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Associationalism Canadian Style: Flour Millers, Self-Regulation and the State, 1920-1935

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See table of contents

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Article abstract

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The Canadian flour milling industry illustrates these persistent tensions. Confronted by overcapacity and seeking a method of coordination, the large millers organized an association in 1920. It established a complex system of regulations to fix prices. However, it initially failed completely to control either export or domestic prices and, when it finally seemed to have exerted greater control over domestic prices in 1930, the federal Combines Investigation Branch responded by forcing the suspension of price-fixing, just when market conditions reached a nadir. Numerous efforts to reorganize the industry through consolidations all failed. Late in 1933, the large millers sought state assistance to secure stability, but the solutions proposed would have imposed unwanted constraints on their power within the industry. Hence, the large millers did all they could to frustrate the development of regulation, continuing to advocate voluntary associationalism despite its past failures.

The fundamental differences between the large millers and government over the function of regulation prevented the consensus necessary to make a regulatory solution work. This suggests that, whereas the regulation of community property succeeded because it accommodated interests and defrayed tensions, the process through which it acquired broad legitimacy did not extend to the regulation of private property. Indeed, without consensus that such regulation was desirable, attempts to create it produced conflict instead of accommodation.

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Résumé

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The Canadian flour milling industry illustrates these persistent tensions. Confronted by overcapacity and seeking a method of coordination, the large millers organized an association in 1920. It established a complex system of regulations to fix prices. However, it initially failed completely to control either export or domestic prices and, when it finally seemed to have exerted greater control over domestic prices in 1930, the federal Combines Investigation Branch responded by forcing the suspension of price-fixing, just when market conditions reached a nadir. Numerous efforts to reorganize the industry through consolidations all failed. Late in 1933, the large millers sought state assistance to secure stability, but the solutions proposed would have imposed unwanted constraints on their power within the industry. Hence, the large millers did all they could to frustrate the development of regulation, continuing to advocate voluntary associationalism despite its past failures.

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Durant l'entre-deux-guerres, la croissance du pouvoir d'intervention économique de l'État a envenimé les relations entre l'entreprise privée et le gouvernement au Canada. Les grands manufacturiers et les représentants gouvernementaux favorables à la réglementation avaient en effet des vues différentes, voire contradictoires, sur l'utilité du pouvoir étatique.

L'industrie meunière au Canada illustre particulièrement bien ce conflit. Afin de tenter de régler le problème de la surproduction et d'harmoniser leur production, les principaux meuniers s'associèrent en 1920 pour établir un système complexe de contrôle des prix. Au début de leur association, ils n'étaient cependant pas en mesure de fixer

les prix, tant ceux à l'exportation que ceux du marché intérieur. Lorsqu'ils furent enfin en mesure de contrôler les prix, en 1930, la Direction fédérale d'enquête sur les cartels exigea que les contrôles soient abolis au moment où le marché était à son plus bas. Les nombreuses tentatives pour réorganiser l'industrie par des cartels échouèrent. À la fin de 1933, les grands meuniers tentèrent d'obtenir l'aide de l'État pour assurer la stabilité des prix, mais les solutions qui leur étaient présentées n'auraient servi qu'à diminuer leur pouvoir dans ce secteur industriel. Les grands meuniers firent tout ce qui était en leur pouvoir pour freiner la réglementation et tentèrent plutôt de s'associer à nouveau malgré les échecs du passé.

Les différences fondamentales entre les grands meuniers et le gouvernement sur le rôle de la réglementation gouvernementale empêchèrent tout consensus préalable à la concertation. Cela semble indiquer que, si la réglementation sur la propriété collective a pu réussir parce qu'elle satisfaisait aux intérêts communs et empêchait les conflits, le même processus ne pouvait servir à réglementer la propriété privée. En fait, en l'absence d'entente préalable sur la nécessité de réglementer l'industrie, les contrôles n'apportèrent que des conflits au lieu de solutions.

In the years following the Great War, a significant collectivist impulse developed in business-state relations in Britain and the United States. The desire of both businessmen and government policy-makers to stimulate organization, harmony, and efficiency prompted attempts to imbue competition with a sense of cooperation. Rather than consider expanding the state's autonomous regulatory capacity, which few in business or government thought feasible or desirable, the advocates of collectivism sought to facilitate planning between government and trade associations organized along sectoral lines. These plans took different forms in the two countries. Britain tried to establish a more cooperative approach to industrial relations and encouraged industries to develop comprehensive rationalization schemes. In the United States, where the unions lacked the necessary clout to receive consideration as a major partner in collective efforts, the state encouraged the development of voluntary sectoral associations aimed at making business more technically and organizationally efficient, and eventually extended recognition of self-regulation under the New Deal's National Recovery Administration. Scholars have debated the scope, nature, and long-term effects of these developments, questioning whether they involved a fundamental corporatist restructuring of the economy. Even so, the existence of these attempts at change is generally acknowledged.[1]

1. From a comparative perspective, see Morton Keller, "Anglo-American Politics, 1900-1930, in Anglo-American Perspective: A Case Study in Comparative History," *Comparative Studies in Society and History* 22 (1980): 458-77; Larry G. Gerber, "Corporatism in Comparative Perspective: The Impact of the First World War on American and British Labour Relations," *Business History Review* 62 (1988): 93-127. On Britain, see Keith Middlemas, *Politics in Industrial Society: The Experience of the British System Since 1911* (London, 1979); G.C. Allen, *The Structure of Industry in Britain* (London, 1970); J.S. Boswell, *Business Policies in the Making: Three Steel Companies Compared* (London, 1983); and Rodger Charles, *The Development of Industrial Relations in Britain, 1911-1939* (London, 1973). On the United States, see Ellis W. Hawley, "The Discovery and Study of a 'Corporate Liberalism'," *Business History Review* 52 (1978): 309-20; idem., *The Great War and the Search for a Modern Order: A History of the American People and Their Institutions, 1917-1933* (New York, 1979),

Given that Canada had developed a willingness to employ the state actively, a policy which had led to a strong public presence in some sectors, similar developments in Canada might have been expected.[2] This, however, was not the case. Indeed, the relations between private enterprise and government grew less rather than more harmonious after the war, as workable frameworks of government control that could command legitimacy among both business and government could not be constructed. Tom Traves maintains that some large-scale capitalists tried to utilize state power to provide themselves with regulatory protection after the war, but failed because political considerations forced the state to respond to the demands of other contending classes and interest groups.[3] While he illustrates that manufacturers in the export-oriented newsprint industry opposed regulation because it would hurt their opportunities and profits, he asserts that the sugar refining industry, which catered primarily to the limited domestic market, sought to enhance the state's regulatory power in the belief that it would benefit from the decisions of a sympathetic regulatory body, the Board of Commerce. However, Traves' interpretation misconstrues the nature of the demands Canadian industrialists made upon the state.

In the first place, demands for increased regulation after the war among business came from small, not big, business. Demands for significant regulatory change came from independent wholesale grocers, who wanted state power to protect their position within the economy from the encroachment of mass-buying retailers.[4] The sugar manufacturers, who collaborated with the wholesalers to maintain a controversial rate system which equalized the distribution costs of sugar, supported the wholesalers' demand for a board in the belief that it would be led by former Cost of Living Commissioner W.F. O'Connor, who had defended the equalized rate system in a 1917 report. The wholesalers, who had recruited the refiners to the support of a board and who hoped that such a body would take active measures against chain and department stores, had ambitious hopes for regulation. The refiners' regulatory ambitions seem to have been much more

and idem., *The New Deal and the Problem of Monopoly*, (Princeton, 1969); Robert F. Himmelberg, "Government and Business, 1917-1932: The Triumph of 'Corporate Liberalism'?" in *Business and Government*, eds Joseph R. Frese and Jacob Judd eds., (Tarrytown, N.Y., 1985) and idem., *The Origins of the National Recovery Administration* (New York, 1976); Kim McQuaid, "Corporate Liberalism in the Business Community, 1920-1940," *Business History Review* 52 (1978): 342-68; Guy Alchon, *The Invisible Hand of Planning: Capitalism, Social Science and the State in the 1920s* (Princeton, 1985), and Martin Sklar, *The Corporate Reconstruction of American Capitalism 1890-1916* (Cambridge, 1988).

