat their acreages.

The pact broke down within twelve months, when it was seen that the Argentine had exceeded her quota of deliveries. When accused of breaking faith, the Argentine government retorted that a number of other countries had previously broken the Agreement. Some consuming countries, stated the Argentine, had increased their acreage and exporting countries had failed to decrease their acreage.

These countries, of course, failed to keep to the strict letter and spirit of the Agreement in 1933 because they discovered that conditions had changed from those which prevailed when the Agreement was signed, and it was therefore no longer in the interests of their people that the Agreement should be lived up to.

This phase of the conduct of people was well set out, it will be remembered, by Machiavelli in his classic *The Prince*, written in the fifteenth century, when, in discussing the conduct of Princes (governments), he told us: 'A wise lord cannot, nor ought he to, keep faith when such observance may be turned against him, and when the reasons that caused him to pledge it, exist no longer.'

Machiavelli plumbed the very depths of human nature as he saw it working at that time, and from his study of the past. We notice that this behaviour of governments still held true in 1933—have we any reason to suppose that human nature has changed from 1933 to date, or that governments would now honour any economic agreement should they find that the conditions which prompted them previously

to sign were no longer in the interests of their people? My own opinion is that governments will no more abide by such agreements to-day than they have abided by the innumerable pacts and agreements they have willingly made in the past.

In other words, I for one believe that an economic Utopia, which such international agreements envision, is no more attainable to-day than it ever has been when sought after by the starry-eyed illusionists of the past.

The idea of making an international agreement for wheat actually stems from the collapse of the Canadian Wheat Pools in early 1930. The Canadian Wheat Pools were brought into effect by the supreme oratory of an imported promoter from the United States, Mr. Aaron Sapiro, who in a rapid succession of meetings with farmers of Western Canada persuaded them that their enemy was the open futures market which, he claimed, was governed by speculators and gamblers who either forced down or forced up the price of wheat as they wished, and under whose influence and actions farmers were helpless, and were condemned therefore to take low prices when they had much wheat to sell and higher prices only when they had small crops and so little to sell.

Mr. Sapiro's oratory convinced some 50 per cent. of the farmers, who banded together and formed what are called the three prairie Wheat Pools—one in Alberta, one in Saskatchewan, and one in Manitoba. Fewer than 50 per cent. of the farmers delivered their wheat to these pools who then set up what they called a Central Selling Agency with the avowed object of following Mr. Sapiro's advice, which was to avoid the open futures market and to hold their wheat until they could sell it direct to the millers of the world, thus, as it was explained, avoiding fluctuations in prices and avoiding the heavy toll which, it was wrongly alleged, speculators and gamblers took out of the pockets of farmers.

The Central Selling Agency found it much more difficult to sell the wheat than they had anticipated, and by the beginning of 1930 they had accumulated a large quantity of unsold wheat which, unfortunately for them, they had not 'hedged' on the futures market. They had, however, made cash advances to all their farmers who delivered grain at \$1.00 a bushel. When wheat fell to 70 cents a bushel the banks, which had advanced the Pools large sums of money to conduct their operations, took alarm. An accounting showed that the Pools owed the banks 23 million dollars which they had no means of repaying.

The three provincial governments, and later the dominion government, then stepped in, for political reasons, to save the Pools from bankruptcy, guaranteed the debt to the banks and appointed a supervisor with instructions to sell the wheat as occasion offered. An agreement was made for the Pools to repay what they owed over a twenty-year period at a small rate of interest. Besides losing for themselves the sum of 23 million dollars, the final payment made by the Pools to farmer members came to some 44 million dollars less than the private grain trade, which had hedged its wheat on the futures market, itself had paid to the 50 per cent. of the farmers who were not Pool members.

Pool leaders have never forgotten this bitter experience. To save their face they have ever since continued monotonously and unceasingly to shower prairie farmers and the government of Canada with the same untrue accusations against the open futures market that their propagandist Mr. Aaron Sapiro had so well spread across the country in the first place. In short, Pool leaders have continued to offer for the delectation of the people that faded nosegay of delusions gathered together by Mr. Sapiro but which many farmers and others are now beginning to find consists mainly of economic poison ivy.

It is well to understand these happenings, for out of this, and out of this alone, sprang this modern endeavour to induce the countries of the world to agree to set a price for wheat and to agree to annual quotas for delivery and consumption; in short, an international wheat pact. For such a pact was first formulated in 1931 by officials of the Wheat Pools Central Selling Agency—long since disbanded—in their relentless urge to do away with the Canadian and other open futures markets.

