

The British Bacon Agreement

Author(s): J. E. Lattimer

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of a sort of "free Empire currency area" within which sterling may circulate freely. So far as the British Exchange Control is concerned, no prohibition has been placed on the transfer of non-resident sterling to other non-residents or to residents. Such non-resident sterling may be freely withdrawn from the sterling area. Restrictions have been placed on the transfer of sterling from residents to non-residents.<sup>14</sup> Because of the close economic relationship between Canada and the United States, for purposes of exchange control Canada has been excluded from this "Empire currency area." Indeed, the *Economist* has stated: "Apart from the Canadian dollar, which must inevitably find its ultimate link with the United States dollar and not with sterling, all Empire currencies have been subjected to a form of control which in essential respects resembles that imposed in this country. Within the Empire there is unity of exchange policy."<sup>15</sup> Without commenting on the implications of these statements, Canadian exchange control policy will have to take cognizance of these dual influences.

No effort has been made to discuss fully the complete details of the Foreign Exchange Control Order or the subsequent Regulations and Memoranda issued by the Board. Special arrangements have been made for those Canadian firms with international connections. With the exception of the period immediately following the inauguration of exchange control, the Canadian system as set up appears to be operating with relatively little dislocation of business. The Board on every occasion has given evidence that it is prepared to co-operate in every way possible and will consider particular problems as they arise. This is not to say that both the policy and technique of the Board is not open to criticism in certain respects. It is reasonable to hope that, with the passage of time, such difficulties as may exist will be eliminated.

T. L. AVISON

Montreal.

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#### THE BRITISH BACON AGREEMENT

Canadian feeders have the opportunity of providing hogs to order for the coming year. This recent development warrants attention not only on account of its own importance, which in this country is great, but also as an example of price regulation arising from the war.

<sup>14</sup>New restrictions in this connection will become effective on January 8, 1940. At the time of writing, these restrictions are not available. It is anticipated that "the new regulations will make such transfers subject to direct Treasury permission and not merely to formal declaration" (*Wall Street Journal*, Jan. 6, 1940).

<sup>15</sup>The *Economist*, Dec. 9, 1939, p. 378.

Of course this is not the first example of farmers producing to order in Canada, as forward price agreements are normal in providing fluid milk, sugar beets, and many canning crops. Nor are forward price agreements for hogs a recent development in some other parts of the world. In Britain this system started in 1933, and after some difficulty and reorganization is now prevalent. For Canada regulation of price for a year in advance marks a great departure in this industry.

The agreement between Canada and Britain for the supply of bacon consists of a contract to supply 40,000 hundredweight of 112 pounds (4,480,000 pounds) weekly until October 31, 1940, at \$20.18 per hundredweight in Canadian currency. While this volume is the amount contracted for weekly, Britain will take 50,000 hundredweight (5,600,000 pounds) weekly, if available. The agreed price of bacon will amount to a price for live hogs of about \$9.00 per hundred pounds. This price for live hogs is very near the price prevailing at the outbreak of the war.

The agreement arose directly from the action of the British Ministry requisitioning all bacon supplies arriving in Britain from all countries on September 3 at the outbreak of hostilities. For seven weeks Canadian exporters continued to ship bacon without knowing what the price would be. On October 20 the price for the previous seven week supply was 95/3 per hundredweight for Wiltshires. The agreement arose indirectly from the weekly quota requirements which have been asked for during recent years which is another matter which may be referred to later. The regulated price really extends from September 3, 1939, to October 31, 1940, although it required some time to arrange the price of \$20.18 in Canadian currency per long hundredweight.

This price is for Grade A Wiltshire Sides. Grade A Sides are classified as A1, A2, and A3 in regard to quality and from 45 pounds to over 70 pounds as to weight. The preferred weight of side in the market is from 55 to 65 pounds and is termed *sizable*. For the week ending August 24, 1939, Canadian bacon was quoted at from 85 to 89 shillings per 112 pounds. At that time the pound sterling was \$4.68. It has been pointed out that the decline in the exchange rate, the increase in freight, and the increase in insurance, together, make a difference of about eight shillings per hundredweight.<sup>1</sup> Now the average of 87 shillings plus 8 shillings increased cost involved reveals how the 95/3 figure was arrived at and indicates that the price agreed on is close to the pre-war level. Exchange is now regulated from \$4.43 to \$4.47 for the pound sterling. This enables comparison with pre-war prices. At the present regulated rate of exchange a shilling equals 22 $\frac{1}{4}$  cents in Canadian currency. The

<sup>1</sup>Industrial and Development Council of Canadian Meat Packers, *Monthly Letter*, Dec., 1939.

