

in the South are whites, and their general reputation for honesty is as high as that of any people in the world. The proportion of whites engaged in the culture of cotton has been constantly increasing and their total number must now greatly exceed the total number of blacks so employed.¹ Although they include the large planters and many independent farmers who stand in no great need of credit, the majority of the whites are small land owners or tenant farmers who are in exactly the same position with respect to present opportunities for procuring credit on reasonable terms as are the negro cultivators. These small white farmers largely predominate in numbers in some sections of the South, as in upper South Carolina and Georgia, northern Alabama, northern and eastern Mississippi and in certain portions of Arkansas and Texas. In other sections of the South they form, if not a majority, at least a respectable minority of the inhabitants. Their honesty and industry are highly commended by those who are acquainted with them and have had business relations with them. Their misfortune is that they were deluded by the high prices of cotton in reconstruction days into raising this staple exclusively, and that a continuation of this policy has made them victims of usury, until there seems to be no avenue of escape open to them. It is in such communities as these that co-operative credit would meet with signal success. It is this class of farmers from whom southern agriculture has most to expect. The opportunity which a release from the control of the advancing merchants would give these farmers, would, it is believed, be grasped by them to reduce their cotton acreage, diversify their farming and improve their land. By the

¹ In 1893 the proportion of cotton raised by white labor was estimated at 70 per cent. Otken, "Ills of the South," 245-6.

reduction of the cotton acreage which would thus be brought about, and the consequent rise of prices, the condition of those farmers who from necessity or preference continued to plant cotton, would also be bettered.

But this would not be the only indirect benefit that would result. For it has been one of the great blessings of these institutions that, wherever established, they have served not only the direct needs of their own members, but have stimulated thrift and honesty in those of the community who had hitherto lacked such qualities. The fact that they are debarred from membership in these associations and cannot share in the advantages furnished thereby, brings home to these morally deficient the lesson that honesty is the best policy, and causes them henceforth to endeavor to make themselves worthy of membership. What a lesson might these associations not bring to the negro? teaching him that honesty, industry and frugality form the basis of all prosperity. Eager for social advancement as this race is, and quick in imitating any habit or custom of the white race which seems to point in this direction, the negro might indeed be the greatest gainer by the introduction of these institutions, and if so, not only he but the whole South would have profited thereby.

The necessarily long discussion concerning the moral qualifications for membership has drawn us away from the point with which we began, viz., the class of members whom it would be advisable to endeavor to secure for these associations. Now while the purpose of the association should be to benefit the less prosperous members of the community, and the great number of those belonging to such associations should, therefore, be from this class, it is neither necessary nor advisable

that they should all come from this class. It is true that Schulze-Delitzsch did not emphasize this fact, for the associations which call him their father are, after all, rather "compulsory savings banks" than "credit associations,"¹ and according to their terms of organization and management they do not require the same conditions for membership as those societies which are entirely or mainly loan associations. Both Herr Raiffeisen, the founder of the German "loan banks," and Signor Luzzati, who introduced with modifications the Schulze-Delitzsch "credit associations" into Italy, urge strongly the necessity of securing as members of the association a considerable number of the more prosperous members of the community.² These not only lend financial stability to the institution and increase the confidence of money lenders in it, but they also furnish a class of men whose superior business judgment and experience are most valuable in the questions of organization and management. The advantage of having this class represented in the membership is particularly great at the time of introducing these institutions into a new country or community. At such a time, when capital would be timid about entering this new field for investment, these men, because of their wide business acquaintance and well known financial responsibility, would doubtless be of great service to the associations in securing loans. It is not unlikely that they would themselves be able and willing to advance the first funds needed by the banks and their own example in so doing would act as a guarantee of safety to others.

It may be asked, what are the inducements which

¹ Wolff, "Peoples' Banks," 48.

² In Italy these members comprise about 25 per cent. of the total number of members in the associations.

would lead this class of men, who do not themselves need the aid furnished by the banks, to become members of these associations? First, philanthropic motives which always animate the minds of a large proportion of the well-to-do citizens of any country, stimulating them to efforts in behalf of the community in which they live. Probably no better field for the exercise of such motives could be found than among the large planters of the South. Long accustomed to leadership in all the political, business and social affairs of the community, imbued with a spirit of helpfulness which their control over the affairs and earthly destiny of others taught them to exercise during slavery days, taught finally by their own struggles and discouragements during the years of reconstruction how bitter is the curse of poverty, these men would not lack, nor have they ever lacked the willingness to help their poorer neighbors along the road to prosperity and industrial independence. A second motive which might influence the more prosperous members of a community to join these associations may be found in the fact that these men, while not lacking in the means of obtaining credit on reasonable terms for a considerable period of time, might find these banks a convenient means of furnishing them with cheap credit for a few days or weeks. But the motive chiefly relied on for drawing these men into membership in the associations is the profit which would accrue to them in the shape of dividends. The policy of paying dividends is undoubtedly open to criticism, and has been rejected by the Raiffeisen associations and some others of the European credit societies. "Large dividends," as Wolff points out,¹ "must necessarily mean dear money to the borrowers." There is also the

¹ "Peoples' Banks," 97.

danger that the interest of the shareholder will be put ahead of that of the borrower, and the very purpose of the association thus be compromised. The only preventive against this is undoubtedly that which Luzzati has recommended—the placing of a limit on dividends. This is not only possible but even certain in all cases where the interest of the majority of the members is on the borrowing side of the institution, for with each shareholder having but one vote, regardless of the number of shares held by him, the wishes of the majority are bound to be attended to. It may be that the above dangers which lurk in the dividend practice could be avoided by the payment of no dividends, and still the coöperation of the wealthy members of the community be secured, but this is open to doubt, and if business men are to be solicited to enroll themselves as members in a professedly business organization, there should be some business motive cited as a reason for their so doing. For the same reason care should be exercised not to place the maximum limit to the probable dividend below that which would be the ordinary return to invested capital. Dividends as high and perhaps a little higher than the current rates of interest should be allowed whenever the profits of the institutions permit this to be done. This may seem a needless warning to many who may imagine that the profits of the association would never allow of even so high a dividend. Perhaps some of them would not, but among the German credit unions the annual dividends have often been above thirty per cent. and in at least one case they went as high as fifty-six and two-thirds per cent.¹

If we have dividends we must, of course, have shares. Whether they are advisable is another controverted

¹ Wolff, "Peoples' Banks," 52, 98.

question. The Raiffeisen "loan banks" in Germany had no shares until German law compelled them to do so. The Wollemborg "Casse Rurali" of Italy have no shares. In both these cases the banks have flourished, and it must be admitted that these are precisely the associations which have been most successful among the agricultural classes. Shares when made too large and payment of them demanded too rapidly discourage many from joining who have the greatest need of credit. Both the Raiffeisen and Wollemborg associations are, however, organized on the principle of unlimited liability, a plan of doubtful feasibility in this country, and they have, therefore, less need of shares to stand as a guarantee for loans. It may also be stated in this connection, that perhaps the chief reason why these associations which allow no dividends have been able, nevertheless, to secure the support of prosperous citizens in the community, is because they have laid upon them no financial burden in the form of shares. It seems to be generally conceded that where unlimited liability does not prevail, shares are a necessity. In behalf of shares it is to be said that privileges in this country are usually valued in proportion to what they cost their holders to secure them, and that to demand the taking up of shares would only increase the interest of members in the associations.

Having decided that we shall have shares, what shall be the value of each share? This is a question which must be decided with reference to local conditions. In some communities it may be necessary to fix the amount at a very small figure, perhaps ten dollars, or even five dollars. Some of the Italian societies have had shares as low as twenty *lire* (about two dollars). But in spite of the poverty of many of the cotton growers, it is doubt-

ful if the shares would often need to be fixed at such small amounts, especially if speedy payments are not demanded. Schulze-Delitzsch made his shares intentionally high (about \$150) in order to commit the members to a long course of saving, a desirable purpose to be accomplished in this country also.

Perhaps fifty dollar shares in three months' installments of not less than five dollars each, in addition to an entrance fee of five dollars, would not be too severe a burden to be borne by the farmers in most southern communities.

In regard to the number of shares which any one person should be allowed to assume, it may be said that this is of secondary importance, provided that members be limited to one vote no matter how many shares of stock they may hold. This is necessary in order that the wealthier members may not get control of the association, and by raising the rate of interest on loans in order to obtain higher dividends, limit unduly the borrowing, and thus destroy the very purpose of the association. There is no serious objection, however, to limiting the number of shares which any member may hold, if this be deemed advisable.

In regard to the number of members which should be admitted to an association there is also much room for elasticity. Some Italian writers have thought fifty or sixty to be the ideal constituency of one of these unions. On the other hand, the largest of the Italian societies, the *Banca Popolare di Milano*, had in 1889 16,392 members.¹ The number of members like the number of shares will need to be determined by local conditions. There seems to be no need for fixing any limit to the number who may join, provided the other conditions are

¹ Wolff, *Op. Cit.*, 149.

fulfilled. The question concerning the size of the district from which the association should seek to draw members is, however, of real importance. The Schulze-Delitzsch unions have no prescribed territorial limits for operations, but accept members from anywhere if they fulfill other conditions. The Raiffeisen "loan banks" and those of Italy, on the other hand, work within narrow territorial limits, such as a parish or township might be in this country. Small districts become a necessity when the banks attempt to exercise a control over the employment of the capital which they lend. In general it may be said that the Raiffeisen and Italian loan associations lend money only for productive purposes. The applicant for a loan must satisfy the committee of the association which attends to the granting of credit, not only of his trustworthiness, but that the loan is intended to be used for the improvement of his farm or for the direct carrying on of his agricultural operations. This is a feature which should certainly be adopted in this country should co-operative banking be introduced in our southern states. It not only gives an additional safeguard to the loan, but it is probable that in this way the banks might exercise a direct influence in the reduction of the cotton acreage. They probably should not attempt, as do the advancing merchants, to dictate what crops shall be grown, but by giving the preference to those customers who raise their own food supplies and make cotton a surplus crop, they might exercise an influence decidedly beneficial to the whole community.

When it is discovered that a man has misapplied the money borrowed, or used it for a different purpose than was contemplated when the loan was made, the council of supervision may call in the loan at four weeks notice. Likewise, if the security offered for a loan has depre-

ciated in value, the council may demand additional security, and if this is not forthcoming the loan is called in. To make this part of the plan operative the small district seems a necessity. The members are then acquainted with one another's business, and a member could not misapply his loan without his fellow members being aware of it, as would not be the case in large districts. As the members of the associations are the ones who would be the losers by the failure of any borrower to repay his loan, it follows that they will be the ones who will be the first to give notice in case the loan has been used for other purposes than that intended by the lenders. Each member thus acts as a check upon his fellow members. It must be noted, however, that the territorial limits must be much wider in this country than in Europe, owing to the sparsity of the population. It could only occasionally happen that a township would be a large enough sphere of operation. Often, perhaps, an entire county would have to be included. The natural location for one of these banks would be in the cities, towns or villages where the farmers do their trading, and the sphere of operation should be large enough to include all those trading at this market whose membership is desired.

The methods of organization of these societies can be briefly described. Having secured a sufficiently large roll of members, which needs not be a very large one at the outset (Wollemborg started his first association with 32 members), the members meet to elect officers. Of course in this land of constitutional government this step would be preceded by the adoption of a constitution defining in exact terms the duties of members and the limitations to be placed on the officers. The officers

of the association comprise, first, the executive committee, on whom falls the burden of administration. This committee consisting of three or five members does not occupy its whole time with the affairs of the association, but meets as often as exigencies require, perhaps weekly or bi-weekly. To it is confided the responsibility of electing new members to the association, passing on applications for loans, deciding on the acceptability of security, providing funds for the association, fixing the rates of interest and discount, etc., in fact, attending to all the needs of the association. In addition to this committee there is the council of supervision, consisting of from six to nine members, meeting every three months and more often if necessary. To the council is given the power of veto on all important transactions entered into by the executive committee, as well as the supervision of accounts. Candidates refused admission and members expelled or refused credit may take an appeal to this body. Next to the general meeting of the association held each year, this is the highest authority in the association.

In addition to these committees, there is the cashier selected by the council and entrusted with the care of the funds and the transaction of the business as determined by the association. He has no voice in the management, being a clerk purely and simply. He is the only officer who sits permanently and needs not be a member of the association. When a society is not too large nor its business too extensive, the cashier may be a man engaged in other employments, as secretary of a building and loan association, real estate or insurance agent or a bookkeeper for some mercantile concern, or possibly an attorney. A list of members to whom credit is to be furnished, together with the amounts and terms

on which it is to be granted, is furnished the cashier by the executive committee, and this list may be altered at the pleasure of the committee. The cashier is the only salaried officer in the association, and his salary need not be large, especially when he is engaged in other employments. If the members of the committee or council are paid, their remuneration should be determined by the number of days that they are actually employed. Some of the European associations do not offer any remuneration to their officers, with the exception of the cashier.

It is needless to say that all of the officers should be elected with the greatest care, and should include none but the most trustworthy and business-like of the members. No member of the executive committee should be a member of the council. When the district is large, an effort should be made to have all parts of it represented on both the committee and council, in order that these officers may keep well informed as to the habits and doings of all the members. It is desirable that the leading citizens and more prosperous members of the community should come to have a keen interest in the success of the associations, for the support of these men will often be of great value to the association. In electing the officers, therefore, care should be taken to have this class of members well represented on both the executive committee and the supervising council.

Having described the methods of organization, we are next confronted with the question,—Whence and how is the association to procure its funds? There are three sources. First, the shares paid in by the members themselves. This is obviously not an important source at the outset, though it may become one. Savings and deposits constitute another source. Not only the mem-

bers of the association, but all the residents of the community are invited to make the loan bank the repository of their funds. These deposits, as in ordinary savings banks, are withdrawable at the option of the depositor. In return for these deposits, the associations allow interest at low rates. It is the custom of many Italian coöperative banks to allow interest at a rate of one-half per cent. higher than that allowed by the public savings banks, and this fact, in addition to the natural preference which the people have shown for their own banks, has made the coöperative banks very successful savings banks, and has drawn to them large funds in this way. In our southern states the amount of capital which could be secured in this way would of course be much less than in Europe, owing to the small percentage of the wage earning class in the South. But in certain portions of the South where manufacturing industries have lately sprung up, as in the Carolinas and in northern Georgia and Alabama this alliance of the agricultural and wage earning classes might prove very profitable to both. The scarcity of banking institutions in the cotton states would give these coöperative institutions an opportunity for undertaking a wider scope of business than in other sections of the country where national, state and private banks are already well established.

But the third source of funds, and obviously, at the outset at least, the most important source, is borrowed capital. But it will be asked, what are the inducements that will lead people of wealth to lend to these institutions? What is the character of the security which they have to offer? First and most important of all is the honor and reputation of the members of the association—"capitalized honesty" of which Signor Luzzati speaks. Can an association of men, possessing but little

property, who in their individual capacity were unable to borrow capital, from the simple fact that they are now grouped together offer sound security for heavy loans? Strange as it may seem, we must answer in the affirmative. As Sir Robert Morier says: "The skilled artisans of a community are as good a subject for a mortgage as the steam mill which supplies it with flour or the broad acres which furnish the corn for the mill. All that is wanted is some equally safe means of assigning to the creditors a lien on the former as on the latter."¹ An association furnishes us the means of securing such a lien. The individual of well known honesty and business habits is often unable to make a loan because he has no property to stand as security. The lender requires security not because he distrusts the intentions of the would-be borrower, but because he fears that sickness, death, want of employment or other misfortunes may intervene and prevent the debtor from carrying out his intentions. But in the association such risk disappears or becomes insignificant. Nothing short of an epidemic will carry off the majority of the members at one time.

