

STORY NUMBER 10 - THE FEDERAL FARM BOARD FIASCO - WASHINGTON, D.C.  
As told by William J. (Bill) Kuhrt, 1990

I shall name this episode the Federal Farm Board fiasco. And it really did turn out as a fiasco. In 1928 Congress created an agency called the Federal Farm Board composed of 15 members, each of which represented a commodity group in various parts of the United States. The Board was endowed with five hundred million dollars to assist Farmer's Cooperative Associations with improving their marketing activities, and also if necessary to assist in creating some new associations. Each of the members of the Board was responsible for a commodity group, such as C.C. Teague was in charge of the citrus fruit, and another man in charge of dairy, and so forth.

They got organized and set up headquarters at the Mayflower Hotel in Washington, D.C.. To assist the members of the Board, they transferred over from the Department of Agriculture to the Farm Board, the Division of Cooperative Marketing, the agency in which I was working. And this organization was divided into sections with marketing economists in charge of each of the major commodity groups in the country.

At the time this happened I was in the spring wheat area, perhaps Minneapolis or Fargo, North Dakota. I got an urgent telephone call from someone in the Farm Board requesting me to return to Washington immediately. So, I had to drop my work with the Farmer's Elevators there. I turned it over to Ed Bell, who was the man in the Marketing Division at Montana State College at Bozeman, and returned to Washington.

When I got there I was told I had been made the chief of the grain section of the Federal Farm Board. Well that was a pretty big responsibility. But the man I was supposed to work with, that is the Board member, was Samuel R. McKelvie, a former governor of the state of Nebraska. He had come to Washington to become the grain member of the Federal Farm Board. I was told that I should familiarize myself with the policies of the Board with regard to grain marketing and be prepared to respond to requests from farm groups anywhere in the area that produced grain of any kind.

Before they were ready to go, however, they showed me correspondence that had come in before the Board had organized. It was in five different bedrooms of the Mayflower Hotel stacked on tables about a foot deep, and they said, "Can you help us to get some of that stuff taken care of?" So I went to work, dictated short letters and so on and so forth, and got out as many letters as I could. They gave me as many stenographers as I could possibly use. There were times when I had three or four going. But anyway, I whittled away a good part of that correspondence that had come in before the Board had gotten started.

And then a call came from Minneapolis, the spring wheat area, saying they wanted me to come out there and talk about the formation of a Farmer's Terminal Association, a grain terminal association. I went out and talked it over with them and got all the details, and it looked like it was a sound proposal. Of course I had been working with the local Farmer's Elevators for a long time.

But in the meantime the Board had also decided they wanted to set up another overall organization to be called Farmer's National Grain Corporation, and they wanted me to draw the articles of incorporation and the by-laws for that organization first, and get it started, which I did. Then we had a meeting and it was organized. The membership of that Farmer's National was to be the Regional Grain Marketing Association; not the local association but the regional organizations that might exist in the various areas of the wheat growing states. So we set it up and got it in shape to operate.

Then I went back and started work on the organization at Minneapolis. And we got that set up and in good shape. Everybody seemed to want to cooperate on that and we called it the Northwest Grain Association. The membership on that organization was to be the local Farmer's Cooperative Elevator Associations situated throughout the four states of Minnesota, North and South Dakota, and Montana. Most of them at that time were shipping their grain to private commission firms in Minneapolis and Duluth, and they were receiving their finance through those private organizations.

It was planned henceforth when the organization became operative, the money for operating purposes for the Farmer's Elevators to buy grain from farmers would come through from the Farm Board to Farmer's National Grain Corporation, and it would be passed out to the local elevator associations as it was needed.

So that organization got going, and then I had a request also from a group in Illinois. We set up the Illinois Grain Corporation. And we had a request from a group in Nebraska-Colorado. We set up that organization. And then there was another one in the Pacific Northwest, with headquarters in Spokane. I went out there and helped them, drew up the papers and helped them get started, and that organization was operating.

I got back to Washington and had been there just a few days when I got a phone call from Minneapolis from a man who had been elected president of the board of directors of Northwest Grain Association. He said, "Bill, the Board has voted unanimously to invite you to come to Minneapolis to become the General Manager of Northwest Grain. We know you, we know that you know the grain business here, you're liked by the Farmer's Elevator people, and we think you can do a fine job for us. And we're prepared to give

you a contract, a three-year contract starting at \$10,000, the next year \$12,500, and the third year \$15,000." Well, I was making \$5,600 under Civil Service in the Department of Agriculture, and of course this looked to me like a pretty good sound proposition.

