GAMBLING IN WHEAT
AND THE PRICE OF A LOAF OF BREAD

Why grain speculation by the general public has languished for years.

H. O. ARMOUR (AT THE LEFT) AND HIS BROTHER.

THE NEW YORK WHEAT PIT

CHAS. G. GATES.

JAMES R. KEENE.

JOHN W. GATES.

JOSEPH W. LEITER.

GAMBLING in wheat isn't nearly so common a way for amateur speculators to risk everything nowadays that they may "get rich quick" as formerly, the Stock and Cotton Exchanges being more popular with the lambs for several years than the wheat pit.

But gambling in wheat is still going on among the professionals and plans are now under way to bring back the public interest therein to its old level. If these plans work, the wheat market will be as lively as ever within a few months.

Insiders laugh when you ask if the extension of the world's wheat belt and the consequent inability of America to control the world's markets are the main reasons why so little is heard about the wheat pit nowadays, and say the chief reason there has been so little wheat gambling, comparatively, within the last few years is that the commission dealers haven't been getting as much out of it recently as formerly.

"This main reason," said an authority in wheat a day or two ago, "isn't often mentioned to outsiders. It is the little matter of compensation to the commission men. For some years it has been more profitable for them to steer their customers into stocks or coffee or cotton than into grain. It is now proposed to bring back the old conditions. Don't look for startling developments too soon, though.

"Grain brokers like rising prices because they mean a lively market and plenty of business, but the pay they get for their work is just as much for each bushel dealt in when prices are going down as when going up.

"In the palmy days of wheat speculation, the commission man received a quarter of a cent for every bushel he bought or sold. No one dreamed of cutting the rate. For placing European orders he got half a cent a bushel—sometimes a cent. Such orders were then often enormous, the home public was gambling freely in wheat, and it is no wonder that the commission houses grew rich rapidly.

"But when the business became overcrowded—as it would just after the collapse of a big deal like Leiter's, for instance, for the shock would scare practically all the amateur speculators out of the market—the brokers would foolishly cut rates. It was amazing. From a quarter of a cent a bushel on domestic orders and from haf a cent and a cent on foreign orders, the rate of commission sank gradually under pressure till it got down to one-sixteenth for orders of both kinds.

"It is easy to figure out the cut in the compensation coming to the commission dealers. From $25 on a 10,000 bushel transaction, $250 on a 100,000 bushel deal and $2500 on a deal of 1,000,000 bushels, the commission sank to $6.25, $62.50, $625. There could be only one result. There was no longer money enough in the business to suit, so the big commission houses eased up in promoting grain speculation. Also they bought seats on the Stock and Cotton and Coffee Exchanges. When their wheat customers — outsiders, amateurs with money they wished to double, without working for the profit —offered their cash for speculation in wheat, the commission men would ask:

"'Are you particular about dealing in wheat? You can get quicker returns on stocks or cotton or coffee. There isn't any such activity in wheat as there used to be, and of course you can't make money on a stagnant market.'

"Naturally, the amateur speculators would pay attention to this sort of talk, and that is the real reason for the falling off in wheat speculation.

"But the commission houses themselves have never got out of wheat. They continue to hold their places on the Chicago Board of Trade and the New York Produce Exchange in order to do their regular business for the legitimate merchandizers in wheat. And these old-time commission houses will be as ready as ever, by and by, to steer their amateur customers into the wheat pit again. Their plan for making things right for speculative wheat dealing is the exeremely simple one of putting the commission rate back to a quarter of a cent.

"It would have been put back years ago had it not been for the fear every commission man on every exchange in the country had that it couldn't be held there, and that any attempt to hold it would befollowed by a regular cut-throat war for business, precipitated by the weaker houses, that must have the business or die.

"The feeling of distrust has now been done away with somewhat. At all events, the Chicago Board of Trade has quite recently officially put the rate back to a quarter of a cent. Milwaukee has followed Chicago's lead ,and efforts are being made to bring New York, St. Louis and Minneapolis, the other strong wheat-dealing centers, into line. Within a day or two after Chicago's action, commission houses that had long been letting wheat alone began to shake themselves together, with the avowed purpose of seeing that somebody should get busy in grain speculation as soon as possible, and now the professional market statisticians are thanking their lucky stars for the renewed interest in wheat which gives profitable employment to them."

