THE STORY

OF THE

UNITED STATES GRAIN CORPORATION

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1. Why There Is a Grain Corporation.

In August, 1917, when the United States was beginning to take stock of its national resources and really began in earnest to concentrate its energies upon the enormously difficult task of winning the war, the President was authorized by Congress, after several months of discussion, to establish agencies to stimulate the production of food and fuel and to control their distribution. The Food Administration had already been organized by Herbert Hoover and it was now promptly set in motion. Within four days of the passage of the Act by Congress the Food Administration Grain Corporation was organized for the purpose of controlling the wheat supply of the United States.

2. The Need for Doing Something.

There was high need of such an undertaking. For two years the United States had harvested dangerously short wheat crops. In place of the bountiful harvests of 1914 and 1915, which had permitted an export of nearly 600 million bushels of wheat and over 43 million barrels of flour between July, 1914, and June, 1917, the crops of 1916 and 1917 were not greatly over 600 million bushels each. Not only were the crops far below par but the frantic bidding of the Allied buyers and the frightened consumers of our own country had carried the price of wheat in May, 1917, to the highest point ever known in this country—$3.45 per bushel at Chicago. The *average* wholesale price of spring wheat flour at Minneapolis during the same month was $14.88 per barrel, and at one time went to $16.75. The wheat market was in a state of chaos, with the ordinary machinery of the grain trade almost entirely dislocated and the normal milling production of the country so greatly reduced that there was a dangerously low level of flour reserves as well as a shortage of wheat at the terminals. A deplorable condition of speculation existed in practically every branch of the trade—speculation in the sense that the risks of business were so great that dealers had to ask excessively wide margins in order to protect themselves. Of course, these wide margins were passed along to the buyer and from him in turn to the consumer. With only 62 million bushels of wheat on hand at the first of July—barely enough to run the flour mills for a month—and an estimated new crop of only 637 million bushels harvested in July and August, there was obviously a pressing necessity for some strong agency of control. Speculation had to be stopped, exports curtailed, prices stabilized, confidence restored, and production stimulated to something like a normal basis. This was the job of the Food Administration and of its most important agency, the Grain Corporation.

3. What the Grain Corporation Is.

The Grain Corporation was incorporated under the laws of Delaware; its entire capital stock (originally $50,000,000) is owned by the United States; it has seven directors appointed by the President; its headquarters are in New York, under the direction of Julius H. Barnes, President; for purposes of administration the United States was divided into fourteen Zones and each Zone placed in charge of a vice-president as Zone Agent or regional director.

4. Who Runs It.

These officers are all experienced and conspicuously successful grain men, the business leaders of their respective communities. They served during the two years, from August, 1917, to June, 1919, as volunteers, without a dollar of salary. This was the example set by Mr. Hoover himself and his lieutenants in the conduct of the Grain Corporation enlisted for the war upon the same terms. Not only so, but these men completely dissociated themselves from their private business interests in the grain trade with which their duties as public officials might conflict, and have at great personal sacrifice devoted themselves to the public service in a fine spirit of practical idealism. One cannot understand the Grain Corporation or what it has meant in the public and commercial life of this country during the past two and a half years unless one tries to comprehend something of the spirit in which it was organized and the ideals with which it approached its task.

5. What the Problem Was.

This task was the difficult problem of making 700 million bushels of wheat feed the people of the United States, provide seed for the new crop, and supplement the inadequate food supplies of our Allies in the war. Not only must our own people be fed, but we were eating at a common table with the Allies and we had to divide our loaf with them, scant as it might be. It was also imperative to secure to the wheat producers of this country a fair price for their grain and at the same time to reduce flour and bread prices to the consuming public. In order to stimulate wheat planting Congress had established a minimum price of $2.00 per bushel for the crop of 1918; obviously the fair price to the producer for the 1917 crop could not be less than this; it was equally obvious that it could not be allowed to remain at the high prices current in the summer of 1917.

6. What the Farmers Wanted.

It should be clearly understood that the Food Act, passed by Congress in August, 1917, contained no reference to the crop of 1917 or its price. There was nothing in the Act itself authorizing any buying basis for government purchases, and there was absolutely no authorization to the President or anyone else to "fix" the wheat price which should govern the prices to be paid in every-day transactions by individuals. It was necessary, however, that some element of stability should exist in the wheat market and the best way to bring this about was to establish a fair buying basis for government purchases and to induce other buyers to pay the same price. But what was a "fair" price? The farmers of the Southwest who had sold some of their 1917 crop at prices around $2.50 per bushel held out for a price at least that high; they were backed up by the whole agricultural interest of the Northwest which had seen the price of spring wheat pass the $3.00 mark at Minneapolis—before harvest. Naturally these interests were opposed to any reduction in the wheat price.

