CHAPTER IV

GAMBLING IN WHEAT

A GREAT part of our wheat, the great food staple of the world, comes from the American Northwest. This is the country's granary. But the farmer does not fix the price of wheat as do other producers of their products. He does not even deal with the buyer. The price of wheat is fixed for the most part quite arbitrarily by the grain exchanges and stock-market quotations in Chicago and Minneapolis. And although the farmers produced a billion odd bushels of wheat in 1916, and although the price reached almost prohibitive figures to consumers, the farmers have not received any war prices as have the munition-makers, steel-mills, coal and copper miners, and other industries stimulated by the war. The war profits of the farmers have gone to speculators of the grain exchanges of Chicago and Minneapolis, which are the price-fixing agencies of wheat, corn, meat, and other staple articles of food. This is one of the strangest anomalies of our life. The price of the chief article of food for a great part of the civilized world is fixed by a group of men in the grain-pits of Chicago and Minneapolis who have no interest whatever in wheat except as a commodity whose universal use makes it the easiest of all things in which to speculate.

Chicago, with its railroad-lines stretching out into all sections of the country, is the headquarters of the trade in produce. Yet only a negligible part of the wheat of the country finds its way to this centre. In 1915, out of 1,000,000,000 bushels only 50,000,000 bushels were actually received in Chicago. But the board of trade fixes the price of all wheat, either directly or indirectly. It sells paper wheat in its daily speculations, and the quotations of the pit are the market prices of the country. Prices of other commodities are fixed in the same manner. And the prices quoted from day to day have no relation to supply or demand, although the reported supply is used as a justification of the speculators' prices.[1]

For instance, in 1916, when the price of wheat and flour rose to a high figure, the crop was large enough to cover all domestic needs and leave a surplus of 122,000,000 bushels for export. Since the beginning of the wheat year, July 1, 1916, down to December only 68,000,000 bushels of the surplus had

[1] The Chicago Board of Trade, which with the Minneapolis and Milwaukee organizations is the chief grain-pit of America, speculates daily in about twenty-five million bushels of wheat, which is about twice the amount of actual wheat received in Chicago in a year. Members of the Minneapolis Chamber of Commerce gamble in about ten billions of futures every year, the actual receipts of that city being about two hundred million bushels a year. For every bushel of wheat actually sold on the exchange at Minneapolis fifty bushels of paper wheat are sold on speculation. See 63d Congress hearing before Committee on Rules of H. R. 424, pp. 31, 57, 158, and 159.

been exported, leaving a visible supply of 63,000,000 bushels, not including millers' stocks and seed requirements, as compared with only 46,820,000 at the same time in 1915, which was a year of bumper crops. Yet the price of wheat and flour was forced up to unheard-of figures.

The corn crop of 1916 amounted to 2,700,000,000 bushels, one of the greatest corn crops in our history, the maximum having been 3,124,746,000 bushels in 1912 and the average about 2,700,000,000 for the past twelve years. At the beginning of the year there remained in the hands of the farmer 1,138,000,000 bushels, the greatest carry-over, with a single exception, since 1907. Under these conditions there is little justification for the high prices of staple foods, in spite of the big export demand.

Through the Board of Trade the big operators maintain an autocratic control over basic prices. They drive down prices when the farmer sells during the summer months and inflate them as soon as the supply has been purchased. The speculative nature of grain prices was shown by the collapse of the market after November 22, 1916. The rumor was started that the President was arranging a truce in the European war to begin at Christmas and possibly become permanent. December wheat declined sixteen cents a bushel in spite of all the talk of a short crop and great European demand. This particular collapse was due to the powerful packing interests, whose purposes it suited at that time to "bear" the market and bring down prices. This break in prices was only temporary, however, and the price soon climbed back to the previous high level.