The principle is the same as that underlying insurance. To insure only one house would be a mere speculation, but when a large number is insured the losses suffered by the burning of a few houses are more than offset by the payments on the houses which did not burn. The risk is no longer a speculative one, but a business risk. The pledge of honor of an association of men selected with regard to their honesty and thrifty habits, is a security which no capitalist can afford to disdain. This guarantee of honor, this "capitalized honesty" secured by collective credit is almost the only security

¹ Wolff, *Op. Cit.*, 23.

offered by the *Banche Popolari* of Italy, and their success has perhaps been greater than that of any other of the coöperative associations of Europe.¹

But the pledge of the association is not the only guarantee offered to investors, even if it is the most important one. There are, of course, the shares of the members, increasing with each payment made and with every new subscription. There is also the reserve fund which every association should set about collecting as soon as it begins operations. The entrance fees and a certain percentage of the profits should in all cases be devoted to the building up of this reserve. In this way the reserve may become a source of great strength. It is the backbone of the Raiffeisen system, Wolff tells us, and it might easily become so in any system. In addition to these guarantees which rest wholly on the confidence in its stability which the association is able to inspire in the minds of the money lenders, the bank may hypothecate its own securities which it has received from its members such as bills of exchange, promissory notes and other forms of commercial paper, and especially crop liens, concerning which more will be said later. With the indorsement of the association, these bills and mortgages should possess great strength as means of drawing capital to the banks. Indeed, they have in other countries, especially in Italy, shown that they possess this power.

There is another form of security which has been offered by the German coöperative societies and the Wollemborg *Casse Rurali* in Italy, which has undoubtedly lent considerable stability to these institutions. This is the unlimited liability of the members. Each member becomes responsible, not only for his own bor-

¹ "Peoples' Banks," 75.

rowings, but to the full extent of his property for the obligations incurred by the association. This is a feature which is not likely to commend itself to Americans, and is one which has been rejected in some other countries where coöperative credit has been introduced. And even its warmest supporters have acknowledged that it is not indispensable to the success of the associations. In Austria-Hungary there are a large number of credit associations of both the Schulze-Delitzsch and Raiffeisen types which have adopted limited liability, and they seem to have succeeded as well as those based on unlimited liability. The Belgian *Banques Populaires* and the Italian *Banche Popolari* are also based on limited liability. The objections to unlimited liability are obvious. In an association where it is desirable to have a few rich as well as many poor members, any scheme which proposes to place the greater part of the responsibility on the richer members is not likely to prove popular in this country, in spite of the fact that the dangers from unlimited liability have not proven to be great in other countries. If the success of the "popular banks" was dependent on this provision, we might well despair of their ever being established in this country. But where the sale of shares is not rejected, there seems no good reason for demanding unlimited liability.

But while unlimited liability seems unlikely to meet with favor in America, it seems desirable to increase the confidence of money lenders in the association by fixing the liability of members at something more than the mere value of the shares of stock held by them in the association. Perhaps the rule adopted by the Belgian societies and the limited liability associations in Hungary would most nearly meet the need of American conditions, at least at the outset. These associations limit

the liability of their members to a fixed multiple of their shares. Thus, supposing the shares of the members were to be fixed at fifty dollars each, the liability of a member holding one share might be made two-hundred dollars, or four times the value of the share, while the member who for purposes of investment took up more than one share would have his liability increased in a commensurate manner.

Having established its own claim for borrowing, the association is next concerned with the amounts which it shall lend to its own members, and the terms on which these loans shall be made. These are practical details to be settled by the executive committee, subject to the limitations imposed upon it by the association at its annual meeting, or by the supervising council. It may be said, however, that any member may usually be allowed to borrow without security to the extent of the amount which he has paid in on his shares. Beyond this point security should be given, and the judgment of the committee must largely determine the amount which can be lent and the character and amount of security to be demanded.

There are three kinds of security which can be offered by agricultural borrowers: personal security, security on movables (chattels), and landed security. Tenant farmers, of course, are lacking in this third form of security.

As regards personal security, it may be said that this should be sufficient for the association, provided the amount of the loan required is not excessive when the circumstances of the borrower are considered. As the members of the association are supposedly honest, this being the indispensable condition to their admission to membership, any member desiring to make a loan should usually have no difficulty in securing the indorsement

of two or more of his responsible neighbors on his note of hand. Such is the form of security most usually employed in Europe by members of the coöperative societies, and we have already noted the fact¹ that in at least one section of the South this personal security is all that has been demanded by the national banks in making advances to farmers.

When for any good reason the farmer is unable to furnish personal security satisfactory to the association, there still remains open to him the possibility of furnishing real security in the form of pledges of personal property, liens on his crop, implements or live stock. It will no doubt be seriously questioned whether any association undertaking to carry on banking operations in a safe business-like manner can afford to take security of so precarious a nature as crop liens, especially as the time of borrowing usually antedates by several weeks the planting of the crop which is to be offered as a guarantee of repayment. Ordinary banking institutions certainly could not afford to do so. But there are numerous reasons why the coöperative banks may with safety accept as security that which ordinary banking establishments would be bound to refuse.

The dangers threatened are three-fold. First, that the borrower will not invest his loan as he agreed to do,—will not use his borrowed capital to put out a crop. Second, that the crop will prove a failure. Third, that the price of the crop will be less than was anticipated, and its total value not equal to the amount of the loan.

As regards the first danger threatened, it may be answered that the safeguards which the association has established to prevent abuses of the loan privilege by irresponsible borrowers should prove sufficient to prevent

¹ Above, p. 162.

any borrower from misapplying his loan. He could scarcely do so without his neighbors being aware of it, and it is to their direct interest to inform the management of any such irregularity, so that the loan may be called in. The danger arising from this source is no greater than that run by any of the European associations which loan only for productive purposes, and the experience of these associations has shown that this danger is insignificant.

The importance of the other dangers mentioned, the failure of the crop or a decline in its value, will largely depend on the nature of the crop to be taken as security. It is not proposed that any crop shall be taken as a guarantee for loans, for which there is not a constantly open market, and the course of prices of which may not be closely predicted. Nor is it proposed that any association shall lend to the full extent of the anticipated returns from the sale of these crops. A low maximum limit, say fifty per cent. of the anticipated value of the crop, might be established, at least for a few years until experience has had time to show whether or not a wider limit may be chosen. It might be well to accept as security only one crop, that of cotton. The facility for marketing this crop, and the possibility which the future delivery system affords of foreseeing changes in its price weeks and even months ahead of time, have made this crop known all over the South as the "cash crop," and explain the reason why merchants and factors are willing to make advances on it. Although one of the chief objects of these associations should be to aid in the reduction of the cotton acreage by preventing the necessity of raising this staple exclusively, still it is probable that the majority of the farmers will wish to raise cotton at least as a surplus crop, and if so, there

seems no good reason why the banks should not accept it as security for loans in the same way that the merchants now do, provided, of course, that too much is not loaned on this kind of security.

The loans made to this class of borrowers in the South are necessarily small in amount, seldom exceeding for the tenant farmers or small land owners one hundred dollars a year. A complete failure of the cotton crop is a rarity for individuals, and never happens to an entire community.¹ In spite of a remarkable mixture of good and bad seasons, the average yield per acre for the entire cotton belt has, for the twenty years ending with 1895, been between 145 pounds as a minimum and 223 pounds as a maximum, and usually a short crop has been partly if not entirely compensated for by higher prices.

Finally, it is to be said that in two given cases, experience has demonstrated that crop liens may safely be taken as security for loans. The first case is that of the merchants and factors of the South who for more than one-hundred years have been loaning on this same kind of guarantee, and in many cases to borrowers who possess none of the virtues which we have made the indispensable conditions to membership in our proposed associations. The second case is that of the Italian Popular Banks, the most successful of all the European loan associations, and the very ones which seem best adapted to American circumstances. Noticing the conditions which confront the agricultural classes of all countries, of having little or no personal property which they can offer as security for loans, the promoters of agricultural credit in Italy obtained in 1887 legislation which gave to the tenant

¹ "The fluctuation in yield per acre, taking the country as a whole, is less in the case of cotton, than in that of almost any other product of the soil." C. W. Dabney, Jr., "Introduction" to "The Cotton Plant," *Loc. Cit.*, 15.

farmers and land owners of that country the right to offer their crops, implements and live stock as a guarantee for the loans offered by the coöperative credit societies.¹ No similar legislation is needed in our southern states, for the crop lien already exists there with the complete recognition and support of statutory law. All that is needed is some means of making this much abused instrument of credit a blessing to the classes it was intended to benefit, but whom, on the contrary, it has well nigh ruined.

Shall farming land be accepted as security for loans made by these banks? It seems to be a cardinal principle of American banking that land shall not serve as security for loans made by banking institutions, for it is assets which cannot readily be converted into cash wherewith to meet sudden demands. It is certain that it should not be taken as security for short time loans which the credit associations would be chiefly called upon to furnish. But it may be questioned whether it might not be accepted as security for long time loans, when these loans are made for the distinct purpose of making improvements on the property. It would seem that the added value given the land by these improvements would more than compensate for any possible decline in the value of the farming land. This form of security might certainly be employed if the southern states would provide such a system of land transfers as is secured by the Torrens system.

“If the artificial absurdities, inherited from the dark ages and feudalism, which enslave land even under this free government, and burden its transmission from one owner to another, could be abolished, if titles to this

¹ Peters, “Coöperative Credit Associations in Certain European Countries,” 96.

species of property could be made commercial paper, and as convertible as the titles in property in railroads and factories are through bonds and stocks . . . that fundamental value, held to be the source of all others, land, would be free to furnish its full quota toward supplying human wants and assisting in human progress.”¹

But even in the absence of this desirable reform, which would certainly do much to raise the value of farming land in the South, there seems to be no good reason why first class mortgage security should not be acceptable for long time loans when the money loaned is to be expended for farm improvements. The coöperative banks are not likely to be made the repository of call deposits to the extent that other banks are, and this fact lessens the danger of the bank being suddenly called upon to convert its assets into cash.

The length of the period for which ordinary loans should be made must be determined largely by the needs of the borrowers. In Europe, three months, with privilege of renewal for another three months, rather reluctantly given, seems to be the favorite length of time for short time loans. But this is too short a time for agricultural borrowers. In the cotton belt there is a demand for loans to run through the cotton season, for which six months might be considered the average length. The associations should, therefore, endeavor to make advances for this length of time, with provision for renewal for three months longer when this appears to be necessary. Prompt payment of both interest and principal on the appointed day must be insisted upon.

The question remains: What is likely to be the rate of interest on these loans? Obviously no definitive

¹ H. Hammond, “Handbook of South Carolina,” 157.

answer can be given until the experiment is made. From the experience of European associations we learn that this is a matter which depends on many circumstances which affect the individual banks in a different manner. As the rates of interest on ordinary loans are higher in America than in Europe, we must expect to find the rates charged by associations in this country higher than those collected by the coöperative banks across the Atlantic. It is also probable, indeed certain, that the rates will be higher than those charged on ordinary loans. When it is remembered that the associations must borrow the greater part of their funds, must allow for salaries and fees to the officers, must provide for the payment of the other running expenses, and must allow for fair dividends on the stock held, and must carry a part of the earnings to the building up of the reserve, it will be seen that the interest charges will necessarily be high, perhaps twelve or fifteen per cent. But twelve, fifteen or even twenty per cent. will seem wonders to the people who for years have been paying merchants from forty to one hundred per cent. As the associations prosper and the confidence of money lenders becomes strengthened in them, the banks will be able to borrow on more reasonable terms than they can at the outset. Their own funds will also be accumulating, and will enable them to dispense more and more with outside capital. The rate of interest on advances can then be reduced. And it must also be remembered that in all cases the nominal interest will be higher than the real interest, for as only members may borrow, those who have received advances will find part of their interest payments returned to them in the form of dividends.

Such are the main features of the plan which is here hesitatingly suggested as a means of solving the prob-

lem of agricultural credit in the southern states, and which it is believed would aid materially in obviating the present difficulties of reducing the cotton acreage. The plan is not proposed as a panacea for all the evils which have accompanied or caused the agricultural depression in the cotton states. Many of these evils it lies in the power of the southern farmer to remedy, and they can be cured by him only. Legislation, either by the state or federal government, can do little to assist him, and the sooner the agricultural classes understand this, the sooner will they themselves set about the task of agricultural reform. No move in this direction is more urgent than an attempt to relieve themselves from their dependence on the advancing merchants for the necessities of life, whether the attempt be made in the manner here suggested, or by some other means.

Perhaps there may be well grounded objections to the plan of introducing coöperative credit into this country, or perhaps there are special circumstances which would render the plan impracticable for the southern states. But until these objections, or these unfavorable conditions are pointed out, it will not suffice to call a plan which has accomplished so much in the way of furnishing credit to agricultural borrowers in Germany, Italy, Switzerland, Austria, Hungary, Belgium, Russia, Ireland and even China,¹ impracticable, when applied to the native born white population of the American cotton states.

Coöperative credit, if introduced, would no doubt be of slow growth, and would not bring immediate or speedy relief to the majority of the cotton producers. But dis-

¹ By the law of 5 November, 1894, provision has been made for the establishment of coöperative credit associations in France. *Annuaire de Législation Française*, 1894, pp. 80-97.

eases which have been slowly fastening their hold upon either the physical or social organism are not easily shaken off, and the evils wrought by the crop lien system are of long standing.

One more word seems necessary before leaving this part of the discussion. While the coöperative credit associations are in no sense charitable or benevolent schemes, and while their foundation and management rest on purely business principles, their introduction into a new country has always, I think, been due to some philanthropic individual, who made himself personally responsible for the success of the first experiment. Doubtless, if coöperative credit is ever established in this country, it will owe its origin to some similar agency. This philanthropist need not necessarily be a wealthy man. Nearly all of the European societies have had very humble beginnings. What is necessary, however, is to have some man take the initiative who sees clearly the benefits to be derived from such an association in his neighborhood, and who is willing to devote a part of his time and energy to the project, and to advance at least a part of the funds necessary to give the plan a fair trial. The success of one such experiment being clearly established, the multiplication and development of other associations will follow as a natural consequence.

The length of this chapter precludes the discussion of other agricultural reforms which seem necessary to put southern agriculture on a firm footing. But before concluding the chapter a few words must be devoted to the share or "cropping" system which, next to the crop lien system, is probably the most important of the causes contributing to the present low state of southern farming.

Though not confined to the negroes, it is perhaps not incorrect to say that the share system is the mode of

cultivating the land most usually practiced in those portions of the cotton belt where negro labor is chiefly employed. A reform in this direction may therefore be expected to accomplish much towards bettering the condition of the negroes and rendering their labor more efficient. Like the existing credit system, the "cropping" system is a heritage coming down to us from reconstruction days. It was devised by the planters in the days when politicians and fanatics were drawing the attention of the freedmen from their work in the cotton fields, and the employers found some means necessary to make the laborers feel the effects of their own idleness. Like the credit system, this cropping system was justified at the time by the exigencies of the situation and because it accomplished its purpose; but it is also like the credit system in that it has long outlived the period of its usefulness and now stands directly in the way of agricultural progress in the planting states. Wherever since reconstruction days there has been a return to the system of hiring laborers for wages, reports show that it succeeds better than the share system. The farming is done better, there is less waste and exhaustion, land has a higher selling value, and the condition of the laborers has improved. The negro requires supervision in order that his work may be efficient, and it is the absence of this supervision which generally accompanies tenant farming that renders the system so wasteful. There should, therefore, be a return to the wage system wherever possible, especially in those localities where negro labor is employed. Even on those plantations where the owner is absent a greater part of the year, experience in the "delta region" has shown that hired laborers under the supervision of a competent

manager are much more efficient and economical than the negro croppers who are left free to conduct their own farming. Under the share system the tenant often promises a larger rent in cotton than he would pay in cash, and this causes the landlord to favor this system of working his land. The tenant system thus stimulates over-production of cotton, and establishes a rental value of land which is purely artificial. But the tenant system is in many localities so inextricably bound up with the system of crop liens that any reform in the former is well nigh impossible until relief is furnished from the latter evil. We are thus forced to the conclusion arrived at by Grady sixteen years ago, "*The remedy for this deplorable situation is first of all the establishment of a proper system of credit.*"

BOOK II.