2. Two sectors are particularly important. For utility regulation, see Christopher Armstrong and H.V. Nelles, *Monopoly's Moment: The Organization and Regulation of Canadian Utilities, 1830-1930* (Philadelphia, 1986); for railroad regulation, see Ken Cruikshank, "The Limits of Regulation: Railroad Freight Rates and the Board of Railway Commissioners, 1857-1933," PhD diss. York University, 1988.
3. Tom Traves, *The State and Enterprise: Canadian Manufacturers and the Federal Government, 1917-1931* (Toronto, 1979).
4. Mark Cox, "The Transformation of Regulation: Private Property and the Problem of Government Control in Canada, 1919-1990," PhD diss., York University, 1990, Chap. 1, and idem, "Innovation Denied: The Board of Commerce of Canada and the Problem of Expert Authority, 1919-1920," *Canadian Papers in Business History*, ed. Peter Baskerville (Victoria, 1989).

limited, concentrating on the preservation of their traditional distribution system.[5] Like other large manufacturers, they feared that enhancement of the state's autonomous regulatory capacity would ultimately infringe on their traditional prerogative to run their businesses as they saw fit. While Traves acknowledges manufacturers' ambivalence about regulation, he seriously underestimates it. Ultimately, manufacturers' reservations about government control would be compounded during the 1920s and 1930s, as the great majority of capitalists and those in government who advocated regulation continued to view the utility of state power in different and incompatible ways.

The case of the Canadian flour milling industry illustrates the persistent tensions between manufacturers and the state. The industry was Canada's second most important in the early 1920s, behind only pulp and paper in the value of manufactured goods produced.[6] It also did both substantial export and domestic trade, so that its organizational efforts cannot be considered solely as a response to conditions in one specific type of market. The industry was a segmented one, with five very large firms coexisting with a much larger number of small mills. While their differing raw materials and markets initially kept postwar competition between the two types of firms to a minimum, both still faced major problems in both export and domestic markets. The large mills reacted in 1920 by forming a trade association, the Canadian National Millers' Association (CNMA), which had as its primary object the direct control of prices.[7]

The Canadian state played no active role in the CNMA's activities. The millers occasionally sought to invoke parliamentary authority to aid them on specific issues, but the government did not, unlike its counterparts in the United States and Britain, play a role in encouraging or sustaining the association's activities. Indeed, when the extent of these activities became known in 1931, the bureaucrats of the federal Combines Investigation Branch compelled the CNMA to cease its attempts at regulating prices. State intervention thus left the millers without either governmental support or associational strength to face the worst years of the depression. Following a collapse in export sales during 1929-30, the millers had to compete even more fiercely for the limited domestic market. Conflict with the small millers grew much more intense, as each group tried to capture the other's markets and thus forced prices further downward.

In 1933, the millers asked the government for help in devising a new scheme to bring stability to the industry, but fundamental questions arose over what its objectives should be and the nature of the government control that would be involved. The large

5. For the dominant role of the wholesalers, see Canada. National Archives (NA), W.F. O'Connor Papers, Vol. 1, H.R. Drummond, Canada Sugar Refining Co. to O'Connor, 22 June 1917; Vol. 3, J.W. McConnell, St. Lawrence Sugar, to H.C. Beckett, 9 May 1917.
6. F.H. Leacy, ed., *Historical Statistics of Canada*, 2nd ed. (Ottawa; 1983), Series R621-770. Despite the industry's importance, virtually nothing on it has been published. Old and rather thin overviews can be found in D.A. McGibbon, *The Canadian Grain Trade* (Toronto, 1932) and W.W. Swanson and P.C. Armstrong, *Wheat* (Toronto, 1930). G.R. Stevens, *Ogilvie in Canada* (Toronto, 1951) is of some use. The more recent standard works on the Canadian grain trade, such as C.F. Wilson, *A Century of Canadian Grain* (Saskatoon, 1978) are not at all helpful.
7. L.G. Reynolds, *The Control of Competition in Canada* (Cambridge, 1940).

millers concluded that increasing the state's autonomous power would likely result in their position within the industry being attacked rather than consolidated, and tried to undermine potential government initiatives. Ultimately, nothing constructive was accomplished. These tensions underlying the relationship between the industry and the state indicate that no consensus existed on how to utilize their expanding organizational capacities in any type of systematic effort. Business-state relations in Canada were characterized, not by any associationalist or corporatist spirit, but by ambivalence, suspicion, and disorganization.

At the end of the war, the Canadian flour milling industry consisted of two distinct and largely exclusive branches, as it had for over twenty years. The older branch was composed of millers of soft winter wheat. This wheat had long been the staple of the Ontario wheat industry, but had been in decline since the late-nineteenth century, as more and more western spring wheat was produced. Flour milled from spring wheat was deemed superior to the softer winter wheat flour for bread baking, and had gradually squeezed it into specialized products like biscuits, pastry, and crackers, or into the very local "mill-door trade." The secretary of the Dominion Millers' Association (DMA), which the Ontario wheat millers had formed in 1891, acknowledged in 1924 that winter wheat milling had declined to about 15 per cent of the Canadian flour business, and that the industry was "dying out."[8] Before the war, over five hundred such mills had existed, all relatively small and almost all in Ontario. By 1925, not more than 150 remained.[9]

Although some small spring wheat mills existed in the west, five large firms occupied much of the emerging spring wheat industry's production and capacity. These five — the Ogilvie Flour Mills Company, the Lake of the Woods Milling Company, the Robin Hood Mills, the Maple Leaf Milling Company, and the Western Canada Flour Mills Company — had much of their milling capacity in the west, but had their head offices in either Montreal or Toronto.[10] In 1928, the first year for which good comparative statistics are available, these five firms possessed an annual milling capacity of

8. Canada. Parliament, House of Commons, *Special Committee on Agricultural Conditions* (1924), 279, testimony of C.B. Watts.
9. *Northwestern Miller*, 10 June 1925, 1066. The statistics of the Dominion Bureau of Statistics are not very helpful in examining this transition. Before 1921, they lumped flour mills together with feed mills, a combination which makes it impossible to get a precise picture of the flour milling industry before that date. Even afterwards, the bureau did not distinguish between mills which handled spring wheat and mills which handled primarily winter wheat. Moreover, many of the mills it listed had virtually ceased production and some of them were deserted. The *Northwestern Miller*, the official publication of both the American and the Canadian milling trade, kept more detailed statistics of the trade than the DBS and maintained that half of the mills listed by the DBS were phantoms, a fact which made the government's statistics misleading. Accordingly, I have relied on the *Northwestern Miller*'s numbers for the decline in winter wheat mills. Although the absence of comprehensive statistics from the journal over the entire period compel me to use the DBS statistics for other purposes, the latter seem sufficient for indicating general trends in the industry after 1921.
10. Ogilvie's operated mills at Montreal, Fort William, Winnipeg, Medicine Hat, and Edmonton. Lake of the Woods maintained mills at Keewatin (on the Lake of the Woods), Portage, and Medicine Hat and, in 1925, acquired the Dominion Flour Mills and its mills at Montreal, Hamilton, and Brantford, the last of which milled winter wheat. Robin Hood's mills were all

21,593,120 bushels, or 59 per cent of the capacity of the entire Canadian milling industry. Their dominance of actual production was even greater, as they milled 14,366,057 bushels, 71 per cent of Canada's entire production.[11] These firms were fundamentally different from the smaller mills in structure as well as in product. All were modern, multidivisional bodies under the control of directors, whereas virtually all the smaller firms were operated by their owners, who had often been born into the business. Ironically, the segmented nature of the industry helped the weaker winter wheat mills survive, even as demand for their product dwindled, because they were largely spared the direct competition of the large firm.[12] Even the DMA secretary maintained that the small millers suffered little from the competition of the large companies, since the two made entirely different types of flour, and thought that small millers who failed had done so because of declining markets and because they had not kept their machinery up to date.[13]

Both branches of the industry shared a fundamental problem of excess capacity, which the millers blamed on wartime expansion to meet the needs of Canada's allies. While the mills which subsequently became members of the CNMA increased their daily capacity by 10,250 barrels between 1914 and 1919, the increase represented a relatively small part of the industry's estimated daily capacity of 141,288 bushels in 1919, when the industry operated at only 41.5 per cent of capacity.[14] Exports would thus be vital to the industry's success. Yet in the immediate postwar period, with cheaper wheat from other suppliers becoming available and some potential European buyers moving to protect domestic millers by raising flour tariffs, export sales plunged. In 1919, they totalled only 10,064,373 bushels, a figure which barely exceeded domestic consumption of 7,778,460 bushels, and actually fell short of exports made during the wartime year of 1918. Exports the following year fell still further, to 4,730,037 bushels. In 1920, Canadian flour mills operated at a meagre 32.1 per cent of capacity.[15]

Millers faced problems in the domestic market as well. Despite their dominant prewar position in the market, the large mills had never been able to exert effective

in the west, at Moose Jaw, Calgary, Factoria, and Saskatoon. Maple Leaf milled at Toronto and Port Colborne in Ontario, and at Kenora and Medicine Hat in the west. The Western Canada Flour Mills' largest mill was in St. Boniface, and it maintained other mills at Brandon and Goderich.

