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Banking and Commodity Market Structure:
The Early Chicago Board of Trade
Owen K. Gregory

The Rejection and Acceptance of a Marketing Innovation:
Hedging in the Late 19th Century
Morton Rothstein

Survival and Change:
Post-World War II
at the Chicago Board of Trade
Thomas A. Hieronymus

Grain Trading in the 1970s
James A. Howard

Appendix: The Archives of the Chicago Board of Trade
Gretchen L. Lagana
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The Rejection and Acceptance of a Marketing Innovation: Hedging in the Late 19th Century

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There is a surprising lack of specific details in the standard historical accounts of futures trading. The one effort to provide a full explanation, by Irwin, uses post-World War II butter and egg futures experience to postulate definite stages in the evolution of such markets, including the history of grain and cotton exchanges. With due respect for the special brilliance of Chicago's entrepreneurs as a causative factor, there is still no fully satisfactory explanation of how, when, and why the grain traders of that city led in the formulation of these marketing innovations. Equally striking is the meagerness of data on the emergence of hedging, that market expression of risk aversion which has been the major justification, if not the entire raison d'être, for futures exchanges. Economists have informed us that an organized commodity futures market performs many functions: it helps set and forecast prices, discounts seasonality and other short-run factors, and provides a continuous forum for transactions. Still, the unquestionably major rationale for those markets as they came under attack in the late nineteenth century was that they provided a mechanism to holders of grain, whether merchandisers, flour millers, or others, for shifting most of the risks of a price decline in those holdings to professional speculators, while also giving up to them the gains from a rise in price. This quasi-insurance function, accomplished by means of offsetting transactions on markets large enough not to be affected by a single buyer or seller, was the ultimate reason for public acceptance of futures trading as the "self-adjustment of society to the probable," in Justice Holmes's famous phrase. In the 1905 Supreme Court decision on the Christie case, he described hedging as "the means by which collectors and exporters of grain . . . secure themselves against the fluctuations of the market by countercontracts for the purchase or sale, as the case may be, of any equal quantity of the product." He used such trading as proof of the legitimacy and social utility of futures trading.

However imperfect it may be as an insurance function, modern hedging

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3 For a reproduction of the majority argument in that decision, handed down on May 8, 1905, and its use in defense of commodity exchanges against efforts at government regulation, see U.S. Congress, House, Hearings Before the Committee on Agriculture, 66th Cong., 3rd Sess., January and February 1921, pp. 584-88. For an excellent discussion of the decision in this and its companion cases, and their significance for the Board of Trade, see Jonathan Lurie, The Chicago Board of Trade, 1859-1905: The Dynamics of Self-Regulation (Orbana, IL: University of Illinois Press, 1979), pp. 185-206.

emerged and spread along with futures markets in the third quarter of the nineteenth century; indeed, it was inseparable from them. It was adopted slowly, often against the resistance of traders, in Midwest grain exchanges during the 1860s, then spread to the eastern seaboard markets in the 1870s and 1880s, and finally gained acceptance among European traders late in the century. At the same time, many businessmen inside the trade, as well as an ill-informed public, attacked it as undesirable speculation.

The risks in holding stocks of grain were real enough. During the colonial and early national period in America, merchants at the seaboards who exported this commodity sought to balance their needs to limit those risks with the equally compelling need, given favorable market reports, to assure themselves a supply of the commodity. They were mostly general merchants, who combined dealings in grain with various other mercantile interests. Few dealers except a few large flour millers specialized in breadstuffs as such at that time. For merchants, the ordinary risks of a drop in price at markets several weeks or months distant, or from possible loss of cargoes, were compounded by poor market information (also a function of distance) and by the early tendency in America to ship wheat as flour, with its shorter storage life and greater vulnerability to damage en route. Until the 1760s, most of the flour and grain exported from the North American mainland went to the West Indies, almost literally a fragmented market. More than two thirds of the wheat shipped abroad went in processed form between 1765 to 1775, when exports accounted for roughly one third of the crop, though by then substantial amounts went to southern Europe and England. After the major innovations in flour-milling technology associated with Oliver Evans in the early years of the republic, the proportion of wheat exported as flour rose to more than 80 percent of the total. We must assume that the profits on such shipments were commensurate with the risks for they remained high. An indeterminate, but sizable fraction of the flour that crossed the Atlantic arrived in more or less spoiled condition, to be sold for mixing with the local product or for industrial use in making starches and sizing.

There were two ways a merchant might then limit his risks in this commodity. First, he could keep to a strictly commission business, accepting consignments of wheat or flour from local merchants or millers (who had to then take all the chances or pass at least part of them back to local traders and farmers). On such a basis, the general merchant would forego profits that might accrue from a rise in

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price, essentially limiting his return instead to a commission, usually from 3 to 5 percent of whatever the final sale might bring. The trouble with such a policy was that the general merchant was also the major source of credit, of working capital, for his suppliers. If market prospects seemed at all promising, those local dealers could and did insist on substantial advances against the final selling price, which sometimes fluctuated enough to make an advance as small as 50 percent hazardous. Only the most solid and reputable dealer could make good on losses of that kind within a reasonable time. In boom periods, on the other hand, competition among merchant shippers for supplies drove advances to levels near the market price. Until at least the mid-nineteenth century, most transactions in the grain trade involved consignments of this kind, albeit with a wide, negotiable variance in the relative size of advances against shipments.7

A second method was to share risks by trading on joint account with local suppliers. Jonathan Ogden of New York, who had migrated from Yorkshire in 1793 to establish himself as a successful merchant shipper, entered into such arrangements in 1811 and 1812 with Levi Hollingsworth of Philadelphia, who had been America's leading flour merchant since the Revolutionary period.8 They shipped several full cargoes of the item on joint account to Lisbon and Cadiz; Ogden provided the shipping and insurance, Hollingsworth the flour, and they split the profits. The returns were good those seasons, then they incurred losses in 1813 and 1814, before hitting another couple of lucrative seasons responding to an unusual demand in the British Isles due to the severe harvest shortages there in 1816 and 1817.9 Exports from the U.S. dropped off sharply after 1819. Similar joint-account operations were conducted by Alexander Brown and Sons and Baring Brothers in the 1830s and 1840s. But those international merchant banking firms shifted constantly between business in consignments, to trading on joint account with correspondents, to trading entirely on their own account, to dropping out of the breadstuffs trade altogether if they thought there was no chance of profits.10

Most large merchant shippers in the transatlantic trade were based in London or Liverpool during the nineteenth century. In the rare cases when they undertook trading on their own account, a third method of dealing in breadstuffs, they were assuming all the risks after the commodity was loaded on the vessel at the port of origin. To some extent, the certainty of earnings from freight charges, insurance premium commissions, and foreign exchange transactions in connection with a grain shipment served to offset the volatility of price changes for the commodity

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7 The best available discussion of the advantages and disadvantages of the consignment trade on the international level is Sheila Marriner, Rathbones of Liverpool, 1845-73 (Liverpool: Liverpool University Press, 1961), pp. 53-73, with much material on breadstuffs trade and an effort to resolve conflicting interpretations about the shift to joint account trading. It does not, of course, deal with the problem of American shippers who had to deal with a capital-hungry hinterland.