THE COTTON TRADE OF THE UNITED
STATES.

CHAPTER VIII.

THE HISTORY OF THE COTTON TRADE FROM ITS BEGINNING TO THE CLOSE OF THE SECOND WAR WITH ENGLAND.

It is still a disputed question whether any cotton produced within the present limits of the United States, was imported by Europe previous to the separation of this country from the motherland. The opening chapter of the preceding Book has shown us that cotton was grown only in very small quantities in the English colonies of America, and while it scarcely seems possible that some of this should not have found its way across the Atlantic, this assertion has confidently been made by many writers.

It is true there are records of cotton having been shipped from various colonial ports to England in 1747¹, 1753, 1757², 1764 and again in 1770³, and there is in the possession of a New York cotton broker⁴ a bill of lading for eighteen bales of cotton shipped July 20, 1751, "in and upon the good Snow called the Mary, whereof is master under God, for this present voyage, Barnaby Badgers," sailing from New York to London; but the writers referred to above contend that these shipments were of cotton grown in the West Indies,

¹ Harry Hammond, "Cotton Production in South Carolina," 14; Tenth Census of the United States, Vol. VI.

² Ellison, "A Centennial Sketch of the Cotton Trade of the United States," (separate edition), p. 4.

³ Woodbury's Report on the Cotton Production, Trade and Consumption of the United States, Executive Documents, 24th Congress, 1st session, No. 146, p. 33.

⁴ Mr. Henry Hentz. A photograph of this bill of lading is given in Chew's "History of the Kingdom of Cotton and Cotton Statistics of the World."

shipped into the United States and then re-shipped to Europe. There has never been, so far as I have been able to ascertain, any evidence furnished by these writers to show that cotton of domestic growth could not have been shipped to England before the Revolution, but their denial seems to rest, like the opinion later given by British custom house officials, on the supposition that so much cotton could not have been grown in the colonies. Smithers's "History of Liverpool"¹ seems to have been the original authority for this statement. Woodbury's Report on Cotton in 1836,² accepts Smithers's statement, and most American and European writers on this subject seem to have followed one or the other of these authorities without further investigation. Professor McMaster goes so far as to state positively of these pre-revolutionary shipments, that "not one pound grew upon our soil, every fibre came from the Spanish Main."³ Considering the fact that in all the southern colonies small quantities of cotton had been raised, and that the production had been of sufficient importance to warrant the introduction of tools for ginning and cleaning it, it would seem that, in the absence of proofs to the contrary, domestic cotton must have gone to Europe even before Revolutionary times. Mr. Dana, the editor of the *Commercial and Financial Chronicle*, says that in 1739 "Samuel Auspourgouer, a Swiss living in Georgia, took over to London at the time of the controversy about the introduction of slaves, a sample of cotton raised by him in Georgia."⁴ As Mr. Dana remarks, we

¹ Pages 124, 153 and 156.

² Page 33.

³ "History of the People of the United States," II: 163.

⁴ Dana, "Cotton From Seed to Loom," 24. Cf. "Georgia Historical Collections," II: 196; Handy, "History and General Statistics of Cotton," in "The Cotton Plant," (Bulletin No. 33, Office of Experiment Stations, U. S. Dept. of Agriculture,) p. 33.

may call this, "in the absence of a better starting point, the first export." Jefferson, in his "Notes on the State of Virginia,"¹ mentions cotton as being an article of export from Virginia previous to the Revolution. The question is only of historic interest. It is certain, in any case, that the export of cotton from the British North American colonies had attained no great commercial importance by the beginning of the Revolution.

The beginning of a regular cotton trade between the United States and Great Britain dates from 1784, when eight bags of cotton carried by an American ship to Liverpool, were seized by the customs officers on the plea that so much cotton could not have been raised in the United States.² It was supposed by the officers that the cotton was of West Indian growth, and as such could not, according to existing treaties, be imported into England on an American vessel. The cotton was released when it was found to have been grown in the United States, but it does not appear to have been a very desirable quality, for it lay for several months in the warehouse of the consignee, Messrs. William Rathbone & Son, before it found a purchaser.³ It was finally sold to Messrs. Strutt & Co., of Derby, in whose mill Samuel Slater, the "father of cotton manufacturing in the United States," was then employed.⁴

That the American cotton was not of desirable quality seems further evident from the fact already mentioned, that two South Carolinians who shipped seed cotton to Great Britain in 1787 were informed that it was not worth producing, owing to the difficulty of separating it from

¹ First Edition, 277.

² Bishop, "History of American Manufactures," (1866), I: 354.

³ Ellison, "The Cotton Trade of Great Britain," 81-2.

⁴ Ellison, "A Centennial Sketch etc.," 5.

the seed. Despite these discouragements, American cotton continued to be shipped to the British markets. Fourteen bags were sent over in 1785 and six bags in 1786, and in 1787 one hundred and nine bags, estimated at 150 pounds each, were received at Liverpool.¹

The culture of the sea island cotton had by this time become well established, and it was this variety of cotton that formed the bulk of the exports until 1793. In 1788, 58,350 pounds were exported, and if we can believe Donnell's statement, American cotton must have grown in favor with the British manufacturers, for he quotes upland cotton as selling on the Liverpool market for 2s. 2d. per pound.² It is probable that this was the price of the sea island cotton, for West Indian cotton was this year selling in Liverpool at 14d. to 20d., and even Fair Pernambuco sold at 18d. to 21d. per pound.³ In 1789, 126,300 pounds of American cotton were sent to Liverpool, and in the next year the shipments amounted to 12,150 pounds. The poor quality of the cotton was probably responsible for the falling off in amount exported, as only 10d. per pound was paid for upland cotton this year, while the price of West India cotton in Liverpool ranged from 12d. to 21d. per pound.⁴

Meanwhile, Great Britain was not the only market open to the American cotton grower, though Lancashire fixed the prices for all grades of cotton. The domestic manufacturers of the United States had long consumed the greater portion of the cotton grown on our soil, and even considerable quantities from abroad. Thus, Wood-

¹ Bishop, 1: 354.

² Donnell, "History of Cotton," 45.

³ Ellison, "The Cotton Trade of Great Britain," 83.

⁴ Burns, "Statistics of the Cotton Trade," (1847), Chart 14.

bury's Report of 1836,¹ as well as the reports of earlier investigators, estimates that five million pounds of cotton were consumed in the United States in 1790, although the entire cotton crop of the United States for that year is estimated at only one and a half million pounds. Large shipments of cotton were still received in the United States from the West Indies and Brazil. In 1791, 189,500 pounds of American cotton went out of the country, but the following year showed a shrinkage, only 138,328 pounds being shipped, although the crop for this year is estimated at three million pounds. In 1793, the American crop is estimated to have been five million pounds; the exports were 487,600 pounds. It was during this year that Whitney's cotton gin was invented, and the one great obstacle to the rivalry of America with the West Indies, India, Brazil and the Levant as a cotton producing country, was removed.

Although American "uplands" had been slowly growing in favor with the British manufacturers, the dirty condition of this cotton had prevented it from entering into serious competition with the cotton received from other countries. But, although for the first few years after the invention of the saw gin the British manufacturers complained that the saws cut the wool, this difficulty was soon removed, and the preference was given to the cotton cleaned by the new method.²

So far as the cotton industry was concerned, Whitney's invention was only the completion of the discoveries which created the famous Industrial Revolution. The spinning jenny, the power loom and the mule would have been of little benefit in the cotton industry had it

¹ Page 40; reference to other authorities on page 42.

² Ellison, "A Centennial Sketch etc.," 16.

not been for cheap cotton, "and cheap cotton would have been impossible but for the saw-gin."¹

The sea island cotton which began to be cultivated in the United States in 1786 soon gained the first place among cotton wools. The English inventions in spinning and weaving machines and the application of steam power to the cotton manufacture, resulting in the establishment of the factory system, so strengthened the demand for raw cotton that in spite of the rapid expansion of cotton cultivation, prices remained practically the same for a decade following the invention of the saw-gin. In America, too, factories and cotton mills were beginning to spring up, and thus the home market for cotton grew at the same time that the demand from abroad increased. The result, as we have seen in an earlier chapter, was to turn the attention of the southern farmer almost exclusively to the cultivation of the cotton plant, and every acre of ground capable of producing the new staple was devoted to its production.

Until 1805 the American custom house books, from which we get the statistics of exports, do not distinguish between the cotton produced in the United States and that sent in from other countries for re-shipment. Great Britain was then, as in the absence of commercial restrictions she has always been, the principal market for American cotton. Until the beginning of this century we have no information as to the destination of our cotton, but it is known that nearly all of the earlier exports went to Great Britain.²

Previous to the last twenty years of the eighteenth century, the cotton wool imported into England for use by the cottage manufacturers, came almost entirely from

¹ Ellison, "A Centennial Sketch, etc."

² See Table, Appendix I.

the Mediterranean ports, especially from Smyrna.¹ The insignificance of the imports, the uncertainty of the market and the poor means of transportation, made the sale of the cotton wool very doubtful and its price fluctuating. About 1780 the West Indies, which had for some time been shipping small quantities of cotton to England, became the principal source of supply for the cotton manufacturers who were beginning to use the new spinning and weaving machines. Brazil began exporting cotton in 1781, and its cotton, at first unfavorably received, soon became the most valuable on the market,² and so remained until the sea island cotton, grown in the United States, began to find its way across the Atlantic. Between 1771 and 1775, West Indian sold at 9½*d.* to 14*d.*, and from 1776 to 1780, it brought 16*d.* to 25*d.* The wars with France, Spain and the American colonies had seriously interrupted English commerce, and prices rose rapidly. Speculative operations aided in this, and in 1781 West Indian cotton went as high as 36*d.* to 48*d.*, while Smyrna sold at 34*d.* on the spot and 32*d.* "to arrive."³ This seems to have been the first sale of "futures" on the cotton market.

An increase in the importations and a decline of prices followed during the next three years, but in 1785 Arkwright's patents were thrown open to the public, and the stimulus given to English manufacturers was so great that in spite of the fact that the imports were during this and the following year the largest ever known, being 46,000 bales of 400 pounds each in 1785, and 48,600 bales in 1786, prices continued to advance until by the end of 1786, West Indian sold at 27*d.* to

¹ Ellison, "The Cotton Trade," 81.

² Baines, "The Cotton Manufacture of Great Britain," 305.

³ Ellison, "The Cotton Trade," 83.

42*d.* per pound, Marnaham at 42*d.* to 48*d.*, Pernambuco at 36*d.* to 39*d.*, and very fine Bourbon at 7*s.* 6*d.* to 10*s.* per pound.¹ The West Indies and Brazil furnished nearly all of this cotton, only about one-quarter of the entire amount coming from Turkey and Asia Minor.² The high prices of cotton wool had two effects. One of these was to increase the growth of cotton in the countries already importing; the other was to check the consumption of the new factories. English spinners became alarmed lest the lack of supplies of raw cotton would check the development of the cotton industry at home, which had grown at a rapid rate during the last few years. In 1787 it was estimated that there were then in operation in Great Britain,³ 145 cotton mills containing 1,951,000 spindles, and employing in all stages of manufacturing 350,000 persons. The amount of cotton wool consumed is said to have been 22,000,000 pounds, as against 6,000,000 pounds only six years before.⁴ The result of this increased consumption of cotton by the British manufacturers was to glut the market for cotton goods. It so happened that the East India Company had, about the same time that this sudden increase in manufacturing took place, a large stock of cotton goods in their warehouses, and these they threw upon the market.⁵ But although this overstocking of the markets caused a temporary loss to the British manufacturers, it eventually proved of great advantage to the development of the cotton industry. Heretofore

¹ Ellison, "The Cotton Trade."

² Baines, 304.

³ This estimate was made by the writer of a pamphlet which appeared about this time. Uré ("Cotton Manufacture," I: 290), says: "If we take one-half the above numbers, we shall be tolerably near the truth."

⁴ Donnell, "History of Cotton," 35, 43.

⁵ Uré, "The Cotton Manufacture of Great Britain," I: 287.

the printed calicoes and soft muslins had been worn by the wealthier classes only, but now the cheaper prices of all cotton goods enabled the poorer classes to purchase the fashionable fabrics. "Women of all ranks, from the highest to the lowest began to be clothed in the British cotton manufactures, from the muslin cap upon the crown of their head to the stocking under the sole of their feet."¹

The question, whence should come the supply of raw cotton to meet this increased demand for cotton goods, the English manufactures sought to answer by turning to India, the ancient seat of the cotton industry. The supplies of American cotton were too meagre to cause any hope for relief from that quarter, and the character of the cotton which had been received from there had not been such as to give any encouragement for the future. Hence the Manchester spinners besought the East India Company to bring raw cotton from the territories under their jurisdiction. The company, therefore, experimented with raw cotton, and in 1790 imported 422,207 pounds.² But the Indian cotton proved as unsatisfactory as the American, and a letter of the Hon. Court, dated May 20, 1792, said: "It is evident, therefore, notwithstanding the flattering allurements held out by the British manufacturers, that the article will by no means answer."³ Only 3,351 pounds were imported in 1791, and nothing at all the year following.⁴

American cotton came on the British market in 1784, and by 1793 the importations from this country amounted to nearly half a million pounds. The demand

¹ Uré, I, 288.

² Ellison, "The Cotton Trade," 83.

³ *Ibid.*, 84.

⁴ *Ibid.*

for cotton continued to increase the importations, and the use of the saw-gin in the United States caused the increase to come principally from this country. Fifty-six million pounds of cotton entered Great Britain in 1800, and twenty-eight per cent. of this came from the United States. Prices had also rapidly advanced during the closing years of the century, and Manchester had again besought the East India Company to increase shipments of cotton from the East. In response to this appeal, the shipments of East India cotton for 1799 and 1800 averaged six and two-thirds million pounds, but they met with such poor sales that the East India Company asked the governor of Bombay in 1800 to make "exertions for providing tonnage for our returning shipping without the aid of this article."¹ The West Indies still continued to be the principal source of cotton supplies for the English manufacturers.

Meanwhile the home market for American cotton goods was meeting with rapid expansion. The estimated growth of cotton in the United States had increased from one and a half millions in 1790 to thirty-five millions ten years later. The amount consumed by the household manufacturers in 1790, estimated at five million pounds, was, with the aid of the newly established factories, increased to eight million pounds in 1800.² In spite of the increase in cotton grown at home, the price for "uplands" advanced from 14½ cents in 1790, to 44 cents in 1799, although it fell to 28 cents the next year.

The first factory for manufacturing cotton goods had been erected in 1787 at Beverly, Mass. Two years later Samuel Slater landed on these shores, bringing with him

¹ Ellison, "The Cotton Trade," 84.