7. The Problem of the Consumer.

On the other hand the bread consumers of the country had to be considered. It could not soon be forgotten that the soaring prices of flour and bread in the spring of the year had led to bread riots in New York and the other eastern cities. Those consumers who could afford to were hoarding flour while those who could not were clamoring for a reduction in the cost of living. With the lukewarm attitude of many persons at that time towards the participation of the United States in the war, there were plenty of people who were more anxious to stir up antagonism against alleged profiteers than against the public enemy. The United States was a hotbed of incipient strikes and labor disorders in the summer of 1917 growing out of mounting prices and high living costs. If there had been no prospect of lower food prices, no curb upon speculation, the temper of the industrial population might easily have broken out in an upheaval which would have paralyzed the whole national effort in prosecuting the war. It was positively necessary that some relief be given to our people if the public morale was to be sustained and a united front presented to the enemy. While the farmers were holding out for $2.50 or $3.00 wheat the representatives of the consuming interests clamored for a reduction to a $2.00 basis or even less.

8. The Way Out.

This situation obviously called for some sort of compromise between the extremists on both sides, and the President, therefore, appointed a Fair Price Committee of eleven men representing all interests which should determine a fair buying basis for government purchases. After prolonged consideration this Fair Price Committee, six of whom represented the farming interests, recommended at the end of August, 1917, a price of $2.20 per bushel, Chicago basis. This price was accepted by the President in the hope that it would "at once stabilize and keep within moderate bounds" the price of wheat for all transactions throughout the crop year and in consequence the prices of flour and bread also. This expectation was fully realized.

9. Putting a Stop to Speculation.

Storage of wheat and flour was limited to a period of 30 days, thus making it impossible for any one to hoard or speculate successfully in these prime foodstuffs; the flour mills were forbidden to make contracts calling for delivery more than 30 days ahead, thereby preventing the possibility of speculation in flour contracts; and the grain exchanges were required to suspend absolutely for the period of the war all operations in future contracts for wheat.

10. What the Grain Corporation Did.

The Grain Corporation was made the sole agency for all government buying and it at once entered into a series of voluntary agreements with flour mills and country elevators to maintain the government fair price basis in their own purchases throughout the crop year 1917-18. These buyers of wheat,—including some 3,000 mills and 14,000 elevators,—agreed to pay for wheat of the 1917 crop the government fair price, less freight to terminals and handling charges, and no more, so that the farmers everywhere should receive the fair reflection of the government buying basis. Through these trade agreements, which embraced about two-thirds of the elevators and by far the preponderance of the flour milling capacity of the country, as well as through its own purchases, running to nearly 30 million bushels of wheat, the Grain Corporation made effective the fair price on the crop of 1917.

11. The Trade Agreements.

The inducements to enter into these agreements were primarily the assurance by the Grain Corporation to protect the mills and elevators from any loss on their unsold stocks of wheat or flour resulting from any possible decline of the price below the government fair price basis. Submarine activity and the shrinkage of ocean tonnage had dammed back in other parts of the world a mass of wheat which, if released in the event of an early peace, would have flooded the world's markets and broken prices everywhere. Hence it was necessary to guarantee our mills and elevators against such loss. The assurance by the Grain Corporation was a better protection than any hedge on a board of trade could have been. The Grain Corporation also undertook to pay a fair storage charge to the "agreement" elevators in return for which it got the right to direct or divert their wheat shipments to such points as seemed to it best—the theory being that the government through the agency of the Grain Corporation controlled the movement of the wheat crop, whether it actually bought the grain or not.

12. Allotting the Wheat.

In order to secure to each mill its fair quota in the allotment of wheat, the Grain Corporation agreed to apportion the existing supply among the mills in proportion to their respective capacity as measured by their average output during the three years 1914, 1915, 1916. In return for its services in maintaining an adequate supply of wheat, and to cover expenses of administration, the Grain Corporation was to receive from each mill a fee amounting to 1% of the value of the wheat supplied.

13. Regulating the Miller's Profit.

What steps were taken to reflect the fair wheat price through the flour mills and the distributing trades to the consuming public without actually fixing flour prices? Congress had not authorized any direct price fixing. Therefore an ingenious plan was devised to carry the reduced wheat price through to the consumer by requiring the mills to sell their flour at a net profit not to exceed 25 cents per barrel above their cost of production. All the flour mills were placed under license by the Food Administration and were required under pain of forfeiting their licenses to observe this profit regulation.

14. Fixing the Middleman.

The wholesale and jobbing trades were also licensed and definite trade margins were prescribed for flour as well as for other commodities. Under these regulations the gross margin, or difference between the buying price and selling price, for flour jobbers for instance, was fixed at 75c. per barrel. This margin had to cover all expenses of operation—unloading, warehousing, local delivery, discounts, and collections. All food commodities were required to be moved in as direct a line as possible from producer to consumer and resales within the trade (that is, from one jobber to another jobber or from one broker to another broker) were strictly forbidden. As small a toll of profit was permitted in the distribution of food products as was consistent with preserving the necessary facilities of trade.