11. *Royal Commission on Price Spreads* (Ottawa, 1935), 3542, 3759.
12. Ibid., 3902-03, testimony of Wm. H. McCarthy.
13. *Special Committee on Agricultural Conditions*, 280, 288, testimony of C.B. Watts. The one element of discrimination he complained of involved the ability of the big western mills to select the best cars of wheat by paying a premium of one cent per hundred pounds, but this problem was regionally rather than structurally based, and was shared by large mills in the east as well as small.
14. Moreover, between 1920 and 1930, the same mills increased their daily capacity by 14,050 bushels. Between 1919 and 1932, the average capacity of the industry could supply 468 per cent of Canada's domestic requirements. NA, RG 110, Combines Investigation Branch Records, Vol. 113, Flour Inquiry file, draft copy of Mr. Carman's report; *Royal Commission on Price Spreads*, 3760, Statistical Reference No. 5, Capacity, Production and Exports of Flour Mills in Canada, 1917-1932.
15. Ibid., 1917-1932 (Appendix 2).

control over prices, or even to secure contracts which would give them anything near the protection given to their customers. Excess capacity gave the buyer the upper hand. Contracts for flour thus guaranteed the buyer protection against declines in the price of wheat by lowering the sale price if the price of wheat fell between the time of sale and delivery. If, on the other hand, the price rose, then the buyer bought at the original contract price. The millers protected themselves the best they could by hedging, taking out options to purchase wheat against a contract when a sale was made. When competition became especially keen, the buyer received even more generous terms, such as extended time limits on contracts. This left the millers susceptible to speculative bookings, in which the buyer hoped to benefit from a decline and might cancel the contract if no decline took place.[16]

The last year of the war had brought some temporary relief from these problems. In June 1917, following a sharp rise in the price of wheat after a near-panic on the Winnipeg Grain Exchange, the government closed futures trading and established a Board of Grain Supervisors with monopoly control over the acquisition and resale of Canadian wheat. A successor body, the Canadian Wheat Board, was created to handle the 1919 crop. Its monopoly powers over the sale of wheat in both foreign and domestic markets were further enhanced by control of foreign sales of flour.[17] These boards infused government regulation into the industry for the first time. Control brought some benefits, notably a limitation in contracts to thirty days length, but the millers were anxious to see it go, since government attempts to maximize the price of grain operated against their interests. Moreover, the millers believed the Wheat Board's efforts to increase the export price of flour would only impair sales once normal market mechanisms resumed control over the trade. Accordingly, the millers lobbied hard to discontinue the Wheat Board after the 1919 crop year and opposed subsequent agrarian pressure for its reconstitution.[18] The millers did not, however, desire a return to a completely unregulated system, a situation which might revive all the bad old prewar practices within the trade. Some better means of instilling coordination and discipline among millers needed to be found.

The larger millers perceived a solution in the creation of a powerful new trade association in which their interests would be paramount. During wartime control, a Millers' Committee had been organized at the government's behest to further production. In October 1920, this committee reformed itself into the Canadian National Millers' Association (CNMA), which included forty-three firms, including all of the "big five." Its articles of association declared its intent to "promote the interest of the milling industry in Canada by the study of milling problems and by the improvement of manufacturing processes and the general adoption of the best business practices." As well as providing information to members, it undertook to lobby on such matters as freight rates, grain-related legislation, and trade, tariff, and taxation policies. Even though the

16. *Canadian Milling and Grain Journal* (May 1927): 19.
17. Vernon Fowke, *The National Policy and the Wheat Economy* (Toronto, 1957), 169-72.
18. *Northwestern Miller*, 27 September 1922, 1386; NA, RG 110, Vol. 113, minutes of meeting of Canadian National Millers' Association, 7 January 1923. Some large millers also opposed the board because they were involved in the grain trade.

CNMA denied that it engaged in any form of price-fixing, that was in fact its primary function.

The CNMA's attempt to regulate prices rested upon a series of comprehensive regulations. Its Regulation 13 fixed Lake of the Woods' Harvest Queen brand as the "basis" price, and established "arbitraries" designating differentials for other Lake of the Woods grades above and below the basis.[19] The result was that the basis price, which was established by ad hoc committees of the organization's executive officers through majority decision, fixed the prices of all the brands of all the member firms.[20] Other regulations governed both export and domestic contract terms. They tried to enforce a uniform sales contract which would end guarantees against price declines, limit contracts to thirty days, and end premiums.[21]

The CNMA anticipated that export regulations would be more difficult to control than domestic because of European protection and foreign competition. This concern proved prophetic, as price-cutting remained endemic in export sales. Thus, even though exports increased during 1922, the average barrel of exported wheat sold for $3.43 less than the year before because some mills anticipated price declines and cut the stipulated prices.[22] This state of affairs continued through 1923. That October, the CNMA president complained that in the export trade, "many, many times during the year business was taken at less than the cost of production," and only the increased volume thus secured minimized the losses taken.[23] During 1926, price-cutting was so prevalent in the European trade that an entirely new set of export regulations had to be issued.[24] In July 1927, the CNMA felt compelled to suspend for a four-month period all export regulations, except those dealing with Newfoundland, the British West Indies, and Bermuda.[25] While the CNMA could, in theory, fine violators, a January 1927 exaction of five cents a barrel upon Maple Leaf for improprieties made in a Norwegian sale during December of 1922 is the only such penalty recorded in the association's minutes.[26] Controlling export prices seems to have been too difficult to make sustained enforcement viable.

Nor were the CNMA's attempts to reduce export prices by lowering costs much more successful. The longstanding differential between rates on flour and wheat charged by both the steamships and the railroads was a major target. While the CNMA acknowl-

19. See Appendix 4 for a typical regulation, issued 10 September 1930.
20. NA, RG 110, Vol. 113, Canadian National Millers' Association (CNMA) minutes, 21 July 1927; Flour Inquiry file, draft copy of Carman's report.
21. Ibid., Vol. 113, Flour Inquiry file, draft copy of Carman's report; CNMA minutes, 16 November and 10 December 1920; *Northwestern Miller*, 5 January 1921, 48.
22. Export prices were sixty-three cents below the average price, the first time that the export price had fallen below the average price since 1917. *Northwestern Miller*, 27 September 1922, 1386; *Royal Commission on Price Spreads*, 3761, Statistical Reference No. 10, Comparison of Export and Average Selling Values of Wheat Flour in Canada, 1917-1932 (Appendix 3).
23. *Northwestern Miller*, 24 October 1923, 349.
24. Ibid., 15 September 1926, 1068; NA, RG 110, Vol. 113, CNMA minutes, 8 September 1926.
25. NA, RG 110, Vol. 113, CNMA minutes, 21 July 1927.
26. Ibid., 12 January 1927.

edged that flour cost slightly more to handle than wheat, it wanted the steamship differential fixed at a maximum of five cents per hundred pounds instead of the customary eight to ten cents.[27] The CNMA did manage to secure several agreements with the steamship companies to reduce the spread. Nevertheless, the companies broke the agreements whenever it suited them. In September of 1925, some months after it thought the problem had been settled, the CNMA's Executive Committee complained that "the steamship companies are not carrying out their promise to have the differential in ocean rates between wheat and flour kept as low as they agreed to."[28] The disparity continued to be a serious problem throughout the decade. At the end of 1929, the CNMA's president maintained that "there are other contributing factors, but in the minds of Canadian millers the greatest factor militating against their chances of success is the undue advantage afforded to wheat in the matter of ocean freights."[29]

The CNMA's concerns with railroad freight rates were very similar. Canadian millers were handicapped by a differential of between five and seven cents on the rates of wheat and flour.[30] Certain mills, particularly in southwest Ontario, were hurt by rates higher than those paid by nearby American mills.[31] The CNMA's Traffic Committee secured minor adjustments from the railway companies in cases without controversial implications.[32] When broader issues were involved, the committee prepared submissions to the Board of Railway Commissioners, the regulatory body responsible for railroad freight rates. Here it encountered some difficulty. The board was an extension of the political system rather than a court of law and, regardless of how just a CNMA case might seem, the board felt compelled to balance the CNMA's demands against those of other organized shippers and the railroads themselves.[33] Thus, when the CNMA sought in 1922 to reduce the comparative difference between wheat and flour rates from Georgian Bay to the seaboard, the board sided with the grain growers. Moreover, the Cabinet (to which appeal from the board's decisions could be made) refused to alter the decision.[34] Likewise, an attempt to have the seaboard rates from Ontario milling centres like Port Colborne lowered to the level of rates from the nearby American points of Buffalo and Detroit was rejected by the board in February of 1928, even though the existing rates were over twenty years old and no longer reflected the structure of the industry.[35] Some successes were attained. In August of 1928, high domestic rates out of St. Thomas, Ontario were modified, to the relief of the local Empire Flour Mills.[36]

27. Ibid., 8 December 1921; *Northwestern Miller*, 23 November 1921, 864; 12 February 1930, 548, 557.
28. NA, RG 110, Vol. 113, CNMA minutes, 16 September 1925.
29. *Northwestern Miller*, 4 January 1928, 46; *Canadian Milling and Grain Journal* (January 1930): 20. At this time, the differential reached eight to ten cents or more per hundred pounds, or the equivalent of sixteen to twenty cents per bushel of flour; see *Northwestern Miller*, 12 February 1930, 548.
30. *Northwestern Miller*, 16 November 1921, 748; 8 November 1922, 648.
31. Ibid., 14 May 1924, 708; 3 March 1926, 888.
32. Ibid., 22 October 1924, 336; 13 October 1926, 136; 12 October 1927, 144.
33. Cruikshank, "The Limits of Regulation."
34. *Northwestern Miller*, 4 November 1922, 648.
35. Ibid., 22 February 1928, 743.
36. Ibid., 11 July 1928, 140.