For years the farmers of the Northwest have been protesting against this control of their industry by men who contribute nothing, who produce nothing, but who take in profits nearly as much as the farmers themselves receive for their labor, their capital, and the use of their land. They have appealed to Congress and the State legislatures for protection, but they have appealed in vain. Finally, in North Dakota they initiated several measures by petition and submitted them to referendum vote. The measures were carried by overwhelming majorities at the election, but the State officials refused to carry the laws into execution. The Non-Partisan League came into existence in 1916 as the last recourse of 70,000 farmers in one of the largest agricultural States in the West. It was a final protest at the polls against the grain gamblers, warehousemen, packers, banks, and terminal agencies which controlled the prices, the marketing, the milling, and the distribution of wheat, corn, and other food products. The league nominated its candidates for the legislature and for State offices and swept everything before it at the election of 1916. Its platform consisted of a programme for State-owned grain warehouses, abattoirs, and grain terminals, for cheap farm loans and the untaxing of farm improvements. It was a programme of state socialism and modified single tax.

For years the farmers of North Dakota had struggled against the distributers who control the market. They are for the most part Americans and Scandinavians, owning large farms of from 100 to 1,000 acres in extent. At the end of the year they were often as badly off as they were at the beginning, and if a bad season intervened they often faced bankruptcy.[1] For years they had presented their claims before the State legislatures of the Dakotas and Minnesota. They appeared before Congress. But they were unable to secure any relief. Yet their investigations, made after careful scientific study, showed that nearly one-half of the value of their

[1] Mr. Cantrill: "Is it your contention that if you can secure the relief asked for under the Manahan resolution it will result in making the grain business for these farmers a profitable business instead of, as to-day, a losing business? That is the point I want to get at. Is this operation that you complain of forcing the farmers to sell their wheat at a loss?"

Mr. Drake: "I would answer both those questions in the affirmative. *I venture to assert that for the past three years* (1911–1914) *the average farmer has raised and marketed his wheat and grain of all kinds in the Northwest at a positive loss.*"

"There has not been a year in the past three years (in the Red River Valley of the North) that the average farmer has raised wheat and after paying for the cost of raising it, has not suffered an actual loss in the marketing of his product after it has been passed through the machinery for distribution provided by this private club, known as the Minneapolis Chamber of Commerce."

Hearing before the Committee on Rules, House of Representatives, 63d Congress, Second Session, on House Resolution 424, p. 139.

wheat crop was taken from them every year by the warehousemen, grain exchanges, and middlemen, who controlled the market. The loss from July 1, 1915, to January 1, 1916, amounted to $302,832,000. For every $4 received by the farmer, $3 was taken from him by the middlemen, and especially by the gambling grain exchanges. This much was either taken from the farmers or added to the price which the consumer paid.

Speaking of speculation in flour and its cost to the consumer, Mr. Herbert Hoover says:

"The second—that is, elimination of speculation and evil practices—is fundamentally the most difficult and must fill all concerned with the most continuous and deepest anxiety. How important it is that we should arrive at some method of excluding the 'legitimate' and illegitimate speculation from trades may be perhaps emphasized if we consider what has happened during the past year in the matter of flour. If we assume that the farmer last year received an average of, at the highest, $1.60 per bushel for his wheat, then, with the addition of the normal manufacturing cost, righteous profits of distribution, the wholesale price of flour should not throughout the country in the larger consuming centres have exceeded $9 per barrel, and yet the price of flour at a great many centres during the past few weeks has been as high as $15 per barrel throughout the country and probably averages over $14. Some one is taking $5 per barrel on 10,000,000 barrels per month, which is marketed in this country. If this situation continues, this is $50,000,000 per month taken out of the American public, and since the raise in the price of flour above $9 per barrel, and before the new crop, we may assume rightly that over $250,000,000 will have been extracted from the consumer in excess of normal profits of the trade and distribution. The manufacturers and normal traders have not had this difference; it lies in speculation and outside the genuine trades, and the higher trading margins forced by the speculative incidence of war." [1]

Speculation in wheat and the robbery of the farmer is accomplished in three ways. The worst offenders are the so-called grain exchanges, which operate in Minneapolis and Chicago and which fix the price of wheat. The exchanges masquerade as chambers of commerce or boards of trade. In reality they are speculative exchanges like the Stock Exchange in Wall Street. They deal in futures. Controlling the quotations of wheat all the year round by fictitious sales, they fix the price which the farmer receives. They depress prices during the months when the farmer sells, and then, after having bought in the supply on their own terms, they either put up the price or permit it to assume its normal price in the markets of the world. They bear the market when the farmer is selling and bull it after they have acquired the available stock. The practice is the same as that which prevails in the cattle markets at Chicago, Omaha, Kansas City, and elsewhere;

[1] Address before United States Senate committee on agriculture and forestry, June 19, 1917.

it is the same practice as that pursued by the egg and produce exchanges of Chicago and Elgin, Ill., and other cities. The price is made artificially low by stock-market quotations during the season of the summer, and then in the fall and winter it is artificially raised against the consumer.

