Multinationals in the Grain Trade, 1850–1914

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OVER the last decade or so there has been recurring concern about the market structure of the international grain trade. A series of Congressional investigations, several books on alleged "grain robberies," and even such relatively balanced accounts as Dan Morgan's *Merchants of Grain* [32] have all left an impression of global commodity markets that are controlled and manipulated by about five major firms in ways often at variance with the public interest. At the same time, more scholarly recent work indicates that the grain trade remains highly competitive, efficiently assembling, storing, and transferring the commodity to the benefit of both farmers and consumers. They show that this market works well, yet these same scholars complain that we do not know enough about the structure or operation of the grain export system or about the behavior of the firms involved [7, 12, 32].

If we have a paucity of data about the recent and current grain trade, we know less about the full dimensions of market structure and business behavior as that branch of trade evolved during the nineteenth century. There were expressions of similar concerns about the deficiencies in that business as it gradually spread around the globe, primarily under the aegis of multinational trading firms. Most of these firms were private partnerships as are their survivors even at present, but there is no doubt that most of them also operated in several nations at once and that they were headed by managers who met Peter Drucker's criterion of "thinking internationally" [15]. Moreover, they increasingly operated in the United Kingdom, as much to perform their multi-faceted entrepôt functions there as to serve the continuously increasing demand of British consumers. The importance of the British grain market may have been exaggerated by historians in terms of the share of exports it attracted from surplus-producing nations, but its function as the nerve center of an evolving world trading system remains unassailable [34, 36, 44].

Before the 1850s the grain-importing business was too uncertain and

irregular to encourage much mercantile specialization in that commodity. Some small-scale merchants in the interior of the United Kingdom and of the United States, as well as a few continental European centers, did concentrate primarily on grain [6, 20, 41]. Most of the long distance trade, however, was carried out by the general merchant shipping firms that dominated the slowly widening scope of international commerce. Such firms as Alexander Brown and Sons or Baring Brothers and Company dealt mostly in cotton during the first third of the century, moving in and out of the grain trade only as conditions warranted. In such brief periods, they virtually dominated the trade [22, 37]. Lesser known firms, such as Morrison, Cryder & Co., held almost equivalent shares of both the cotton and grain trade from time to time in the trans-Atlantic business. But it is difficult to estimate the differences in market shares and influence at any time among the more than two dozen Anglo-American firms in the cotton trade, or of agents of continental firms at southern American ports, and impossible to calculate them with regard to grain. In fact, market shares changed abruptly from year to year, depending on a variety of circumstances. Bolton, Ogden & Co., for example, was very active in shipping flour from the United States to the United Kingdom and the continent from 1815 to 1820, then only sporadically engaged in grain-related activities while becoming a leading cotton-shipping firm during the 1820s and 1830s. In the 1837–1838 shipping season, when Morrison, Cryder was suddenly a leader in bringing Baltic grains to New York, Bolton, Ogden (which had equally good connections with the Baltic ports) was going through insolvency and reorganization at Liverpool, withdrawing from both the cotton and grain business for several reasons. They were back full tilt in the grain trade during the hectic "hungry forties" before finally dissolving by 1850 [27, 33].

By the 1850s, many of the general merchant shipping firms were either withdrawing from direct participation in trading to concentrate on banking or shipping functions, or were beginning to specialize in a narrower range of commodities. The Browns and Morrisons took the former route; Barings still shifted in and out of grain trading through their extensive network of correspondents, usually in response to such unusual opportunities as were offered during the Crimean War. Meanwhile, two other groups of merchants who had gained importance as multinational traders were operating in the British grain market. With the old Hanseatic ports reemerging as sources of supplementary wheat supplies for the United Kingdom in the 1820s, merchants with strong family and/or business connections there became increasingly important in London and used that trade as a base for extending their business beyond Europe. Frederick Huth & Co., Mark Collett, and the Brandts, all firmly established in Britain by the first decade of the nineteenth century, rose to prominence in the

grain business during the 1820s, then made connections with suppliers of other commodities in both North and South America during the 1830s [8, 12, 18, 25]. In the same decade, the Anglo-Greek firms began forging connections between the United Kingdom and western Europe on the one hand and the new grain-surplus areas of Southern Russia and the Danube basin ports on the other. They introduced new techniques on the British market for dealing in full cargoes of grain. The Rallis were probably the most important of these Anglo-Greek families, and they remain leading commodity traders to this day. They certainly had the most extensive network of branches both within the United Kingdom (at Liverpool, Manchester, London, and other cities) and between the United Kingdom and the Mediterranean, but they were simply the largest of at least a half dozen major shipping houses that made various Mediterranean ports, especially Odessa, a major source of grain imports, and were supplanting many of the older Baltic firms in that trade [16, 21].