Yet the nature of the system by which freight rates were regulated ensured that such changes would be sporadic rather than systematic. Despite their best efforts, the millers could secure only piecemeal relief rather than comprehensive reform.

The CNMA also tried to maintain export prices through gentlemen's agreements with their rivals. In September of 1925, the outgoing president recommended to the new executive that it "secure the co-operation of the Buffalo mills as regards export." During 1926, the CNMA tried to convince the American mills to join its ranks outright, but the Americans said their antitrust laws would prevent such action. They did, however, suggest that "nothing would prevent them from working with the Canadian millers on a gentlemen's agreement." A secret agreement was worked out, but it proved very short-lived, as the American mills repeatedly ignored the CNMA's rules and regulations. On 8 April 1927, the CNMA's Executive Committee voted to continue to cooperate with the Americans, despite the failure of the Pillsbury and Washburn-Crosby firms to live up to their obligations. Violations evidently continued, as only four days later, the committee met again and decided that it would immediately cease to provide the Americans with any information about the CNMA's basis price or regulations.[37] No further cooperation with the American mills seems to have taken place.

The CNMA's attempts to cooperate with the Canadian wheat pool were even more frustrating. The CNMA wanted to ensure that wheat prices the pool quoted to Canadian millers were no greater then those given abroad.[38] It thus approached pool officials in September 1925 to discuss the "desirability of establishing co-operation." The manager of the pool's Selling Agency expressed interest, and in January 1926 the CNMA and the pool agreed on a plan. The latter agreed to quote every evening to the CNMA the same price given to European buyers, with the price holding for acceptance until the market opened the next day. It would also quote a slightly higher price which would stand for a full day. Furthermore, it promised to give the CNMA a chance to take up wheat at any price quoted to European buyers if, for any reason, this was below the market price.[39] Both the millers and the pool officials rejoiced. The *Canadian Milling and Grain Journal* regarded the agreement as "the most important event that has occurred in the history of the industry." The pool's secretary termed it "the greatest forward step made in the development of co-operative marketing in the history of the movement."[40]

This goodwill did not last for long. Indeed, relations between the pool and the CNMA soured almost immediately because of the millers' attempt to secure an export

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37. NA, RG 110, Vol. 113, CNMA minutes, 16 September 1925, 29 October 1926, 8 April 1927, 12 April 1927, and 17 May 1927.
38. Ibid., CNMA minutes, 16 September 1925.
39. Ibid., CNMA minutes, 30 September 1925; 27 November 1925; *Northwestern Miller*, 20 January 1926, 230. The millers had originally proposed that the pool issue quotes every day which would stand for twenty-four hours. Not surprisingly, the pool rejected this proposal, since the millers would have bought if the price of wheat went up and would have done nothing if it went down. The details of the dickering can be found in H.A. Innis, ed., *The Diary of A.J. McPhail* (Toronto, 1940), 126.
40. *Canadian Milling and Grain Journal* (January 1926): 35; ibid. (February 1926): 19.

tax on wheat intended for milling in the United States, to counter the free entry allowed to Canadian wheat which would be "milled-in-bond" and reexported as flour.[41] Not surprisingly, Canadian grain growers strongly opposed such a tax.[42] The resulting tension, which became quite acrimonious during 1926, was further exacerbated by a slackening in European demand for wheat.[43] Consequently, the agreement soon fell apart. In May of 1927, the CNMA's Executive Committee declared that the pool had been selling wheat abroad at prices lower than those offered to Canadian millers. It also stated that the scheme whereby quotes would stand until the close of the market on the following day had "proved unworkable and unsatisfactory," because the quotes were far above those on the Winnipeg Exchange. The CNMA resolved that the pool's officials "stand behind Canadian industry by at once putting into effect some such rigid plan or rules as will prevent sales being made abroad at any time at less than equivalent prices being given at the same time to Canadian buyers."[44]

The pool's sales manager expressed regret that conditions had made adherence to the agreement impossible, but said the pool would consider any new proposition which did not subsidize the mills at the expense of the pool's members.[45] While the millers wanted to work out another plan and met again with the selling agency's directors in the summer of 1927, no agreement was reached.[46] Indeed, in 1928 the pool's directors contemplated opening their own mills in direct competition with the millers, a proposal which provoked the DMA's secretary to remark wryly that he gave the pools credit for more sense than to go into the milling business.[47] While the pool eschewed that perilous course, it also remained aloof to further overtures of cooperation from the millers. Even when the price of both wheat and flour collapsed in 1929, the two groups continued to operate without coordination and, to a considerable degree, at cross-purposes.[48]

The millers had expected that conditions in the protected domestic market would be easier to control. Enforcement of domestic regulations, however, proved almost as difficult as the export, since the CNMA had no legal recourse to compel members to abide by its rules. A bylaw did provide for expulsion, but it was never used because expulsion would not remedy the problem and would merely leave the offender outside the association's influence. The CNMA tried to maintain its rules through voluntary dispute-resolution mechanisms which substituted mediation and arbitration for the direct compulsion it lacked. The CNMA's secretary first attempted to mediate disputes. If no satisfactory resolution was reached, then the executive would arbitrate.[49] Even so, firms

41. *Northwestern Miller*, 12 August 1925, 664; *Canadian Milling and Grain Journal* (May 1926): 19; ibid. (December 1926): 17.
42. *Canadian Milling and Grain Journal* (April 1926): 15.
43. NA, RG 110, Vol. 113, CNMA minutes, 17 March 1926.
44. Ibid., 17 May 1927.
45. *Northwestern Miller*, 18 May 1927, 640.
46. NA, RG 110, Vol. 113, CNMA minutes, 13 September 1927.
47. *Northwestern Miller*, 21 November 1928, 717; ibid., 13 March 1929, 1009; *Canadian Milling and Grain Journal* (December 1929): 18.
48. *Northwestern Miller*, 9 April 1930, 116; ibid., 14 May 1930, 540; *Canadian Milling and Grain Journal* (May 1930): 23.
49. NA, RG 110, Vol. 113, CNMA minutes, 8 December 1921, 16 September 1925, and 4 November 1927; *Northwestern Miller*, 13 January 1926, 146.

which did not like a decision might ignore it, or even leave the association. In October of 1922, Maple Leaf resigned in a dispute over its policies of guaranteeing prices against decline and giving special rebates, and remained outside the association for over a year.[50] Not surprisingly, enforcing the rules proved especially difficult when business was not good, a situation often the case during the 1920s. Violations of domestic regulations were frequent in 1922 and 1923. Although more profitable conditions in 1924 led to a marked increase in adherence to the terms of the CNMA's standard sales contract, when conditions worsened the following year, so did much of the adherence.[51] In 1926, the CNMA's Executive Committee unanimously resolved to abolish guaranteed prices and had members sign a declaration to all bakers, feed dealers, and jobbers that the practice would cease.[52] In September of 1927, after recalcitrants had been badgered into agreement, the CNMA's president declared that the practice had been completely eliminated.[53] However, by the summer of 1928, competition once again brought the violations back. By the summer of 1929, violations increased to the point where the Executive Committee decided that a member unable to adhere to a specific provision would continue to be a member of the association, with full rights to all association information except that which pertained directly to the provision not being observed.[54] This concession, however, could not maintain harmony. With internal dissension rife and the fairness of the rule of the majority on association matters being questioned, a long Executive Committee meeting in May of 1929 decided that the company presidents would convene as early as possible to decide whether the association should continue to function.[55]

