

6-1919

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### Recommended Citation

Banks, Alexander Scott (1919) "Operations of the Grain Corporation," *Journal of Accountancy*. Vol. 27: Iss. 6, Article 3.

Available at: <https://egrove.olemiss.edu/jofa/vol27/iss6/3>

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## Operations of the Grain Corporation\*

BY ALEXANDER SCOTT BANKS

With the entrance of the United States into the world war, proper regulation, apportionment, distribution and rapid movement of basic food products became a vital necessity. At the same time a plan had to be evolved by which prices could be held at a reasonable level.

A central control system was accordingly created by the president's proclamation of August 14, 1917, and embodied in the form of a board, under the direct supervision of Herbert C. Hoover and the United States food administration, known as the "Grain corporation." The capitalization of this corporation was fifty million dollars, consisting of five hundred thousand shares of stock with a par value of one hundred dollars, all belonging to the United States government, except directors' qualifying shares, which were sold to the directors but only held by them in trust for the use and benefit of the United States.

The Grain corporation, organized on the lines of some of our large industrial corporations, was given absolute control by the government over the purchase and sale of all wheat and flour produced in the United States. Subsequently, the government designated this corporation as its sole agent for the purchase and sale of rye, beans, barley, rice, cereal products, peas, corn, butter oil and rolled oats; and having thereby become the largest buyer of these products likewise, the Grain corporation, in addition, actually controlled the entire market in practically all these commodities. In fact this corporation virtually became a great monopoly, controlling all supplies at the large terminal points and distributing them to the mills and wholesalers throughout the country.

In addition, the corporation resold for export such quantities of these products as the United States could afford to part with, after making due allowance for the needs of this country—the allied governments having agreed to purchase all available quantities at cost to the Grain corporation—therefore the Grain corporation was secured against any loss whatever.

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\*A lecture delivered before the students of New York University school of commerce, accounts and finance.

## *Operations of the Grain Corporation*

The operating organization of the Grain corporation consisted of the most prominent and expert grain men in the United States, who, when called upon, gave their services without compensation, and in addition very patriotically severed their existing connections with all grain interests. This organization was composed of a board of directors and executive officers, such as president, vice-president, secretary and treasurer, and for the purpose of proper administration, the entire territory of the United States was divided into fourteen zones, which covered the important terminal commercial markets. These zones were located at New York; St. Louis, Missouri; Portland, Oregon; New Orleans, Louisiana; Philadelphia, Pennsylvania; Duluth, Minnesota; Minneapolis, Minnesota; Baltimore, Maryland; Chicago, Illinois; Buffalo, New York; San Francisco, California; Kansas City, Kansas; Omaha, Nebraska, and Galveston, Texas, under the jurisdiction of the president of the corporation in the New York territory and second vice-presidents in the other zone localities. These officers acted as government buyers of the various products at the several points, and administered the affairs of the Grain corporation in their entire zones, carrying on transactions with growers, dealers and wholesalers and selling wheat to millers for domestic consumption and other products through usual channels. This work was done in co-operation with the federal food administrators that had been appointed for each state and each county in each state, who looked after the enforcement of the legal phases of the food administration.

In the case of grains, a proclamation issued by the government made it necessary for all operating plants, country elevators, terminal elevators and mills of all kinds exceeding seventy-five barrels capacity daily to obtain a license and to be governed by regulations set forth by the government food administration, in order that all might perform their duties in an equitable manner and also avoid unfair practices. Detailed reports of supplies on hand, additions, shipments, etc., were required to be made regularly to the Grain corporation, so that each zone's supplies were constantly familiar to headquarters, which made it possible quickly to bring about necessary adjustments. Grain supplies in storage were limited to no more than thirty days' milling consumption, excepting by special arrangement with the Grain corporation, and mills were not permitted to sell flour for longer deferred ship-

ments than thirty days, thus eliminating all chance of speculation (grain exchanges having been ordered by the government to suspend all dealings and quotations on futures) and preventing possible hoarding.