So I resigned from federal service and my wife Dorothy and I moved to Minneapolis. I went to work and organized Northwest Grain Association. Before I get into too much of the operation I should say the Farm Board was also working with the cotton people, the tobacco people, and I believe the peanut growers. They didn't do much on fruits and vegetables, and they didn't need to do very much on the citrus fruits because Sunkist (which at that time was called California Fruit Grower's Exchange) was doing all right and they didn't need any money from the Board. They also had the California Walnut Grower's Association and the California Almond Growers Association. And in Sacramento we had the California Fruit Exchange which was handling fresh fruit such as pears and peaches and plums. They didn't need any particular amount of assistance. But they were, of course, in favor of the whole thing. But the Farm Board did work with the cotton people, I think an association was set up there, and they loaned some money on the 1930 crop of cotton, individual loans (loans to individual farmers to let them hold their product a little longer if they wished but they had to pay it up). They did that with a number of other organizations. And they also did it with some of the grain producers, the wheat producers in the spring wheat and in the winter wheat areas. And the 1930 crop was reasonably moderate in size and the price held pretty well. The Board had loaned 80 percent of the current market price and when it came time to settle up just about all of the loans were paid up and there was no problem. It seemed to be a relatively sound arrangement.

But to get back to Northwest Grain Association, we went to work to get membership of these Farmer's Elevator Associations throughout the four states. We had two men working on it and they met with the boards of directors of these local Farmer's Elevator Associations. And we were able to get a large number of the local associations to join the Northwest Grain Association and leave the private commission firms. We handled grain on the 1930 crop including the grain on which loans had been made and some independent grain, and we came through that first year with a surplus of \$33,000. So I thought we were on a pretty fair sound basis.

We got ready for the 1931 crop. Our men were working in the field. We got into the last of July and early part of August, and by that time we had as members of the association 136 of the very best local Farmer's Cooperative Elevator Associations in the spring wheat area. And we had a very adequate volume to permit us to operate efficiently and also to come through with a surplus each

year, which of course would be recorded to the account of each of the Farmer's Elevator members since we were on a cooperative basis.

We were all set to go, everything looked just fine, and I was extremely pleased the way things had worked out. We had good relations with the commission firms, we had two seats on the Minneapolis Grain Exchange, we had two seats on the Duluth Board of Trade, and we had set up field offices in addition at Sioux Falls, South Dakota and Great Falls, Montana to take care of and service elevators associations in those areas. I thought we were in pretty good shape.

Along the last of August, early part of September, one Monday morning I went to the office and a reporter from the Minneapolis Tribune called and said, "Did you know you're being taken over?" I said, "Oh, you're kidding." He said, "No, no, the president of Farmer's National Grain Corporation is here and he has already issued a press statement that he is taking over all of the regional organizations and they're to be blended with the Farmer's National Grain Corporation. He'll be over to see you sometime later."

Well, sure enough, he came over and he told us what he had in mind. He said the Farm Board decided they had to get all of the volume of grain being handled by farmers cooperatives into one big organization because they thought that was the only way they could influence the price of grain. I hadn't said much about that but the 1931 crop of wheat was pretty big. And the market price was slowly going down at that time, but we weren't worried so much about that because we were a marketing organization, we sold on the exchange for whatever the price might be from time to time. The idea was that a Farmer's National Grain Corporation was to get all these organizations together on grain and other crops and try to influence the buyers with that volume of product. Well, I told Mr. Huff, "I can't make any decision. I have to call the Board."

So I called the Board together and they came in and listened to his story. You could imagine they were not very happy or very pleased with his deal. And they voted flat "No, we are not going to join under those circumstances." Then he showed his teeth and he said, "Well, you've already borrowed through Farmer's National Grain Corporation in preparation for the 1931 crop. You've already borrowed three and a quarter million dollars. And if you don't want to do this then we'll have to call that money back. You'll have to pay us back for the money."

Of course that was quite a sum of money. We couldn't get it from the elevators because they were already buying grain. So after Huff had left I called the vice president of First National Bank of Minneapolis and told him the story, and he said, "Well, give me about four hours. I've got to call my board together."

He called the Bank Board together and called me back in the afternoon. He said, "Kuhrt, we're willing and able to advance you the three and a quarter million dollars and any more that is necessary to pay off the Farmer's National Grain Corporation. We'll give it to you on an open account the same as we do with all the other private organizations, and that should do the job." I said, "Yeah, that's just wonderful, but you know, my accountant has just told me there are also some loans that have been made from time to time on the elevator properties, that is on the buildings." They were called facility loans. I hadn't paid much attention. They were only a few thousand dollars apiece that had been loaned by the private commission firms. But anyway, they'd been paid off and the money had been borrowed from the Federal Farm Board through Farmer's National. And the total was \$526,000.