In response, the CNMA underwent a major reorganization in August of 1929. Previously the presidency had been a rotating and largely nominal post, with important decisions made by majority vote of the Executive Committee. The new presidency would be permanent and powerful, to allow more decisive response to problems and forestall charges of conflict of interest against executive members. C.H.G. Short, the general manager of the Dominion Flour Mills, who had been president during 1928-29 under the old system, retired from his firm to devote all of his time to the enhanced responsibilities of his office.[56] He took a more active role in enforcing prices and regulations, suggesting changes in the basis price and differentials over the telephone when changes in the market or in freight rates necessitated flexibility.[57] His more active intervention to maintain prices seems to have had positive results. While wheat and flour prices both fell in 1929, the price of flour fell proportionately much less than the price of wheat. In fact, the spread between the flour price and the wheat cost of flour in 1930 was higher than in any year since 1913. While the CNMA's role in maintaining this price is im-

50. NA, RG 110, Vol. 113, CNMA minutes, 29 October 1922 and 14 June 1923.
51. *Northwestern Miller*, 28 July 1923, 486; *Northwestern Miller*, 22 October 1924, 336.
52. NA, RG 110, Vol. 113, CNMA minutes, 16 September 1925 and 11 May 1926; *Canadian Milling and Grain Journal* (November 1926): 22.
53. NA, RG 110, Vol. 113, CNMA minutes, 28 September 1927.
54. *Northwestern Miller*, 4 September 1929, 858; RG 110, Vol. 113, CNMA minutes, 28 August 1929.
55. NA, RG 110, Vol. 113, CNMA minutes, 1 May 1929.
56. *Canadian Milling and Grain Journal* (September 1929): 22 and ibid. (December 1929): 24.
57. NA, RG 110, Vol. 113, Flour Inquiry file, notes of conversations with flour milling officials in Montreal, 12 March 1931.

possible to determine with precision, the millers themselves believed that Short's presence created more respect for, and adherence to, the regulations than would otherwise have been the case.[58]

Unfortunately for the millers, the federal Department of Labour's Combines Investigation Branch would reach the same conclusion. After the large 1930 spread came to light during an investigation of an alleged combine in the baking industry, the eastern millers were summoned to an audience with the Minister of Labour in December of 1930 and a combines investigation was begun.[59] To this point, the state had played no role in the CNMA's efforts at orderly marketing. None of the direct or indirect encouragement that had characterized business-state relations in Britain or the United States had appeared in Canada. Even though the moral suasion or the outright coercive authority that might have come from such support could have helped the CNMA to enforce discipline, the millers were content with its absence, preferring their voluntaristic associationalism to any collectivist collaboration with government. To this point, however, the state had also made no effort to interfere with the millers' activities. This situation was about to change.

Scholars have noted that, right from the inception of Canada's first anticombines act in 1889, Canadian competition policy differed markedly from American in its emphasis that restraint must be undue to be illegal.[60] The courts took the same interpretation, following English rather than American precedent by construing illegal restraint to be combination against the public interest, demonstrated by unduly high prices, rather than mere combination in itself. When Mackenzie King brought forth new combines legislation in 1923, he took pains to demonstrate that the act explicitly stated restrictive practices would only be illegal where they operated against the public interest. He assured businessmen that legitimate trade combinations were both useful and necessary in some lines of business, and that American antitrust legislation had been "exceedingly detrimental and disastrous in its results."[61]

The destiny of Canadian combines legislation would, however, be determined neither by judges nor by politicians, but by the registrar responsible for its administration. The first registrar had adhered to the act's original intent by emphasizing that restraint must be undue to be illegal. He concentrated on curbing monopoly, and defined illegal restraint of trade as those acts which evinced monopolistic intentions. Agreements to restrain trade within industry could be tolerated if they did not aim towards monopolistic scope. After 1926, however, the original emphasis of the legislation was altered by

58. *Northwestern Miller*, 24 September 1930, 1006, and 24 December 1930, 1001; RG 110, Vol. 113, Flour Inquiry file, draft copy of Carman's report.
59. *Financial Post*, 4 December 1930, 16.
60. Michael Bliss, "Another Anti-Trust Tradition: Canadian Anti-Combines Policy, 1889-1910," in *Enterprise and National Development*, eds. Glenn Porter and Robert Cuff (Toronto, 1973).
61. NA, W.L.M. King Diary, 27 March 1923; NA, W.L.M. King Papers, J1, 74817-8, Gerald Larkin to King, 17 March 1923; 74820, McGregor to Larkin, 20 March 1923; 74821, King to Larkin, 12 April 1923; King, in Canada. Parliament House of Commons, *Debates* (1923) 2520; NA, Toronto Board of Trade Papers, Vol. 9, Executive Council minutes, report of special committee re Bill 54, 20 April 1923.

another registrar, F.A. McGregor, who attempted to be more faithful to the spirit of free competition. The influence of a neoclassical economist during a 1926 investigation convinced McGregor that *any* restraint of trade led to higher consumer prices and should thus be condemned. His subsequent investigations differed significantly both from his predecessor's and from the original intent of the act, because the preservation of free competition, rather than the mere circumscription of monopoly, became his primary goal. The definition of undue restraint of trade would henceforth take on broader parameters.[62]

A preliminary investigation of the milling industry in 1931 by F.A. Carman of the Department of Labour followed this new interpretation in determining that the CNMA constituted a combine against the public interest. Carman based his conclusion on the clear and undoubted evidence that the CNMA had attempted to fix prices, without considering whether the prices had been undue, or even if they had been effectively imposed. He thought that the high spread between wheat and flour in 1930 constituted sufficient evidence that the CNMA's fixed prices hurt the public, even though he acknowledged that no direct proof existed that the spread resulted from the regulations.[63] Short took a paradoxical position on the subject. He maintained that the CNMA's price lists were mere guides rather than firm laws, while also stating that even though the association's regulations increased prices they prevented "insensate competition" which would ruin all the mills.[64] He was, nevertheless, correct in his complaint that the combines act had come to define an offence not just when fixed prices were unduly enhanced, but even if they were fixed at a fair level.[65]

The report was not made public, but the millers' trust was effectively "busted," as the CNMA's efforts at price-fixing ceased. Short continued as president, but only on a part-time basis, and rumours spread through the industry in mid-1931 that the CNMA would soon go out of business.[66] While it survived in its emasculated form, the industry was left to devise a new means of coping with its increasingly pressing problems.

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62. Cox, "The Transformation of Regulation," Chap. 2.
63. NA, RG 110, Vol. 113, Flour Inquiry file, draft copy of Carman's report; see Appendix 6.
64. Ibid., notes on conversations with flour milling officials in Montreal, 12 March 1931; notes on conversations with the president of the CNMA in Montreal, 28-30 April 1931.
65. *Royal Commission on Price Spreads*, 3924-25. Exceptions could be made when the public interest necessitated, but blanket waivers were not given to struggling industries simply on the grounds of economic travail. McGregor condoned the numerous unsuccessful attempts of the newsprint industry to stabilize prices to its American market, on the grounds that the active participation of the governments of Ontario and Quebec on its behalf demonstrated its activities to be in the public interest. RG 110, Vol. 88, Combines Investigation Act file A1811, 1923-31, interview given to the press by Heenan, 27 November 1929; *Financial Post*, 4 January 1929, 8. Another area of broad exemption was marketing legislation intended to benefit producers. McGregor endorsed frankly coercive legislation like the British Columbia Produce Marketing Act of 1927 because "farmers as a class are less in a position to protect their own interests than any other class of consumers." NA, RG 110, Vol. 107, File 17.3, McGregor memo, 23 February 1928 re: BC Produce Marketing Act.
66. *Northwestern Miller*, 10 June 1931, 716; 5 August 1931, 372.