15. How to Control the Retailer.

The one weak point in this chain of regulation was the lack of power to control the prices and profits of the small retailers who distribute by far the great bulk of their food supplies to the American people. The Food Control Act did not include the power to regulate retail dealers doing a smaller business than $100,000.00 a year. Obviously this permitted the great majority of retailers to go uncontrolled. An effort was made to meet the difficulty presented by this situation through the publication in every community of retail "fair price lists" by the local Food Administrators who formed the point of contact between the national Food Administration and the great mass of the people. These fair price lists had, of course, no legal standing and no action could be taken under the law against any dealer who chose not to observe these fair prices, because, as has just been said, Congress did not authorize control of retail prices or practices and had provided no penalties for enforcement. However, the publication of the fair price lists did serve the useful purpose of calling to the public attention prices which afforded the retailers an ample margin to do business and which were, in view of all considerations, as fair as could be devised. They were, of course, subject to frequent revision to meet changing conditions of costs and supply.

16. How It Worked.

A very short time elapsed between the establishment of the fair wheat price and a return to conditions more nearly approaching sanity in the flour trade. Of course, flour prices had already begun to decline upon the enactment of the Food Control Act, when it was clearly seen that some regulation would be imposed. By the end of September wholesale flour prices had been brought into line with the fair wheat price and through the greater part of the bitter and anxious winter of 1917-18 wheat and flour prices remained practically unchanged on the basis of the fair price established by the President's Committee.

17. Ten Dollar Flour.

This was a welcome relief for flour buyers. In Minneapolis the standard patents which had sold in May, June, July, and August at prices averaging considerably above $13.00 per barrel could in the last three months of the year be had for not much over $10.00 per barrel. When the rules requiring a higher percentage of milling extraction were put into effect at the end of 1917, in order to make our meager stock of wheat go as far as it would in the production of wholesome flour, the price was still further reduced. This was, of course, reflected in the retail prices of flour to the consuming public. According to the Bureau of Labor Statistics the average retail price of flour in the United States in May, 1917, was 8.7 cents per pound; in June, July, August, and September the average figure was 7.5 cents; during the last three months of the year it had declined to 6.8 cents, and through the whole of 1918 it was still less. This achievement of the Food Administration and of the Grain Corporation was accomplished without legal power to establish and fix any prices which should govern the public. Instead it was achieved through giving direction to the usual commercial influences of supply and demand, and even more through the thousands of voluntary agreements which the Grain Corporation had negotiated with wheat buyers everywhere to be governed by the fair price basis. By making the government price effective everywhere throughout the crop year the Grain Corporation restored certainty and stability in the place of commercial chaos. The farmer got a fair price for his wheat and the consumer paid only a fair price for his flour. By agreeing to abide by the fair wheat price the mills and elevators rendered a valuable public service; in only a few isolated localities did the mills deliberately set out to bid up the price of wheat and seek to advantage themselves by increasing the scope of their individual businesses at the expense of the community.

18. Keeping Our Promise to the Nation of Lafayette.

The result was that we had reasonable prices to our own people; no one went hungry in this country and we kept our pledge to our Allies. Out of a crop which was less even than our normal requirements for food and seed we exported 110 million bushels net of wheat and flour. Only the splendid spirit of the American people and the genius for practical organization of the United States Food Administration made possible this magnificent performance. There was not wheat enough to give everyone his full bread ration, but everyone had an equal chance to practice self-denial and to supplement his quota of wheat flour with substitute grains. Each one knew that his voluntary saving of wheat bread helped make possible a tolerable loaf to our brothers in arms "over there" whose thin lines were holding the trenches until the strength of America could be effectively mobilized and thrown into the fray. It was the voluntary self-denial of millions of Americans which sustained the morale of our Allies through those darkest days of the war.

19. Opposition and Obstacles.

Do not let anyone think that the practical details of regulation which realized so inspiring an outcome were either simple to devise or easy to administer. At every turn they ran counter to the self interest and commercial traditions of thousands of business men who saw their opportunities for profit abridged. Be it said to their credit that in ninety-nine cases out of a hundred they lent whole hearted support to the policies of regulation and placed the public interest above private gain. Over large sections of the community there was bitter resentment on the part of some farmers who maintained that the reduction of the wheat price had cheated them of legitimate returns for their labor. But it would be a mistake to assume that the curtailment of their possible profits which the wheat producers had to pocket reacted unfavorably to their real interests or was prejudicial to the nation. The conditions prevailing in the spring and summer of 1917 were wholly abnormal and it would have been unreasonable, not to say pitifully selfish and unpatriotic, for anyone to have expected or demanded their continuance. From July, 1916, to August, 1917, all through the year succeeding the short harvest of 1916, wheat and flour prices had been mounting almost steadily and uninterruptedly. Everyone with wheat or flour to sell had shared in the gains, though unequally, of course. With the establishment of profit regulations millers and flour jobbers had to content themselves with smaller margins and diminished gains. But this was only right and fair; their risks were less. The nation was at war, and no man had a right to take one cent of profit over and above the amount necessary to keep him in business. So with the farmers. No patriotic man can sympathize with the plaint that had there been no regulation the farmer could have sold his wheat in 1917 for $5.00 a bushel. Perhaps he might, but at what a cost to the whole world, himself included! The orgy of private speculation in all trades which would have followed the absence of regulation would, with the acute distress of high prices, have engendered social and industrial unrest that would have paralyzed our war effort and in the end have beat, with intense antagonism, at the door of every farmhouse.