² Woodbury's Report, 40.

the secrets of the Arkwright and Hargreaves inventions, and the next year a factory equipped with the new machinery, including seventy-two spindles, was started at Providence, Rhode Island. Fifteen years later a total of 4,500 spindles were in operation in the United States,¹ and at least one-third of a million of pounds of raw cotton were being consumed by the cotton mills, exclusive of that required by the household manufacturers.²

In England, since 1797, American cotton had been steadily growing in favor. In 1802 the imports of cotton wool from the United States exceeded those from the West Indies.³ From 1806 to 1810, United States imports of cotton wool into Great Britain averaged more than three times the amount sent from either the West Indies or Brazil, and exceeded the total amount received by Great Britain from all quarters except the United States.

In 1801 American cotton, which, with the exception of small amounts⁴, had been sent to England, began to find an important market in France. The amount sent by the United States direct to this country in 1801 was 844,728 pounds, and by 1806 the amount had increased to 7,082,118 pounds.

The growth of the cotton trade of the United States during the first two decades of the nineteenth century was in the face of difficulties which seriously threatened the commerce of the new republic. The Napoleonic wars, the attempts of Great Britain and France to cripple the commerce of the United States; the Non-Importation Act and the Embargo at home; and, finally,

¹ Woodbury's Report, 51.

² *Ibid.*, 40, 42.

³ Ellison, "The Cotton Trade," 85.

⁴ For details see Pitkin's "Statistical View of the United States,"

the War of 1812-15 with Great Britain, all combined to injure not only our shipping interests but to impair the prosperity of the farming community as well. Although the burden was more severely felt by those farmers who produced perishable commodities, it fell with great weight upon the shippers and producers of cotton. The exports of this staple which in 1807 had exceeded sixty-six million pounds fell in 1808, the year of the embargo to barely twelve million pounds. Of this nearly eight million pounds reached Great Britain, and two million pounds found a market in France. After the removal of the Embargo, when the pent up cotton of the United States found an outlet, the exports of this article went up to ninety-three million pounds in 1810, but under war conditions sank to less than eighteen millions in 1814.¹

The growth of cotton had slowly increased after the removal of the embargo, but the war checked this increase, and during the war period the crop is estimated to have been only about seventy-five million pounds annually. Although the American demand for raw cotton was growing with prodigious rapidity, it was not strong enough to prevent a decline in prices. Thus, American prices for "uplands," which the year before the embargo had averaged 21½ cents a pound, were by 1812 only 10½ cents, and not until 1816 did they attain their former high average.²

In Great Britain, where there was, of course, a scarcity of cotton, prices naturally rose, reaching in 1814 their highest point, when 29½ pence was the average price.

The cotton trade with the United States during these years almost ceased; less than 38,000 bales being re-

¹ See Table, Appendix I.

² *Ibid.*

ceived in 1814 from this country. Nor did the imports from other countries make good the loss of the American cotton, Brazil being the only country which made any noticeable increase in her shipments of cotton during the war.

But if the period of restriction proved unfavorable to the cultivators of cotton, it gave the opportunity for a wonderful development of cotton manufacturing in America and for the expansion of a home market for raw cotton. The year 1807, when the embargo was laid, saw fifteen cotton mills in operation in America, with a capacity for producing 300,000 pounds of yarn per day.¹ The number of spindles in operation was estimated by Mr. Zachariah Allen to have been 4,000.² In 1810, according to Woodbury's report,³ there were then in operation in the United States 87,000 spindles, working up three and a half million pounds of cotton, while including that used by the household manufacturers, sixteen million pounds of cotton were consumed. The rapid growth of this industry continued through the war period when the cessation of imports of cotton goods from Great Britain, the total value of which in 1807 had been eleven millions of dollars,⁴ threw a valuable market into the hands of the American manufacturers. Towards the end of the war, power looms were placed in operation in the American mills which had hitherto been engaged only in spinning yarn, and from now on, "the entire process of converting cotton into cloth took place under

¹ Donnell, *Op. Cit.*, 62.

² *Ibid.*, 63. Woodbury's Report, page 51, estimates the number at 8,000, but this seems too large.

³ Pp. 40, 51. Baines gives the number of mills in the United States for this year as 102, consuming 10,000 bales of cotton. *Op. Cit.*, 510.

⁴ Taussig, "Tariff History of the United States," 27.

one roof.”¹ In 1815 there were in the neighborhood of 165 mills in the New England states, operating 119,310 spindles.² The whole number of spindles in the United States was estimated at 130,000, and the amount of cotton consumed at thirty-one and one-half million pounds.³

The long period of commercial difficulties and hostilities had retarded somewhat the expansion of cotton culture, and had given our merchant shipping a blow from which it has never recovered, but it had given to New England in place of her shipping interests a well established manufacturing industry, and to the southern cotton grower a new market for his produce, henceforth one of the most important in the world.

¹Taussig, “Tariff History of the United States,” 29.

²Donnell, *Op. Cit.*, 68.

³Woodbury's Report, 40, 51.

CHAPTER IX.

THE HISTORY OF THE COTTON TRADE FROM 1815 TO THE CLOSE OF THE CIVIL WAR.

In studying the condition of the English market for American cotton in the early part of this century, some notice must be taken of English tariffs on cotton-wool. The tariffs imposed during the eighteenth century were for the purpose of impeding the cotton manufacture in England, and were imposed at the request of the woolen and linen manufacturers.¹ But these tariffs were removed, and raw cotton admitted free of duty when the growing cotton industry had become strong enough to resist attack. The war with France in which England became involved during the closing years of the century made the demand for extra revenue so imperative, however, that in 1798, among other things raw cotton was made subject to an import duty. The United States, however, did not suffer from discriminations, as her cotton, along with that from Turkey, was admitted on paying 6s. 6*d.* per 100 pounds, while that from other countries was made subject to higher rates.² In 1801, all cotton was again admitted free, but the tariff was renewed the next year with a duty of 7s. 10*d.* per hundred weight on American and Turkish cotton, and somewhat higher rates on cotton from other countries. The next year the renewal of the war with Napoleon necessitated the raising of this duty, cotton from the United States, the East Indies, Turkey and the British colonies paying 16s. 8*d.* per hundred weight, while other countries paid

¹ Fawcett, "Free Trade and Protection," 33.

² Baines, 326.

25s. The duty was raised $3\frac{1}{2}d.$ in 1805, and in 1809 all cotton-wool was charged 16s. 11d., per hundred weight. The end of the Napoleonic wars saw the duty reduced almost one-half, all sorts of cotton now paying only 8s. 7d. per hundred weight.¹ In 1819 began a series of discriminating duties against cotton not grown in the British possessions. Foreign cottons were subjected to a duty of 8s. 7d. per hundred weight, while cotton from the British possessions paid only 6s. 3d. per hundred weight.² From 1820 to 1831 American cotton was subject to a duty of six per cent. *ad valorem*, and in the latter year this duty was raised to 5s. 10d. per hundred weight, in order to make up the deficiency in the revenue caused by the repeal of the duty on cotton prints. This high duty checked the importation of the cheaper grades of cotton to such an extent that the prices of the coarser goods rose, and the duty was reduced to 2s. 11d. in 1833.³ Cotton from the British possessions had in the meantime been paying since 1821, either no duty at all or only 4d. per hundred weight.⁴

In 1840 Great Britain was at war with China. The United States sought to turn to her own advantage the loss of this valuable market for British cotton goods, and heavy shipments of cotton goods were made by our own country to China during the years 1841-3.⁵ Even after the war was ended in 1842, it seemed for a time that American manufacturers, supported by the tariff of 1842, might continue to compete successfully with British manufacturers in the Chinese trade.⁶ Under these circumstances, English manufacturers began to clamor for

¹ Baines, 327.

² *Ibid.*

³ Ashworth, "Cobden and the League," 12.

⁴ Baines, 327.

⁵ *New Orleans Price Current*, quoted by Donnell, 292.

⁶ Donnell, 299.

relief from the tariff imposed by their government on raw cotton. Their demands came at a very opportune time, for the great free trade movement led by Cobden and Bright was in the ascendency, and the Peel ministry was favorable to the movement. In 1845 (8 and 9 Vict. C. 90), along with the duty on numerous other articles, went that on cotton-wool, which henceforth was admitted free to British markets from all quarters of the globe.

The manufacture of cotton goods in America, which had received so great a stimulus from the war with Great Britain, began to suffer a reversal of prosperity on the return of peace. A commercial depression settled upon the country during the years 1818-19, and fell with particular severity upon the newly established manufactures. The re-opening of commerce between England and the United States at the end of the war, opened again the English market to American cotton, but also the American market to English cotton goods. The prices of American cotton rose in the United States and fell in England, and the reduction in the prices of cotton goods in the United States consequent upon the heavy importations from England, proved very destructive to American manufacturing operations. Many of the cotton factories were obliged to close altogether for a time.¹ Just as in 1787, when threatened by cheaper goods from India, the English manufacturers had petitioned Parliament for help, so now the American manufacturers sought aid from Congress and secured the first important tariff that had been levied. The commercial classes of New England and New York opposed it, but the South supported it on the ground of its providing a market for American cotton.²

¹ Taussig, "Tariff History of the United States," 29.

² Donnell, 70.

Meanwhile, during the war a discovery had been made that raised up a competitor to the southern states for the British cotton market. We have noted the failure of the cotton from the East Indies to meet the requirements of the English spinners. This was on account of the shortness of the staple, which rendered it unsuitable for the spinning machines. But about 1815 it was discovered that by mixing it with the long staple wools of other countries it could be used to advantage.¹ Imports of Indian cotton increased, until in 1818 the number of bales received from this quarter exceeded that received from the United States. Prices of the Indian cotton were also from three to five pence less than prices for American cotton. After 1818, importations of Indian cotton fell off, and by 1820 were only one-sixth the amount received from America.

After the depression of business which began to be felt all over the commercial world about 1818-19, the cotton industry and cotton trade revived. In the American market, with but few exceptions, cotton prices continued to fall for a decade following 1820. The New England manufacturers had readjusted their business to the lowered prices of cotton goods, and the minimum duties established by the tariff of 1816 had seriously impaired the foreign competition.² The establishment of factories continued to increase. The little village of East Chelmsford, in Massachusetts, became a factory town in 1822, and its name was changed to Lowell. By 1830 there were in operation in this city 129,828 spindles, a number almost equivalent to the total number of spindles in the United States fifteen years previous.³

¹ Donnell, 68.

² Taussig, 29, Note 2.

³ Woodbury's Report, 51, 56.

The total number of spindles in the United States now approximated one and a third millions, or about a sixth as many as then existed in Great Britain.¹ The amount of cotton consumed in the United States had increased from twenty-seven million pounds in 1815 to seventy-seven million five hundred thousand pounds in 1831.² The rapid decline in prices which had taken place between 1815 and 1830, was largely the result of the opening up new cotton lands in the states formed from the Louisiana purchase. In 1811 fifteen-sixteenths of the cotton crop was raised in the Atlantic coast states, Virginia, North Carolina, South Carolina and Georgia, and in 1821 these states still produced over two-thirds of the total crop. Five years later, however, the western states, Alabama, Louisiana, Mississippi and Tennessee, almost equaled the Atlantic coast states in cotton production, having raised over three-sevenths of the entire crop grown that year, and by 1833 the western states were in the lead, producing six-elevenths of the entire crop.³

The rate of increase in the cotton crop had been quite moderate until 1825.⁴ Within the next five years, however, it nearly doubled, owing to the increase from the new states, and prices fell to ten cents a pound by 1830. The following decade was one full of prosperity for the cotton industry, both at home and abroad. Encouraged by the low prices of cotton during the twenties, and by favorable tariff legislation, the American cotton manufacture doubled its consumption during the decade. The English market had also undergone a rapid expansion, and the falling off of imports of cotton from the

¹ Woodbury's Report, 51. Baines, 511.

² Baines, 510.

³ Woodbury's Report, 13.

⁴ See Table, Appendix I.

West Indies and Brazil had left the South almost a monopoly of the British market. Under these circumstances, in spite of the increase in cotton production in this country, especially in the new states, "consumption shot ahead of supply," and by the end of 1835, with but a few weeks' supply of American cotton in British ports, prices had advanced to 10¼ *d.* per pound.¹

As was usual under such circumstances, British spinners began to complain of their dependence upon one source of supply for their raw material, and to criticize the East India Company for not promoting the cultivation of cotton in India,² although, so long as cotton prices were low, the East Indian cotton was regarded with disdain and but little use was made of it in manufacture. The high prices of cotton had their usual effect, however, during the next ten years. The production of the staple was everywhere increased, and the warehouses of the Liverpool importers rapidly filled. In 1843 the stocks of American cotton in Liverpool equaled forty-three weeks' consumption; in 1844, thirty-six weeks', and in 1845, thirty-eight weeks' consumption. From the East Indies, from Egypt, which since 1823 had been a cotton growing country of importance, from Brazil and from Turkey, cotton continued to pour into the British ports, the amount received from all quarters in 1845 being nearly double that imported in 1835. Prices declined, until in 1845 the average price of middling uplands in New York was only 5.63 cents, and in Liverpool 4 *d.* Never before nor since have American prices for cotton been so low as during the summer of 1845.

It was now time for the planters to complain, and the opportunity was not neglected. Speculative operations,

¹ Ellison, "The Cotton Trade," 90.

² *Ibid.*, 89-90.

it was said, had been at work to depress the price of the great southern staple. Some ground for this claim was furnished by the fact that speculation had been especially active during the years following 1837. The fluctuations in the crops grown, a good year being followed almost invariably by a poor one, and the lack of a well developed system of reporting, such as exists to-day, put the estimates of speculators at entire variance with the actual facts of production and consumption.¹ Professor M'Cay of the University of Georgia, seems, in 1842, to have appreciated the fact that production was out-running consumption, and he gave the warning to planters and speculators that "there is nothing in the history of the cotton trade; nothing in the present state of the demand and supply; nothing in the present and future state of the stocks on hand, to justify an advance over the prices of 1842; and all attempts of speculators to force prices can only recoil on themselves."² The importance of M'Cay's argument, which he supported with statistics, does not seem to have been appreciated by the planters, for the crops for the three following years were the largest ever grown up to that time. Over-production, instead of deterring the planters from planting largely the following year, caused them to endeavor "by increased cultivation to compensate themselves for low prices."³ The depression in the business of raising cotton, however, in Louisiana at least, caused many planters to abandon it and to extend the cultivation of the sugar cane in that state.⁴

As might have been expected, the manufacturers of

¹ Donnell, 267, 281, 292, 304, 315.

² *Hunt's Merchants' Magazine*, IX, 523.

³ *Ibid.*, XIV., 148.

⁴ *Ibid.*, 149.

cotton, both in Europe and America, profited richly by the low prices of the staple between 1840 and 1845. When, however, the American crop of 1846-7 showed a great falling off, and prices rose rapidly, the complaints of the English spinners against the East India Company were renewed, and a Parliamentary committee was appointed to investigate the causes retarding the growth of cotton in India. The committee reported that the various evils which they found retarding the growth of cotton in the East, could be remedied with "the assistance of British capital and enterprise," but that even this would not avail "unless the manufacturers would guarantee to purchase the produce raised."¹ The prices of American cotton declined again after a year or two and the complaints ceased.

From 1850 to 1860, average annual prices of American cotton remained, comparatively speaking, steady, as a comparison with the table of statistics² will show. Some of the years showed within themselves considerable fluctuations, owing to the fact that estimates of speculators and spinners failed to conform to the actual conditions of the crops when they were harvested. The present system of dealing in "futures," which enables importers to protect themselves from a loss due to falling prices, was wanting, owing to the lack of the modern methods of communication. On the whole, however, the decade was one very favorable to both planters and spinners. Production increased at a more regular pace than in any previous decade, and the consumption of American and European mills also maintained a pretty uniform rate of increase. Prices which at 9½ cents average for the year, were lowest in 1851-2, and, at 13½ cents average,

¹ Ellison, "The Cotton Trade," 90.