These problems stemmed largely from the fall in the price of wheat and flour which began in 1929. But even record low prices did not stimulate exports because the depression led countries to limit imports through tariffs, quotas, and exchange restrictions. The differential rail and water rates between flour and wheat also continued to hamper export sales.[67] The domestic market had also weakened by 1931. All of the "big five" except Robin Hood were handicapped by large investments made in the purchase of bakery chains between 1928 and 1930. At the time of purchase, they had seemed to be a useful forward linkage, despite the high cost of their acquisition, since they could ease domestic competition by providing guaranteed outlets for each firm's products. The coincidence of falling prices with the large-scale entry of chain stores into the baking business produced a series of price wars which turned the mill-owned bakeries into millstones around the necks of their purchasers.[68]

The CNMA also suffered from its inability to attract any significant portion of the small winter wheat mills into its ranks and from its inability to keep many of the smaller spring wheat mills there. The support of the largest firms meant that, throughout the 1920s, the CNMA never represented less than 69 per cent of the industry's total production. The CMA's executive, nevertheless, consistently thought it necessary for the industry to speak as a relatively unified whole to Parliament, the railroads, and the steamship companies, and believed some support from small millers was necessary to this end.[69] Moreover, even though the winter wheat millers engaged in little direct competition with the large millers immediately after the war, small spring millers outside the CNMA would represent a dangerous price-cutting potential. Thus, the CNMA made considerable efforts to entice small mills into its ranks, soliciting their attendance at the CNMA's first annual meetings and offering them membership for a nominal fee.[70]

The small mills did not remain outside the CNMA because the DMA represented them effectively. The winter wheat industry continued to decline and the DMA grew even more feeble during the 1920s. In 1924, the DMA's Canadian Flour Export Company closed down because of reduced production of winter wheat for export.[71] Price-cutting continued to be particularly severe in the winter wheat industry, and while meetings were held to try and correct the problem, nothing was accomplished.[72] The formation of a winter wheat farmers' pool in Ontario in 1927 was a further blow. While

67. Ibid., 30 March 1932, 845; 18 May 1932, 452; 13 July 1932, 118; 31 August 1932, 548.

68. See Appendices 6 and 7. Ironically, this competition took the form of quality, service, and sales promotion rather than price. It thus had the effect of proving unprofitable to the baker while resulting in higher prices to the consumer. Department of Labour, *Investigation into an Alleged Combine in the Bread Baking Industry in Canada*, Report of Registrar, 5 February 1931; NA, RG 110, Vol. 88, File A1811, N.A. Carman, "Crumbs From the Bread Report," 14 February 1931.

69. *Canadian Milling and Grain Journal* (February 1926): 20; NA, RG 110, Vol. 113, CNMA minutes, 30 October 1925.

70. *Northwestern Miller*, 12 November 1921, 760; 19 November 1921, 871; 20 September 1922, 1269; 6 October 1923, 150; 9 September 1925, 1093.

71. Ibid., 10 September 1924, 1030.

72. Ibid., 5 January 1921, 55; 27 June 1928, 1273; 5 September 1928, 944; 31 October 1928, 450.

the millers initially hoped that cooperation with the pool would be possible, the pool quoted them higher prices than foreign buyers, further impairing their ability to compete.[73] In 1929, the DMA closed its Central Buying Office and virtually ceased to function. The pool would cease to operate in 1932, and the DMA was liquidated the same year.[74]

Yet its membership showed little inclination towards supporting the CNMA, with which it had little empathy. The CNMA's initial membership fell from 43 to 12 by 1931, as small firms left despite being implored to reconsider.[75] In an extensive effort in 1926 to induce some small millers to join, the CNMA offered to establish a soft wheat flour committee to establish a basis for winter wheat. Yet, despite the DMA's travails, the Ontario millers refused to consider joining the CNMA and would only discuss ways to stabilize the selling of Ontario flour.[76] When the DMA closed its Central Buying Office, some members of the CNMA executive wanted to suggest that the small mills affiliate with the CNMA, but decided to take no action unless approached by the DMA. No approach ever came.[77] Cooperation between the large mills and the small would continue to be minimal.

The consequences of this would be severe, as the decline in exports produced furious competition for domestic volume. Small spring millers would continue to ignore the CNMA's basis and offer lower prices, and the price-cutting problem would worsen when winter wheat mills attempted to get into the spring wheat business. Even after the Ontario wheat pool ceased operations, weak foreign demand prevented the winter wheat millers from regaining old markets lost to the pools.[78] As a result, many turned to grinding spring wheat, and custom feed grinding for nearby farmers had become a substantial basis of their trade by the end of 1932.[79] This new emphasis on spring wheat milling greatly intensified the competition between the small mills and the large. This competition reached new heights of fury in 1934, as the failure of the year's winter wheat crop compelled even those mills which had not previously ground spring wheat to do so in order to stay in business.[80] The small mills' lower overhead costs allowed them to compete with the large firms in their local markets. Their efforts to expand their trade carried them into the larger centres, where they had to cut prices to be competitive.[81] Thus, despite their limited production, their influence on prices became an aggravation which the large mills sought to remove by encroaching on the small firms'

73. Ibid., 30 March 1927, 1294; 5 September 1928, 944; 22 January 1930, 297.
74. Ibid., 19 June 1929, 1112; *Canadian Milling and Grain Journal* (October 1929): 26.
75. NA, RG 110, Vol. 113, CNMA minutes, 30 October 1925 and 12 January 1927.
76. Ibid., 31 August 1926, 8 September 1926, 29 September 1926, and 29 October 1926.
77. Ibid., 24 September 1929.
78. *Northwestern Miller*, 15 July 1932, 158.
79. Ibid., 30 November 1932, 532; 1 November 1933, 294; *Canadian Milling and Grain Journal* (April 1934): 8.
80. *Northwestern Miller*, 24 April 1935, 247.
81. *Royal Commission on Price Spreads*, testimony of Wm. A. Crosbie, esp. 3598-3608; *Canadian Milling and Grain Journal* (September 1933): 5. Things were made even worse by the persistence of a price differential between country milled flour and the nationally known brands of the large firms. Buyers paid less for the small mills' products, stating that they were not as

local markets which they had previously left largely sacrosanct.[82] The large mills not only cut prices, but tried to undermine the market for soft flour. The *Canadian Milling and Grain Journal* reported that "the hard wheat millers keep on smiling and advertising hard flours for pastry and cake purposes. To the high class trade they sell a soft flour, but to the rest of the trade they sell the two faced sack of hard flour as 'good for everything'."[83]

With both large and small mills cutting prices, any semblance of orderly marketing disappeared. By 1932, sales were being made at the cost of production. Liberal rebates were common, and long term credit facilities could be had by the buyer with ease.[84] The *Northwestern Miller* claimed in 1934 that the big mills were as much to blame as the small, cutting prices three to four times as much as was necessary to secure orders, and maintained that "no amount of reasoning is able to bring the mills most responsible for this condition to a proper sense of the consequences that flow from their perverted selling practices."[85]

The millers initially responded to this crisis by trying to reorganize the industry through mergers and the elimination of obsolete equipment,[86] but devising a formula for reorganization proved difficult. Throughout 1931, a series of meetings took place at which many proposed mergers were discussed, but little was achieved. Part of the problem was the many small firms with long family traditions, whose owners were reluctant to see them disappear. Even the creation of a holding company which, its advocates believed, could impose rationalization "without disrupting too much the individuality of the separate concerns," encountered resistance from smaller millers. Nor could the larger millers agree on a plan, as some feared that their rivals would benefit from particular stabilization proposals.[87]

By the end of 1932 some improvement had taken place, and the industry avoided the disastrous financial losses it had taken in 1931. Drastic economies, particularly through wage cuts, had been undertaken by individual plants, and a number of obsolete mills had been closed, thereby reducing capacity somewhat. Yet excess capacity continued to plague the industry because demand dropped more than capacity, and while more conferences were convened to discuss stabilization measures, they all proved futile.[88]

well equipped to make spring wheat flours of as uniform a quality as the large mills. *Northwestern Miller*, 24 April 1935, 247.

82. *Canadian Milling and Grain Journal* (August 1933): 5; ibid. (September 1933): 5; *Royal Commission on Price Spreads*, testimony of Wm. A. Crosbie, 3608.
83. *Canadian Milling and Grain Journal* (April 1934): 7; *Royal Commission on Price Spreads*, testimony of Wm. A. Crosbie, 3596 and 3865.
84. *Financial Post*, 22 October 1932, 11.
85. *Northwestern Miller*, 21 March 1934, 722; 10 October 1934, 123; and 24 October 1934, 235.
86. *Financial Post*, 14 May 1931, 13.
87. *Financial Post*, 22 January 1931, 1; 12 March 1931, 1; 8 August 1931, 1; 3 October 1931, 11; *Northwestern Miller*, 4 March 1931, 635.
88. *Northwestern Miller*, 3 February 1932, 322 and 20 April 1932, 179. *Canadian Milling and Grain Journal* (January 1933): 5. D.C. Maclachan, the general manager of the Maple Leaf Milling Company, made much the same point in *Royal Commission on Price Spreads*, 3917.

Thus, late in 1933, the large millers decided to seek government assistance to secure the consensus necessary for cooperation. In response to their pressure, Prime Minister R.B. Bennett instructed his Minister of Trade and Commerce, H.H. Stevens, to meet with them and discuss their plight and possible remedies. Stevens had recently been influenced by the associationalist ideas of Warren K. Cook, the president of the Canadian Garment Manufacturers' Association. Cook, whose contacts with the Retail Merchants' Association had imbued him with the independent distributors' critique of modern methods of distribution, had convinced Stevens that the buying practices of large retailers were the prime cause of problems in industry. Through Cook's influence, Stevens had come to believe that enhanced state intervention and encouragement of industrial self-regulation were necessary to put industry back on a sound and moral basis.[89] Stevens was thus prepared to recommend that the government encourage coordination and co-operation within the milling industry, particularly by revising the Combines Act. He took pains to assure the industry that

> it is not the desire or purpose to interfere with the industry or tell it how to run its affairs. Specifically, nothing in the nature of the NRA or of codifying the flour milling industry is contemplated and the objective is simply to explore the possibility of working out methods of operation within the industry which will strengthen the position in regard to export business and which will, with respect to domestic trade, put some check upon ruinous competition — particularly upon selling below cost....