\$20.18 price per 112 pounds equals about 90 shillings per long hundred-weight. This is just slightly higher than the August price referred to. But the price in August, 1939, was the price in Britain while the present price is F.O.B. Canadian seaboard. Hence the present price is some advance over that prevailing when the war started.

A Canadian Bacon Supply Board with an advisory council has been set up. The duties of this Board include the determination of a price for hogs by season, place of sale, and by grade, and the arrangement with packers of the amounts each plant will supply for export.<sup>2</sup> One of the first duties of the Supply Board it may be assumed will be to ensure that the feeders comply with the agreement, so that the weekly supply of the required quality be forthcoming.

One of the difficulties normally encountered in price regulation is the maintenance of quality. During the war from 1914 to 1918 there was

TABLE I  
VOLUME AND GRADING OF WILTSHIRE SIDES  
(Exported January to October inclusive, 1939)\*

Grade and selection	45-50 lbs.	50-55 lbs.	55-60 lbs.	60-65 lbs.	65-70 lbs.	70 and up lbs.
A1.....	822,351	6,146,989	13,987,187	11,967,890	5,087,505	787,713
A2.....	133,096	2,693,430	7,290,234	10,045,493	4,053,144	880,848
A3.....	5,418	439,789	2,125,931	3,840,055	2,465,994	887,509
B1.....	87,829	642,657	1,616,670	1,366,348	485,948	90,267
B2.....	11,368	152,170	502,969	694,978	278,942	69,722
B3.....	588	34,472	96,516	187,240	109,154	47,356

	TOTALS	Per cent	
A1.....	38,799,635 lbs.	48.4	
A2.....	25,096,245 "	31.3	91.9
A3.....	9,764,696 "	12.2	
B1.....	4,289,719 "	5.4	
B2.....	1,710,149 "	2.1	8.1
B3.....	475,326 "	0.6	
	80,135,770 lbs.	100	100

\*Canada, Department of Agriculture, *Live Stock Market Review*, vol. XX, no. 45, Nov. 9, 1939, p. 19.

<sup>2</sup>United States Department of Agriculture, *Foreign Crops and Markets*, vol. XL, no. 1, Jan. 6, 1940.

some criticism in Britain of the falling off in quality of the bacon received from Canada. An explanation of this will be given later. The difficulty of maintaining quality with a stable price necessitates the inclusion here of the grade of bacon exported to Britain in recent months. The grade of bacon exported from Canada to Britain from January to October, 1939, is shown in table I. Nearly half (48.4 per cent) of the sides exported during the first ten months of 1939 was graded A1, almost 92 per cent was in the A grades, and 8.1 per cent in the B grades. The major portion, 67 per cent of the sides, came within the weights from 55 to 65 pounds thus belonging to the preferred *sizable* class, 14 per cent was lighter than the desired weights, and 19 per cent heavier. The domestic market for butcher hogs is not so fastidious in the matter of weight. Hence the proportion of export to total production is an important factor in the degree of success attained by the feeder in satisfying the market in regard to grade. On the whole the grading is now fair and it will be interesting to watch how well this quality is maintained now that the price is fixed.

The price agreed on has been known only for a short time. Already there have been some expressions of dissatisfaction. One criticism that has been heard is that while the price of bacon and hogs is fixed, that of feed, the raw material of the product, is not so regulated. This necessitates a comparison of prices of grain and hogs at the time the agreement was made.

The general policy followed so far in regard to the regulation of prices of farm products is to base the price on that prevailing at the outbreak of the war. If this policy is to be adhered to, or even to be allowed any great influence, the base or point of departure becomes very important. This general policy of setting definite prices may appear satisfactory in Britain or France where regulation of prices of farm products has prevailed for years. It may not be equally satisfactory in Canada where in nine of the ten years since 1930 prices of farm products have been below the general level (see table II). In August, 1939, the index of prices of farm products was 14 points below that of the general level. Some farm products were lower than others at that time. Price of field products at 48.2 was much lower than animal products at 75.6. This perhaps explains why we now have a definite price for bacon very similar to that prevailing in August, while grain prices, the raw material for bacon, are allowed to adjust themselves.