It was after the well-known crisis of the mid–1840s in breadstuffs, and the associated repeal of the Corn Laws, that the full transformation of the grain and other commodity trades began, intensified by the rapid spread of the "Communications Revolution" in transport and telegraphs and climaxed by the circling of the world with a network of transoceanic cables in the mid 1870s. Thus technology reinforced institutional changes that in turn responded to markedly higher levels of business activity. By overcoming the barriers of high shipping costs over long distances and the risks of sharp price changes over extended periods of time, these innovations provided the essential components of a world-wide commodity market system. Even as that system was evolving, new firms appeared in the United States as it became a major, dependable grain exporter. Based mostly in the United Kingdom and specializing in a narrower range of commodities, the new firms usually also had trading connections with other parts of the world. For example, William Rathbone & Co., with connections to the Far East and India, opened branch offices in New York and Canada during the early 1850s, after several decades of dealing in North American flour through correspondents. It became the leading firm in the Anglo-American bulk grain business during the Civil War era [29, 38]. It was soon followed by David Bingham, the Patterson Brothers, and the Rallis; all of them had New York offices by the late 1870s.

Meanwhile, a wholly different group of merchant shippers were opening branch offices at San Francisco, dominating the rapidly developing California grain export trade by the late 1860s. Balfour, Guthrie, & Co. was associated with the Liverpool firm of Balfour, Williamson & Co., which in turn had begun its merchant shipping business in Chile [24, 35, 39]. Falkner, Bell & Co. was another British firm with Latin American connections that moved into the San Francisco market in response to new

opportunities in the grain business. Both firms remained extensive owners of sailing vessels until the late 1870s and early 1880s, both had experience in cargo-trading, and both were prepared to invest extensively in the grain production and handling activities of the interior. They were by no means the only source of foreign credit. Of the ten or more leading banks in San Francisco that financed the trade, at least five were controlled by shareholders based in the United Kingdom and in Germany. No other grain belt in the United States became so dependent on foreign markets for disposing of its grain as the West Coast, or so dependent on foreigners for financing and storing the crop.

By the 1880s, as California wheat production reached its peak and cable linkages made price information more readily available, additional firms entered the grain business there. Among them were several European traders with relatively slender financial resources, such as F. Lenders, Ted Bosch, Dresbach, and Eppingers, all originally continental European traders who also had opened offices in Liverpool. By then, some American shippers moved into the trade as well. One of them, George W. McNear, was known as the "Wheat King" of the West Coast throughout the 1880s. Towards the end of that decade, however, Californians began shifting out of wheat growing and into more capital-intensive types of farming, while the West Coast wheat frontier moved north into the Columbia River basin. Also moving to Portland and Seattle were Balfour, Guthrie & Co., along with two smaller British firms, Kerr, Gifford & Co. and Sibson, Quackenbush [2, 23, 30, 42]. Two or three flour-milling concerns of local origin vied with this small group of foreign firms for the largest share of the grain trade from the Pacific Northwest until World War I, using the credit and services they could extend as the chief means of attracting farm customers. But it was the multinational firm, with direct contacts in the shipping markets of the Baltic Exchange and the futures markets at Liverpool, as well as superior influence in the corn trade associations at London and Liverpool, which continued to shape the conduct of the West Coast grain trade. They influenced the nature of the grading system, of contract forms, and of handling methods, while dominating the mercantile organizations.

This record is quite different from the role of exporting firms in the American grain trade east of the Rockies, where the mercantile institutional influence of multinational trading firms was negligible. To be sure, there was considerable attraction for foreign capital in the burgeoning grain business of the Midwest, but that business had undergone a strong indigenous development marked by the emergence of the elevator system, with its associated grading systems and futures markets. A flurry of investment activity in the late 1880s and early 1890s caused much comment, since it involved the organization of such conglomerate enterprises as the

Chicago & Northwest Granaries, Ltd., with Lord Seton-Karr as chairman, and the independent firm of Chicago Grain Elevators, Ltd. Foreign investments in railroads during the great "Dakota Boom," as well as in wheat farms themselves in the Red River valley were no doubt linked to the interest in the grain trade of many British businessmen. Equally striking was the reorganization of Pillsbury-Washburn Co., Ltd., into a multi-divisional flour-making concern that included among its subsidiaries several line elevator companies and an exporting branch [10, 28]. Pillsbury's chief agent in the United Kingdom, William Klein & Sons, which had both continental and British offices, were central figures in this short-lived experiment in making a major American firm into a multinational corporation. Yet none of these activities had any significant impact on the structure, institutions, or conduct of the grain trade in the Midwest [3, 40].