² Appendix I. Compare with chart.

were highest in 1856-7, were always high enough to allow of a fair profit to the planter, but not so high as to discourage the spinner. Even the slight rise in prices in 1857, caused by a short crop in the United States, produced the usual feeling of alarm among the English spinners, and the "Cotton Supply Association of Great Britain" was established¹ under the lead of the Manchester spinners, who felt "it to be a duty to inquire whether an increased supply of cotton can be obtained from other countries, so as to lessen the dependence of Great Britain on the United States."² The object of the association was to "engage in gathering and distributing information respecting the capacity of various districts, and furnishing the best seed, tools, and other implements, wherever they are likely to be advantageously employed."³ Plans were projected for obtaining government aid in increasing the transportation facilities of India, but these plans were frustrated by the attention of the government being called to a more serious affair,—the outbreak of the Indian Mutiny in 1857.

The establishment of the Cotton Supply Association could not have been more timely. A "cotton famine" had long been the spectre which haunted the homes of the Manchester spinners. Their fears were based not upon their belief in an armed conflict in America, but upon their doubts as to the capacity of the southern states to produce the cotton demanded by the increasing power of consumption of the British mills. In spite of the efforts of the southern planters to convince British manufacturers that their supply of cotton was dependent on slave labor, the Manchester spinners assented to this

¹ Ellison, "The Cotton Trade," 90.

² Donnell, 454.

³ *Ibid.*, 466.

only so far as to acknowledge that while slavery existed in the United States there was no hope of a successful cultivation of cotton there by free labor. Seeing the consumption of their mills growing at a much more rapid rate than the slave population of the South, while the production of cotton during the fifties had but slowly increased, they were filled with alarm.¹ Their efforts put forth to relieve themselves from dependence on slave labor fortunately lessened the effects of the crisis which was actually impending. Through their efforts the production of other countries had already been stimulated by the outbreak of the American Civil War, and the cutting off of supplies of cotton from the United States found some recompense in the increase of imports from India, Egypt and Brazil. Before entering into an account of the cotton trade during these trying years, let us pause in our historical narrative to glance at the position of the cotton industry in Europe and America in 1860.

The great world market for cotton was Great Britain. Here were some 2650 cotton factories containing over thirty million spindles and three hundred and fifty thousand looms run by a three hundred thousand horsepower, and operated by four hundred and forty thousand persons. Ninety per cent. of these workers were adults, and fifty-six per cent. were females. Over ten hundred million pounds of cotton were consumed in the year, producing for exportation twenty-eight hundred million yards of cotton cloth and nearly two hundred million pounds of twist and yarn.² Of the supplies of cotton for this gigantic industry, 77 per cent. came from the

¹ Von Halle, "Baumwollproduktion und Pflanzungswirtschaft in den Nordamerikanischen Südstaaten," Erster Teil, 175.

² Arnold, "The Cotton Famine" (1864), 36-7.

United States, 16 per cent. from the East Indies, and the remainder mainly from Egypt, Brazil and the West Indies. But even these figures do not give one an appreciation of the British cotton industry until he learns its extremely local character. For in Lancashire county, and the borders of its two southern neighbors, Cheshire and Derbyshire, were to be found 2195 of these 2650 factories, and three hundred and sixty thousand of the employes.¹ A vast population in a limited area was thus dependent for its daily bread upon the fortune of the cotton industry.

On the Continent, there was, of course, no such centralization of the cotton industry, and the number of spindles was not one-half so great as in Lancashire alone.² The chief Continental country for cotton manufacturing was France, which consumed in 1858 two hundred and forty million pounds of cotton. With the exception of some small amounts of Egyptian cotton for finer purposes, almost this entire amount came from America.³ The chief seat of the industry was at Lille. Holland and the Netherlands imported annually about one hundred thousand bales, the most of which came from America, although the Dutch East Indies furnished small amounts.⁴ Russia, Germany, Austria, Switzerland, Italy and Spain imported and manufactured con-

¹ Arnold, "The Cotton Famine" (1864), 37.

² Prof. Leone Levi in a paper read before the Statistical Society of London in 1864, gave the following as the number of spindles in Europe:

Great Britain,	30,000,000	Switzerland,	1,300,000
France,	4,000,000	Italy,	500,000
Russia,	2,000,000	Belgium,	500,000
Germany,	2,000,000	Spain,	300,000
Austria,	1,500,000		

³ *Hunt's Merchants' Magazine*, XLV: 11.

⁴ *Ibid.*

siderable cotton, although less than the countries above named.¹

Coming to our own country we find that there were, in 1860, nine hundred and fifteen establishments engaged in the manufacture of cotton goods, running about four million three hundred thousand spindles and employing one hundred and twenty-three thousand employes, three-fifths of whom were females. The total cotton consumption of the United States was over three hundred and sixty-four million pounds. Although not so concentrated as the English manufacture, yet 472 of the mills, and eighty-one thousand of the operatives, were in the New England states alone.² The crop of the southern states was this year the largest that had ever been grown, exceeding two million pounds, and in spite of the fact that the crops and exports of India and Egypt had greatly increased, middling uplands still found a ready sale at 11 cents on the New York market and 6d. in Liverpool. American cotton goods to the value of nearly eleven million dollars were exported from the United States, and the value of the raw cotton sent abroad exceeded that of the exports of any other commodity produced in this country.

Although the probability of secession and armed conflict between the North and South had been appreciated for some time both in Europe and America, the cotton industry on both sides of the Atlantic was unprepared for a long war. In England, it is true, there had been for the past two years a glut of production. The unexampled crops of America for 1859 and 1860, and the increase of imports from other quarters, had proved a sharp spur to cotton manufacturing in Lancashire, and

¹ *Hunt's Merchants' Magazine*, XLV : 11.

² Preliminary Report of the Census of 1860, 180-81.

thousands of yards of cotton goods had been produced for which there was no demand. "The India and China markets had been over-fed with manufactures, until they threatened to burst with bankruptcy. . . . In the preceding year (1859), India had taken manufactures to the value of £17,000,000, one-third of the whole export; but merchants still piled their goods in the warehouses of Bombay, until ruin stared them in the face, and they began to realize the fact that these commodities had become an unmarketable burden. . . . In Bombay 'shirtings' found no buyers; no one cared to inquire after mule-yarns, and water-twist was a drug on the market."¹

The stocks of cotton in England at the end of 1860, which amounted to 594,505 bales, were larger than had ever before been known. To these were added in the early part of 1861 imports from America of 1,650,000 bales of the crop of 1860 which the threats of war had led the planter to make unusual haste in marketing.² The activity of the Cotton Supply Association had caused the shipments from the East Indies for the year 1860 to reach 563,000 bales,³ an amount only once before attained. The stock of cotton goods on hand was so large that the first sign of distress which appeared when in October, 1861, many mills began to run short time, was caused rather by the overstocked condition of the market than by the lack of supplies of raw cotton.⁴ Yet, in spite of this plethora of cotton goods and raw cotton, the Lancashire spinners were ill-prepared to dispense with the American cotton. The total consump-

¹ Arnold, 42-3.

² *Ibid.*, 43.

³ *Hunt's Merchants' Magazine*, XLIV : 354.

⁴ Arnold, 47.

tion of the British mills for 1860 had been 2,632,000 bales, and the imports of cotton were 3,367,000 bales. Of this amount, the southern states had sent 2,582,000 bales.¹ With the cutting off of this source of supply, even if the importations from other quarters could be doubled, which was doubtful, less than a year might be expected to pass before the mills would be stopped from a lack of material.

It is difficult to estimate the stocks of cotton available for the cotton manufacture of America at the beginning of the war. In February, 1861, the stocks in the ports were estimated at 617,000 bales,² but probably not half this amount was available for northern spinners. The contracts which the New England manufacturers were entering into with the government prevented their feeling any alarm as to the demand for the manufactured goods, and the fact that the most of the cotton which came out of the South during the war came over-land as the northern armies gradually made their way southward, gave the American spinners an advantage over their English cousins in the procuring of supplies of cotton for their mills. And yet the first few months of the war showed that the supply of cotton which could be obtained at even war prices would be entirely inadequate to keep the mills running.

The hopes and expectations of the English and American spinners and of the southern planters were that the war would be a short one. The gravity of the situation was not appreciated in England, even after the bombardment of Sumter.³ In America the strength of the opposing forces and the power of endurance of the

¹ *Hunt's Merchants' Magazine*, XLIV : 354.

² *Ibid.*, 328.

³ Arnold, "The Cotton Famine," 41.

South was under-estimated at the North until the war had long been in progress. The South relied on the importance of its chief staple to the manufacturers of the North and Europe to prevent the war being of long duration, perhaps to prevent any conflict whatever. England, it was said, would not allow the southern states to be invaded by the northern armies, even should these get beyond the border states. The moment that the cotton fields of the South were threatened, English fleets would enter Boston and New York harbors, and, with threats of bombardment, force the government at Washington to sue for peace.¹ For years the dependence of Europe and America upon the cotton supply of the South had been preached as a cardinal doctrine by southern economists and statesmen, while newspapers and stump orators had heralded cotton as a king whose power none dared to deny, until nearly every man in Dixie, and some in the North and in England, had come to accept it as an indisputable fact. Not only was the cutting off of supplies expected to bring the northern spinners to their knees, but cotton was intended to form the basis of the financial measures adopted for prosecuting the war.² Had it not been for the reliance which the architects of the Great Rebellion placed on cotton as a means of obtaining revenue, it is doubtful if the war would have been undertaken.

Trusting in the brevity of the war, English and American spinners did not show the alarm which the warlike preparations of the early part of 1861 might have been expected to produce, and the year opened with middling uplands selling at only 12 cents in the New

¹ *De Bow's Review*, January, 1861, p. 95.

² *Commercial and Financial Chronicle*, II: 196.

York market, and 7 1-16 *d.* in Liverpool.¹ There was even a decline in prices during February and March. Sumter was fired on April 12, and the news being received at New York caused great excitement on the cotton market. Prices rose from this time on, although there was little cotton actually bought and sold. Business was chiefly of a speculative character. Prices went even higher than in Liverpool, and in August cotton began to come to America from that port.²

The early part of the year 1861 brought no particular hardship to the cotton industry, either at home or abroad. Although much less cotton had been planted than during the phenomenal year of 1859-60, the harvest was still a respectable one. *The New York Shipping and Commercial List* estimates it to have been 3,650,086 bales. The incomplete state of the blockade had permitted most of the crop to reach Europe, it being estimated that 3,127,568 bales had been exported during the year ending Aug. 31, 1861. The activity of the American spinners had been somewhat slackened, yet the consumption of cotton for the year ending Aug. 31 was 650,357 bales in the North, and 193,383 bales in the South, a total consumption larger than any year except the two immediately preceding had shown.³ The threatened blockade had no doubt caused the southern planters to hurry their crops to market. In England the manufacture of cotton goods continued for the first nine months of 1861 at almost the same rate as during the year 1860, while the rate of importation of raw cotton from America and India had greatly increased.⁴ The

¹ Donnell, 508, 511.

² *Ibid.*, 512.

³ *Hunt's Merchants' Magazine*, XLV: 500.

⁴ Arnold, 45.

completed blockade, followed by a rising market, was welcomed by the manufacturers, who, with their enormous stocks of cotton goods, had begun to run short time in October and were fearing "hard times" for the winter.¹ Hard times came, but not for the holders of cotton goods or the speculators in cotton, who during the next few months reaped fortunes from their investments.

From this time on, difficulties gathered thick and fast for the cotton industry. The statistics of production for the next four years are entirely wanting, and the estimates made at the time were mere guess work and proved by later developments to have been entirely too large.² In August, 1862, the British consul at Charleston estimated that the crop for that year (not then picked) would not exceed 1,500,000 bales,³ and this was probably as good a guess as was made at the production for any one year. The absence of the planters and overseers at the front, the dangers of invasion and the lack of funds caused small crops to be planted, and still smaller ones to be harvested.

Many ideas found circulation at the North at this time in regard to a supply of raw material for the cotton mills. Fibrilla, or cottonized flax, was for a time thought likely to prove a substitute for southern cotton.⁴ Plans were also projected for raising cotton in the mild climate of the middle states. Southern Illinois, it was said, had

¹ Arnold, 47.

² *The Commercial and Financial Chronicle*, (I : 258,) estimated the production as follows :

1861-2,	6,500,000 bales ;
1862-3,	4,800,000 "
1863-4,	3,100,000 "
1864-5,	1,500,000 "

³ *Hunt's Merchants' Magazine*, XLVII : 556.

⁴ *Ibid.*, XLV : 102, 206 ; XLVI : 62, 65-6.

“at least five million acres well adapted to the culture of the plant.”¹ Still another fruitless idea was to introduce perennial cotton from Peru into the United States. The projector of this plan, Captain R. C. Kendall, of the United States Geological Survey, predicted that “the period is not very remote when hedges, most efficient as fences, shall yield annual dividends of cotton; ornamental trees, blending the useful with the beautiful, shall repay ten-fold their cost and culture; when the rugged heights of the Hudson, the plains of New Jersey, the fertile valleys of the Keystone state, and the undulating prairies of the great West shall gleam in the sunlight, white as the winter drift, with generous pods of democratic cotton.”²

As there are no reliable crop statistics for the war, so are there also no authentic records of exports. Those published by the United States Treasury Department are here given, but they do not, of course, include cotton which ran the blockade:

Fiscal Year. (Ending June 30.)	Sea-Island. Pounds.	Short Staple. Pounds.	Total. Pounds.
1859-60	15,599,000	1,752,087,000	1,767,686,000
1860-61	6,170,000	301,346,000	307,516,000
1861-62	66,000	4,998,000	5,064,000
1862-63	528,000	10,857,000	11,385,000
1863-64	330,000	8,564,000	8,894,000

Of the cotton which safely ran the blockade, the only idea we have is the record of receipts of American cotton at the principal ports of Europe and of the North, these including, of course, legitimate shipments of cotton. So effective was the blockade that not much cotton escaped in this way. Such as did was landed in the

¹ *Hunt's Merchants' Magazine*, XLVI: 272.

² *Ibid.*, 66.

West Indies and re-shipped to Liverpool, Havre, Boston, New York and other ports. The British consul in Charleston estimated in August, 1862, that there then remained in the South 2,500,000 bales of the crops of 1860 and 1861; that 1,000,000 bales had been destroyed, and that only 50,000 bales had succeeded in escaping the blockade.¹ The following table shows the number of bales of cotton from America and other countries received in Great Britain and on the Continent from 1860 to 1865.²

Year.	Imported into Great Britain		Imported into the Continent	
	From United States. Bales.	From Other Countries. Bales.	From United States. Bales.	From Other Countries. Bales.
1860	2,580,700	785,000	971,000	100,000
1861	1,841,600	1,194,000		
1862	72,000	1,445,000	60,000	529,000
1863	132,000	1,932,000	36,000	801,000
1864	198,000	2,587,000	43,000	889,000
1865	462,000	2,755,000	68,000	1,170,000

For reasons already stated the American spinners had an advantage over the Europeans in securing the scanty supplies of American cotton which in one way or another found their way out of the South during the war. The higher prices which prevailed in the United States drew much of the cotton which had reached Liverpool back to the United States. This business of re-shipment across the Atlantic began, as we have already noted, in August, 1861. By the end of that year 12,500 bales of American cotton had been sent to the United States from Liverpool, 2,000 bales from the Continent, and in addition 4,000 bales of Surat cotton had been sent

¹ *Hunt's Merchants' Magazine*, XLVI: 556.