The elimination of the mass of amateur wheat speculators, caused by the cut-throat rates for commission dealers, steadied the market immensely and made it more satisfactory for legitimate wheat merchandizers. It benefited the consumers, the great bread eating public, too.

Theoretically every fluctuation in wheat must affect the price of the loaf. In fact, however, minor fluctuations touch the public very little, though abnormal and sustained rises in prices, such as sometimes come when there is much gambling in wheat, are felt markedly by the public, especially that part of it whose income is just about big enough to meet expenses.

It is the baker, not the consumer, who suffers from a moderate rise in wheat. One cent on a bushel of wheat means five cents on a barrel of flour, ten cents on a bushel fifty cents. Ordinarily fluctuations do not justify any rise in the price of the loaf or any cutting of it down. A rise simply means less profits and a drop more profits for the baker, unless the change is a big one. The consumer invariably suffers from a big rise, though he doesn't often know it. The baker must take care of himself or be crushed between the wheat gambler's speculation and the consumer's need, and he has more ways of protecting his business than raising the price of the loaf. He may reduce the weight enough on each loaf to save himself and nobody be the wiser. He may use a cheaper grade of flour. He may add deleterious or useless substances in mixing his bread. It isn't until the price of wheat has been put away above the normal that he has to raise the price of the loaf sufficiently, as he did in 1898, to make the consumer sit up and take notice.

Wheat Pits These Stagnant Days.

Most of the time, ever since Joseph Leiter's great operations, the Armours have been the controlling influence in wheat, putting the market up and down from time to time, and taking more or less steady tribute from dealers less powerful or less skillful than themselves. But the general public has kept out, as a rule, though there was something of an influx of amateurs into the market in 1902, when the Armour interests got the price of September wheat up to 95 cents.

There was another influx of outsiders last year when John W. Gates was boosting the market, but it didn't last long, and at its best wasn't to compare with what the commission men are now hoping for.

It is not the policy of the Armour interests to make the general public so wrought up as to create thousands of amateur grain speculators. No one knows so well as the Armours that, once the general public gets into the market, it may become uncontrollable any day, when the loss or winning of millions is likely to be merely a matter of accident.

In their recent wheat operations, then, the Armour interests have not made a vast amount of money out of the amateurs. It has been the smaller legitimate buyers and sellers of wheat, the milling men, exporters and the like who have suffered, besides the rather mournful old guard or smaller commission dealers who cannot afford to buy seats on the Cotton, Stock or Coffee Exchange. They are now to be seen grouped in the wheat pits of Chicago, St. Louis, New York and other wheat centers on every working exchange day in the year. Perhaps they are more anxious than any other of the wheat-dealing elements that the old commission rate of a quarter of a cent shall be restored and maintained, but it is from their weakness that its integrity is in greatest danger.

There are from 50 to 100 of them in New York, a small number only being in evidence on ordinary days, and their full force is never called out except when the dispatches show considerable changes in the market. Some of these men do not deal much in wheat for others, as they used to when the market was active, but solely for their own account.

As a rule no actual wheat changes hands at all in these operations. None of these dealers are technically bucket shop operators, yet in effect some of them are merely little gamblers in small figures on the rise and fall of the market, being delighted when a lucky swing of a cent or a fraction thereof nets $25 or $100, and correspondingly depressed when there is a loss of like amounts.

Don't understand that all those to be seen on the exchanges nowadays are of this type; the legitimate market is big enough in Chicago, New York, Minneapolis or St. Louis for an operation in wheat amounting to as much as 1,000,000 bushels to go through without attracting much notice, and operators of magnitude are represented on the wheat pits of the country almost daily. But, for all that, the small traders have been more in evidence than any one else all through the past Winter and Spring; their thin and irregular ranks look pathetic indeed as they stand about and deal tamely in the space that used to be jammed and crowded with a frenzied, excited mob of yelling, hullooing men whose inarticulate sounds, whose very gestures were of the utmost significance to themselves and those about them, though insanely meaningless to every one else.

The Gates Deal of 1905.

It was believed last year that John W. Gates had a possible corner in his mind and he actually did go into a big wheat deal, which brought a bigger contingent of the public into the pit, figuratively speaking, than had been seen there since 1898. Gates started in on this deal when May wheat was quoted somewhat above $1; its highest quotation last year was $1.18¾; then it broke, and many market observers believed that he had lost a lot of money. There were rumors that he had acquired from 15,000,000 to 20,000,000 bushels, and as the market went as low as 86½ on the break, the belief in his heavy losses was apparently justified.