A milling division of the food administration, organized to co-operate with the Grain corporation and headed by noted millers from various sections, regulated the milling trade by obtaining a standard agreement from all millers to operate on one basis, which bound them to buy and sell only at the direction of the grain corporation, and in doing so to maintain the fair price basis fixed by the Grain corporation price commission (detailed price schedules having been adopted by said commission after careful consideration of the conditions entering into production in each locality), even to the extent of discontinuing milling operations if it were not possible to secure their milling supply on the agreed-upon basis.

When disputes arose as to price basis fixed by Grain corporation representatives, grading, etc., in certain transactions in different sections, the machinery of a standing advisory board, which had been created to adjudge such disputes, was invoked and ultimately all matters were settled satisfactorily.

The Grain corporation did everything possible to obtain necessary supplies for the millers, who agreed to operate on the profit basis fixed by the food administration (plus actual cost of production, which was reported in itemized statements), namely 25 cents per barrel profit. The licensee further agreed that an authorized representative of the food administration was at full liberty to inspect any and all property stored or held in possession or under control of licensee and all his records, no information so obtained, however, to be divulged to other sources than the United States food administration. Shippers and dealers, when ordered to ship, would do so to one of the Grain corporation buying zones, and would be remitted to by the Grain corporation when material was unloaded and checked by government inspectors (licensed by the secretary of agriculture), on the basis of weights, quality, etc., at government price basis.

Dealers, furthermore, in carrying out the orders of the Grain corporation, were insured against loss by reason of decline in prices, as the form of contract entered into with the Grain corporation was so drawn that it offered ample protection against a

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decline in value of material stored at instance of the Grain corporation, in case the buying level of the Grain corporation at any of the standard zone terminal markets was lowered, thereby also protecting any financial or banking loans made on the material.

Beyond first supplying the calls of the Grain corporation, dealers were not restricted as to buyers or markets, but could not hold their prices in excess of cost of materials and actual expenses, plus the reasonable margin of profit stipulated by the food administration.

While there was no restricted or specific "fair price basis" placed on the other products handled by the Grain corporation, outside of wheat and flour, in view of the fact that the corporation was at all times the largest buyer of these products from the growers in all sections of the country, it naturally was in a position definitely to regulate fair prevailing prices at which these commodities could be dealt in, and practically did so throughout the entire country at all times.

The cardinal object of the Grain corporation was so skillfully to manoeuvre the allotment and distribution of the constantly changing supplies of available products throughout the country that there would always be on hand a sufficient supply in each locality according to its requirements. This made necessary the continuous adjustment of stocks by diverting supplies from one section to another, according to urgency of calls therefor. Having complete control over the situation and being informed as to quantities on hand in each zone at all times, as well as average requirements, the Grain corporation was in a position to order special calls from certain sections promptly filled from other sections, as well as quick replenishment of low stocks in different zones, even though such zones were distant from zones that had supplies on hand. These operations, in normal times, would have been impracticable, owing to large expense of transfer involved. In this way serious shortages were avoided, and there was a comparatively even distribution of all commodities produced.

Conferences were called at intervals by the president of the Grain corporation of the representatives of the grain trade in the United States, at which times there were important discussions and exchanges of views on the various phases of the grain situation, and methods were adopted to meet certain problems that had arisen from time to time.

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The Grain corporation was in reality used by the food administration as a concrete method of purchase and sales accounting, being a properly constituted and independent auditing committee which had been set up to check the details of transactions at every point, through reports and statements which were constantly being rendered to it from each zone, covering every individual transaction. The corporation was self-sustaining in that its operating expenses were covered by an administration fee of one per cent. which it charged buyers on the gross amount of each transaction, for its service. This fee covered the corporation's office expenses and included cost of storage and handling.