² *Commercial and Financial Chronicle*, II: 196; Ellison, "The Cotton Trade," Appendix, table 1.

over.¹ By the middle of January, 1862, 20,000 bales had been drawn from Liverpool to the United States by the high prices.² Grant's successes in western Tennessee in the spring of this year were followed by an outflow of cotton from that quarter and a lowering of prices at home, and 500 bales of this very cotton which had already journeyed twice across the Atlantic, returned to Liverpool in April.³

But the New England mills had begun to feel the want of raw material, or were unwilling to purchase it at the high prices. "After the first four months of the year (1861) some of the mills began to work short time or to stop some portion of their machinery, and for the last half of the year many mills suspended operations entirely for a great portion of the time; and those that continued in operation did not probably work more than four days in the week, so that if we estimate full work for the first four months, and half work for the remaining eight months, making for the year two-thirds work, we shall probably make a full allowance for the year's operations."⁴ The consumption of cotton by the northern mills during the calendar year 1861 was estimated by the *New York Shipping List* and the *New York Herald* at 394,451 bales, as compared with 855,361 bales the previous year.⁵ The year 1862 began with a stock of only 75,000 bales on hand for the northern mills.⁶ In Boston there were only 1,500 bales, as compared with 5,000 the year before.⁷ Very little cotton was received

¹ Batchelder, Report on the Cotton Manufacture, in Boston Board of Trade Reports for 1863, 123.

² *Hunt's Merchants' Magazine*, XLVI : 268.

³ *Ibid.*, 392.

⁴ Batchelder, in Boston Board of Trade Report for 1862, 121.

⁵ *Hunt's Merchants' Magazine*, XLVI : 268.

⁶ *Ibid.*

⁷ Boston Board of Trade Report for 1862. 69.

from any source by the northern mills during the year 1862. Only 43,493 bales came into Boston, as compared with 191,777 bales in 1861, and 381,966 bales in 1860.¹ The northern armies made but little progress in opening up the South this year, and the arrivals overland were slight. The captures of Port Royal, New Orleans and Memphis by the Federal troops were expected to open up a pathway for cotton, but either there was little cotton at these ports, or, as the Boston Board of Trade Report for 1863,² says: "The Confederates have guarded this article with unusual vigilance, burning and destroying all likely to fall into our hands, knowing that the 'Cotton Famine' of Europe was their most active agent in bringing about a recognition of their confederacy." Certain it is that very little cotton found its way out of the South during the war, as is indicated by the statistics of receipts and shipments from the chief port, New Orleans.³

Year.	Receipts. Bales.	Total Exports. Bales.	Export to Liverpool. Bales.	Export to Havre. Bales.	Export to New York. Bales.	Export to Boston. Bales.
1859-60	2,235,448	2,214,296	1,348,163	303,157	62,936	131,648
1860-61	1,849,312	1,915,852	1,074,131	384,938	29,539	94,307
1861-62	38,880	27,678	1,312	472	4,116	109
1862-63	22,078	23,750	2,070	1,849	17,859	1,418
1863-64	131,044	128,130	1,155	4,023	109,149	12,793
1864-65	271,015	192,351	31,326	5,952	144,190	15,993

With such scanty supplies of cotton, it will not be surprising to learn that the activity of the spinners was very slight. Mr. Atkinson supposed one-half the 4,800,000 spindles north of the Potomac to have been idle at

¹ Boston Board of Trade Report for 1863, 49.

² Page 49.

³ *New Orleans Price Current*, quoted by *Hunt's Merchants' Magazine* LI: 321; LIII: 255-6.

the beginning of the year 1862, and that less than 25 per cent. were in operation in July. During this month some of the larger mills secured government contracts and resumed operations, so that from August first, on to the end of the year, perhaps 36 per cent. were in operation.¹

The year 1863 was still behind the year 1862 in production, although manufacturers, who had begun to deal in "futures" and to watch the market very closely, suffered less from fluctuations. Mr. Atkinson estimated that about 2,000,000 spindles were in operation by March and that the production of cotton goods was about 40 per cent. that of *ante-bellum* days. Goods began to accumulate, however, and in June only about 1,000,000 spindles, or a little more than 20 per cent. were in operation. An increase to about 1,700,000, or 36 per cent., took place in the autumn, when a brisk demand for cotton goods was created. The scarcity of cotton and of operatives prevented other mills from starting. For the whole year, an average of about one-quarter of a full supply of cotton, or 4,000 bales per week, were consumed.² "The Cotton Famine has passed," said Mr. Atkinson, March 31, 1864, "without ever having been reached, if the expression may be allowed; and under the present trade regulations, a supply of cotton is being received sufficient for the manufacture of all the goods which can be sold while cotton remains so high in price, with a probability of a considerable surplus for export."³ Stocks on hand at the end of the year were larger, and the receipts of cotton at the North had shown an increase over 1862. During the year 1864

¹ Boston Board of Trade Report, 1863, 96-7.

² *Ibid.*, 1864, 111-112.

³ *Ibid.*

the production of the northern mills continued at about the same rate as in 1863, about one-third of the spindles on an average being in operation. Some of the mills changed from the manufacture of cotton to that of wool, so that Mr. Atkinson thinks the number at the end of the year to have been five per cent. less than at the beginning.¹

When on April 5, 1865, Mr. Atkinson had made his report to the Boston Board of Trade, Grant's army had already entered Richmond, and on the 9th Lee surrendered, thus virtually ending the war. The year 1865 was, therefore, one of revival for the cotton trade and manufacture of the United States. The New England manufacturers found less difficulty in obtaining raw material for their mills than they did in securing the labor to operate them. The receipts at Boston were for the year 162,428 bales, an amount nearly as large as that of the year 1861.²

The Cotton Famine had produced no such distress among the operatives of America as among those of Great Britain. There was plenty of employment in the army or in the government work-shops for all industrious adult males, and the women readily found employment in the woolen mills, which the Cotton Famine and the government demand caused to be unusually active during the war. In Lowell, where the largest proportion of the cotton mills were idle, the deposits in the savings banks largely increased during the war.³

It is not my purpose to trace thus in detail the history of the British cotton trade and manufacture during the years of distress occasioned by the Cotton Famine. The

¹ Boston Board of Trade Report, 1865, 117.

² *Ibid.*, 1866, 47.

³ *Ibid.*, 1863, 98.

history of the British cotton industry for these years is one of the most interesting, as well as one of the saddest, chapters in the annals of Great Britain ;¹ but my task is sufficiently large if I confine myself to this country. Such a short account as is necessary to give the statistics of the trade can alone be furnished here. The distress which began to be felt in Manchester in the autumn of 1861, when the mills began to close or to run short time because of the large stocks of cotton goods on hand, gradually passed during the succeeding winter into distress occasioned by the lack of raw cotton for resuming operations. The over-fed markets for cotton goods were unwilling to pay higher prices for these goods at the end of 1861 than they had paid at the beginning of 1860, while the price of American cotton, which had gone up to a shilling a pound, made resumption of spinning impossible under such conditions ;² and by the time that a rise in the price of cotton goods occurred, the stocks of cotton had been sadly reduced by exports to the Continent and America, and importations from the United States had ceased. In March, 1862, *Hunt's Merchants' Magazine*³ said : "As yet the English market has not received a bag of our crop of 1861." At this time it was thought by the *London Economist* that with the stock on hand, which at the beginning of the year approximated 700,000 bales, and the expected arrivals from India, Brazil, etc., there would be enough cotton for the English mills, running two-thirds time, to last until July 1, 1862, "and no one can believe," says the writer, "that

¹ The history of the Cotton Famine has been recited in detail by an author to whom we have already referred, R. Arthur Arnold, "The History of the Cotton Famine from the Fall of Sumter to the Passing of the Public Works Act." London, 1864.

² Arnold, 88-9.

³ Vol. XLVI : 265.

this contest can be prolonged beyond that period without at least furnishing the required relief to the commercial world.”¹ The Trent affair added to the political troubles during the winter of 1861-2, and the prospect of war still further disorganized the cotton industry of England. Intervention by England was, however, warmly opposed by Lancashire under the leadership of Mr. Bright, even though it was thought by many of the operatives that participation in the struggle by England would open the southern ports and bring relief.²

The pacific settlement of the Trent affair, and the knowledge that the southern states would be left to fight out their battles alone, now convinced the spinners that the war was to be a long one, and that a cotton famine was impending. By April, 1862, the consumption of the mills had sunk to one-half the rate of consumption for 1860, and the importations of cotton from America for the past six months had been less than the one-hundredth part of those for the corresponding period the preceding year.³ The annual report of Stolterfort, Sons & Co., of Liverpool, published this month, after reviewing the condition of the cotton manufacture in Europe, which everywhere in England, Germany, Spain, Switzerland, France, Belgium and Russia, was found to be languishing, said: “The cotton industry is at last threatened with what has often been apprehended, and which is more to be dreaded than a failure of the cereal crops. A ‘cotton famine’ is in prospect, and finds us still unprovided with means of drawing supplies from other quarters than the United States. The numerous schemes which are now starting up may provide a

¹ *Hunt's Merchants' Magazine*, XLVI : 266.

² Arnold, 113.

³ Arnold, 115-16.

supply a few years hence, for it is proved that the plant can be grown in many quarters of the globe; but this very circumstance, and the fact that it has not been grown, augurs badly for the future.”¹

At the beginning of July, 1862, the stock of cotton at Liverpool was only 180,450 bales, as compared with 1,108,650 bales in 1861, and 1,297,030 bales in 1860.² American cotton had been almost entirely consumed by September, when there were only 17,000 bales of this kind in Liverpool. The importations from India had increased, and from this time the English mills were dependent on Surat, with small quantities received from other countries, for what time they undertook to run. The crisis of the famine was reached in November of this year, when the consumption which in normal times was 51,600 bales per week, had sunk to 18,000 bales per week. In Lancashire 247,230 operatives were out of work, and 165,600 were working short time. Only 121,129 were working full time, and 485,454 persons, 24.1 per cent. of the population, were receiving poor relief. The following table, taken from Mr. Ellison's "Cotton Trade of Great Britain" (p. 95), gives a statistical view of the condition of Lancashire during the famine:

¹ *Hunt's Merchants' Magazine*, XLVI: 388.

² Arnold, 170-1.

	1861	1862	1863	1864	1865		
	Last Week in Nov.	Last Week in Nov.	Weekly Av. 12 Mos.	Weekly Av. 12 Mos.	Weekly Av. 5 Mos.	Last Week in May.	Last Week in Nov.
Average weekly consumption of cotton in bales of 400 lbs.	Bales. 49,000	Bales. 18,000	Bales. 23,000	Bales. 27,000	Bales. 32,000	Bales. 34,000	Bales. 41,000
Operatives working full time.	No. 533,950	No. 121,129	No. 215,477	No. 243,012	No. 265,465	No. 319,616	No. 450,000
Working short time . . . . .	. . . . .	165,600	129,219	97,083	68,572	38,228	. . . . .
Out of work . . . . .	. . . . .	247,230	189,167	133,847	106,916	86,001	. . . . .
Total	533,950	533,959	533,863	473,942	440,953	443,845	450,000
Total reduced to the equivalent of full time	533,950	203,200	286,400	303,400	309,080	344,300	450,000
Estimated weekly loss of wages.	£	£ 169,744	£ 146,000	£ 96,444	£ 71,447	£ 51,413	£
Applicants relieved by guardians (out door) only.	No. 47,537	No. 69,015	No. 76,873	No. 71,374	No. 70,935	No. 63,199	No. 48,267
By guardians and committees . . . . .	. . . . .	181,573	80,681	22,040	9,706	3,872	. . . . .
By committees only . . . . .	. . . . .	234,866	122,994	41,084	25,438	8,710	. . . . .
Total number relieved. Per cent. of population.	47,537 2.3	485,454 24.1	280,548 13.7	134,498 6.9	106,169 5.2	75,784 3.7	48,267 2.3
Expenditure by guardians	£ 1,238	£ 17,943	£ 9,138	£ 7,099	£ 5,899	£ 4,966	£ 1,300
Expenditure by committees . . . . .	. . . . .	46,356	12,208	5,377	2,653	1,272	. . . . .
Total per week.	1,238	64,299	21,346	12,476	8,552	6,238	1,300

In spite of the diminishing importation of cotton during the year 1862, the beginning of the following year still showed a large stock on hand, 160,561,870 pounds. The exports of cotton for the year had been almost equal to those of 1860. The explanation of this phenomenon is found in the higher prices prevailing in America and on the Continent, and in the fact that the stock of cotton goods had remained so large throughout the year that manufacturers could not afford to continue spinning and weaving at the high prices of cotton, especially when the despised Surat was their only supply. The year 1863 was a somewhat brighter one for the cotton trade of Great Britain, although the United States participated to but a slight extent in it. The total importation of the former country was 1,932,200 bales, only 131,900 of which came from the United States. This

was the year in which the famous "cotton loan" of the Confederate States was placed in England. The loan was for the moderate sum of £3,000,000 sterling and from the standpoint of the borrowers was a great success, for it was quite easily placed. The loan bore interest at 7 per cent. but the discount allowed practically made this 8 per cent. The loan was to run for twenty years and then be paid off at par. But the unique feature of the loan and that which led to its placement, was that any bondholder could, by giving sixty days notice, demand the payment of his bond in cotton at 6*d.* per pound, delivered to him in the interior of America, within ten miles of a railway, during the war; or, if he preferred to wait until the end of the war, he could within six months after the consummation of peace, receive his cotton at one of the southern ports.¹ Englishmen were led to make this risky investment because of the high prices which cotton was then bringing. It was estimated that even if, in undertaking to run the blockade, seven out of eight ships were captured, the eighth would make the transaction a profitable one.² About the only effect the loan had was to increase blockade running.³

Many of the British mills had by 1863 adapted their machinery to the manufacture of Surat cotton, "and perseverance aided by patience was slowly overcoming the difficulty and prejudice which were attached to the manufacture of Indian cotton."⁴ The consumption of the mills, stimulated by the new demand for cotton goods, increased this year to nearly 1,400,000 bales, or an average of 27,000 per week.

¹ *Hunt's Merchants' Magazine*, XLVIII : 288.

² Arnold, 424.

³ *Ibid.*, 508.

⁴ *Ibid.*, 425.

The back-bone of the Cotton Famine now seemed to be broken. Although the consumption for 1864 was only a little larger than that of the preceding year, the supplies from India proved sufficient to meet the demand at the high prices, and the employment of the operatives on government works reduced the number of applicants for relief to 135,000 per week. The following year brought the famine to an end, although imports equal to those of 1860 were not again reached until 1871.¹

With such fluctuations in the cotton trade, it is not surprising that the fluctuations in prices during the war were numerous and intense. Added to the dearth of cotton, which affected the foreign markets as well, the American market was affected by a more urgent demand for cotton goods, and by a paper currency so large that the price of gold at one time (July 8, 1864), went as high as 276½.² How much the prices of cotton during the war were affected by the value of the currency is uncertain. Certain it is that there was no close relation existing between the fluctuations in the prices of cotton and the prices of gold. The editor of the *Commercial and Financial Chronicle*³ thought that fluctuations in the prices of cotton were due "to the fluctuations in actual or anticipated demand and supply, and but very little, if any, to changes in the currency." As proof of his assertion he cites the fact that between the date of Lee's surrender (April 7) and the date of his writing (August 26), the premium on gold had "scarcely changed at all"; and such temporary fluctuations as had occurred corresponded in no way with the changes in the prices of cotton, which had gone all the way from 35 cents to 56 cents, and back

¹ Ellison, "The Cotton Trade," 94.