These gentlemen from western Canada, bent on suppressing the open market, found kindred spirits among the government of Canada and then kindred spirits within the Department of Agriculture of the United States. The meeting of these minds, with the pressure they exerted on other countries, brought about, as has been mentioned, the short-lived international Wheat Agreement of 1933. Since this Agreement broke down these same people have been indefatigable in their efforts to set up another international pact. From time to time, throughout the years, frequent meetings have been held by this handful of determined men. Finally, at London in 1947 an elaborate conference was arranged which, however, after some six weeks of acrimonious debate broke down when first the Argentine and then

Britain withdrew. Last year another pact was agreed upon by a number of consuming countries with, however, the notable absence of the Argentine, Russia, and the Balkans, which countries in the past have been, and no doubt in the future will be, large exporters of wheat. This Agreement, however, failed to be ratified by the date set, 1 July 1948, by the Congress of the United States and some other thirteen countries.

Now another meeting has been held on the insistence of President Truman who has evidently been converted to see the alleged virtues of an international wheat pact, again by those few minds who so assiduously in the past have worked towards this effect. The first meeting was held at Washington on 25 January 1949. Many expect that because both the Congress and the Senate of the United States are of the same political party as the President himself, namely, the Democratic Party, that the pact will this time assuredly be signed by the U.S.A. and Canada.

Even though it is to be expected that the course followed at previous conferences will again prevail, which is that only those known to be wholeheartedly and fanatically in favour of an agreement at any cost will be permitted to be delegates from Canada and the United States, it is to be hoped that the United States Congress and the Senate will hold committee meetings where the whole question of the desirability of such a pact and of its workability may be thoroughly aired, so as to prevent an economic disaster of the first magnitude falling upon the great wheat industries of the world in the realms of both production and distribution. If such an agreement for four or five years should be signed and put into effect one result is absolutely certain—the wheat futures markets and the whole grain distributing industry of the world, commonly called the grain trade, as we know it to-day, will most likely disappear. So the whole world would lose the services of thousands of men who in the past have been responsible for encouraging farmers to grow sufficient wheat for the hungry people of the world and for distributing that wheat quickly, efficiently, and well to the people who need it, at the place they need it, and at the time they need it.

This simple matter of what would happen to farmers and to these great industries connected with wheat production and distribution has never hitherto been debated on its merits.

The last pact that was signed by the so-called super-planners who made up the delegation to the conference of 1948 was an amazing and

weird document, to say the least. It contained maximum and minimum prices and set a quota that each exporting country agreed to deliver each year and that each consuming country agreed to buy each year. Just what was to happen if any one of the producing countries failed to have on hand the amount specified, and what would happen if any consuming country itself enjoyed better than average crops and so would not need the amount that had been allotted to it to purchase, or what would happen if producers in export countries found the prices too low for their needs, or if consumers found the prices too high, or if consuming countries found themselves unable, for one reason or another, to pay the amounts involved, the Agreement did not say. As mentioned, maximum and minimum prices were fixed, but just how the actual price would be set if it fell within the maximum-minimum range was not stated. The Agreement seemed to imply that a world council itself, perhaps from day to day, would make a pronouncement 'The price of wheat to-day is such and such.'

All kinds of loopholes were provided so that it would have been quite an easy thing, legally, for any country signing the Agreement to have bowed gracefully out as soon as it discovered the Agreement was not in its own interests.

That any set price or any set quota for delivery or for consumption would very quickly be out of line with economic conditions may be taken for granted without any argument, for any price set for the future, even within certain ranges, and any amount set for supply and delivery by exporters, and for purchase and use by importers, must be based on the firm belief by the authors of the Pact—to wit, the Council—that they are possessed of the ability to forecast the future factors of supply and demand which make price and, what is equally important, that they are able to forecast the future value of money. For if they cannot make these forecasts, and correctly, then of course the prices and the quotas they set for each country, either for delivery or consumption, must soon be out of balance with the world changing conditions, and must be completely unsatisfactory either to producers at one time or to consumers at another time.

Let us examine these three factors—supply, demand, and the value of money.

Supply is governed mainly by the weather, which can play such tricks with crops as was shown on the North American continent in 1948 when in the early part of the season the American winter wheat crop was estimated to be at a moderate figure, but which eventually,

at harvest time, because of unexpected rains falling at the right moment, turned out to be one of the largest wheat crops the United States or any other country had ever produced. The same thing held true this last season with Canada where, because of an almost complete drought in May and June over a large section of the country, a crop failure, certainly a very short crop, was confidently forecast. On 12 July, however, when hope had almost been given up for even a reasonable crop, unexpected and almost unprecedented rains began to fall and continued until 1 August, thus bringing about an amazing revival of the crop which eventually turned out to be not far short of normal.