20. The Guaranteed Price Stimulated Wheat Production.

The stabilization of the wheat price at $2.20, Chicago basis, resulted in putting more money into the farmers' pockets in 1917-18 than they had ever received for a wheat crop for the simple reason that they were not at the mercy of a fluctuating market. The practical assurance of at least the same price for the 1918 crop had already stimulated the planting of 42,301,000 acres of winter wheat in the fall of 1917. The announcement by the President on February 21, 1918, that the fair price of $2.20 would be continued as the *guaranteed minimum* for the crop to be harvested in 1918 resulted in bringing under wheat 22,489,000 more acres—in the spring wheat states of the Northwest—making a total of 64,790,000 acres, the largest acreage the country had ever seen.

TABLE SHOWING RELATION BETWEEN SEASON'S WHEAT PRICE AND NEXT SEASON'S PLANTING OF WHEAT.

Crop Year.	Production, in Million Bushels.	Guaranteed Price: Chicago Basis.	Average Farm Price Dec. 1.	Total Farm Value Dec. 1.	Next Year's Planting, in Acres.
1913-14............	763	....	$0.80	$610,122,000	54,499,000
1914-15............	891	....	.99	878,680,000	61,260,000
1915-16............	1,012	....	.92	942,303,000	57,054,000
1916-17............	640	....	1.60	1,023,765,000	59,573,000
1917-18............	637	$2.20	2.01	1,278,112,000	64,790,000
1918-19............	921	2.26	2.04	1,881,826,000	73,827,000
1919-20............	941	2.26	2.15	2,024,008,000	....

21. The Crop of 1918.

In June, 1918, the railroads were granted a general 25 per cent. advance in freight rates and the guaranteed price in all market centers was increased six cents per bushel in order that the freight advance might not fall solely on the farm price. The planting of the enormous acreage of 64,790,000 acres, stimulated by the guarantee and the patriotic exertion of hundreds of thousands of farmers in the hour of their country's need, resulted in the production in 1918 of the huge crop of 921 million bushels.

22. Sustaining the Market.

The pressure of this enormous crop demonstrated the absolute necessity of a guaranteed price if the market was to be sustained and the farmer to realize his expectations. Not once during the eight months from July, 1918, to February, 1919, did the Chicago open market price for No. 1 Northern spring wheat exceed $2.35 per bushel,—only nine cents over the guarantee, and through practically the whole of that period the large primary market receipts kept the price down to the guaranteed minimum. Only the purchases of the Grain Corporation during this crop year, amounting to some 268 million bushels of wheat and 26 million barrels of flour—equivalent to almost 400 million bushels of wheat in all—kept the price up to the guarantee. Had the buying power of the Grain Corporation been withdrawn from the market, even temporarily, there would unquestionably have been a severe slump in the price, to the injury of our farmers everywhere. A lower level once established under crop moving pressure, the guarantee basis might not have been again recovered.

23. Financing a 400 Million Bushel Wheat Purchase.

At the beginning of the crop year 1918-19 the resources of the Grain Corporation were seen to be totally inadequate to the task ahead, and the capital stock was, therefore, increased from $50,000,000 to

$150,000,000, exhausting the total national appropriation. All this stock was, of course, owned by the United States. Even this sum proved to be insufficient, and it was necessary to resort to outside borrowing in order to take care of the huge purchases of wheat and flour which had to be undertaken in order to redeem the pledge of the guaranteed price. At one time during the crop year these borrowings amounted to the enormous total of $385,000,000. No concern, however great its resources or whatever its prestige because of its official character, could have raised that amount of money in the open market unless its officers and its policies had enjoyed the confidence of the business community in the highest degree.

24. The Wheat Price Guarantee Extended to 1919-20.

During the summer and autumn of 1918 the United States was preparing itself for a long war. Huge enterprises were under way for the production of ships, guns, munitions, and equipment, on a gigantic scale. Those most intimately informed believed that the war would probably be of long duration; hence a program of preparation was laid out which looked far ahead. As part of this war program the President, under the authority of the Food Act of August, 1917, issued a proclamation on September 6, 1918, extending through another crop year the guaranteed price of $2.26 per bushel. It was felt necessary to stimulate to the utmost the production of wheat and the acreage sown that fall and the next spring confirmed the stimulative effect of this price. In fact, the large response in wheat acreage tended to menace properly balanced farm production. The country needed corn, hogs, beef cattle, as well as wheat and flour. But on November 11 came the Armistice, and with it the virtual ending of the war. Yet the nation's word was pledged, through the joint action of Congress and President, to the maintenance of the guaranteed wheat price up to the end of the 1919-20 crop year, or until June, 1920.