8 On Hollingsworth, see Robert A. East, Business Enterprise in the American Revolutionary Era (New York: Columbia University Press, 1938), pp. 151, 154, 249. There is a detailed file on the Hollingsworth family in the Cecil County Historical Society, Elkton, Maryland. Much additional material is available in the very extensive Hollingsworth Business and Personal Papers, Pennsylvania Historical Society, Philadelphia. Materials on Ogden are divided between two extensive collections—one in the New York Historical Society, the other in the New York Genealogical Society.

9 Jonathan Ogden Lettercopy Book, 1811-1817, New York Historical Society; Jonathan Ogden to Levi Hollingsworth, several letters from June 1811 to January 2, 1818.

itself. Still, during the first third of the century, British merchants were more likely to rely on sources closer to home, such as Ireland or the Baltic, for breadstuffs. A succession of Corn Laws kept tariff barriers high after 1815 and intensified risks at the same time that the United Kingdom was generating enough demand to emerge as the world’s major grain market. In addition, shipments across the Irish Sea or from the Baltic encountered high storms and other adversities at the peak of seasonal demand. But for the importing merchant they were attractive sources in the 1820s because they were among the first routes to obtain steam-driven mail packets. A sample of the grain shipment, accompanied by the bill of lading and other documents of title, could arrive ahead of the shipment itself, which could be sold en route, sometimes even before it left port. In this accelerated turnover of ownership, merchant shippers found a way to avoid risks akin to a primitive form of hedging.

Sales of such cargoes while “afloat” took place with increasing regularity on London’s Baltic Exchange, then the most important commercial institution for the purchase or sale in wholesale lots of Baltic, Mediterranean, and American produce. More and more transactions on that exchange involved ship charters and full cargoes of grain for those ships to carry, a business for which the Baltic remains to this day the most important organized market in the world.

During the 1830s and 1840s, a coterie of Greek merchant shippers who had migrated to London extended the sale of “floating cargoes” to the newly opened Black Sea grain trade. Members of a close-knit ethnic and religious group, they had familial connections scattered at ports throughout the Mediterranean and lower Danube basin. They were in a peculiarly strong position to capitalize on the burgeoning grain business in that part of the world, bringing full cargoes to the British market along the same lines used by Baltic traders. Quotations for these cargoes, which ranged in size from 16,000 to 40,000 bushels, were denoted in “c.i.f.” terms, designating that the stipulated price included the cost of the

11 Jonathan Ogden, in a letter to his Liverpool partners, Bolton, Ogden & Co., December 28, 1816, boasted that his transactions in foreign exchange with other New York merchants who did not have his excellent connections with Liverpool and claimed the returns on exchange alone would “make a splendid year’s business,” as did his shipping earnings.

12 Carl J. Fürich, “Der Englische Getreidehandel und seine Organisation,” Jahrbucher für National Ökonomie und Statistik, Neue Folge, 20 (1890), pp. 5–6. John Day, an early partner of Jonathan Ogden who retired by the 1820s, recalled later on the basis of his experience as a Liverpool grain importer, that “German vessels cannot work to the Westward in the winter season from Baltic ports—at least could in my day.” J. Day to John Ferguson, New York, December 12, 1836. He was often concerned about the “terrible passages” in the Baltic and North Seas which held up grain vessels until April or later. J. Day to John Ferguson, July 12, 1837.


produce, the insurance, and the freight charges. By the late 1840s the development of these procedures was pushed forward by telegraphic communications with the Baltic and Black Sea ports, by which the immediate transmittal of price information and purchase orders made transactions in full cargoes simpler and faster, accelerating changes in ownership and shifting risks quickly to the final purchaser. Another benefit from the spread of the floating cargo business was that vessels could be directed first to a “port of call”—usually Plymouth, Falmouth, or Cork—to pick up orders designating the final discharge point for the cargo. Merchants who bought grain on the floor of the Baltic Exchange, or in Liverpool by the 1850s, saved considerable time and expense by redirecting the vessel to a variety of ports in the United Kingdom or on the Continent.

With the opening of the British market in 1846 by the repeal of the Corn Laws, this early version of c.i.f. trading became standard for the grain import business in London and Liverpool. The dealers in Russian, rather than American, grain obtained the first benefits of that development and of the subsequent growing scale of the business. Throughout the 1850s, the “floating cargo” trade on the Black Sea route increased in volume and significance as a source of British imports, even with the interruption of the Crimean War. By the end of the 1860s, there were often 200 to 300 sailing vessels full of grain (representing roughly $4 to $8 million) on their way at the same time from the eastern Mediterranean to the United Kingdom. It took little more development, especially after laying the role of transoceanic cables across the Atlantic and Pacific oceans, for similar procedures to prevail after the late 1870s for the wheat imports from such distant sources as California or India, shipped almost entirely in full cargoes on sailing vessels. Sometimes the risks of holding such cargoes for the firm that could not or did not wish to sell it “atfello” or “to arrive” could be limited in other ways, primarily in the very old method of selling venture shares in a sailing voyage. For instance, the head of a leading Anglo-American grain firm operating between California and Liverpool—Balfour, Williamson & Co.—hawked shares in several voyages around Cape Horn in the 1870s to friends and relatives in Scotland, as a means of reducing his risks and replenishing his working capital. In the 1880s, fractional shares as small as one thirty-sixth were sold in at least two ventures that sent a vessel around the world, carrying British cloth from Liverpool to India, jute for making grain sacks from Calcutta to San Francisco, and a full cargo of wheat from San Francisco back to Liverpool.

11 Fuchs, “Der englische Getreidehandel,” pp. 33-35; this rapid disposal of cargoes was presumably one of the factors in the long delay in developing a futures market in London, and the indifferent success when it was established. See André Sayous, “Le Marché à Terme en Graines à Londres,” Journal des Économistes, 38 (Series 5) (April-June 1899), pp. 78-84.


14 Stephen Williamson, Liverpool, to “My Dear Collie,” March 27, 1873, and September 28, 1874, Williamson Letterbooks (London: Balfour, Williamson and Co., Ltd.). In the second letter, Williamson is reporting that he has sold shares amounting to 10,000 to 20,000 quarters (roughly 8 bushels) “to large Yorkshire friends” and asks his relative, probably an uncle, if he could “in conjunction with some of your friends face a series of operations say 3, 4, 5, or 8 to 10 Cargoes during the season?” For a discussion of this firm in the Pacific Slope grain business, see my article, “A British Firm on the American West Coast, 1869-1914,” Business History Review, 57 (Winter 1963), pp. 392-415.