Europe, too, this last year, because of favourable growing conditions, produced about 440 million bushels more of wheat than she did the year before.

What planners could ever have foreseen such tricks of climate? And yet such tricks have been occurring with crops for thousands of years and unquestionably will occur continually in the future. We must also remember that wheat competes not only with wheat itself, grown in almost every country in the world, but competes just as well with rice, barley, oats, potatoes, corn, rye, fish, fruit, vegetables, meats—in fact, with every foodstuff that can be digested by the human stomach.

To have the slightest chance of being effective, then, even according to the beliefs of the super-planners, not only wheat but every foodstuff in the world would have to be controlled and planned, which, of course, is a fantasy utterly beyond the powers of the human brain even to envisage, much less to put into effect.

Then there is the question of demand, which equally well with supply makes price. Demand is influenced by innumerable complicated and complex factors, such, for instance, as the state of employment in any country and the supply of its own crops of every kind and condition. When these are abundant such countries will need to import less. When they are not abundant, such countries will need to import more. Changing likes and dislikes and changing tastes and fashions, too, always have much to do with demand. The great mass of the foodstuffs of the world is finally purchased not by men but by women. Women, because they have to be, are cold-blooded and heartless in their buying. Harsh economic factors oblige them to be so. They must obtain the greatest quantity of foodstuffs for their often meagre allowances—for most housewives of the world are not well-to-

do. The buying habits of women will not be influenced in the least degree by their knowledge that their government has signed a pact, that the combined housewives of each country must purchase from abroad certain foodstuffs at a certain price. These women will always buy that which is nearest to their hand, and which will supply their family's needs at the cheapest possible bargain prices. Such women are highly expert at substitution. So it is evident that none can possibly foresee the vagaries of future demands for wheat or for any other foodstuff.

Next comes the important matter—the value of money. When future prices are arranged, as they are in these pacts, the implication is that the moneys of each country will remain at the same value for years to come during the life of the pacts. But, as we have already seen, the moneys of any country can vary almost as much as can the factors of supply and demand. What will the French and Belgian francs, Dutch guilders, Danish kronen, Italian lire, and the British pound be worth, respectively, in terms of American and Canadian dollars two or three years hence? To say nothing of the Chinese yen—China being an important market for wheat and wheat flour. What will the Canadian dollar itself be worth in respect to the American dollar and what will the American dollar be worth in respect to gold, and then what will any price expressed in terms of pounds or dollars be with respect to the prices of the things that farmers who produce export wheat have to buy for their living and production? The answer to all these questions is: nobody knows. And yet all these questions must receive an accurate answer for every month of every year of the Agreement.

The chances are millions to one against the Council being able to do this. The idea that it can be done is utterly fantastic, I suggest.

In this frantic urge by would-be planners, blinded by a childish belief in the powers of bureaucracy to control the every-day affairs of the people, another important matter has entirely been lost sight of, which is the remarkably effective and highly efficient work done by open futures markets and the grain trade of the world in distributing, from the producers to the hungry people of the world, all the wheat and other foodstuffs which our farmers are induced to grow by the simple dictation of price.

This is a matter that should be considered first and foremost by all conferences that are considering proposed international pacts, and a plain answer should be required from all delegates as to how the

proposed international agreements (which mean compulsory state control over farmers both of marketing and most certainly eventually of all production) are better for the producers and consumers of the world than the open futures market which has so well distributed the foodstuffs of the world for over a hundred years past. What, they should be asked, is wrong with the open futures market system? Answers should be insisted upon that will not be couched in vague, demagogic, oratorical terms but in plain blunt language accompanied by proofs.

If this were done, if open futures markets ever had an opportunity of being thoroughly well discussed and understood, as they were before the famous Stamp Commission in Canada in 1930, then I for one claim we should hear no more of proposals for international wheat pacts, for after long years of careful study of the futures markets, with all the conviction of which I am capable, I assert that it is the finest device ever invented by the ingenuity of man to assure the greatest production of grain, the most effective distribution and at the lowest of costs to the hungry people of the world, and at prices which, on the average, are satisfactory to both producers and consumers and which take into account and express daily as a price the many changing conditions of the world, which affect supply, demand, and value of money, hence of final value.