25. The $1,000,000,000 Wheat Appropriation.

There was no other course, consistent with honor, than to redeem the pledge of the guarantee. Hence a bill was enacted during the closing days of the 65th Congress (approved March 4, 1919), making an appropriation of $1,000,000,000 for maintaing the wheat guarantee through the crop year 1919-20. It was regarded at that time as almost inevitable that with the release of the supplies accumulated in Australia and the Argentine and the impending record crop to be harvested in the United States there would be a decline of the world price for wheat (by far the largest winter wheat acreage ever seeded in this country was planted in the fall of 1918, with a total of all wheat seeded, winter and spring combined, of over 73 million acres). Hence in the debates in Congress the unavoidable loss to the Treasury which would follow through having to make up the difference between the market price and the guaranteed price was accepted as one of the necessary costs of the war, regrettable but none the less inevitable. These fears, it may be added, were shared by the best informed opinion in the grain trade and appeared to be founded on the best of premises. Yet the actual turn of events nullified them completely. There was a great shrinkage in the spring wheat crop of this country during the last month before harvest and the total outturn of both winter and spring wheat did not exceed 941 million bushels, a large crop but very much less than the amount expected and not greatly over the crop of 1918.

26. Movement of the Wheat Price.

The wheat price moved through a very wide range during the year 1919; starting at a few points above the guaranteed price at the beginning of January there was very little change until early in March, but from that point a continuous advance was maintained until the first week in May; this advance coincided with the rapid exhaustion of the visible supply of wheat in this country, which was being used up both for the supply of our own consumers and to complete deliveries upon the European relief program. During May and June the price of No. 1 Northern spring wheat declined to within a few cents of the guaranteed minimum, but after the short spring wheat harvest it began to advance again and in late December it reached a point over $1.00 per bushel above the guaranteed minimum prices at some of the terminal markets. The hard winter wheats of the Southwest, also in short supply, reflected the same tendency, though not to an equal degree. These extraordinary prices for the premium wheats were being paid in spite of the greatest aggregate movement of wheat from the farms which this country had ever known in a similar period. During the winter of 1919-20 several remarkable price-making factors were in operation. Among them were: (1) totally inadequate domestic transportation; (2) utter collapse of the foreign exchanges, and the consequent dislocation of commodity movement; (3) severe winter weather, which greatly lowered the promise of the new crop. The varying play of these influences helps explain the fluctuations shown in the attached table. Since December, 1919, prices for the premium grades have held well above the guaranteed minimum although the Grain Corporation has been able to buy certain qualities and varieties, not in particular demand for the domestic trade, at the guaranteed price. Under these conditions it has not yet been necessary to use any part of the billion dollar appropriation to make good losses which might have accrued to the government through paying the guaranteed price and then having to resell the wheat at a lower price.

AVERAGE OF HIGH AND LOW PRICES OF No. 1 NORTHERN SPRING WHEAT AT CHICAGO ON FIRST SATURDAY OF EACH MONTH, FROM JANUARY 4, 1919, TO APRIL 3, 1920.

Date.	Price per bu.	Date	Price per bu.
Jan. 4, 1919	$2.28	Sept. 6, 1919	$2.39
Feb. 1, 1919	2.26½	Oct. 4, 1919	2.56½
Mar. 1, 1919	2.28	Nov. 1, 1919	2.68
Apr. 5, 1919	2.46½	Dec. 6, 1919	3.17½
May 3, 1919	2.83½	Jan. 3, 1920	3.17½
June 7, 1919	2.48	Feb. 7, 1920	2.69
July 5, 1919	2.45	Mar. 6, 1920	2.50
Aug. 2, 1919	2.47½	Apr. 3, 1920	2.90

27. The United States Wheat Director and the United States Grain Corporation.

By order of the President, dated May 14, 1919, the Executive Administration of the Wheat Guarantee Act of March 4 was vested in Julius H. Barnes as the United States Wheat Director. The President also directed that the services of the Grain Corporation be used by the Wheat Director as the agency for the administration of the Act. The President further directed that the name of the Food Administration Grain Corporation be changed after June 30, 1919, to United States Grain Corporation and that its capital stock be increased from $150,000,000 to $500,000,000.