Why, it may be asked, does not the farmer hold his wheat for the inevitable rise, if this is the practice? In the first place, the farmer has to store his wheat while waiting for the rise. And the warehouses are owned or controlled by the same interests that control the grain exchanges. And they work in sympathy with the great milling establishments. The millers will not buy of the farmers direct. "Unless you belong to the Board of Trade" (the grain exchange), the milling houses say to the farmers who have organized their own co-operative elevators, "we will not buy your wheat."

In addition, the cost of storage is so high and the railroad and terminal facilities are so inadequate and uncertain that the farmer is often forced to sell on the buyers' terms. He cannot hold on for six months, for he has to meet his loans to the bank. The farmer is usually a borrower. The banks which advance him money on his wheat, cattle, and corn are largely under the control of or are influenced by the same men who own the warehouses, the mills, and operate on the food exchanges. And a mere suggestion from the bank is enough to frighten the farmer, for he fears that his loan may be called, his farm may be sold, or he will be denied credit the following season. The farmer of the West, whom we think of as the most independent of persons, is often the most helpless. He has but one market, and he often has to sell or be closed out when the auctioneer's mallet falls.

In a hearing before the Senate Committee on Agriculture for the consideration of the Lever food-control bill enacted in 1917 the following dialogue occurred between Senator Kenyon, of Iowa, and Commissioner John J. Dillon, of New York:

SENATOR KENYON: Would you abolish these exchanges—the Board of Trade in Chicago?

MR. DILLON: I would, every one of them.

SENATOR KENYON: We could reach them by taxation.

MR. DILLON: I do not know of a Board of Trade that is anything but a curse.

At the same hearing Senator Gronna, of North Dakota, made the statement:

"The mills are the big consumers of wheat; that is, they manufacture it. Minneapolis is the largest milling city in the world. The farmers are discouraged over the prices that they have been receiving in the years they have had large productions. *They have had to sell the products at less than cost.* So much so that they have gone to work and invested money and built one terminal elevator in the city of St. Paul, but after they had the elevator built and stored the grain in it, they did not have any customers. The big mills refused to buy from them." [1]

A study of the daily cash quotations for contract grades of wheat on the Chicago Board of Trade, during the six months from July, 1915, to January, 1916, shows how these manipulations in price are affected. The crop of the preceding year, 1914, was sold out in the winter and spring. Then the prices on stock quotations began to drop. They fell 30 cents a bushel during the month of May. There was a drop of 68 cents per bushel from the last day of April to the lowest prices paid during August and September. Only market manipulation could have caused the slump, for the world demand, which fixes real prices, did not fall off during these months, and in December, 1915, prices rose again until they reached $1.38 a bushel. The average price paid the farmers of the Northwest during the previous six months, when the price was depressed, was not above 85 cents on a crop of 468,000,000 bushels.

The *Chicago Daily Trade Bulletin*, the organ of the association of grain buyers, or the grain monopoly, makes what is in effect a confession of how the manipulation of prices is brought about—a manipulation always to the disadvantage of the

[1] Hearing, Committee on Agriculture, U. S. Senate, 65th Congress, Production and Conservation of Food Supplies, part 3, pp. 218, 241 (1917).

farmers. It also confesses why the summer price did not remain low all winter or until such time as the farmer might have parted with the bulk of his crop. The *Bulletin* says:

"During the first quarter of the year the stated prices advanced very rapidly, some 38 cents per bushel, and held to the advance during April and a part of May, but before the close of that month nearly 30 cents of this advance was lost. . . . The year's range—top prices for cash wheat in April and bottom prices in August and September—shows a range of 68 cents, $1.66 being high and 98 cents low. . . . The high prices during the early part of the year were the result of very heavy exports of wheat from the United States to European countries. . . . *Speculation helped to force the prices upward. Aided by bearish operations, prices made the remarkable descent from the top to the low prices.* When prices reached the lower level an active export business was carried on, *but the purchases and the business were carried on in such a manner that prices did not respond so liberally as during the year.* . . . Some reaction followed from the low prices, due partly to this export buying, *but more particularly to the disappointing movement from the interior, farmers generally having held back their wheat for higher prices.*"