\* \* \*

Will the price agreed on bring forward the required supply? This is the most important question at the moment to all concerned. The best indication of an answer to this question is a study of the prices of

TABLE II\*  
CANADIAN WHOLESALE PRICES  
1926=100

	All commodities	Farm products
1929.....	95.6	100.8
1930.....	86.6	82.3
1931.....	72.2	56.3
1932.....	66.7	48.4
1933.....	67.1	51.0
1934.....	71.6	59.0
1935.....	72.1	63.5
1936.....	74.6	69.4
1937.....	84.5	84.5
1938.....	78.6	73.6
1939 (Aug.).....	72.4	58.4

\*Canada, Department of Agriculture, *Economic Annalist*, Oct., 1939, p. 66.

TABLE III  
PRICE, PRODUCTION, AND EXPORT

	Farm price* of barley per bu. cents.	Price of† hogs per cwt., all markets \$	No. of hogs* on farm, June 1 000's	Inspected† slaughter number 000's	Per capita‡ consump- tion (lbs.)	Net§ exports, pork products million lbs.
1922.....	46	11.47	3,916	1,927	74	53
1923.....	42	9.20	4,405	2,256	82	48
1924.....	70	8.20	5,069	2,914	88	59
1925.....	53	11.90	4,426	2,642	72	107
1926.....	52	12.65	4,471	2,491	75	134
1927.....	66	9.95	4,695	2,540	80	94
1928.....	56	9.80	4,497	2,547	81	72
1929.....	59	11.20	4,382	2,353	80	38
1930.....	20	11.10	4,000	1,926	73	17
1931.....	26	6.25	4,717	2,243	83	1
1932.....	23	3.95	4,639	2,723	86	12
1933.....	30	5.00	3,801	2,802	75	44
1934.....	47	7.70	3,654	2,872	66	75
1935.....	29	8.05	3,549	2,806	62	120
1936.....	69	7.95	4,145	3,563	68	182
1937.....	51	8.30	3,963	3,802	62	230
1938.....	28	9.27	3,487	3,137	—	174
1939.....	32	9.00	4,294	3,624§	—	—

\*Dominion Bureau of Statistics, *Monthly Bulletin of Agricultural Statistics*.

†Canada, Department of Agriculture, Marketing Service.

‡Dominion Bureau of Statistics, *Live Stock Statistics*.

§*Annual Market Reviews; Weekly Market Reports*.

||Estimate.

feed grain and hogs during recent years together with the supply which those prices brought forward. This record is provided in table III.

This record indicates the reason for providing a contract price to ensure regular supply and is the best indication of the chance of the agreement reaching its objective. When prices were left to adjust themselves the result was clearly defined cycles of production. Since 1932 when quota regulations were adopted by Britain there has been some modification of these cycles as automatic action has been subject to some interference. Cycles of production and price during the period were reflected in per capita consumption; the two high years of domestic consumption were 1924 and 1932, both years of large production and low price. In only two years out of sixteen did consumption per capita fail to move in inverse ratio to the price. This shows how elastic the demand may be for this particular food.

The greatest fluctuation during the period was in net exports. It is essential to consider net exports as there is normally considerable trade with the United States in pork products. In 1936 some 76,000 hogs in round numbers were exported alive to the United States. In 1937 the number was 83,000. The export of live hogs is unusual and in 1938 the number was only 5,500. Since that time this export has ceased. This export of live hogs was estimated as equalling 150 pounds of pork each and constitutes an addition to the net exports. The trade between Canada and the United States in pork products varies with the price in the two countries. For two years now the price of hogs in Canada has been somewhat above that prevailing in the United States. During recent months the difference has been wide (see table IV). The trade

TABLE IV\*  
HOG PRICES, TORONTO AND CHICAGO\*

		Good and choice 200-220 lbs.	
Week ending		Select hogs Toronto	Chicago
September	7, 1939.....	\$8.68	\$8.61
"	14 ".....	9.47	7.91
"	21 ".....	9.00	7.99
"	28 ".....	9.00	7.56
October	5 ".....	8.97	7.00
"	12 ".....	8.84	7.11
"	19 ".....	9.26	7.30
"	26 ".....	9.11	6.86
November	2 ".....	9.08	6.82
"	16 ".....	9.25	5.84
"	30 ".....	9.39	5.67

\*Industrial and Development Council, Canadian Meat Packers, *Monthly Letter*, Dec., 1939.

agreement apparently has so far prevented the price of hogs in Canada from declining as it might be reasonably expected would have occurred without the agreement. It has also opened the opportunity for increased import of pork products from the United States.