² Donnell, 608.

³ Vol. I: 258.

again to 43 cents during that time.¹ It seems scarcely possible, however, that the difference between British and American prices for "uplands," which our chart indicates,² could have been so great had it not been for our expanded currency.

Prices during the war followed closely the movements of the troops in the field. The belief in the existence of large stocks of cotton in the South caused a fall in prices whenever, by the winning of a battle or the capture of a port, the South was opened a little to the Federal armies. The failure of the cotton to come out caused the market to rise again. The highest point reached by cotton was on August 23, 1864, when middling upland sold for \$1.89 per pound on the New York market,³ and for \$1.95 in Boston.⁴ After the capture of Richmond was certain prices fell to 35 cents but subsequently rose, and for more than a year they did not again reach this point.

One of the most important results of the Civil War to the cotton trade of the United States, was the opportunity which it gave other cotton producing countries to develop their powers and to discover whether or not they were able to compete with the United States on the cotton markets of Great Britain and the Continent. Cotton had, of course, long been raised in considerable quantities in the West Indies, Brazil, Egypt, China and India, and the United States had only at the beginning of the century succeeded the West Indies as the chief source of supply for the Lancashire spinners. Brazilian cotton still competed with the New Orleans on the European markets,

¹ Donnell, 577-8.

² See chart, Appendix I.

³ Donnell, 522.

⁴ Boston, Board of Trade Report for 1865, 117.

and the demand for long stapled cotton had long since out-grown the scanty supply of sea-island, and the cotton of Egypt had been called into requisition to supply the deficiency. But the supply from all these countries was insignificant as compared with the quantity received in Europe every year from the United States.

India alone deserved the rank of competitor with the United States as a cotton producing country, but her cotton, chiefly consumed by her own domestic manufactures, was inferior in quality to the American cotton and was used in Europe only when mixed with the cotton of other countries; even then large imports were made into England only when the crop from the United States was a short one.

The fear of a cotton famine, which was ever present with the British manufacturers, caused them to establish the Cotton Supply Association, as we have seen, in 1857, to take measures for developing the cotton culture in various parts of the globe, and to relieve themselves from their dependence on American slave labor for their supplies. The Association began accordingly to send cotton seed, gins, cotton presses, etc., to the west coast of Africa, to Australasia, South America, Egypt, Turkey, India, the East and West Indies and other countries¹, and even to send planters from America fully equipped with all the necessary machinery to India to attempt the culture of cotton there according to American methods.

After the first great effort had been made, the committee in 1860 made a lengthy report.² While the possibility of producing cotton was shown to exist for many regions of the earth, the only countries which seemed likely to produce large quantities of cotton were India

¹ *Hunt's Merchants' Magazine*, XLIV : 677.

² See synopsis in *Hunt's Merchants' Magazine*, XLIV : 675-85.

and the west coast of Africa. In other countries where there was a suitable climate there was a lack of labor. "And in the west of Africa, though there was labor, the people were savage, the country was desolated by the warfare of hostile tribes, and the climate also was fatal to Europeans. Thus we were restricted to that great continent of India, which was now actually growing more cotton than any other portion of the Globe."¹ And while there were, no doubt, many disadvantages to contend with in the methods of cultivation, "the movers of this association believed, nevertheless, that there was a prospect not only of increasing the Indian supply to this country, but also of elevating the cotton to a level with that grown in America."² To India, therefore, the efforts of the Cotton Supply Association were principally directed, with such success that in spite of the increase in the shipments of American cotton, the imports of Surat into England had increased from 563,200 bales in 1860 to 986,600 bales in 1861. The American war, of course, was the most powerful stimulant in increasing the shipments from other countries, but the association took advantage of it to encourage the cultivation and importation of a better quality of cotton than had hitherto been received from the East. After the outbreak of the American war, a number of companies were formed in Great Britain to promote the importation of cotton from other countries.³

The early efforts to increase the cultivation of cotton in India, and the consumption of Surat in Europe seemed to meet with success. Nearly 700,000 bales of Indian cotton

¹ From address of Mr. Cheetham, president of the association, on June 11, 1865; *Hunt's Merchants' Magazine*, XLV: 379.

² *Ibid.*, 380.

³ *Ibid.*, 100.

were consumed by the English manufacturers in 1862, as compared with 350,000 bales in 1861, and 170,000 bales in 1860. British journals began to doubt whether England would ever again import much cotton from America, one journal going so far as to say that "the American plantations are practically abolished."¹ The ex-chancellor of the exchequer for India wrote a letter to the *Times*, estimating that after the termination of the American war, the importations from India would be "somewhere about 2,000,000 bales, with a permanent average price of 6*d.* per pound for Indian cotton in Liverpool; and 1,000,000 bales, more or less, for each 1*d.* per pound, more or less, in the price of the article."²

But the experiments in the mills of Lancashire of making cotton goods entirely from Surat, were not giving much corroboration to these predictions so flattering to the Indian cotton. Surat had always been in disfavor among the manufacturers of Manchester, and with the operatives its use was associated with hard times.³ Though it was possible to use considerable quantities of it in the manufacture of the rougher goods when mixed with a larger amount of American cotton, its consumption in England had hitherto been very small. Most of the Indian cotton imported had been re-shipped to the Continent, where the slower speed of the spindles favored the use of a shorter stapled cotton.

But the failure of American supplies now induced the English spinners to attempt the using of Surat in their own mills, and during the summer of 1862 the machinery in many mills was adapted to its manufacture.⁴ But the

¹ Quoted in *Hunt's Merchants' Magazine*, XLVI: 382.

² *Hunt's Merchants' Magazine*, XLVIII: 256.

³ Arnold, 166.

⁴ Arnold, 165.

trouble which it gave the operatives produced great irritation. The Surat was not only short in staple, but harsh and brittle. The high prices which any cotton then brought in Great Britain had caused the Indian planters to scrape together "the waste, the scrapings, the sweepings" of their crops, and to send them to Liverpool. The saw gin was not much used in India and the cotton was badly cleaned, and came into the factory full of seeds and leaves. The breaking of the threads was constantly causing the stoppage of the machinery, so that the operatives, who were paid by the weight of the spun yarn, often made less by working on this kind of raw material than they received from the charitable funds if they were unemployed.¹ Under such circumstances it is not surprising that most of them preferred to remain idle. The name "Surat" even became an epithet in Lancashire, so that a firm of brewers who had been termed "Surat Brewers," felt themselves so maligned that they sued the offending party for libel.² It is also related that a believing operative added to his pastor's prayer for increased supplies of cotton, the fervent request, "O Lord, but not Surat!"³

The necessity was too urgent, however, to allow these difficulties to stand in the way of the use of the Indian cotton, if its manufacture was possible, and its consumption steadily increased until 1865, when the British mills were consuming more Indian cotton than that of all other countries together. The importation of the Indian cotton reached its highest point in 1866, when 1,866,000 bales were received.

Of the other countries whose production was stimu-

¹ Arnold, 117, 299.

² *Ibid.*, 166.

³ "Speeches of John Bright," edited by Thorold Rogers (1869,) 102.

lated by the high prices, none of them gave signs of becoming successful rivals with America, although all of them continued to send large crops for some years after the war had closed. The largest shipments of Egyptian cotton, which comes little into competition with American short staple, were received in 1865, when 413,000 bales of this kind arrived in Great Britain. Importations from Brazil increased from 100,000 bales in 1861 to over 700,000 bales in 1872. The West Indies, vanquished by America early in the century, made a struggle for mastery again in the sixties, but gave it up after increasing importations into England from 9,700 bales in 1861, to 166,400 bales in 1872. The temporary efforts of other countries to increase production and exportation of cotton proved futile, and the close of the war left the future of the European, as well as of the American cotton industry, in the hands of the southern cotton growers.

CHAPTER X.

THE EVOLUTION OF THE COTTON MARKET.

Previous to the introduction of the factory system in England, the manufacture of cotton goods was carried on by spinners and weavers dispersed in cottages throughout the country, especially in the neighborhood of Manchester and Bolton. Owing to the inability of the spinners to make a cotton warp, the goods fabricated by the workers in this domestic industry were, as we have already noted, of the rougher sort of mixed goods, fustians or dimities. Of the supplies for this industry which were obtained "in the most irregular and uncertain manner,"¹ the linen warp came from Germany, Ireland and Scotland,² while the raw cotton came from the Levant.³ The stationary character of the industry, evidenced by the record of importations of cotton-wool during the seventeenth and first half of the eighteenth centuries, is to be explained, principally, by the primitive methods of marketing that were employed. The weaver was not only manufacturer but buyer and seller. He not only procured his own warp from the dealers in the large market towns such as Manchester or Bolton, but himself journeyed on foot throughout the country, collecting the weft from the spinners who with their one-thread spinning wheels were unable to keep pace with the weaving operations.⁴ When the cloth had been woven, it was again the weaver who carried it to the market towns and found a purchaser therefor.

¹ McHenry, "The Cotton Trade," 5.

² Schulze-Gaevernitz, "Der Grossbetrieb," 26-7.

³ Uré, "Cotton Manufacture of Great Britain," I: 188.

⁴ Baines, 115.

After the close of the wars between England and Holland, when, by the humbling of her commercial rival, England obtained the mastery of the seas and secured a wider market for her manufacturers,¹ the demand for cotton goods increased along with that for other commodities. The old methods of marketing, the weakness of which had long been painfully apparent, now became entirely inadequate. A new industrial personage now appeared, "the organizing merchant or middleman, who usurped the title 'manufacturer.'"² The new class took upon itself the oversight and responsibility of the industry, and the weaver became a wage-earner or piece-worker, although still carrying on his work at his own cottage and usually himself owning the implements of his craft. The ownership of the raw material and the care of the market had, however, passed out of his hands. The organizing merchant or independent "manufacturer" now bought the linen warp from the Bolton or Manchester dealers, and collected the weft from the spinners, delivered these to the weavers, and received from them the woven cloth which he carried to the market towns and sold. But the growth of the textile industries soon occasioned another division of labor. The work of oversight or superintendence became great enough to occupy the attention of the "manufacturer," especially where, as in the cotton industry of Lancashire, small factories manned by hired labor had begun to appear even before the introduction of steam power, or the invention of the new spinning and weaving machines.³ The "manufacturer" now assumed duties more in keeping with his title. He became the *entrepreneur*, alike

¹ Brentano, "Ueber die Ursachen der heutigen socialen Noth."

² Hobson, "The Evolution of Modern Capitalism," 36.

³ *Ibid.*, 39.

owner and manager of the manufacturing industry, while the care of the market and the obtaining of the raw material fell into the hands of the cotton merchant, dealer, or factor. This transformation in the methods of marketing had been accomplished by 1760.¹

The raw cotton which came into England² from Turkey and the West Indies during the early years of the cotton trade was imported by merchants of London and Liverpool, who sold it to the dealers or factors in Manchester and other cities from whom the manufacturers now obtained their supplies. Sometimes the manufacturers bought direct from the importers,³ but this, probably the earlier custom, was soon abandoned. Even the dealers who at first purchased directly from the importers, either at private sale or at auction, began to discover that with the increase in amount and varieties of cotton that began to appear on the British market in the closing years of the eighteenth century, they did not possess the technical knowledge of cotton required by their customers, and they began to employ a special class of skilled buyers or brokers to make their purchases for them. Sometimes the manufacturers themselves purchased through the brokers, but the amount of business done in this way was very small.⁴ These brokers, at first only the agents of the dealers or spinners, bought on direct orders issued by their patrons, and went to the warehouses of the importers and themselves examined the bales of cotton which they wished to purchase. For their work they received a commission varying from

¹ Schulze-Gaevernitz, "Der Grossbetrieb," 27.

² The description of the English cotton market which here follows is a summary of that given by Mr. Thomas Ellison in "The Cotton Trade of Great Britain," pp. 165-186, 272-280.

³ Ellison, "The Cotton Trade," 165-6.

⁴ *Ibid.*

$\frac{1}{2}d.$ to $1d.$ per pound, the commission being paid by the dealers or spinners for whom they bought.¹

London was for many years the leading port at which cotton arrived and the center of the cotton trade, but about the time that American cotton began to come upon the British market, Liverpool began to rival London as a cotton center, and by 1795 had gained a permanent superiority over her rival as a cotton port and market.²

As early as 1766 the Liverpool importers began to employ brokers to make sales for them, although the sales were still usually made at auction.³ Until the beginning of the present century, the most of the transactions in cotton had been made by men doing a general brokerage business, or by men engaged in other pursuits. Thus the first man who was a broker for the cotton trade only, was a man whose principal business as a stay-maker had brought him into contact with Manchester people, and this led to his adding cotton brokerage to his original calling.⁴

But as the growth of the factory system increased the demand for raw cotton, trade soon became extensive enough to warrant many of the brokers in abandoning their original pursuits and devoting themselves exclusively to the cotton brokerage, so that by 1800 there were a number of buying brokers as well as selling brokers, and a few who both bought and sold.

The increase in the business of the cotton mills of Lancashire led to an increase in the amount of cotton which a manufacturer could safely purchase, and the opening of the Liverpool and Manchester railroad in

¹ Ellison, 166.

² *Ibid.*, 170-1.

³ *Ibid.*, 167-8.

⁴ *Ibid.*

1810, furnished a quick means of obtaining supplies of cotton from the seaboard. Under these circumstances, the manufacturers who had been in the habit of obtaining cotton for their needs in small quantities from the local dealers of Manchester, began to employ brokers to purchase for them direct from the importer, thus avoiding the payment of two commissions. This innovation naturally provoked great opposition on the part of the dealers or factors, who attempted to boycott all brokers dealing directly with the spinners, but the boycott was fruitless, and the factors or dealers, of whom there were in 1815 over one hundred in Manchester alone, were obliged themselves to become brokers or to abandon the cotton business altogether. Henceforth the term "cotton merchant" when used in Liverpool referred to the importer.¹

The methods of buying had in the meantime also changed. The manner of packing and classifying cotton had greatly improved with the extension of the trade, and the buying broker, instead of visiting the warehouse of the importer as formerly, now bought by samples. These samples were at first displayed in the office of the selling broker, but were later sent to the office of the broker contemplating a purchase, in order that he might compare them with the samples sent by other brokers. This purchasing by sample greatly facilitated the brokerage business and commissions declined to one-half of one per cent., which, because of the greater number of transactions, still left a large profit to the brokers.²

The distance of Liverpool from the sources of cotton supplies, and the impossibility of obtaining any reliable

¹ Ellison, 176.

² *Ibid.*, 175-77.

information as to the condition of the cotton crops, caused speculation to hinge principally on arrivals of cotton. The reporting was very meagre in the early days. In 1787, prices current for all produce were published monthly by Messrs. Ewart & Rutson, giving the current prices and the tone of the market.¹ Particulars in regard to the sales, prices and arrivals of cotton were furnished by letters from the brokers to their principals. The imports of raw cotton into Liverpool nearly trebled in the decade following 1800, and so much cotton began to gather at the warehouses that the condition of the market became very unsteady. About 1805 three firms began to publish weekly reports of sales, imports and stocks of cotton, gathering the information thus published from the returns of the custom house, from the importing merchants and from brokers who had made purchases ahead of orders.² These returns were not very accurate until 1811, when the brokers, seeing the advantage of possessing exact information concerning the trade, by common consent joined in an effort to make the weekly reports as accurate as possible. This coöperation resulted, in 1841, in the establishment of the Cotton Brokers' Association, which took the responsibility of collecting the information for the reports which were still published by private firms. Not until 1864 did the Association begin the publication of a *Daily Table* of sales and imports. Ten years later a more complete *Daily Circular* succeeded this publication, and gave not only the statistics of the home trade, but also, now that the Atlantic cable was laid, information concerning the American crop.³

¹ Ellison, 173.