It is often forgotten that prices have work to do, to balance consumption with production and production with consumption. When, for instance, foodstuffs are scarce, then with freely moving prices, as reflected by the open market, prices rise. These increased prices induce farmers to switch from one crop to another, to cultivate more marginal land, to purchase greater quantities of fertilizer, and to adopt other effective means, all of which result in increased production of the commodity that is in short supply. When surpluses pile up, however, if prices are not interfered with, the open market reflects lower prices, which are a red light to farmers that too much of that commodity is available. The lower price, too, induces consumers to use a greater amount of that particular product and so a satisfactory balance between supply and demand is soon restored; but, obviously, it takes fluctuating prices to bring about this economic balance. Wheat agreements, with their set prices, start none of these corrective influences at work.

It was, for instance, the relatively low prices to farmers, set by the governments of the Argentine, Australia, and Canada, which were partly responsible for the great shortage of wheat during the past

few years; for the low prices offered to the farmers of these countries gave them no inducement to increase production, which they would have done, much to the benefit of the whole world, had they been permitted to receive the higher prices as reflected by open markets, and which higher prices world buyers were willing and anxious to pay to be assured of adequate supplies.

This one defect alone, even if there were no others, should be sufficient to show that international wheat pacts and agreements can never work satisfactorily in the interests of producers, consumers, or of human society.

At the end of the Second World War in 1945 our western Canadian would-be planners, seeing no possibilities of an immediate international wheat agreement, concentrated their efforts on persuading the Canadian Government to make a bilateral wheat agreement with Great Britain. They succeeded in their efforts, and bound Canada to supply Britain, and Britain to purchase from Canada, large quantities of wheat for each of four years at predetermined prices. These contract prices were soon out-of-line with world conditions and so with world prices. The result of it all has been that our 285,000 prairie farmers lost on the wheat supplied to Britain alone in the first twenty-seven months of this bilateral agreement, that is from 1 August 1946 to 31 October 1948, the huge sum of \$385,000,000. Then because of the low price set on the British-Canadian Wheat Agreement, our farmers also lost in the same period an additional sum of \$187,000,000 on the wheat they supplied for making into bread and flour for the 12,000,000 people of Canada, or a total loss of \$512,000,000, which comes to just over \$2,000 for each prairie farming family. The losses are still going on at the rate of 45 cents a bushel.

Besides these huge losses of money to Canadian prairie farmers, other undesirable features of this Agreement have come to light. Much goodwill for Britain, that was stored in the hearts and minds of our prairie farmers because of Britain's gallant efforts during the war, has gradually become dissipated, for our farmers are beginning to think that Britain 'pulled a fast one' over our unsuspecting farmers with this Wheat Agreement. Then because Canada committed herself to supply much more than her usual deliveries to Britain each year, Canada was obliged to ration severely some sixty-five of her old long-time world customers and so was unable to supply these countries with the amounts of Canadian wheat which they had been looking forward to receiving during their time of food shortage. Ill will has,

therefore, been engendered between Canada and these sixty-five countries which may have the effect of decreasing the amount of wheat these nations will purchase from Canada in the future; and naturally there has been a loss of good will between our prairie farmers and Great Britain itself. These instances of ill will between nations, and others could be mentioned, hardly tend to confirm the hope of the authors of these international wheat pacts that they will lead to increased understanding and good will between the nations.

This astonishing bilateral Wheat Agreement between Canada and the United Kingdom was strictly along the lines of those bilateral agreements first thought up by Hitler and against which the whole world then protested. The British-Canadian Wheat Agreement, therefore, has in it somewhat of a flavour of National Socialism. The proposed international wheat pact in the same way will have a flavour of International Socialism which many people think is a still further step towards Communism in our countries; and yet these same democratic countries who so fervently believe in international wheat agreements are themselves pouring out large sums of money every day to try to hold the world firm against the encroachments of that same evil Communism.

There is one curious feature of the British-Canadian Wheat Agreement, and of past and proposed international wheat pacts, that is worth noting, which is that such pacts have never been, and are never intended to be, submitted for the discussion of either the farmers who produce the wheat or the consumers who eventually have to buy it. Neither have any of these pacts, with the exception perhaps of the United States, been submitted to the parliaments of the various governments for discussion before they are made. A small handful of representatives of the governments conclude the pacts and after they have been signed and sealed, then the governments merely place the pact before parliament for ratification, without even giving parliament an opportunity for frank and free discussion. To say the least, therefore, these wheat agreements and pacts are a perfect example of Bureaucratic Dictatorship over both the hundreds of thousands of producers of wheat, and of the millions of consumers. And yet the authors tell us that these pacts and agreements are arrived at in a democratic manner!