Exports may be kept up by increasing supplies, by restricting home consumption, by increasing imports, or by a combination of all three. During the war from 1914 to 1918 exports of bacon from Canada to Britain doubled, while numbers of hogs on farms remained fairly constant. The chief enabling factor at that time was the importation of pork products from the United States amounting to 94 million pounds in the fiscal year 1917, and to 88 million in 1918, whereas in 1915 it was 10 million.<sup>3</sup> Most of this was pork, but some of it was classified as bacon and no doubt this partly explains the falling off in quality of the bacon exported from Canada to Britain during that time. It is clear also that towards the end of the last war Canadians restricted their home con-

TABLE V  
FACTORS IN PIG PRODUCTION

	Barley pro- duction 1939* Million bu.	Farm price of barley, 1939* (Dec. 8)	Butter pro- duction 1938* Million lbs.	Number hogs on farms, June 1,* 1939 (000's)	Price of hogs, week Dec. 7,† 1939 (Selects) \$	Barley- hog price ratio
Canada.....	103	0.32	372	4,294	....	....
P.E.I.....	0.2	0.70	4	48	....	....
Nova Scotia.....	0.2	0.70	13	45	....	....
New Brunswick...	0.4	0.75	11	87	....	....
Quebec.....	4	0.60	92	744	9.85 (Montreal)	16.4
Ontario.....	17	0.46	113	1,546	9.50 (Toronto)	20.7
Manitoba.....	28	0.29	36	311	9.00 (Winnipeg)	31.0
Saskatchewan....	26	0.27	47	470	8.70 (Saskatoon)	32.2
Alberta.....	27	0.26	47	993	8.60 (Edmonton)	33.1
British Columbia..	0.5	0.50	9	50	8.75 (Vancouver)	17.5

\*Dominion Bureau of Statistics.

†Canada, Department of Agriculture, Marketing Service, *Weekly Market Report*, Dec. 7, 1939.

<sup>3</sup>Canada Year Book, 1919, pp. 334-45.



sumption. Restriction of home consumption is less likely to occur this time as it is already at a comparatively low point. Increased imports from the United States are likely on account of price. Such imports amounted to some five million pounds in the first ten months of 1938 and to twenty million pounds in the first ten months of 1939.<sup>4</sup>

\* \* \*

One of the greatest difficulties in expansion of bacon production in Canada is that barley growing, butter production, and hog feeding have not developed in the same proportion in all sections of the country. This means that cost of production varies from section to section. It also follows that the popularity of the present contract may be much greater in some sections than in others. Table V illustrates this point. The barley-hog-price ratio from these figures shows one hundredweight of live hogs equal to about twice as many bushels of barley in the grain-growing provinces as in Quebec or British Columbia.

That barley growers and hog feeders reside in different parts of the country accounts in part for the fact that from 1930 the average yearly export of barley was about 14 million bushels at an export price of 56 cents per bushel or slightly over one cent per pound. The export market for barley is uncertain; converted into bacon it is definite. Though barley, however, is not the only hog feed<sup>5</sup> yet barley prices are a fair yardstick of production costs. The by-product of butter-making is also important. That is the reason for including butter production in the same table. The problem is either to get the barley growers to feed hogs or to get the barley to the hog feeders. The latter seems necessary in part in order to utilize to the greatest advantage dairy by-products. This would also equalize cost of production sectionally and by making maximum use of by-products would keep down production costs.

A contract price in so far as it reduces fluctuations in supply from year to year reduces production cost, because reducing breeding stock when prices are low and increasing the number when prices are high is, in the long run, an expensive way of securing the necessary supply. In other words, the hog-cycle is both costly and ineffective. Both hog feeders and the Bacon Supply Board will know more about how satisfactory the contract price proves to be by October 31, 1940, when the contract expires and the time for changes in the contract arrives. In the meantime it will be interesting to watch from week to week results of the arrangement.

J. E. LATTIMER

Macdonald College.

<sup>4</sup>Canada, Department of Agriculture, Marketing Service, *Weekly Market Report*, Dec. 7, 1939, p. 20.

<sup>5</sup>Ian McArthur, "Ontario Hog-Feed Ratio" (*Economic Annalist*, Dec., 1939, p. 90).