15 Copies of the final accounts of these voyages are in the author’s possession, courtesy of Mr. S. Culpin, Liverpool, whose family had been in the grain trade there.

205
Until the late 1870s, the British grain importing business was dominated by a few relatively large firms, even in the major ports of London and Liverpool. A veteran of the Liverpool trade recalled that importing merchants had a "good understanding" between them, seeing to it that the market was not flooded and that profits were maintained. From time to time London grain importers, too, were accused of forming a tightly knit oligopoly. Such firms relied on their multinational connections to sustain their market position, especially when their numbers were augmented by a few of the leading German and Jewish continental grain firms. With their superior access to market information and to working capital, and with their auxiliary functions as shippers, maritime insurers, and organizers of buying networks in the interior of most grain exporting lands, they held considerable market power. Some of them felt no need to reduce their risks further, calculating that if they could guess right about price movements seven times out of 12, they would still come out well ahead on the average. It was this group of the largest importing merchants, with their representatives in the United States and elsewhere, who resisted most vigorously the spread of futures trading and hedging to the Atlantic seaboard of the United States and to the United Kingdom itself.

Meanwhile, a series of interrelated developments was rapidly transforming the American Midwest into a major surplus grain producing region. The nation's 1849 crop, admittedly a poor one, was roughly 100,000,000 bushels and represented about 4.5 bushels per capita, little more than the level at the beginning of the century. Ten years later, Americans grew 5.5 bushels per capita and Illinois had replaced Ohio as the leading wheat and corn state. By 1879, when a series of disastrous harvests in western Europe created an unusually heavy demand for imports, the United States was producing just a little less than 500,000,000 bushels of wheat, an almost fivefold increase over 1849, and per capita output stood at almost 10 bushels. Then and for the rest of the century, Americans made the most of the opportunities they had in foreign markets, again shipping abroad about a third of their total wheat harvests. In terms of value, this trade in breadstuffs even outstripped cotton in the late 1870s. Corn output grew as fast, but it was not directly an export crop.

American middlemen at the lake ports and especially Chicago responded to the problems of assembling, storing, and shipping this mounting tide of grain with the creation of the elevator system. On the farms, the technological breakthrough of a reliable mechanical reaper both improved labor productivity and extended the limits on acreage in small grain production. The improved transport and communication wrought by the telegraph and railroad brought those farmers in the landlocked continental interior within reach of the world market. No less vital in shaping the American grain economy was the technological innovation of grain handling, with its associated new system of trading. It was reflected most clearly in the radical shift toward buying and selling grain in bulk. But the elevator system also quickly became both a physical plant and a way of doing business, employing generalized warehouse receipts, official

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grading and inspection, and the development of standardized contracts for
future delivery. Most elements of that system were in place by 1859 in Chicago,
when its Board of Trade received a new state charter granting it considerable self-
governing powers. By then, plenty of speculation had already developed outside
the halls of the Board of Trade. But it took a few more years to make essential
improvements in inspection, in margin rules, and in the standardization of
contracts. It also took time for many reputable traders to accept these
innovations.

Most Midwestern grain merchants looked to New York for the disposal of their
product. By the 1850s, the Great Lakes-Erie Canal route and the rapidly growing
railroad network had displaced the older Mississippi River route for eastbound
grain, centralizing much of the export trade at the mouth of the Hudson River.
As improved transport and communications linked together the various
intermediate transfer points between the western Lake ports and seaboard, the
initial impact was a more rapid transfer of ownership and, consequently, smaller
risks among smaller dealers as the grain moved eastward through their hands.
By mid-1850s, however, a group of New York-based merchants tended to
dominate the flow of breadstuffs by providing credit and financing for western
millers and shippers. Increasingly, these eastern buyers dealt directly with
shippers at Chicago and Milwaukee, bypassing former intermediaries at Buffalo
and Lake Erie ports.

The leading innovators in forging direct links with western merchants were
David Dows and Jesse Hoyt, each born in upstate New York and each heading a
prominent New York City grain firm by the early 1850s. In 1855, Dows sent a
junior partner, Nathaniel Fairbanks, to Chicago to head a branch office which
solicited consignments of breadstuffs, eliminating the shipper’s functions. The
firm also extended credit to many country dealers, warehousemen, and flour
millers throughout the Old Northwest. By the 1860s, Dows was known among
the leading merchant shippers at New York as the nation’s largest, most
reputable receiver of western breadstuffs. Hoyt almost matched Dows in the
volume and geographic extent of his grain business. In the 1850s, he had branch
offices in Buffalo, Chicago, and Milwaukee, and built the first modern grain
elevator at the latter port. For the next 20 years or more, he was the silent partner
of Angus Smith, who owned and operated all the Milwaukee elevator
warehouses and dominated much of the grain’s trade through the 1870s and
1880s. In the 1860s, Hoyt was also the chief buyer of a rather nervy Chicago
warehouseman named Ira Y. Munn, who became involved in a rather celebrated

University, 1938, pp. 58-65. For a recent discussion of the early use of elevators, see Arthur A.
Markowitz, “Joseph Dart and the Emergence of Buffalo as a Grain Port, 1820-1860,” Inland Seas,
XXV (Fall 1999), pp. 179-97.

Thomas Otte, “Entrepreneurial Cooperation on the Great Lakes: The Origin of the Methods of

New York Assembly, Special Committee on Railroads Hepburn Committee, Proceedings, Vol. III
(Albany, NY: 1879-80), pp. 3113-14; New York Senate, Testimony . . . on making Corners and Dealing
position of these two firms. Obituaries of David Dows are in the New York Produce Exchange
Reporter, April 5, 1890, and American Elevator and Grain Trade, April 15, 1890. There is a small
collection of Dow’s manuscripts, dealing primarily with his early career, in the New York Historical
Society.
challenge of the Illinois legislature's power to regulate a facility "clothed in the public interest."**35**

It is difficult to tell when or whether these two "fobbers," who bought grain in the Midwest to deliver "free on board" to the c.i.f. trading exporters at New York, were among the small group of traders who first used futures markets for hedging. Given the size of their business and the inventories they must have carried, they would be prime candidates for it. We do know that they began receiving more and more grain on a cash basis rather than on consignments as telegraphic connections with western markets were more firmly in place. Another reason, to be sure, for the decline of the consignment method and the evolution of futures was the growing ability of western receivers to obtain loans from local banks on the security of the negotiable, standardized warehouse receipts coming into wide usage at the Lake ports. Daniel Wells and Horatio Hill, partners in a general merchandise business at Milwaukee, found that during the 1854-1855 season they had no trouble getting financing locally and that the city's banks were "not getting as much produce paper as they would like."**36**

There is no doubt that by then some of the fobbers as well as local dealers and millers were using early forms of hedging on the still-evolving futures markets. In August 1858, George C. Stevens, the Milwaukee partner in the New York firm of Hoffman & Stevens, worried about the new methods of sale for future delivery that some of his competitors were using. "I hope anybody will lose who ever enters into those kind [sic] of gambling operations of selling ahead," he wrote. "In case wheat declines there is always something creeps on [sic] so that the party would not take the property... there is no speculation so dangerous, not even betting on a faro table... Take a fair risk in actual property but never sell a thing which you don't own and don't know the cost."**37** Clearly, there were still enough problems with enforcing contracts, agreeing on grading standards, and other elements of the system to limit the usefulness of forward sales at that point.