The millers agreed with Stevens' suggestion that they work out a formula to determine the spread between the prices of wheat and domestic flour, correct abuses in merchandising practices, and consider the relationship of the smaller mills to any stabilization measures suggested by the larger. The millers also expressed satisfaction with Stevens' opinion that changes to the administration of the Combines Investigation Act would be a satisfactory prerequisite.[90]

The apparent congruence in the minds of the minister and the millers was superficial. A fundamental difference in emphasis underlay their ideas. Believing small business to be inherently more efficient and moral than large, Stevens hoped that associationalism under regulatory purview would curb the power of the "big five" by prohibiting what he considered to be their practice of selling below the cost of production merely to drive competitors out of the market.[91] The large firms, on the other hand, initially thought that the state might be able to remove many of their smaller competitors from the marketplace. For instance, W.A. Black of Ogilvie's told Stevens that he supported federal licensing of mills in order "to eliminate a lot of the smaller mills."[92] The large millers emphasized, however, that the "whole cure" must lie within the hands of in-

89. Cox, "The Transformation of Regulation," Chap. 3.

90. NA, R.B. Bennett Papers, 471700-1, H.H. Stevens to Bennett, 31 October 1933; 471702, draft letter from Stevens to the milling interests, 31 October 1933; 473055, Stevens to Bennett, 13 November 1933; 473056-8, notes of informal discussions relative to the Canadian flour milling industry; NA, H.H. Stevens Papers, Vol. 22, File 43, Stevens to R.C. Manion, 14 November 1933.

91. NA, Bennett Papers, 276889-93, Stevens to Bennett, 19 January 1934.

92. NA, Stevens Papers, Vol. 101, File 96, Stevens to H.M. Aitken, 13 April 1935.

dustry itself, rather than through the state or even a collectivist framework like the American NRA. They wanted the state to grant them the organizational advantages of the NRA without imposing any constraints or subjecting them to government compulsion.[93] Since they believed that the reorganized CNMA had been on the verge of successful self-regulation when the Combines Act had emasculated it, freedom from the act's provisions thus became their main demand. They considered that its presence "absolutely reacted against the good efforts of the mills to bring about a stable state, blocking them from any possible action that might remedy the mills so detrimental to the trade."[94]

The smaller mills, on the other hand, sought greater regulatory involvement because they wanted the state to compensate for their inherent weakness within the industry. They blamed the practices of large mills and the high-pressure tactics of mass-buying retailers for their plight, and wanted comprehensive regulation to control both.[95] They thus supported licensing and fair-marketing requirements advocated by the larger firms, but also sought firm government regulation to control prices and trade practices.[96] These smaller millers strongly supported Stevens' proposals for a powerful independent regulatory tribunal which would supervise the industry while facilitating cooperation within it.[97]

The larger millers felt otherwise. They feared more comprehensive regulation would take control of the industry out of their hands. When the Natural Products Marketing Act, with its broad provisions for fixing prices and controlling production, was passed in 1934, the millers pressed for the deletion of wheat from its provisions.[98] They also opposed the continued actions to stabilize the price of wheat carried out by John I. MacFarland on behalf of the government, since MacFarland's policy of holding wheat to try to raise the price deprived the mills of wheat for their own trade. They would subsequently oppose the creation of a Wheat Board to formalize such operations in 1935, claiming that the "reckless disregard of the important exporting trade of this country shown in the past," had turned them "completely against any further governmental control."[99] After the board's creation, the millers hoped that Bennett's likely defeat

93. *Canadian Milling and Grain Journal* (July 1934): 3; *Northwestern Miller*, 19 September 1934, 765; 14 November 1934, 443. Many millers expressed interest in certain features of the codes, specifically the ninety-day sales limit, carrying charges, control of packaging differentials, and prohibition of the "rebating evil." *Northwestern Miller*, 7 February 1934, 338; *Royal Commission on Price Spreads*, Short's testimony, 3924-31.

94. *Canadian Milling and Grain Journal* (January 1935): 5; *Royal Commission on Price Spreads*, Short's testimony, 3924-31.

95. *Canadian Milling and Grain Journal* (December 1933): 5; ibid. (January 1934): 4; ibid. (February 1935): 11; *Northwestern Miller*, 24 January 1934, 216 and 14 March 1934, 662.

96. NA, Stevens Papers, Vol. 101, File 96, H.M. Aitken to Stevens, 9 April 1935; *Royal Commission on Price Spreads*, testimony of R.J. Pinchin, vice-president, Copeland Flour Mills, 1325-44.

97. NA, Stevens Papers, Vol. 101, File 96, H.M. Aitken to Stevens, 9 April 1935; Vol. 107, File 161, P. Sinclair, President, Copeland Flour MIlls, to Stevens, 16 January 1934; *Royal Commission on Price Spreads*, testimony of William A. Crosbie, 3871.

98. *Northwestern Miller*, 4 April 1934, 43 and 25 April 1934, 234.

99. *Northwestern Miller*, 4 April 1934, 47; 11 April 1934, 116; and 26 June 1935, 843.

would lead to the replacement of government control by "some carefully supervised system of private trading with co-operation from Ottawa in finding and enlarging markets for wheat and flour."[100]

Once Stevens' Price Spreads committee began deliberations, the large millers feared that comprehensive regulation of their business would be the result. The *Northwestern Miller* called for the creation of a powerful new association composed of both large and small millers as a preemptive measure, since "governmental investigation, which is already under way, is apt to lead to some form of government control unless the millers themselves undertake the business of voluntarily putting their own house in order."[101]

As the investigation proceeded, the large millers' perception of its anti-big-business slant produced further attacks on its understanding of business and general credibility.[102] The millers strongly attacked the committee's accountants who studied the industry, maintaining that their lack of practical experience and "abysmal ignorance" of milling produced misleading and utterly worthless findings on which to base recommendations.[103]

The large millers tried to forestall the subsequent report of the Royal Commission on Price Spreads by demonstrating that they could handle their own problems, thereby making comprehensive regulation unnecessary. Their general managers met in November of 1934 and again in April of 1935, in an attempt to find a formula to control the "unrestrained competition for the fixed volume of business available ... without waiting for Parliament to pull chestnuts out of the fire for them."[104] While no overall solution was found, the large millers decided to help the Ontario millers form a new association which would try to control prices while cooperating harmoniously with the large millers in "matters of common interest."[105] Naturally, the large mills denounced the commission's proposals for a powerful regulatory body once they became public.[106] Voluntary associationalism, however ineffective, would continue to be promoted as an alternative to autonomous state power.

What lessons can be gleaned from the tribulations of the millers in their dealings with the state? It would seem that, while much of the western world was moving towards closer collaboration between the state and private enterprise during the 1920s and 1930s, the trend in Canada was in the opposite direction. The industry itself was divided, with

100. Ibid., 6 March 1935, 647; 19 June 1935, 777; and 23 October 1935, 241.
101. Ibid., 14 February 1934, 409. The *Canadian Milling and Grain Journal* took a similar line in its editorial of November 1934, 3.
102. *Northwestern Miller*, 23 May 1934, 479.
103. Short's cross-examination, in *Royal Commission on Price Spreads*, 3877-96; *Northwestern Miller*, 9 January 1935, 123; 30 January 1935, 299.
104. *Northwestern Miller*, 5 December 1934, 635 and 17 April 1935, 187. NA, Stevens Papers, Vol. 101, File 96, H.M. Aitken to Stevens, 9 April 1935.
105. *Northwestern Miller*, 8 May 1935, 392; 4 September 1935, 654; 4 September 1935, 655; 18 September 1935, 786; 25 September 1935, 846; 13 November 1935, 447; and 25 December 1935, 831.
106. NA, Stevens Papers, Vol. 68, File 120, R.J. Pinchin to Stevens, 13 April 1935.

large and small millers holding different views about how the industry should be structured. This made it difficult for voluntary associationalism to mediate differences and exert effective control over the industry. The fundamental differences between the dominant large millers and government officials about how the relationship between the state and enterprise should be conducted prevented any successful cooperation between them. Concern that regulatory innovation would disrupt both their right to manage their enterprises as they saw fit and their dominant position within the industry intensified the large millers' defence of their prerogatives and the sanctity of private property. Nor were they paranoid. As the organizational capacities of both the state and business increased, the question of how they would be utilized and who would control them became a proper subject for dispute. This process of conflict would, however, prevent the establishment of the consensus necessary to make a regulatory solution work.