Later, however, there were indications that Gates and his crowd were hurt very little by the market's collapse; many shrewd students of the situation, in fact, believe he was really well ahead of the game by the middle of May. They admit that he was apparently heavily long on wheat in the months between January 1 and May 1, 1905, and that he sold out when prices were lower than those at which he bought a large part of his holdings, but that he recouped himself after all. Here is the story so far as known, as outlined by an observer outside the Gates crowd:

"There were rumors in Chicago around midwinter that a Wall-street combination had been formed to put the price of May wheat to $1.50. The whispered tips were worked into paragraphs in the slips sent out by the commission houses and found their way into the newspapers. By and by it was said that John W. Gates was 'back of it.' Then it was admitted that he held a large quantity of wheat and was 'long' in the market because he believed the supply would be so short of the demand that the price would advance to near the dollar and a half mark.

"The market broke on April 5, when Gates sold wheat in quantities at Chicago. Prices dwindled every minute thereafter. But before the break had gone very far news came in that some one, no one knew who, was offering a big quantity of wheat for future delivery at Minneapolis, St. Louis and other places outside of Chicago. The decline was checked, but later more wheat flooded the market. Then the resulting slump was again checked in Chicago. This was repeated several times till April 29, when low-water mark for May wheat was reached, the total drop being 32¼ cents, or $322.50 on every 1000 bushels.

"Now, if Gates had lost at the rate between the high mark of $1.18¾ on April 5, when the market broke, and the low mark 86½c on April 29, his total losings, had he held 20,000,000 bushels, would have amounted to $6,450,000. Nobody supposed he lost any such big sum, for he sold a large proportion of his wheat at much higher figures than 86½c, but until the mystery of the offerings following each of the breaks was figured out his losses were supposed to be somewhere in the millions at least.

"But, when it was reasoned that these outside offerings of May, July and September wheat were probably short sales by Gates himself, who was able to buy for delivery at the lowest figures, 86½c, it was easily seen that in that way he could have covered his losses and even made a net profit, as everybody now believes he did.

"The hindsight of the losers was wonderfully clear. When they bought they had no notion that they were buying from Gates, the sales being made through different brokers in different places and often in small lots. It is doubtful whether the brokers who served Gates in April, 1905, had any idea themselves that he was their principal.

"It is believed that Gates went into this operation honestly convinced that the demand would so overleap the supply that the market would rise to high figures. His reasoning was much like Joseph Leiter's when he began the corner which closed him out a heavy loser eight years ago next week. In 1897 he believed the supply of wheat would be away under the demand and acted accordingly. But Leiter din't know when he had enough and 'overstayed the market,' while Gates saw just when he had acquired a sufficiency and didn't 'overstay.' Charles Gilbert Gates, John W.'s son, took quite a hand in his father's big wheat deal."

Gates' deal lasted less than half a year, and its high record lasted hardly long enough either to raise the price of the loaf or lessen its size. Leiter's deal lasted more than a year and put the price up so high and for so long that it actually did influence the price of the loaf, its quality or its size at nearly every breakfast table in this country, and possibly across the sea.

Leiter's deal was heralded so widely that he became one of the best known men in the country; in the entire world of trade and finance, for the matter of that. Undoubtedly this man, then only about 30, who had achieved nothing whatever except by the aid of the dollars his daddy had accumulated, was taken as an American type by the outside world.

Leiter began operations on April 10, 1897, with wheat "low" at 64 3-4 cents. Between then and July 1, 1898, he bought 8,000,000 bushels for July delivery at an average of 68 cents. He sold it at an average of 75, and on July 31 had made a net profit of half a million dollars.

The young man went into a new deal in September wheat almost before the settlements of his earlier operations had all been made. On this September deal he was said to have cleared $720,0000; on a December deal, $330,000, and on a deal in wheat for delivery the following May (1898) his profits were announced as $1,800,000, making a total of $3,850,000.

Right on top of his wonderful profit taking of May, 1898, he went into a fresh deal. He seemed to think he could go on forever, following one successful deal with another, but he wasn't to wait long for enlightenment on that point. On June 14 wheat broke and everything closed in on him at once. A day or two later it was known that his losses had more than wiped out the millions he had made in all his previous deals.

Luckily for him there were more Leiter millions where the first million—given to him by his father—had come from. The

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