Undoubtedly, too, the more established and conservative members of the Chicago Board of Trade or the Milwaukee Chamber of Commerce opposed the spread of futures trading during the Civil War, at least in part because the speculative activities gave men of lesser substance, willing to take a chance, an entry into the grain trade. Such a trader could operate on a shoestring, selling short and expecting to buy the grain later to fulfill his contract at a price that would give him a profit on virtually no investment. On the other hand, if he misjudged and the market went up, which was as likely as not, he would lose heavily, might easily be ruined, and the reliable traders would have no recourse. Such short selling had become rampant at Chicago during the price decline of the

**35** On Angus Smith, see the file in Milwaukee Chamber of Commerce papers, Wisconsin State Historical Society, Madison, reprinting obituaries from Milwaukee papers, and containing some choice correspondence with Alexander Mitchell, the state's leading banker. On Hoyt's involvement in speculations, see Northwestern Miller, May 14, 1880, reprinting an article from the New York Herald. See also letters from New York to Rathbone Brothers, Liverpool, March 15, 1864, and February 23, 1865, regarding the high standing of these two firms in New York. For Munn's connection with Hoyt, see William G. Ferris, "The Disgrace of Ira Munn," Journal of Illinois State Historical Society, 68 (June 1975), pp. 202-12.

**36** H. Hill, Milwaukee, to D. Wells, January 25, 1855, Daniel Wells Papers, Milwaukee County Historical Society.

**37** Two George Stevens letterpress copybooks, barely legible, have been preserved at the Wisconsin State Historical Society, one for 1858, the other for 1873.
late 1850s and at several times during the Civil War. In 1865, Secretary Beatty of the Chicago Board of Trade decried in his annual report the speculation that "has been too much the order of the day," so that "buyers and sellers of 'long', 'short', and 'spot' have passed through all the gradations of fortune, from the lower to the higher ground."

Yet by then the Board of Trade was adopting new rules that recognized forward sales and made the enforcement of contracts more rigorous; providing, for example, for the deposits of cash margins on the demand of either party to a time contract. In October 1865, the rules were revised further to set standard procedures for delivery and payment on time contracts, and for their enforcement. By 1870, the time contract had almost completely evolved into the future contract of today, a contract which has no reference to specific lots of the grain involved, which is negotiated under the rules of the commercial body in a set form, by which the conditions regarding the size of units, the quality defined by grade, and the time of delivery are standardized, and in which only the determination of the total amount and the price is left open to the contracting parties. Virtually the same kind of rules were adopted by the Milwaukee Chamber of Commerce. The first one there to provide for cash margins if demanded "for all time sales of grain made by members... and termed as time or option sales" was passed in January 1864. Stricter enforcement imposed by more elaborate rules came into force in March 1867. Other grain exchanges in the Midwest made similar changes about the same time.

By the early 1870s, hedging had become commonplace at the lake ports. Bankers were beginning to require evidence that the grain had been protected through that procedure before advancing loans on warehouse receipts. In December 1873, the same George Stevens who had denounced selling ahead in 1858 had to explain to his skeptical eastern colleagues about the advantages for merchandisers in the fully evolved technique of hedging. "In order that there may be no speculation about buying wheat here, I mean to sell a seller Feby. [against the shipment]," he reported, "and when you use this wheat, then buy it in here. If wheat goes up here, it will with you and this mode covers all speculation." He elaborated further that "this method, if we have 15,000 bushels in transit, gives us an opportunity to sell 15,000 seller Feby. at 3 or 3 1/4¢ margin, so in case of a rise, or decline, we do not partake of it and have a sale out with a prospective margin of 3 or 3 1/4¢ per bushel. Of course, I would only sell to a good party and would have parties put up margins if they are light. I do not know that you will understand this, but it is an excellent thing, if we do not want to speculate."

Some of the language in that letter is arcane, to put it mildly, and the terminology has gone through many changes, but it illuminates several points. First, there was a change among Midwestern grain traders in the 1860s from a suspicion of

19 Chicago Board of Trade, Seventh Annual Statement, 1865, p. vii.
20 Lurie, Board of Trade, pp. 40-45.
21 Emery, Speculation, p. 46.
23 George Stevens to Stevens & Co., Westchester, NY, December 20, 1873, in Stevens Letterbooks, State Historical Society of Wisconsin, Madison, WI.
futures and the hedging they were making possible to an acceptance that was enthusiastic. Second, it shows that New Yorkers and other seaboard merchants lagged behind the Midwest in adopting the market innovations associated with the elevator system. Third, hedging is a complex procedure, imperfectly understood even by many elements of the grain trade itself in the nineteenth century. In fact, many traders joined in the early outcry against futures stimulated by a succession of well-publicized “corners” on the Chicago market between 1864 and 1870, alleviated in most cases only by the redefinition, after the fact, of “contract” grain as well as contract forms. On the other hand, such activity was evidence that the market had attracted a large new class of traders, ready to assume some of the risks hitherto borne by the holders of grain.

A few of the New York c.i.f. traders, whose numbers were augmented by some agencies of Anglo-Greek houses during the Civil War, did appreciate some of the advantages of early forms of hedging. For example, the general merchant shipping firm of Rathbone Brothers, Liverpool, was then expanding their grain imports from New York through the agency they had earlier established there. At that point, the firm was displacing the Barings as the leading Anglo-American commodity trader. They responded to wartime risks primarily by shifting into sales “to arrive” for their cotton and coffee as well as grain shipments, and abandoning consignment business. In 1862, their New York agent observed that flour millers at that port engaged in forward sales because they had “sold ahead largely, and with the present price of wheat their contracts show a margin of $2 p. bbl.” In 1864, he was tempted by an offer from David Dows to “buy No. 1 Milwaukee for me in the West, and hold it there until the navigation opens... The chief risk would be risk of damage and this might be obviated by selling at Milwaukee and replacing in New York.” He turned the offer down, but noted that several other shippers were going into that kind of business. The bias of the large shipping firm against time contracts was shown again in late 1867 by the new head of Rathbone’s New York branch in his strong recommendation against getting involved in “contracts for future delivery of breadstuffs” with an old New York mercantile firm, Howland and Aspinwall. He opposed it in part because that firm had reputedly made money during the war on “smart” operations filling government orders involving such contracts, and also because they “are said to be the very large receivers of flour just not under contract” for future delivery.

