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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

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CONFIDENTIAL.

January 17, 1920.

X-1801.

Dear Sir:

Your attention is directed to the enclosed copy of the circular sent by the United States Wheat Director to all his licensees. This circular sets forth clearly the present situation as it appears to the Director and contains sound and judicious warnings which the business community should not be permitted to disregard. I am also enclosing for your confidential information copy of a letter written by the Director to the Vice Governor of the Federal Reserve Board in response to the request for copies of this circular. The Wheat Director's letter naturally expresses his views with somewhat less reserve than the circular, and is, therefore, important as further emphasizing the views held by that official, who is undoubtedly in the best position to judge the wheat situation. The exportable surplus of 300,000,000 bushels of wheat involves at the guaranteed price the sum of some \$700,000,000 of cash. To the extent to which wheat has been either sold abroad on credit, or is being held back on account of car shortage, or for other reasons, the burden of carrying it has undoubtedly been placed either directly or indirectly on our banks, and in spite of any local information indicating that sales of wheat for export have been paid for in cash, this must be true to the extent to which such cash has been obtained through export credits financed by the banks in New York or other centers in the East.

We must not lose sight of the fact that the situation in some, and perhaps in many other commodities may not be very different from the wheat situation and should so far as possible guide the policy of member banks accordingly.

Very truly yours,

Governor.

JULIUS H. BARNES

X-1801-a

UNITED STATES WHEAT DIRECTOR
NEW YORK

(CONFIDENTIAL COPY)

January 13, 1920

Mr. Albert Strauss,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Strauss:

I have your letter of the 12th.

I enclose you a number of copies of the communication to licensees by the Wheat Director. I hope you will never hesitate to ask me, by letter or phone or wire, for any information regarding the conduct of this office, which would further team-play in the national service.

Frankly I am very much concerned regarding the evident disposition of millers and dealers throughout the United States to carry considerable commitments in the form of wheat and flour, this course having proven so far quite profitable to them on the upward trend of prices, but which on this price-level might, in certain contingencies, lead to considerable loss and possible disaster.

I realize even as I say this that our winter wheat prospect, with unfavorable winter weather, may be such that the present price-level may be justified and more next spring, but I think it my duty to point out the possibilities, so that if they do assume those risks, it will be with open eyes.

It is unfortunate that restricted transportation plays such a part in not making fully liquid and available our perfectly adequate wheat and flour supplies.

In passing, it will be interesting for you to know that substantially every bushel of wheat owned by the Grain Corporation is contracted in sale abroad and will shortly be shipped, although we still have large holdings and purchases of flour. I should welcome this shifting of the export trade from a retiring Government Agency to private initiative, which must soon function anyway, if I were not so apprehensive over the risks to that private trade of the present conditions.

With personal regards,
Yours truly,

(Signed) JULIUS H. BARNES.

JHB:H
Enclosures.

JULIUS H. BARNES
UNITED STATES WHEAT DIRECTOR
NEW YORK

A-1801-b

January 10, 1920.

TO ALL LICENSEES OF THE WHEAT DIRECTOR:

The Wheat Director and the Grain Corporation approach the last half-year of their official service. For over two years the Grain Corporation has been a dominant influence in grain marketing. The end of that official influence and control is in sight.

Forty-two thousand licensees should realize that the withdrawal of such a market and price influence can not be made without introducing large hazards to the wheat and flour handler. World influences of great potentiality in price-making exist today.

There is no guide to point the way to commercial security. Individual judgment must solve unusual problems, soon to be faced. We can only warn of the play of world-wide factors of unprecedented potentiality, and submit information, as accurate as humanly possible, on which business policies must construct. The Grain Corporation's weekly reports of trade data will continue until June 1st. They should be studied.

Our total wheat crop exceeded that of 1918. Much is said of the relative scarcity of strong wheats. The curious fact develops, however, that by continued replacements from the Southwest and the Pacific Coast and because Eastern mills will probably draw their smaller needs of strong wheats from Canada and the Argentine, the Northwestern mills can grind fully equal to last year's large production and still leave, at the end of this crop-year a larger carryover in the Northwest than last year.

Exports for past six months are 33,000,000 bushels less than last year. Difficult finances abroad, forcing utmost curtailment of purchases, will continue. Present purchases, still to be shipped, largely supply foreign requirements for a considerable period. Cheaper rye will replace some wheat. The United States can apparently export 50,000,000 bushels rye, against 35,000,000 bushels last year.

Flour production in the United States for six months exceeded last year's production by 12,000,000 barrels, while exports of flour have been 1,000,000 barrels less. How much of this 13,000,000 barrels represents increased consumption of wheat bread, and how much increase in domestic and commercial stocks, with its resultant later shrinkage of current demands? Flour stocks, visible, are very large: 15,000,000 barrels, against 8,000,000 last year.

With no immediate prospect of further purchases of flour by the Grain Corporation, it is fairer to ask the mills to discontinue their weekly offerings until we can advise some prospect of further purchases. The export outlet is open to them individually without necessity for permits.

Restricted transportation and extraordinary indifference to expenditures by a section of our people have facilitated easy price advances in certain qualities of flour. Our own campaign of placing the lower-priced flours through the retail trade is demonstrating that there is a section of our people desirous of the practice of thrift. It may become contagious as extravagance has been. The extraordinary choice is offered our consumers of standard qualities of flour in the same retail trade at ranges from \$1.40 to \$2.00 for the one-eighth barrel.

New-crop prospects will shortly be a decided price influence. Much emphasis is laid on our Fall-sown acreage this year of 39,000,000 acres, against 50,000,000 a year ago. It is well to remember that America's second-largest winter wheat yield (685,000,000 bushels) came from 37,000,000 acres sown. Also, that twice in our history the yield from spring sowings alone has exceeded 350,000,000 bushels. Last year, our total home consumption for food and seed did not exceed 550,000,000 bushels.

Import and Export embargo restrictions are now eliminated, and Canada and Argentina are already making sales, attracted by our prices now ruling above the guarantee level.

Farmers, millers and dealers (outside of the Grain Corporation) own and are carrying 437,000,000 bushels of wheat, against 299,000,000 a year ago. Seriously ponder on this statement. After June 1st, next, the Grain Corporation authority to buy wheat at the guaranteed price expires, and thereafter the security of that basis is withdrawn. The fact that present prices largely rule above the Government guarantee should not obstruct a study of conditions which may develop, and at a time when that price assurance no longer exists. America's complex and delicate marketing structure must be preserved, and prepared to function when this agency retires.

Price fluctuation always is followed by distress and loss. Wisdom dictates the reduction of commitments to the minimum required for the conduct of necessary current business. We should not feel that the full responsibility of this office had been discharged without calling attention to the price hazard which may exist for many months, knowing that a large part of the producing and distributing trades have been accustomed, by two years of official stabilization and assurance, perhaps not to fully realize the danger of over-extended commitments under the present extraordinary world situation.

JULIUS H. BARNES

United States Wheat Director.