28. The Problem of Control in 1919-20.

The high prices for wheat and flour in the fall and winter of 1919 did not seem to check appreciably the demand of flour consumers. All war restrictions upon domestic consumption, such as the compulsory purchase of substitute flour, had long since been removed and the American home market showed a surprisingly large capacity to absorb wheat flour. The output of our flour mills since the beginning of the crop year 1919-20 had by March 12, 1920, exceeded 100 million barrels—a full month's production in excess of the figure for the corresponding period last year. This was not primarily an export demand; the exports, both of flour and wheat, from the beginning of the crop year have not been over two-thirds of the movement for the corresponding period of last year. Not only did the American people want flour in apparently unlimited quantity, but they insisted upon having the high priced patent grades of hard wheat flour. This demand for the low extraction flours, made from that grade of wheat which commanded a premium because of its scarcity, carried prices up to a point approximating the panic prices of the spring and summer of 1917.

WHOLESALE AVERAGE MONTHLY PRICE OF STANDARD PATENT FLOUR AT MINNEAPOLIS IN 1919-1920.

Month.	Price per bbl.	Month.	Price per bbl.
Jan., 1919	$10.27	Sept., 1919	$11.62
Feb., 1919	10.55	Oct., 1919	12.03
Mar., 1919	11.21	Nov., 1919	12.95
Apr., 1919	12.21	Dec., 1919	14.02
May, 1919	12.42	Jan., 1920	14.44
June, 1919	12.01	Feb., 1920	13.54
July, 1919	12.16	Mar., 1920	13.16
Aug., 1919	12.01		

29. "Grain Corporation Flour."

In the face of this situation the Grain Corporation felt it necessary to take some steps to carry out that purpose of the Wheat Guarantee Act which made it a duty "to enable the people of the United States to purchase wheat products at a reasonable price." With this end in view the Grain Corporation, beginning in August, 1919, offered to sell in car lots to the domestic trade straight grades of flour from its export purchases of soft winter wheat flour at prices considerably below those current for the widely advertised and popular brands of hard wheat flour. In December the selling program was expanded so as to make straight soft wheat flour available to the retail trade in appropriate package sizes under the brand "United States Grain Corporation Standard Pure Wheat Flour." An extensive advertising campaign was inaugurated directed to the general consuming public as well as to retailers and bakers. This straight grade flour was not analogous to the substitute flours or "Victory" flour of the war program, but was similar to the grades usually exported, and even largely marketed in this country, before the war. The reaction from the restricted flour grades of the war, however, coupled with the unparalleled prosperity of the wage earners seemed to stimulate the American people to demand only the high priced low extraction flours; the Grain Corporation found it an uphill task to educate the public to an appreciation of the wholesomeness of straight flour and the economies to be realized from its use. Some impression was made, of course, and the consuming public was given an opportunity to exercise its preference in the purchase of cheaper grades of flour, if it so desired. Some 440,000 barrels of straight flour were sold under the Grain Corporation brand up to the end of March. The most significant result of the campaign, perhaps, was the evidence to many mills that a large section of the community desired straight grades of flour under the mills' own brands. Also the urgent pressure of demand was deflected from the hard wheat flours, in short supply, to the soft wheat flours, of which there was relative abundance. This resulted in more moderate prices for the standard brands of flour.

30. Removal of the Embargo.

In July, 1917, the President proclaimed an embargo on exports of certain commodities, including wheat and flour. By the Food Control Act, and again by the Wheat Guarantee Act, the President was given practically complete control over imports of wheat and wheat products. This control was transferred by the President to the Wheat Director, and on December 15, 1919, the embargo and import restrictions were both removed with a view to preparing the way for the ultimate participation of individual enterprise in the export and import business in wheat and flour. It was expected by some members of the flour trade that the United States supply of spring wheat flours would be enlarged by imports of Canadian wheat and flour, which could now enter American markets free of duty. Very little Canadian wheat or flour did, in fact, come in.

31. Transportation Difficulties.

The winter of 1919-20 was extraordinary hard on the railroads. Even with the best of conditions the rail carriers would have found it difficult to cope with the volume of traffic offered, because of their inadequate equipment. With the greatest of care and energy this could not be otherwise, when the condition of our rail facilities is considered. Thus to compare the equipment and performance of the American railroads in 1915 and 1918:

	No. of Locomotives.	No. of Freight Cars.	Tonnage Moved.
1915	65,099	2,356,338	277,135,000,000 tons
1918	66,010	2,366,658	403,774,000,000 tons

An increase in tonnage of approximately 50 per cent. was carried in 1918 with practically the same facilities as in 1915. In January, 1920, conditions became especially aggravated with the heaviest freight offerings ever known in mid-winter coming at a time of almost unprecedented weather severity. The reports of the Railroad Administration for car loadings in January show:

January, 1918	642,016	cars
January, 1919	726,555	cars
January, 1920	816,967	cars

Delays in rail transportation from country points and from terminals to mills have been a very severe trade handicap this year and have undoubtedly been responsible in part for the bidding up of wheat prices during the past winter and the resulting mark up of flour prices. Such delays and difficulties produced local scarcities and entailed extreme hazard of loss through fluctuations in prices owing to interference with the smooth movement of traffic from one market to another and from producer to consumer. They always result in curtailed operations and necessitate enlarged trade margins.