Each Grain corporation zone or agency was conducted as a separate unit, having been provided with a working cash fund from the central office at New York, to which office it reported its total transactions by telegraph daily and furnished detailed figures covering all its accounts, together with complete monthly statements of its earnings, which enabled the New York office constantly to have available what amounted to an exact duplicate set of books showing the accounts of all its agencies, which were periodically verified by traveling representatives of the Grain corporation's auditors. The working fund of the zones (which in a sense was their capital) was not a fixed sum, but was adjusted from time to time as the needs of the agency required. The agencies were required monthly to remit their earnings to the general office and in turn they were reimbursed by the general office for their expenses.

The method employed in financing the operations of the Grain corporation consisted of the use of trade acceptances to a considerable extent. Some two hundred and thirty millions of dollars were borrowed on trade acceptances and notes during the year 1918. The collateral upon which the acceptances were issued represented elevator receipts covering wheat owned by the various agencies. As the New York office required collateral for acceptances issued, it would instruct the agencies to deposit in their local banks collateral for the number of bushels required. The local banks would then hold this collateral "in trust" for the New York bank which acted as trustee for the collateral upon which the acceptances were issued and the acceptances were endorsed to

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this effect. The agencies were permitted to make substitutions of this "in trust" collateral so that they could move any particular lot desired.

In this manner the Grain corporation's central office was in a position to put in circulation some fifty million dollars' worth of acceptances each month, all maturing in three months (some of which covered renewals that were issued from time to time). Numerous banks throughout the country were the holders of such acceptances at various times.

The fixed capital of the Grain corporation was increased by the food administration from fifty million dollars to one hundred and fifty million dollars during the fall of 1918, and in addition a loan was obtained from our allies of two hundred million dollars, the business of the Grain corporation having grown to such large proportions.

The stupendous magnitude of the operations of the Grain corporation can best be illustrated by figures covering its purchases and sales of various products during 1918, which included total purchases of wheat amounting to \$1,086,000,000, flour \$437,400,000, rye \$40,000,000, beans \$25,000,000, barley \$15,000,000, rice \$15,000,000, cereal products \$18,000,000, peas \$2,200,000, corn \$1,200,000, butter oil \$1,200,000, rolled oats \$200,000; and total sales of wheat amounting to \$818,000,000, flour \$398,000,000, rye \$18,000,000, beans \$18,000,000, barley \$8,000,000, rice \$11,000,000, cereal products \$15,000,000, peas \$1,700,000, corn \$800,000, butter oil \$1,200,000, rolled oats \$200,000; and in addition miscellaneous commodities were purchased for the committee for relief in Belgium and European relief amounting to \$60,000,000.

It might be noted here that its exceptionally well organized system and the control exercised by the Grain corporation were of untold benefit to the allies in alleviating the condition of the distressed populace of Belgium by the rapid movement of commodities. Shipments were made on all vessels that could possibly be requisitioned. At the same time the scant supplies of all other allied countries were replenished.

The total sales of the Grain corporation for 1918 amounted to \$1,330,000,000, and the disbursements were \$1,800,000,000, with a large inventory remaining on hand. These huge sums involved in the operation of the Grain corporation are greater than even the

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business done by some of our largest industrial corporations, the total yearly business last reported by the United States Steel corporation being \$1,205,000,000, and that of Swift & Co., for 1918, \$1,200,000,000.

The vast operations of the Grain corporation which have been enumerated were accomplished with the comparatively insignificant permanent investment, including fixtures and equipment, of about \$165,000, as contrasted with the enormous investment of other American industrial corporations in machinery and equipment, amounting in some cases to hundreds of millions of dollars and necessitating the labor of hundreds of thousands of employees. The total number of employees in the central office of the Grain corporation at New York approximates 500, and its total running expenses, including zone agencies, amounted in 1918 to some \$1,800,000, while handling and storage of commodities totaled \$2,750,000, the government not carrying any insurance on its property.

Considering that an exceedingly well regulated method of proper collection and distribution of food products was established by the Grain corporation, and the tremendous volume to which its operations rose in such brief space of time from its inception, great tribute is due the men who labored to bring about this result and were instrumental in rendering such valuable service in feeding the populace of this country and its allies.