In other words, the speculators had gotten the 1914 crop away from the farmers at a low figure and then put up the price 38 cents for their own benefit. They had then sold out to Europe at high prices and, having cleaned out the 1914 crop, they manipulated the market, bearing it down 68 cents in order to get the 1915 crop cheap. Having gathered in the first 4,000,000 bushels of the 1915 crop, they again started an active export business, but so manipulated the market that the farmer for a time got no benefit whatever out of it. Then came the rise in prices in the fall, because at last the farmer had seen into the game and held back his wheat—a most disappointing circumstance to the monopoly.

The lowest fair price to the farmer would have been the average between the spring level of $1.66 and the January level of $1.38, which is $1.52. Taking this as a basis, we can calculate the amount taken by the grain speculators for each month during the period under consideration. In September 84,000,000 bushels were sold, the mean average market price being $1.07, or 45 cents below the fair level. This would give $37,800,000 as the amount unjustly taken by the monopoly during one particular month.

The second method of exploitation by the grain interests is the loss from the manipulation of export prices. This is calculated by the difference between the price at a given American port and the average Liverpool price of the following month (allowing one month for passage), less legitimate handling costs. Wheat contracted for in Duluth in July was delivered a month later in England at an advance of

57 cents. The advance on wheat contracted for in August, September, October, November, and December were, respectively, 63, 74, 71, 77, and 79 cents. The cost of handling between Duluth and Liverpool before the war, allowing for "legitimate" profits, was 7 cents. For legitimate costs of handling during the war, Congressman J. E. Kelley, of South Dakota, reckons 17 cents, including emergency and double freight-rate costs. On this basis the export loss during the six months totalled $65,722,-226. Not all of this vast sum went to the owners of ships. Ocean freights were enormous, it is true, and varied greatly, but 30 cents a bushel to Bristol Channel from July to November and 35 cents for December would probably be a fair average. On this basis the freight manipulation would be about $37,000,000 and the amount gathered in by the grain monopoly through export speculation, over and above their other profits, about $28,000,000.

The third abuse is that effected by fraudulent practices between the farm and the terminal market. These, though smallest in actual losses, come closest home to the farmer. Under this class of exploitation comes the undergrading, short-weighing, over-docking, and price-gouging. The losses to the farmer from these causes amount to from 15 to 25 cents on every bushel sold by him, according to the estimate, in the form of a resolution, of a large convention of farmers in St. Paul. Even at the conservative estimate of 12 cents, the loss amounted to over $55,000,000 on the 468,000,000 bushels sold between July, 1915, and January, 1916. It has been stated by Senator A. J. Gronna, of North Dakota, that as a result of unfair grading the farmers of the Western States received only 50 per cent. of the actual value of light-weight wheat. This is brought about by the system of grading wheat imposed on the farmers by the grain exchanges and millers, under which the farmers are compelled to sell. Yet the consumers paid for the same wheat at its undiscounted value. The difference went to the middlemen.

Senator McCumber stated on the floor of the United States Senate May 1, 1914, that the unfair and fraudulent grading of grain cost the farmers of the West and Northwest $70,000,000 a year.

There is a submarine zone about the Western farmer which costs our people hundreds of millions annually. This submarine zone is in all respects like the zone which surrounds the cattle-raiser, the egg and poultry man, the truckman, and the dairyman of the Eastern cities. Only the toll is not taken by one submarine; it is taken by many, each one of which fixes for its own profit the terms on which the farmer shall be permitted to live. And these manipulators work in harmony. Their activities are so interlocked that the concern of one is the concern of all. And they create an inland embargo on foodstuffs, which they only permit to pass to market after their terms are complied with. These agencies include the railroads, the warehouses, the terminals, the slaughter-houses, and the banks. They all work together through the Boards of Trade. They fix the price which the farmer receives and the price which the consumer pays. In 1915 we produced 1,100,000,000 bushels of wheat. At 40 cents on the bushel the consumers paid $440,000,000 in speculative prices to the grain gamblers. In the same year we produced 3,000,000,000 bushels of corn, more than 1,500,000,000 bushels of oats, and more than 800,000,000 bushels of rye. This was the total for the entire country. And if the manipulation in wheat is indicative of the gambling tribute on other products, the loss to the farmers, or excess sum paid by the consumers, must have amounted to more than a billion dollars.