Instead, the continuous elimination of mercantile intermediaries between British grain buyers and the suppliers deep in the American interior strengthened the indigenous American grain exporting system. Between the 1850s and about 1880, the interior trade had moved west with the advancing wheat belt that extended by the 1870s from Ohio to the Red River valley. The combination of trunk line railroads and Great Lakes-Erie Canal shipping channeled the stream of surplus grains mostly to the Atlantic ports. Improvements in transport linked together the various intermediate markets between the western Great Lakes and the seaboard, where a small group of New Yorkers had increasingly by-passed merchants at Buffalo, Cleveland, and Toledo to dominate the trade by providing essential credit and financing for western millers and traders. The two outstanding innovators in this process were Jesse Hoyt and David Dows, each by 1850 heading a prominent New York firm of "fobbers," receivers who brought grain from the west to deliver "free on board," to the "c.i.f." trading exporters, who in turn sold to European buyers on the basis of quotations that included cost, insurance, and freight charges. Dows was probably the most reputable and largest receiver of western breadstuffs in the nation by the 1860s. Hoyt almost matched him in the volume and geographic spread of his business, having opened branches at Buffalo, Chicago, and Milwaukee, where he served as the silent partner of Angus Smith, who operated all the elevator warehouses in that Wisconsin port and thereby dominated the city's grain trade. Hoyt also was a major partner in Chicago's Munger, Wheeler & Co. which operated eight elevators there in the 1870s, as well as the chief backer of a rather nervy young Chicago warehouseman named Ira Y. Munn [17, 31].

By the late 1870s, however, new grain firms were reaching a larger scale in the interior and dealing directly with foreign buyers. The Barnes and Magill Elevator Co. owed much of its growth in the 1880s to the

active partnership of David Dows, but went on to further expansion after his death in 1890. Meanwhile, Bartlett, Frazier & Co., and William T. Baker and his partners had been using their Chicago headquarters to arrange for direct exports through bills of lading since the introduction of that device about 1880. Several meat-packing firms also moved into the grain trade on a large scale, including Joseph Rosenbaum and Sons and Philip D. Armour. Following their example were the British-based firms of Sawyer, Wallace & Co. and Fowler Brothers, Ltd., each with Canadian as well as Liverpool connections. By the end of the century the Peavey and Cargill firms, which had begun in the 1870s as modest line elevator companies in Iowa and the Dakotas, were rapidly extending their functions to include direct involvement in the grain export business. To be sure, many of the older arrangements persisted, with several leading British firms and such new large British millers as Spillers and Ranks maintaining "correspondent" relationships with American "fobbing" outfits until well into the twentieth century. Ross T. Smyth & Co., for example, which succeeded the Rathbones in the Anglo-American trade, held fast to such arrangements with Nye, Jenks and Gill & Fisher of Baltimore until the 1930s [1, 5].

The influence of European grain firms operating across several national boundaries had continued to grow in British mercantile institutions. By the 1870s the Anglo-Greek firms were being challenged in various parts of the world by French, Dutch, German, and other continental traders who were moving directly into conducting business in grain cargoes on London's Baltic Exchange and along with new British entrants were joining the newly formed London Corn Trade Association (LCTA). This cosmopolitan institution had been formed to draw up uniform trading rules, especially concerning the arbitration of disputes over quality of shipments and the performance of delivery. The contract forms of the LCTA quickly became standard throughout the international grain trade [9, 43]. Such a firm as Louis Dreyfus et Cie., which began in Central Europe, moved into the United Kingdom at the same time that it entered the southern Russian trade during the late 1870s to become a dominant force there. The British firm, Wm. H. Pim & Co., also moved into that part of the world and frequently issued scrip as warehouse receipts that circulated widely in the Black Sea ports and their hinterland. Samuel Sanday, who began his trading career as director of a New York office for a London firm, struck out on his own in the 1880s, concentrating mostly on the Bombay and Karachi trade before enlarging his American operations after the turn of the century. When World War I broke out, his firm became the largest operating in the American grain export trade and served as purchasing agent for the British government. Meanwhile, representatives of the Ralli and

Dreyfus firms had been active in the New York market since the 1880s [5, 26, 45].

British influence was profound enough on the conduct of trade in newly opened grain-producing regions to shape the entire organization of trade. For example, when Argentina rose to importance as an exporter in the 1880s such firms as Rallis and the newly formed Bunge y Borne requested assistance from the London Corn Trade Association in organizing a grain exchange and defining rules and contracts. William Goodwin and John Hubback, two veterans of the Liverpool trade, went to Rio de Janeiro and worked with the local traders as well as representatives of foreign firms in drafting the first set of rules for the grain business there [5, 19].

This kind of direct influence by the larger trading firms on newly developing grain-growing areas such as India, Argentina, and Australia has been increasingly regarded with suspicion since we have become aware of what is now called dependency relationships. Nevertheless, those multinational trading firms had been, and still are, extraordinary risk-takers. It was a rule of thumb among some of them in the early twentieth century that if they could guess right about the future direction of market prices for their grain cargoes seven times out of twelve, they would do well. On the eve of World War I and in much of the interwar period, their profit margins on total sales rarely exceeded an average of more than one or two percent, though they were probably several multiples of that figure if calculated as returns to invested capital [13, 14]. We do not know nearly enough yet about the decline over time of marketing costs, of the spread between farm gate prices and the final charges to processors and consumers [46]. But it does seem clear that much of the improvement that did take place was due to the self-interested efforts of traders who brought increasing volumes of grain to western Europe from the far corners of the earth and who in doing so created the nineteenth century's best-organized international commodity markets.

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