32. GRAIN CORPORATION BUYING RESTRICTS PRICE FLUCTUATIONS.

Had it not been for the knowledge that the Grain Corporation stood ready to buy every day and every hour at the guaranteed prices in the various markets these fluctuations in price would unquestionably have been much greater and the producers correspondingly injured. Of the crop of 1919 alone the purchases of the Grain Corporation had up to the middle of February exceeded 185 million bushels, and during its existence to March 4, 1920, its total purchases at the guaranteed price amounted to the equivalent of 705 million bushels of wheat. This enormous figure emphasizes the extent to which the authorized underlying security of the producer has been made effective. Had it not been for the buying of the Grain Corporation in rush times the producer would have had no assurance that his price would even approximate the guarantee.

33. WHY FLOUR AND BREAD PRICES ARE UP LESS THAN WHEAT.

There can be no question but that the buying of the Grain Corporation and its arrangements with the country elevators and other wheat buyers during this present season to take the producer's wheat at a fair reflection of the guaranteed price at their nearest terminal, whether the railroads had cars available to move the wheat or not, have kept the necessary trade margins within the narrowest possible range. This service has benefitted the producer and consumer alike, keeping up the price to the producer and reducing it to the consumer. This shrinkage of trade margins, with the stability of the underlying guarantee which made it possible, goes far to explain why the farm price of wheat at the end of 1919 shows an advance over 1913 of 193 per cent., while flour has advanced only 133 per cent, at retail, and bread only 82 per cent.

COMPARISON OF RELATIVE PRICES OF WHEAT, FLOUR AND BREAD, 1913-1919.

	Farm Price of Wheat Average for U. S. Relative Price	Retail Price of Flour Average for U. S. Relative Price	Retail Price of Bread Average for U. S. Relative Price
1913 Avge........	100	100	100
1914 "	109	104	112
1915 "	142	126	124
1916 "	148	135	130
1917 "	254	211	164
1918 "	257	203	175
1919 "	271	218	179
Dec., 1919	293	233	182
Jan., 1920	298	245	189

34. What to do With the 5,000,000 Barrels of Flour?

As a result of its buying of flour from the mills for export, and to protect the guarantee, the Grain Corporation has accumulated an unsold stock of 5,000,000 barrels of soft winter wheat flour—the variety in greatest abundance on this year's crop. The Wheat Guarantee Act required that as between the exports of wheat and of flour the preference should be given to flour. This was a concession by Congress to the demands of the millers, many of whom felt aggrieved at the wheat export policy of the Grain Corporation during the crop year 1918-19, in spite of the fact that the Grain Corporation had bought from them nearly 26 million barrels of flour between July, 1918, and June, 1919. The Grain Corporation had also bought nearly 270 million bushels of wheat during the same period, the greater part of which was exported. Owing to the demoralized condition of the foreign exchange market and the extreme difficulty of arranging credits the European market did not take anywhere near as much of our wheat and flour in 1919-20 as in 1918-19. Hence the large stock of flour accumulated by the Grain Corporation, which until the removal of the embargo in December, 1919, was the sole agency for the exportation of wheat and flour from this country. Early in March, 1920, Mr. Barnes appeared before the Rules Committee of the House of Representatives, which had before it a bill allowing $50,000,000 for general relief, to urge legislation endorsing the sale of these five million barrels of flour on credit to relieve starvation in Austria, Poland, Armenia, and other stricken districts. The House acted favorably on this measure March 15 and the Senate one week later.

35. The Share of the Grain Corporation in European Relief.

From the very beginning the Grain Corporation has played an important part in the whole problem of European relief. Not only did the Allied governments turn over to it the entire purchase of cereals and flour in this country for their military and civilian needs, but the Commission for Relief in Belgium early placed in the hands of the Grain Corporation the buying and shipping of food necessary for the maintenance of supplies to the Belgian people. A similar service was performed for the United States Government in the supply of the American Expeditionary Force. All flour and cereals for overseas shipment were bought and handled by the Grain Corporation as agent for the Army. Within two weeks of the signing of the Armistice the headquarters of the Food Administration were removed from Washington to Paris where Mr. Hoover at once proceeded in order to formulate definite plans to distribute food supplies to the stricken populations of the war districts. Mr. Hoover saw the necessity of taking immediate action if these people were to be brought through the winter. On