Christopher Armstrong and H.V. Nelles have asserted that the regulation of community property in the early-twentieth century succeeded because it accommodated interests and defrayed tensions. Even though it was often economically inefficient, it restored an equilibrium in men's minds about what was fitting, just, and acceptable in transactions, an equilibrium that had been disrupted by technology and monopoly. The regulation of community property instilled a sense of confidence and security among consumers. Since producers often could shape regulation which had been originated by others to their own liking, and preferred it to more drastic alternatives, they developed confidence in it as well.[107] The case of the milling industry, however, shows that this process, through which the regulation of community property acquired broad legitimacy, did not extend to the regulation of private property. Indeed, without any consensus that such regulation was desirable, attempts to initiate it produced conflict rather than accommodation. Conflict and disorganization, rather than cooperation, had come to characterize the relations between business and the state in Canada.

107. Armstrong and Nelles, *Monopoly's Moment*, 322-23.

Appendix 1
Daily Capacity of Flour Mills, 1935

Capacity of Mills Per 24 Hour Day	No. of Mills	Total Capacity	Average per Establishment	Per Cent of Total
Under 100 barrels	257	10,899	42	10.3
100 to 299 barrels	80	9,515	119	9.0
200 to 299 barrels	14	3,130	224	2.9
300 to 499 barrels	5	1,875	375	1.8
500 to 999 barrels	8	5,350	669	5.1
1,000 to 2,999 barrels	11	20,406	1,875	19.4
3,000 to 4,999 barrels	4	14,250	3,562	13.6
5,000 or more barrels	5	39,815	7,963	37.9
TOTAL AND AVERAGE	384	105,240	274	100.0

Source: Dominion Bureau of Statistics, *The Flour and Feed Milling Industries of Canada, 1935*, 6.

Appendix 2
Capacity and Production of Flour Mills In Canada, 1917-1932

Year	No. of Mills	Daily Capacity 24 Hours bbls.	Wheat Flour Production	% of Capacity
1919	*	141,288	17,842,833	41.5
1920	*	134,702	13,127,320	32.1
1921	582	131,541	15,321,759	38.3
1922	434	134,125	18,055,010	44.8
1923	560	127,148	19,075,814	49.4
1924	457	121,868	21,076,733	56.9
1925	455	120,751	17,769,071	48.4
1926	442	118,316	19,056,162	53.0
1927	431	121,748	18,787,312	50.8
1928	423	120,855	20,389,542	55.5
1929	409	122,727	19,756,422	53.0
1930	383	117,407	15,624,267	43.5
1931	372	112,048	14,887,998	43.7
1932	394	110,786	14,866,307	44.1

* Separate records for flour mills not recorded until 1921.

Yearly capacity is calculated on a basis of 304 days to the year.

Source: Statistical Reference No. 5, *Royal Commission on Price Spreads*, 3760.

Appendix 3
Comparison of Export and Average Selling Values of Wheat Flour in Canada, 1917-1932

Year	Exports			Total Production of Flour			Value of Exports Compared to Average Barrel ($)
	Total Bbls. (mill.)	Value ($) (mill.)	Value per bbl. ($)	Total Bbls. (mill.)	Value ($) (mill.)	Value per bbl. ($)	
1917	8.8	79.1	9.02	17.7	170.4	9.63	+.61
1918	10.1	108.3	10.75	17.9	189.1	10.58	−.17
1919	10.1	107.1	10.64	17.8	186.0	10.42	−.22
1920	4.7	55.3	11.69	13.1	153.1	11.66	−.03
1921	7.3	60.1	8.26	15.3	136.3	8.89	+.63
1922	9.5	56.2	5.93	18.1	112.4	6.23	+.40
1923	11.2	62.5	5.58	19.1	102.6	5.37	−.21
1924	11.5	64.3	5.60	21.1	121.8	5.78	+.18
1925	10.3	74.3	7.20	17.8	131.9	7.42	+.22
1926	10.5	72.0	6.88	19.1	131.2	6.88	Same
1927	9.3	60.3	6.49	18.8	125.1	6.66	+.17
1928	10.7	64.0	5.96	20.4	124.8	6.12	+.16
1929	9.6	52.7	5.51	19.8	114.6	5.80	+.29
1930	7.5	37.5	5.00	15.6	90.7	5.80	+.80
1931	5.7	20.2	3.55	14.9	56.6	3.80	+.15
1932	5.1	17.2	3.35	14.9	49.4	3.32	−.03
Average 1917-32			6.69			7.10	

Source: Statistical Reference No. 10, *Royal Commission on Price Spreads*.

Appendix 4
Domestic Regulation Number 13

Arbitraries Over or Under Basis Price for Standard Grades
Effective 10 September 1930
Cancelling Schedule of 3 May 1930

"A"	GRANULAR MIDDLINGS PURIFIED MIDDLINGS SEMINOLA WHEATLETS & FARINA		80 cents/bbl. over basis
	SAME ON SALES TO MANUFACTURERS OF MACARONI ONLY		60 cents/bbl. over basis
"B"	TOP PATENT	(FIVE ROSES)	60 cents/bbl. over basis
"C"	PATENT	(LAKEWOODS)	35 cents/bbl. over basis
"D"	BAKERS PATENT	(HARVEST QUEEN)	BASIS
#"E"	EXPORT PATENT	(KEETOBA)	30 cents/bbl. under basis
#"C"	FIRST CLEAR	(MEDORA)	$1.00 cents/bbl. under basis
# #	GRAHAM FLOUR WHOLE WHEAT FLOUR	Max. differential	60 cents/bbl. under basis

(#) Denotes change

Source: RG 110, Vol. 113, Flour Inquiry File.

Appendix 5
Spread Between the Wheat Cost of Flour and the Price of Flour, 1919-1931

Year	Wheat Cost of Flour (Wheat Price – Cost of Bran and Shorts)	Price of Flour (No. 1 Ft. Wm. at Montreal – per 196 lb. bbl.)	Spread Between Flour Price and Wheat Price
1919	$ 8.58	$10.92	$2.34
1920	$10.47	$13.34	$2.87
1921	$ 6.36	$ 9.22	$2.86
1922	$ 4.65	$ 7.15	$2.50
1923	$ 3.87	$ 6.37	$2.50
1924	$ 4.69	$ 6.90	$2.21
1925	$ 6.31	$ 8.92	$2.61
1926	$ 5.67	$ 8.32	$2.65
1927	$ 5.49	$ 7.74	$2.25
1928	$ 4.80	$ 7.17	$2.36
1929	$ 4.86	$ 7.33	$2.47
1930	$ 3.24	$ 6.42	$3.18
1931	$ 1.88	$ 4.58	$2.70

Source: NA, RG 110, Vol. 113, Carman report.

Appendix 6
Pre-Tax Profits of "Big Five" Milling Companies, 1928-1933

	(cents profit or loss per barrel)					
Company	**1928**	**1929**	**1930**	**1931**	**1932**	**1933**
Lake of the Woods	16.7	20.5	−2.3	−46.2	6.2	16.4
Maple Leaf	*	*	*	1.1	−9.8	−8.4
Ogilvie	33.4	36.1	32.6	−5.8	13.7	20.1
Robin Hood	44.2	33.8	36.9	18.8	30.1	31.4
Western Canada	14.0	23.9	7.0	−5.4	−0.1	6.2

* Maple Leaf figures not available 1928-30.

Source: *Royal Commission on Price Spreads*, 3549.

Appendix 7
Net Profit or Loss of Mill-Owned Bakeries, 1930-1933

	Net Profit (or Loss) on Investment			
	1930 %	**1931** %	**1932** %	**1933** %
Inter-City Baking Co. (LOW)	5.73	3.93	−0.90	1.44
Inter-City Western Bakeries (LOW)	−7.38	−9.79	−16.81	−18.49
Canada Bread Company (ML)	7.43	1.46	2.54	−0.97
Dominion Bakeries (ML)	−0.73	−13.39	−25.91	−21.07
Eastern Bakeries (ML)	2.74	−1.32	−6.89	−6.35
Canadian Bakeries (ML)	−1.57	−3.92	−6.03	−7.66
Consolidated Bakeries of Canada (OG)	3.63	4.71	0.13	0.13
Martin-Paquette (OG)	*	*	−15.95	−10.99
McGavin Bakeries (OG)	−7.95	−4.68	−5.63	−6.44

LOW = Lake of Woods
ML = Maple Leaf
OG = Ogilvie's

* Not available

Source: *Royal Commission on Price Spreads*, 3682-83.