By then, some of the leading figures in the New York grain trade—“jobbers,” brokers, and owners of floating elevators in the harbor—were anxious to adopt most of the elevator system, especially for inspection and grading and for generalized warehouse receipts. They faced resistance not only from merchant shippers, but also from owners of older warehouses and of canal boats, who showed, according to one critic, a “conservatism fortified by the habits of half a century and involving millions in capital.” Whatever the reasons, the

35 Busk to Henry W. Gair, Liverpool, November 5, 1862, Rathbone papers; in a previous letter, dated October 8, 1862, Busk had reported that “the Greeks are in the market.”
36 Busk to Rathbone Brothers, March 15, 1864; J.R. Busk to Rathbone Bros., December 14, 1867.
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New York Times, March 14 and 21, April 5, 1869.


Industrial Commission, Report, Vol. IV, p. 386. For Counselman’s private seminars with the President of the Board of Trade and Senator Keys, see the transcript of their conversation in Keys papers, State Historical Society of Wisconsin, General Correspondence Box for 1892.

opposition aborted strenuous efforts in 1869 by New York grain receivers and elevator owners to secure an agreement with the shippers at western cities that would have lowered transfer charges at both the interior points and seaboard, while adopting inspection and other procedures in New York. Under the pressure of mounting grain receipts by rail, the New York Produce Exchange officials initiated the necessary changes in 1874, announcing a system of reinspection and regrading of all grain arriving at the city, whether by canal or rail, and the issuance of general warehouse receipts certifying impartial inspection. Almost simultaneously, trading in futures contracts appeared in the halls of the New York Produce Exchange, though on a far more limited scale than in Chicago. Over the rest of the century, there was periodic dissatisfaction with the system of grading at New York among the c.i.f. traders. David Bingham, an English buyer who was reputedly the largest in New York in 1880 and still active at the turn of the century, testified that his firm never wanted graded wheat “because it simply wipes out any judgment we have in the careful selection of our property.” He generally tried to purchase special quality lots and shipped them on through bills of lading direct from Chicago to Liverpool, “and by that means the railroad company is compelled to preserve the identity of our grain.” His was an unusual stance, however. Most grain exporters, whether representing foreign buyers or the new, large, interior-based firms that were displacing the old “fobbers” by shipping overseas direct from primary markets, had learned to embrace all aspects of futures trading.

The heads of the line-elevator companies that were rising to prominence in the Midwest were especially dedicated to hedging their ever-growing inventories of grain. Early in his career as head of an elevator firm that has grown to the present day, Frank Peavey laid down a simple creed early for himself and his associates: “Hedge or sell all grain as soon as it is bought; take in the hedge instantly when the grain is sold.” When Charles Counselman appeared before the Industrial Commission in 1900, he took great care to explain that when his country elevator men in Iowa and Nebraska purchased grain from farmers, they telegraphed reports of the amount and price to the Chicago office, which then sold it immediately for shipment or hedged it. “I do not hold it more than an hour after the Board of Trade opens,” he asserted, “I am not a speculator.”

Several years earlier, that same Counselman had been part of the small delegation from the Chicago Board of Trade that briefed Senator Keys of Wisconsin on the arguments against the Butterworth anticipations bill, which agrarians were
pushing in an effort to limit or outlaw futures trading, the main reason for lower prices, in their judgment.

By the end of the century, the exporters who had often denounced the upsetting of markets by “corners” in the 1870s had grown unconcerned about such manipulations. David Bingham claimed that such activity had no effect on his business, since he could “generally buy for export at a legitimate value, whatever its [the grain’s] speculative price may be.” Solomon Dreyfus described in some detail how exporters could pick up as much as a million bushels of wheat at prices ranging from 15 to 20 percent below market quotations by simply agreeing to export the grain soon, clearly collaborating in an attempt to bury a speculative “corpse.” Most of the time, exporters found the futures market more valuable for its hedging facilities, and because it enabled large firms to purchase virtually any amount without influencing prices. “An exporter goes into the market,” one of them reported in 1883, “and buys options largely without influencing the values perceptively; then he trades off his options for actual property.” Such sophisticated use of hedging, confined to a small group of knowledgeable exporters in the 1880s, became a regularly accepted business practice among grain firms operating throughout the world by the opening of the twentieth century, though most of them increasingly used the Chicago market for futures transactions no matter where they bought the cash grain.

Meanwhile, American methods had gained another form of recognition from the New York c.i.f. traders. In the late 1870s to the mid-1880s they supported the New York Produce Exchange and other eastern seaboard grain institutions in their struggle with the newly formed London Corn Trade Association, an organization bent on solving the problems of the rapid growth in the number of participants as well as in the number and size of transactions in the British grain trade. Their major thrust was the development of uniform contracts designed for doing business with each of the different sources of grain and for each type, with the objective of improving the language of transactions and the procedures for arbitrating disputes, which had grown in number and intensity. Such contracts were virtually imposed on traders in every grain exporting area of the world in the late 1870s and called for a sample of “fair average quality” of a region’s crop to be sent annually to London, where it would serve as the basis for settling disputes over variances in quality of delivered grain. In all trading with the Black Sea ports, India, Australia, Argentina, and California, the “f.a.q.” (fair average quality) standard prevailed until 1914. By contrast, the L.C.T.A. and its constituents capitulated to the adamant refusal of American grain traders east of the Rockies to have any part of this standard. After five years of wrangling about the content of the “American” contract, and in exchange for American acceptance of the London Arbitration Committee rules for settling disputes, the L.C.T.A. tacitly recognized American grading standards and usage, expressed in the practice that had grown up during the 1870s of shipping on terms that made

43 Testimony on Corners, pp. 41-43, 580-83.
44 Testimony on Corners, pp. 128-29.
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41 In a letter to “My Dear Henderson” from Liverpool, December 23, 1892, Stephen Williamson reported heavy losses on wheat cargoes from California and added, “I fancy everyone in the trade is about cleaned out. Some of them did what is called a ‘hedging’ business—a wretched unreliable system which instead of ‘hedging’ often adds to the original loss.” But after the turn of the century, the West Coast branch did begin to hedge regularly the grain it was purchasing in its buying stations, but on the Chicago Board of Trade.