In hearings before the Committee on Rules of the House of Representatives during the 63d Congress, witnesses for the farmers and grain-growers of the Northwest laid before the committee how agriculture, and especially wheat-growing, was being destroyed by the practice at the Boards of Trade and Chambers of Commerce working in harmony with the warehouses, the millers, bankers, and other agencies. The testimony showed that the Minneapolis Chamber of Commerce is a private and secret organization like a club. It is managed by a small group of men closely identified through interlocking directors with the banks, railroads, and public utility corporations. A large number of the seats in the Chamber are owned by the banks of Minneapolis, the railroads, public service corporations, and other privileged interests. Yet the producers of grain are not admitted at all. It is impossible for the farmers or even the co-operative grain-growers' associations to be admitted to membership in the Chamber even if they succeed in buying a seat. The Minnesota Farmers' Exchange was excluded after it had acquired a membership at a cost of $4,200.

The Minneapolis Chamber of Commerce employs four hundred solicitors who travel throughout the Northwest discrediting the farmers' organization, and every effort on their part to organize or protect themselves. The banks are apparently the most powerful members of the organization and they, in turn, exercise power over country banks which make loans to the farmers and co-operative elevators. The majority of the directorate in thirty years has always been in the hands of the big millers and elevator men, who buy the grain and whose interest it is to keep down the price. Competition is destroyed by every possible means. It is a rule of the Chamber, rigidly enforced, that there shall be no competitive buying whatever between the members bidding for grain on the track for shipment to Minneapolis. In addition, the price which is offered the farmer is always the closing price of the Chamber. That is the price paid the farmer no matter how much it may have been artificially fixed by speculation. The farmers, no matter what demand or supply may be, are at the mercy of the only market which they have, which is controlled by the grain-pit, which in turn is controlled by the milling companies and elevator companies which are the buyers. The largest commission houses through which the farmers sell are owned by the milling and elevator interests. The farmers' and other co-operative organizations are financed by the banks connected with the Chamber of Commerce, and they require the farmers, as a condition of the loan, to ship their grain to the houses which lend them money. The farmers are thus coerced into selling to the grain monopoly. Speaking of this condition, Mr. Benjamin Drake, representing the farmers, said: "It is a system of financial slavery. This system of loaning has been used all the time to compel shippers to give their consent to the arrangement that the commission house may sell to the subsidiaries." Mr. Drake further testified that it required sales in futures amounting to an aggregate of $4,800,000,000 a year just to pay the expenses of the organization which controlled the clearances. This was the trading of but thirty-seven members of the Chamber of Commerce alone. The whole amount of future transactions by the members of the Chamber, he said, might not be less than ten billions a year. "In other words, for a bushel of real wheat sold," said Mr. Drake, "more than fifty bushels of phantom wheat is sold on the floor of the Chamber of Commerce. And every bushel of future grain which is sold tends to make the price received for cash wheat."[1]

No person in the country has given more scientific thought to the questions of wheat manipulation than Professor E. F. Ladd, president of the North Dakota Agricultural College. He has fought for the farmers of his State for years. He has appeared before the State legislature, before Congress, and in the courts. He has published many learned bulletins on the subject. Speaking of the food situation of the country in May, 1917, he says:

"There is no question in my mind but what the farmers would handle the situation were it not for those who are endeavoring to exploit them. The exploitation of food products is, to my mind, one of the greatest curses of our day, and the buying and selling of grain as carried on at the Chamber of Commerce, etc., is one of the most detestable forms of gambling practised by certain American people to the detriment of the great producing and consuming classes of our country.

"If the farmer received on the average of $1.30 for his wheat for the past year's crop (and much of it was sold for less than that), then is there any good

[1] Testimony Hearing, Committee on Rules, House of Representatives, 63d Congress, Second Session, Grain Exchange House resolution No. 424.

reason why that wheat should sell in the same market to-day for $3.00 and better per bushel, except through exploitation on the part of a few food gamblers?"