December 23, 1918, the President formally approved his request that the Grain Corporation be authorized to extend its sphere of operations outside of United States territory so that steps might be taken to finance the purchase and transport of foodstuffs. On February 24, 1919, Congress passed a bill appropriating $100,000,000 to be used for the purchase of foodstuffs and other urgent supplies for European relief outside of enemy countries, and on March 1 the President appointed Mr. Hoover as Director-General of the American Relief Administration, which he had already organized, to carry out the purposes of the Act. This agency soon developed into the largest and busiest food distributing machine the world had ever seen. The administration of the $100,000,000 fund was of necessity merged with the larger problems of relief administration in general. Some sixteen new states had emerged in central Europe from the collapse of the old empires, most of them without sufficient national cohesion to provide either credit or the means of transport and distribution of necessary supplies. Hence it was imperative to organize and rehabilitate practically the whole economic life of a large part of Europe and to co-ordinate it with the existing controls of food, finance, and shipping, of the United States and the Allies. Organization was effected by giving sweeping powers of control over railways, coal mines, and telegraphs to the American Director-General of Relief; co-ordination was attained through representation in the newly created Supreme Economic Council of which he was chairman. The broken down railroads were set going, important rivers reopened to traffic, coal mining and distribution stimulated, some ten thousand miles of telegraph lines co-ordinated and operated as a single unit, and in countless ways orderly economic processes substituted for the idleness and desolation caused by the war. In the nine months from December, 1918, to August, 1919, a total of over 4,750,000 tons of foodstuffs and other supplies, valued at approximately $1,147,000,000, were distributed to twenty-three countries in Europe and Asia by this practical organization of relief. The contribution of the United States was some 2,850,000 tons of supplies, of a money value of $720,000,000, to say nothing of the direct financial assistance extended to the Allied and liberated countries by the Treasury. The special appropriation of $100,000,000 was applied in certain critical regions, notably in Poland and Armenia. The buying of foodstuffs in this country for these huge relief works was almost entirely performed by the Grain Corporation, as agent, of course, and not out of its own funds. No finer example of the practical altruism of the American people can be found than this work of relief, which was conducted with a promptness, efficiency, and resourcefulness to win the admiration and applause of the world.

36. Grain Corporation Profit and Loss.

In spite of its public character and idealistic aims, the operations of the Grain Corporation have been conducted in a strictly businesslike manner. From September 1, 1917, to February 28, 1920, its total purchases of all kinds aggregated $3,674,260,533.12; and its sales $3,-572,672,319.82. For the same period its total operating expenses were $5,735,147.43, or almost exactly 16/100s of one per cent. of sales, while the net profits have been in excess of $50,000,000. Of this amount approximately $20,000,000 represents profits arising from sales of foodstuffs, chiefly wheat and flour, to neutrals during the war at prices above the government buying price. These neutrals took unconscionably high profits from their shipping business during the war, even upon the transport of supplies destined for the use of our own Army abroad, and it was deemed nothing less than right that they should be required to pay prices which would return some of this profit to us. It should be pointed out that interest at the normal commercial rate of 5% on the national capital employed by the Grain Corporation during the thirty months from September, 1917, to February, 1920, would have amounted to over $26,000,000. This accounts for more than half the total profits.

37. Better Threshing Methods.

No discussion of the Grain Corporation's activities would be complete without some reference to its highly successful efforts to prevent loss of wheat in two neglected but important fields. The first of these was a campaign of instruction in better threshing methods. A threshing division was organized in April, 1918, and county committees were appointed by Federal Food Administrators in approximately 1,000 wheat producing counties in thirty-two states. Through these committees expert threshermen in the employ of the Grain Threshing Division, together with manufacturers' field experts, were sent out to obtain direct contact with threshing machines while in operation. It was developed that many threshing machines were not properly adjusted or operated, but these experts made suggestions regarding machine adjustments and various devices for improved methods which resulted in the saving to the producers, according to reliable estimate, of 30 million bushels of wheat, valued at approximately $60,000,000. This saving to the producers was achieved at an expense to the Grain Corporation of only about $60,000.

38. Grain Dust Explosions.

One of the most baffling and yet unnecessary sources of loss to the community has been the explosions of dust in mills and elevators, which have sometimes caused fearful loss of life as well as property. The causes of dust explosions had very generally been regarded as too obscure to be guarded against, but the scientists of the Department of Agriculture did not take this view. From December of 1917 the Grain Corporation, first in conjunction with the Department of Agriculture, and since July 1, 1919, at its own expense, kept in the field a corps of experts on fire and dust explosions. These experts have inspected properties in all grain centers and demonstrated methods to warehousemen to eliminate fire and dust hazards. The benefit of this educational work cannot be measured, but some idea of its value may be appreciated from the fact that while the cost of this service was almost negligible the Grain Corporation lost less than $30,000 in the one single explosion which occurred during the thirty-one months ending with March, 1920, although it has had as high as $500,000,000 worth of property at one time exposed in the various warehouses of the country under the exceptionally hazardous conditions of war. The educational work of the fire and dust explosion prevention campaign, together with the experience and care and energy of the practical grain men in charge of the various zone offices of the Grain Corporation, is the explanation of this immunity from loss. Fire insurance premiums on this property at commercial rates would have exceeded two million dollars; this is the least measure of the saving effected.