42 Fuchs, “Der englische Getreidehandel,” pp. 61-67. This German scholar also accused the large English grain firms of hypocrisy because even as they rejected futures trading for the London market, they “speculate themselves with large amounts on the wheat futures exchanges of North America,” and claimed the real reason for their opposition was “the danger to their oligarchical situation, which they are right in being afraid for. Futures trade democratizes business” [my translation].

1878; Stanley H. Tifford,
Grain Trade Lecture No.
Josel Hollauer, Das
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1881, May 16, 1882, May
York Millers' Journal,
plenty of risk takers to make an impersonal, extraordinarily useful marketing innovation work so well that it has endured through more than a century of dynamic change in the grain trade.
First of all, Mort said he was reading from a revised paper that I had not seen. I can assure you that his revised paper does not require any changes in what I have to say. Second, I would like to thank Lloyd for his idea of this conference. The idea of bringing together agricultural economists and historians, particularly economic historians, to see if we could interact a little bit, seems to me a great idea. Again, I want to thank Lloyd for getting this group together and also Owen Gregory for his part in helping to bring it about.

Professor Rothstein has made a substantial contribution to the history of hedging. Even before I obtained a copy of his paper, I made a search of the historical literature on marketing. Somewhat to my surprise, I found only limited discussions of futures trading and virtually nothing on hedging. I then thought that Mort’s paper would have all of those elusive references that the usual search does not turn up. Mort’s paper arrived in good time, but his footnotes only confirmed what I had found—that there is very little of a historical nature on hedging. The paper that we have just heard from Professor Rothstein fills a real void in the literature. My comments then will essentially be at the fringes of the paper, adding some interpretations that his time limitations did not permit him to cover.

Hedging is well understood by everyone in this group. It is a device that takes much of the speculative risk out of futures trading and is of particular value both to the commercial farmer who produces the commodity and to the business that uses it. Harry Fornari, known to me as a trained historian and to many of you as a vice-president of Bunge Corporation, wrote in relation to hedging and grain exports: “With the market risk thus reduced by hedging, the difference between the prices paid to the farmers and the prices quoted abroad could be narrowed, providing benefits for all participants in the transaction and supplying stimulus to further expansion of grain exports.”

Simple as hedging may seem, it is really a sophisticated trading device, understood only by a limited number of people. However, the number may be growing. The United States Department of Agriculture, the state universities, and the Cooperative Extension Service are all publishing information on the possible usefulness of hedging to commercial farmers. It is only in recent times, though, that many farmers have understood hedging and differentiated between futures trading as a possible speculative device and hedging as a stabilizing device. In fact, as Professor Rothstein suggests but does not quite say, much of the opposition to hedging was simply part of the opposition to futures trading.

Much of this opposition from outside the grain trade was based upon two points: opposition to gambling and to exploitation of the farmers through monopoly control of the prices paid to them. At least this would appear to be the case in the farmers’ protest groups whose writings I have examined. W. Scott Morgan of Hardy, Arkansas, an early organizer of the Agricultural Wheel, wrote in 1889 in a volume called, *The Impending Revolution*: “Two or three men in Chicago control the price of beef, pork, and lard. A half-dozen fix the price of wheat, corn, and oats. Not one-tenth part of the wheat that is bought and sold in change ever had existed. It is simply gambling in prices. The system is fraught with such apparent evils that the only wonder is that it is tolerated at all, and we presume that it would not be in a civilized country.”

Twenty years earlier, though, the members of the Chicago Board of Trade and the farmers making up the Granger Movement had joined together to
get state regulation of the elevator industry, which was a virtual monopoly. The men controlling the elevators had gotten rich through practices that hit both the farmers and the commission men. Yet, as Rothstein has pointed out, the elevator system had made futures trading on a large scale possible. The state legislation of the 1870s had its effect. By 1880, the Chicago grain elevator business had become systematized and responsible, and provided a solid basis for the world's greatest grain market. This was through cooperation both by the traders and the farm organizations.

Severe attacks on commodity exchanges, of which the previously quoted statement by Morgan is an uninformed example, were made in the 1890s. The depression of that decade and the low prices of agricultural products resulted in concerted attacks by grain interests on futures trading. This was especially directed against short selling. In 1890, the Butterworth Anti-Option Bill, the first on the subject in the United States Congress, was introduced but never came to a vote. The term option was used in the general sense as speculation in futures trading rather than in the technical market sense. In 1892, another bill aimed at suppressing short selling passed both houses of Congress. It never became law because some of the opponents were able to prevent the House and Senate from reconciling their differences. In the late 1890s, the depression ended, and farm prices turned higher. As a result, the attacks on futures trading ceased for about a decade.

During the early 1900s, though, the novels of Frank Norris, notably The Pit, dealing with the supposed evils of the Chicago Board of Trade, aroused considerable public resentment against the grain speculators. After the panic of 1907, twenty bills against futures, margin accounts, and options were introduced into the Sixtieth Congress and many others were introduced in the next several years. Indeed, the Democratic platform of 1912—and maybe this is the reason some of the traders have reputations of being Republicans—read in part: "We favor the enactment by Congress of legislation that will suppress the pernicious practice of gambling in agricultural products by organized exchanges or others." That kind of statement always makes me a little bit nervous. Farmers are against gambling. But as I sometimes say, if you want to find a real high roller, don't go to Atlantic City nor to Vegas, but go back to my old home country out in eastern Montana and talk to any big wheat farmer. He is gambling at least a year of his life on what the crop is going to be that year.

Meanwhile, a number of federal and state committees and commissions had studied futures trading. Their reports were virtually unanimous in concluding that futures trading properly conducted benefited industry and produced lower prices for consumers and higher prices for producers. Of course, as some of the reports suggested, futures trading was not always properly conducted. At the same time, as Professor Rothstein convincingly points out, hedging had become an important factor in export marketing. The whole system was strengthened in 1916 with the Grain Standards Act, in which the federal government provided for setting up specific grain standards. This not only afforded protection and a greater ability to the traders to move in many areas, but it afforded some protection to farmers.

Again, as prices went up during World War I, pressure for regulation declined. But almost as certainly as the sun rises in the morning, calls for regulation rose when wheat prices took a sharp drop in July 1920, with prices continuing downward for months and years. As noted by John Kenneth Galbraith—I am sure one of the favorites among the members of the Chicago Board of Trade and among economists—the long decline in farm prices beginning in 1920 led almost inevitably to the Great Depression.