I told this to my friend in the bank, and he said, "Oh gosh, we're not permitted by law to make a loan on a fixed facility like that," but he said, "I'll tell you what I'll do. I'll fly to New York and see if I can't get some of the big insurance companies and some of the big banks to come in and help us on this thing."

Well, he did. He flew back to New York, and I guess he went around everywhere he could think of, and they were scared to death because of the recession that was going on, and nobody would tackle that \$526,000.

And by golly, in the end we had to turn the organization over to Huff and the Farmer's National Grain Corporation. It was certainly a sad thing for all of us who had worked so hard in getting that organization going, and it was such a good sound thing. It would have lasted for years and years and years.

Well, I was out of a job. Then they turned around and they said, "Oh no, you're not out of a job. We want you to come to Chicago and be the publicity director for Farmer's National Grain Corporation. We'll pay you \$15,000, but you have to move to Chicago." I said, "Well, what is the scheme? What do you plan to do?" They said, "Well, we're going to get these organizations together and then we're going to see if we can't pressure the mill buyers and the export people to increase the price of wheat particularly." I thought to myself, "That's absolutely unsound. That'll never work, there's plenty of wheat in the United States. If they don't get it in the United States they can get it right across the line in Canada, and if they tried to hold up the mills or the export people they'll just simply stop buying and they'll buy it some other place."

So I recognized in advance the thing was a failure -- it had to be a failure. I said, "Well, thank you but I want to stand on my contract." So Wilfred Rumble, who was representing Rumble, Bunn, and Butler, a big law firm, worked out with the attorneys for

Farmer's National a contract so I received most of my contract for the next year-and-a-half so I wasn't without income.

Then Dorothy and I left and we finally ended up down in Florida. And you have a story on that where I almost bought half of Miami Beach property. But that's another story. Anyway, I finally came out to California and was chairman of the Los Angeles Milk Industry Board, doing all right, and my salary was on the same basis so we weren't having any problem.

In the meantime I wondered what they had done to try to influence the price of wheat. I found out they had set up a separate organization called the Grain Future's Corporation. It was sort of a satellite of Farmer's National Grain Corporation, they'd had access to the Board money, and the idea was to buy May and September wheat futures. So they went to work, I understand, and started buying futures.

Well, that's like dipping water out of the ocean. And I guess they bought all the futures they could afford using up the Board money. The price of wheat just kept slowly going down and going down and going down. Finally they were forced to accept the actual grain that was delivered on the May futures, and they were going to have to accept any grain that was represented by the September futures. The Farmer's National Organization found itself with millions of bushels of wheat they had paid for at a considerably higher price than the current market price. So they had to sell it for whatever they could get for it.

In the end they lost fourteen million dollars. That finished up the Federal Farm Board, and the Act was abolished in the next session of the Congress. The member elevators that we had, the associations, went back to the private commission firms. And that's where they are at the present time.

All of this concept about trying to force an increase in the price of a commodity, particularly grain, was fostered somewhat by the Canadian Wheat Pool, which had been set up by Aaron Sapiro of San Francisco. He sold the grain farmers in the three provinces of Manitoba, Saskatchewan, and Alberta the idea, if they got enough of the wheat together in a pool, they'd be able to force the mills to pay pretty much the price that they wanted. Well, he forgot there was plenty of wheat to be bought everywhere. And even though they got a very high percentage of all Canadian wheat into this one pool, they weren't able to do much to get the price any higher.

In the meantime, they were so confident everything would work out that they loaned money to individual wheat farmers in those three provinces, I guess, always 80 percent of the market and in many cases somewhat higher. And with the price slipping and slipping and slipping, it didn't take very long before the market

price for the wheat was below what they'd already loaned to the individual farmers, and still the price of wheat kept going down.

Well, in the end the Canadian Wheat Pool had to sell the grain they had been trying to hold back at a loss, that is below what they had lent on these individual storage tickets. So they took a great big loss. And of course their money had come from the eleven Canadian banks, they couldn't finish paying the banks, and the banks insisted on receiving their money and taking control of everything they had. So in the end, the Canadian Wheat Pool had to close out.

The Legislatures in each of the three provinces had to come to the rescue and on a pro rata basis they voted enough money to pay off the Canadian banks. And that was the end of the Canadian Wheat Pool.

I hope it was the end of the concept that had been fostered not only in Canada but with some of the members of the Federal Farm Board that all they had to do was have control over a certain proportion of the supply of a product and they could hold up the buyers and get a better price. It didn't work then and it won't work now. It's just poor economics. I hope they learned their lesson.

But anyway, the Farm Board has faded into the distance. So I call it a fiasco due to wrong policies, wrong leadership, and a lack of understanding of fundamental economics. I thank you.