So, there were cries during this downward trend for more and more regulation. This time, more substantial legislation resulted. The first law, the Futures Trading Act of August 1921, based on the taxing clause of the Constitution, was declared unconstitutional by the United States Supreme Court in May 1922. A new bill of similar content known as the Grain Futures Act and based on the commerce clause of the Constitution was passed in September 1922. Its constitutionality was upheld by the United States Supreme Court in April 1923. The act prohibited the manipulation of the prices of wheat, corn, and 18 other farm commodities. Attempting to manipulate prices was forbidden as was a corner or an attempt to corner. Futures traders were subject to various new regulations. As we all know, there have been and still are problems in administering the Grain Futures Act and, later,
The Commodity Exchange Act. However, this is outside of the time period assigned to Professor Rothstein and to me. I am sure we will be hearing more about this in subsequent sessions.

In summary, let me repeat that there has been very little written of a historical nature about hedging. There has been more on futures trading, but a lot of that is of current economic analysis. You can take them, put them together, and see at a particular time what economists were thinking about futures trading. But there are only two or three good historical studies; in general, the overall view is lacking. Professor Rothstein has added a great deal to our historical knowledge of hedging and has written a paper that will be cited for many years to come.
Jonathan Lurie: I'm wondering about two words in the title of the paper: rejection and acceptance. I find the acceptance, but I do not see any rejection of hedging, and I wonder if that is a fairly accurate title of what you wrote. I don't understand where the decline of acceptance of hedging comes in. It seems to me as the paper ends, hedging is very much in vogue. Are you referring to the initial rejection and later acceptance in the paper?

Morton Rothstein: Yes, the title refers to the initial rejection and the subsequent gradual acceptance of hedging. The rest of the story about the continued attacks on hedging is covered very well in your book, Jon, and in several other sources. Some of that continued attack upon futures trading came within the trade itself until very late. A man named Denison Smith, the secretary of the Toledo Board of Trade, continued to denounce futures trading until the 1890s.

Warren Lebeck: Not too many years ago, the then president of the Board of Trade and I were in Decatur, Illinois, the soybean capital of the world, and asked a guy named Staley what we could do. His answer was very succinct: "Close the oil and meal markets."

Neilson Conklin: All through your paper and especially in your discussion of the export market, I was struck by the parallels with current discussions we see of the role of futures markets, the structure of the grain export trade, and the role of government regulation. I am not familiar with the work done on this earlier period of our history when we went through similar types of developments. If we look back in the 1970s at the changes in the regulatory environment and in the grading system, I think our analytical work will benefit.

Michael Edelstein: I am intrigued by the little comment that you made, Professor Rothstein, on what the big exporters did at the time of a corner. Your comment was that they could buy at a discount. That suggests that either they were part of the corner or were, at least sub rosa, in agreement with the corner. What was the link between the big exporters and the people who were running the corners?

Morton Rothstein: I was quoting from some of the government investigations of corners and the way that exporters responded to them. I picked up on it very largely because these were exporters who were in other forums denouncing corners. Their partners back in Europe were denouncing America as the den of iniquity because this was the country that ran corners on grain exchanges. This was not considered very polite practice among European grain traders. These people were very suspicious of the whole operation, but they were perfectly willing to go along with it. If someone could sell grain to them at a discount of 15 or 20 percent, and they could fill their contracts, and send it back to their partners in Europe, why not? This would be quite a windfall gain for them. I think that as they got used to the kind of trading that was going on, they simply seized market advantages as any good merchant would do. But they were not part of the corner, and they were opposed to speculation.

Michael Edelstein: They must have made some agreement to sell abroad.

Morton Rothstein: Sure, that is the stipulation—to be able to buy while a corner is going on. That is what I meant by saying that they clearly were participating in and were part of the process of trying to bury the corpse, as traders call it. When you corner the market, that is one thing. But what are you going to do with it after you have cornered it? That is the other problem. In the nineteenth century, the practice was to try to sell it at a discount under the table to get it out of the market so that it will not act as a price depressant and ruin the corner.

Thomas Hieronymus: On this rejection of futures trading by commercials, I would like to suggest a more affirmative kind of investigation than you have made. If I understood you correctly, you have associated the slowness to accept a hypothesis that the history of agg. Commercials develop. So, the commercials came long after the markets out. The death of a lot of treatment by the cottonseed oil spreading operation. Similarly, I think Minneapolis is a kind of negation.

Morton Rothstein: Part of the point that was made was that we are in the commodity trade. If we had a small group of people acting as a damper...

Albro Martin: I think it is interesting you probably have a lot of interest in the transportation aspects. Perhaps the book published before its time because the book has been saying...

MacAvoy's Act of 1887 to repress the railroads until the depression actually came. The historian of the literature for 1891 or 1892 would find that railroad interest in maintaining a price correlation needed the spot price model. He would find that except for the tariff rates on railroads and tariffs.
associated that with lack of knowledge and the slowness to accept. I would like to pose the hypothesis that commercialists have had a long history of aggressive rejection of futures trading basically because it initiated a kind of competition that they simply did not want to live with. Commercialists use markets only after they grow and develop. So, the affirmative statements by Peavey came long after the initial activity to stomp the markets out. I think that one of the reasons for the death of a lot of futures markets has been ill treatment by commercialists. For example, the cottonseed oil futures market wrecked the spreading operations of cash commercialists. Similarly, I think one of the key problems of the Minneapolis Grain Exchange has always been this kind of negativity.

Morton Rothstein: That is a fairly fine point. I reviewed Paul MacAvoy's book and was among the acclamers. Paul MacAvoy had gone out and found weigh bills week by week on what the charges actually were. This was one of the most empirical studies that I had seen on hauling grain. My quarrel with it was that he was basing it primarily on the New York price, while the Chicago price was often quite different, both spot and futures, because most of the grain was shipped by that time (the 1890s) on these through bills of lading. The grain was originating further west and going straight through to New York, and the freight rates, as you well know, would frequently be well below any kind of published tariffs.

The other part of MacAvoy's book that I liked showed how short-lived any effort at a pool or agreements or anything else was. It all fell apart in their hands within six to seven weeks in many cases, six months at the most. So it was that kind of empiricism that I found very impressive, and it was as much a refutation of Kolko in that respect, aside from other things, as anything else that I read at the time.

Morton Rothstein: Of course not. You have seen enough of the ICC cases on grain rates and other hearings that were held up through the early twentieth century to know that this was one of the most important forms of commodities that could be shipped for those railroads, and they fought like tigers over it.

Albro Martin: I've almost come to the conclusion that commission merchants who were buying grain for delivery were, in fact, working for the railroads. There is evidence that they were paid well for every ton of grain they brought to the railroad. So, who was working for whom?

Morton Rothstein: According to any description I have ever seen of the way a local commission merchant had to operate in St. Louis, Chicago, or anywhere, if they were going to be shipping at all, they had to know freight rates and how to play off one railroad against another. They had to know that better than the price of wheat or corn. They made their business on the rate structure. It is very
much like the elevator owners who recognized they were not making any money on the grain. The prices they were charging were just exactly what the price in New York was plus transportation. All that they were in business for was to try to keep their warehouse full so they could charge the $0.02 per bushel that came in and went out. That was their profit. Actually, a lot of them left lots of things for their children to play with after wards out of just that little bit of cream skimmed off the top.

Robert Swierenga: Mort, do you know when grain farmers began to use hedging? Having lived among Iowa farmers, I was always struck by their conservative nature and fear of speculation even in the 1950s and 1960s. I just wonder if there is any evidence of when midwestern farmers began to use hedging.

Morton Rothstein: Jon Lurie may have as much information on this as anybody in the room. I can recall a piece by William Allen White published about 1907 when they had begun stringing telephone lines out to farms in parts of Minnesota and the Red River Valley. He reported that there were some farmers there playing on the futures market. Whether they were hedging or not is another question. But there were some very large farmers clearly playing in futures. Whether they had mastered hedging as a technique that early, I doubt it very much.

Jonathan Lurie: There are references in The Western Rural to the fact that when the farmer hedges it is a good thing, but when others do it, it is bad. There are numerous editorial comments to the fact that the farmer should do his own hedging. And that is a direct quote. That was right about the late 1880s and early 1890s, just before the Hatch bill was passed, although it did not become law. Also, there was a series of farmer journals that came out of small towns in Illinois. One of them was from Anna, Illinois, where there was heavy emphasis that the farmer be the one to control and do this. But I think that Mort’s caveat is very important. Whether they were actually hedging or talking about futures trading is not clear.

Rondo Cameron: I was intrigued by Mort’s paper because, not being an historian of American life, I really know very little about American agriculture except what I learned in East Texas in the 1930s. That was quite different from what Mort’s talking about. As a European historian, I have a very strong feeling that I cannot document at the moment that futures trading and hedging occurred in the twelfth and thirteenth century in northern Italy and the Mediterranean area. I think you might find some documentation for that in the collection of documents by Professor Robert Lopez.

Alan Olmstead: Since we got on to the tangent about railroads and rebates and since some of the literature was discussed, I think that we would be negligent not to mention the really excellent work by Thomas Ulen which stands on head much of what MacAvoy and others did.

I would like to return to the point Tom Hieronymus made. As I interpreted it, there is an identification problem in some of Mort’s discussion. Was it just ignorance and resistance and old-fashioned characteristics which led these people to reject hedging initially, or was there some self-interest? I think implicit in that point may be that although hedging over the long run after the institutions developed reduced spreads, risk, and fluctuation for the farmer-producers, they were used to taking those risks. Perhaps in normal years in this early period the hedging institutions may have operated as Mort described them and as they do today. Some years would not have been normal, and the sanctity of the contract perhaps would not have been guaranteed to the extent they are today. In abnormal years, perhaps, the whole system could have broken down and left people with enormous losses. Is that a possible explanation of the early rejections?

Morton Rothstein: I think that explains much of the resistance in the early years, the 1850s and 1860s, on the part of the larger traders because they were not sure that the contracts were going to be valid and properly enforced. But, by the 1870s, it’s an almost different ball game. The grain trade is rapidly growing; the size of transactions is becoming much larger; the unit risk may be declining, but each transaction still entails a lot of risk. But you are still quite right. The very largest firms and traders were people who for several generations had been used to taking high risk. Many of these firms have survived to the present day and are still perfectly willing to do this. They don’t worry about fluctuations from year to year and even decades.

Wayne Ras Dahl: And futures traders, knowing of the market. Everybody knows, hedging is for the present time. There is support provided by economists concerned with the fact that we should look at Bill Tom, respectively.

Paul Farris: The past have done or hedging, but the way we are doing it, trying to use it. This is throughout the state of Missouri. We are trying to make sales. How do they make sales? They can consolidate, and we can make sales. We can consolidate and sell ahead with futures markets. The awareness on futures markets in their use.

Nelson Condit: To markets by futures, one distinguishes difference. Condit is a marketing as a marketing by grain trader. People really in making sales from the marketing of grain and making sales the community. The farmer who is concerned with marketing as mechanism by that futures may be used in making sales the difference.
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continue to hold onto an important position within
the market. So, market structure means a lot. One
of the accusations at the end of the nineteenth
century was that these few large firms continued to
dominate merchant trading worldwide and
resisted the development of futures trading in
Europe, especially on the British market, because
they did not want to see their market position
undermined.

Wayne Rasmussen: On this question of farmers
and futures trading, as probably most of you
know, hedging by farmers is being advocated at the
present time as a substitute for the current price-
support program. There are a couple of ag
economists here whose departments have been
concerned with hedging and the farmers. I think
that we should hear from them—Paul Farris and
Bill Tomek, from Purdue and Cornell,
respectively.

Paul Farris: Our experience is that farmers in the
past have done relatively little futures trading or
hedging, but they are now doing more. They are
trying to use futures to even out the price they get
throughout the year. They learned to make
offsetting trades, and our Extension Service is
actively trying to help them analyze the benefits
and drawbacks. Many of the farmers are able to
make sales. If they have a crop growing in the field,
they can contract ahead because the grain trade
will make contracts available to them. They can
sell ahead without having actually to go into the
futures market. But there is a general increase in
awareness of futures markets and gradual increase
in their use, particularly by the larger farmers.

Neilson Conklin: In reference to the use of futures
markets by farmers, I think that we need to draw
one distinction very clearly. There is a big
difference between farmer use of futures markets
as a marketing tool and the use of futures markets
by grain traders. The risks borne by farmers are
really in many ways a very separate set of risks
from the risks borne by people who are purchasing
grain and then moving it. The grain trade
community is concerned about price relationships.
The farmer, as the initial producer, is much more
concerned with absolute price level. So, while the
mechanism may be the same mechanism that can
be used in risk management, there are some real
differences in the decision-making process. If we
are interested in looking at the origin of farmer use
of futures markets, we need to take this into
account.

Jonathan Lurie: I want to comment on the crucial
importance of institutions like the Board of Trade
and other business institutions making records
available to historians. Let me give you one brief
element. If you have read Mary Yeager’s excellent
study of the beef industry in this country, you
must have been appalled to note in her introduction
that she was able to get only a few of the records from
Swift Company. None of the other large meat
packing companies would make their records
available. The consequences of this type of action
are very unfortunate for scholarships. But it is not
enough for historians to glibly go into places like
this and demand to see all the records. There are
real problems of confidentiality, of retention, and
of accession which we as a profession need to think
much more about than we have done. This is
especially true as businesses begin to discard
records for space or other reasons. I think we all
ought to think about this problem a little more
than we do.