² *Ibid.*, 179.

³ *Ibid.*, 186.

Until the outbreak of the American Civil War the line between brokers and importing merchants had been quite strictly drawn. There were, it is true, brokers who sought to be both dealers and importers, and who often did not resist the temptation which the ignorance of the public concerning trade conditions gave them to speculate in cotton; but this was not a general custom, and the prevailing sentiment was that a broker should confine himself strictly to a brokerage business.¹ "There were brokers who both bought and sold, but they were the exception; the bulk of the selling was done by one set of brokers, and the bulk of the buying by another set. This arrangement suited all the parties concerned. It secured to the seller a servant whose interests were identical with the interests of the importer, and whose whole course of conduct was actuated by the same motives which would influence him if he were selling his own goods; while it secured to the buyer a servant whose interests were identical with the interests of the consumer, and whose whole conduct was as instinctively directed towards securing the welfare of the spinner as if he were himself a mill owner, not only in respect of the matter of buying cotton, but in respect of everything else affecting the interests of his clients."²

The laying of the Atlantic cable wrought an immense change in the operations of the cotton trade in Liverpool. The condition of the growing crop in America was made known to the broker and spinner now every day, and it was inevitable that spinners should take account of the information thus gained to regulate their purchases of the raw cotton. The blind speculation of the importing merchant as to what would be the arrivals

¹ Ellison, 244.

² *Ibid.*, 272-3.

of the succeeding weeks and months was replaced by a probability bordering on certainty and based on a knowledge of what were the crop conditions and prospects. It was also inevitable that merchants should attempt to foresee their needs, not only days but weeks and months ahead, and instead of piling up cotton in their warehouses, should attempt to supply their future needs by purchasing cotton when the market seemed the most favorable, which cotton should be delivered to them some weeks or months hence—in other words, that they should begin dealing in “futures.” But many of the brokers who, as we have said, had hitherto entered into but little competition with the merchants, themselves took advantage of the diminished risk in buying cotton from America, and began doing business direct with that country. The number of transactions between brokers which the system of buying and selling “futures” introduced was so great that in order to settle them the Cotton Brokers’ Association established in 1876 the Cotton Clearing House, through which all sales of “futures” transacted by the members of the association must pass.¹ But the importing merchants were not eligible to membership in the Cotton Brokers’ Association, and could not therefore participate in the advantages of the clearing house. If they wished to sell “futures” as a “hedge” against imports, they were compelled to do this through a member of the Cotton Brokers’ Association, and thus pay the commission not only for selling the actual cotton, but also for selling and re-buying “futures” sold as a “hedge” against their imports. Failing in their demands that they be admitted to membership in the Cotton Brokers’ Association, the merchants established the Liverpool Cotton Ex-

¹ Ellison, 275.

change, and announced their intention of boycotting the members of the Cotton Brokers' Association. This brought the latter association to terms, and an amalgamation of the two organizations resulted under the name of the Liverpool Cotton Association.¹

The development of the commercial mechanism for marketing the cotton crop in America has been very similar to that for Great Britain, except that both the demand and supply forces are represented on this side of the Atlantic. During the period of household manufactures, producer and consumer in the South were the same person, each family raising enough cotton for its own needs, and the women spinning and weaving it into the coarse garments worn by all except the richer classes. In the North the cotton consumed by the household manufacturers during the colonial period came chiefly from the West Indies, although small amounts came from Smyrna.² This cotton was either imported on the order of the consumer or dealer, in trade for articles needed by the West Indian producer,³ or by the ship owner who trusted to finding a market for it.⁴ Sometimes the sale of the cotton was guaranteed to the importer by the colony to encourage trading, and the towns were then ordered by the General Court to take certain specified quantities of the cotton wool and pay for the same, leaving the town to apportion it among its citizens.⁵ Trade soon became extensive enough, and the profits sufficiently remunerative to enable merchants either to buy and sell on commission, or to take the risk themselves of finding a market for cotton as well as

¹ Ellison, 277-8.

² Bishop, "History of American Manufactures," I: 330.

³ Weeden, "Economic and Social History of New England," 359.

⁴ *Ibid.*, 585.

⁵ *Ibid.*, 176; Bishop, I: 49, 300.

for other foreign commodities. The firm of Almy, Brown & Slater did their trading operations through commission merchants.¹ Even in the early days importing merchants seem to have suffered losses from poorly packed bales or bags of cotton. John Hull, a Massachusetts merchant, bought and sold two bags of cotton in 1672, but his customer finding "much fowle cotton" therein, claimed and received damages.²

After 1785, some of the cotton used by northern manufacturers was supplied by the new cotton fields of the southern states.³ The West Indies continued for some time, however, to be the principal source of supply.

We have seen that Liverpool had become the leading cotton market, and that the custom of buying and selling cotton through brokers had become well established, even before the advent of American cotton on the British market. When the textile industries were being established in this country, American cotton spinners, therefore, found the machinery of commerce in full operation. Liverpool so completely overshadowed all other ports as a cotton market that the American manufacturers were obliged to adopt the prevailing method of trading between the southern cotton growers and the merchants of that port. Besides the methods of trade were undoubtedly as well adapted to the American cotton industry as to the British trade.⁴

Poor means of communication and transportation made it hazardous for the manufacturer to undertake the risk of himself finding the supplies for his mill. Previous to

¹ Weeden, *Op. Cit.*, 913.

² *Ibid.*, 242.

³ *Ibid.*, 851.

⁴ For many points in the history of the development of the American cotton trade, I am indebted to Mr. Simmonds, an old New England commission merchant, and to Mr. Edward R. Powers, superintendent of the New York Cotton Exchange.

the Civil War there was little cotton sent overland. The lack of sufficient railroad facilities is in part the explanation for this, while custom, the greater cheapness of the water routes, and the fact that most of the cotton was shipped to Liverpool from the southern ports so situated as to have an easy water communication with the inland, are additional reasons why a water route was preferred.

The planter either shipped his cotton direct to ports on the Atlantic or Gulf of Mexico, and sold it to the factors located there,¹ or, as was more often the case, he sold it to merchants or factors in the interior towns which had an easy water communication with the port towns.² Where cotton had to be transported overland by wagons to the market towns, as was frequently the case, cotton often being hauled in this way for one hundred and fifty miles, the expense was very great. Many planters did not produce sufficient food for their own needs, and this had to be brought to them in the same way.³

The American cotton was sometimes consigned to the Liverpool or New England markets by the planters themselves if they produced enough and were familiar enough with the markets to make this risk a profitable one. But this was not a widespread custom. Few planters were in a position to take the risk which this process involved, or to await payment for so long a time. The custom began early in the century, if indeed it did not exist even before the culture of cotton began, for the planter to obtain advances on the growing crop.⁴ Thus it happened that the cotton factors located at the ports of the southern states advanced money to the planter,

¹ Mills' "Statistics of South Carolina," 517, 543, 747.

² *Ibid.*, 543, 590, 708.

³ *Ibid.*, 776.

⁴ Ramsay, "History of South Carolina," II: 222.

either directly or through the country merchants, and took the crop then growing or about to be planted, as their guarantee of payment. Most of the cotton, therefore, found its way to the North as well as to Liverpool, through the hands of southern factors who played a much more important part in the cotton trade before the Civil War than they do at present.¹ The southern factor disposed of his cotton through a broker, paying him a commission therefor of usually \$1.50 a bale, but the broker paid out of this the commission to the northern broker. The cotton thus sold was usually bought by similar factors or importing merchants at northern ports, as we have seen was the case in Liverpool. Sometimes, it is true, the New England manufacturer dispensed with the services of this northern factor, and bought direct through his broker from the southern factor.² The shorter time which it took for cotton to reach the North than it did to arrive at Liverpool, made the risk which the manufacturer ran from falling prices, much less than would have been the case if the British manufacturer had undertaken to thus dispense with the importing merchant. The cost of transporting cotton from New Orleans to northern ports was about one-half what it was to Liverpool.³ But like the southern planters, not many of the northern manufacturers were so situated that they could take this risk or afford to stock their warehouses with large supplies of raw cotton. Most of them bought from the importing merchant or northern factor cotton as they needed it. A few of them bought directly from the merchant, the more suspicious ones going themselves to the warehouses

¹ *Hunt's Merchants' Magazine*, IV: 224. Baines, 317.

² Uré, "Cotton Manufacture of Great Britain," I: 148.

³ *Ibid.*, 146.

to inspect the cotton which they wished to purchase;¹ but more often they purchased through brokers, who bought and sold by sample, charging a commission of fifty cents a bale for their services. In New England this commission was paid by the seller. When New York brokers were employed, the custom was for the buyer and seller each to pay half the commission. As the commission ultimately came out of the buyer, this technical difference was an unimportant one. The manufacturers, especially the small ones, carried very small stocks of cotton, seldom for more than a few weeks or a month in advance of needs, or, if they were near the seaports, not even for so long a time.

The methods of obtaining information previous to the Civil War were very poor as compared to those of the present day, and such information as was gathered was of doubtful reliability. Liverpool, the great market for cotton, according to the prices of which the American market was largely governed, was from fifteen to thirty days away. Telegraph and railway communication with the South, especially with the great cotton fields of the Southwest, was very inadequate. Cotton was shipped almost entirely by water route, and sudden floods might raise the rivers to such a height that cotton from whole sections would be cut off for weeks from a market.²

¹ Mr. Simmonds tells me that it was "only the old fashioned ones" who did this. This seems to indicate that in America, just as in England, the earlier custom had been for the manufacturer to purchase from the merchant direct, after a personal inspection of the cotton. See page 280.

² The records of the overland movements previous to the war, as far as we possess them, are as follows :

Fiscal Year (ending June 30). Bales.	Fiscal Year. Bales.	Fiscal Year. Bales.
1835-36	100	1853-54 12,430
1839-40	3,250	1854-55 7,661
1851-52	175	1855-56 14,215
1852-53	9,740	1856-57 4,754
		1857-58 9,624
		1858-59 85,321
		1859-60 108,676
		1860-61 143,424

Report on the Internal Commerce of the United States, 1882, 81-2.

The brokers in New Orleans, New York or other ports were in the habit of exchanging bits of information which they had gathered from various sources. There was no report issued based on coöperative efforts of the brokers, but the daily papers published the prices made up by various firms of brokers; each paper used a different broker, and the accounts, consequently, varied considerably.¹ Under such circumstances, speculation was little more than a blind guess at the market and crop possibilities. No attempt was made either in England or America to deal in "futures." There was considerable speculation in "spot cotton," and speculators having private information sometimes days ahead of a public knowledge of circumstances and conditions, often made advantageous sales or purchases.

The Civil War caused speculation in the cotton market to run high, both on the Liverpool and New York markets. The effectual blockade maintained by the Federal authorities almost completely cut off the world from its chief source of cotton supplies by water, and the arrivals overland were but few and uncertain. The demand of the northern spinners was intensified by the contracts which many of them had entered into with the government to furnish cotton goods, and fabulous prices were paid for raw cotton. The market responded closely to the victories or reverses of the Federal armies, and prices sometimes advanced or declined twenty or thirty cents within a day or two. The demand for cotton became so urgent that manufacturers were willing to pay almost any price in order to be guaranteed a supply of cotton, and it was now that the custom of buying cotton for future delivery arose.² The system of buying and sell-

¹ Dana, "Cotton from Seed to Loom," 194-95.

² Donnell, 514, 614.

ing "futures" having arisen, offered so many advantages to those desiring to speculate in cotton that the business grew rapidly during the war and continued to grow after its close, especially after the laying of the Atlantic cable had put the brokers into possession of daily information from the Liverpool market, and the re-establishment of telegraph communication between North and South had afforded the possibility of obtaining information as to the condition of the growing crop. Such meagre information concerning the crops and the markets as the brokers had hitherto possessed were furnished by the *New Orleans Price Current* and the *New York Shipping List*, in addition to the circulars issued by private firms.

In 1865 began systematic attempts on the part of the Bureau of Agriculture at Washington and the *Commercial and Financial Chronicle* of New York to obtain and publish information in weekly and monthly reports on the existing state of the market and the probabilities as to the future supply of cotton and the need for consumption. *Bradstreet's* began a somewhat similar work in 1873, and the following year there began a cooperative movement on the part of the cotton exchanges organized under the name of the National Cotton Exchange, to obtain and publish more complete and accurate statistics of the cotton trade and movements. The information thus gathered was furnished in weekly reports. The National Cotton Exchange was abandoned after a few years, but its work has since been carried on in daily reports to the exchanges, the material for which is collected by the New Orleans Cotton Exchange under the direction of Mr. Henry G. Hester. The reports of these various authorities, especially those pertaining to the conditions of the crop and the estimates of the prob-

able demand and supply of cotton for succeeding months, by which brokers and speculators are guided in their sales and purchases, are sometimes far from accurate. The tendency of almost all correspondents seems to be to under-estimate the yield of the growing crops.¹ In anything of so variable a nature as agricultural production, an accurate estimate is of course impossible. The reporting is becoming every year more and more successful, and the chances of speculative gains and losses are diminishing. The movement of the crop to market each year is a surprisingly regular one, and as the cotton is closely watched by the statisticians as it comes into sight and reported to the exchanges, it is possible to predict very closely after the first two or three months what the total crop for the year will be. The following table, condensed from one prepared by the New Orleans

PERCENTAGE OF COTTON CROP MARKETED FOR EACH SEASON AT CLOSE OF EACH MONTH.

Month.	1880-1	1881-2	1882-3	1883-4	1884-5	1885-6	1886-7	1887-8
September . . .	8.14	9.98	5.75	7.88	7.30	7.41	6.68	11.74
October	25.89	29.61	22.64	31.08	30.39	28.19	27.14	34.38
November	44.14	51.49	42.70	54.14	54.90	50.23	51.39	57.75
December	63.45	75.30	63.23	76.27	78.92	72.95	73.51	76.84
January	72.40	83.77	74.72	84.22	87.97	81.23	83.68	85.55
February	82.44	89.31	84.22	90.70	93.12	88.54	90.60	89.82
March	90.05	93.13	91.64	95.30	96.52	93.15	94.52	93.27
April	93.92	95.35	95.44	97.18	98.00	95.98	96.03	95.06
May	96.20	96.91	97.84	98.18	98.60	97.72	96.85	96.66
June	97.52	97.85	98.87	98.69	98.78	98.42	97.41	97.67
July }	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
August }								

Month.	1888-9	1889-90	1890-1	1891-2	1892-3	1893-4	1894-5	1895-96
September	6.11	9.15	9.90	9.21	8.00	6.69	6.77	7.38
October	27.64	31.46	30.05	31.69	29.84	28.51	28.40	31.34
November	49.50	53.38	48.75	52.93	51.97	50.70	50.52	49.46
December	71.52	75.60	67.89	71.34	71.59	72.40	70.64	68.27
January	82.94	86.09	79.07	79.78	79.94	82.84	80.94	76.91
February	90.44	92.26	86.22	88.06	86.18	87.64	86.73	83.92
March	95.37	95.14	91.57	92.90	90.59	91.62	92.87	89.43
April	97.24	96.73	95.20	95.91	93.61	94.92	96.33	92.47
May	98.09	97.71	97.49	98.07	95.83	96.79	97.94	94.75
June	98.56	98.18	98.74	99.27	97.12	97.91	98.75	96.06
July }	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
August }								

¹ For a full description of the methods of obtaining information and a criticism thereof, see the supplement to *Bradstreet's* for September 27, 1884.

Cotton Exchange, gives the percentage of the crop brought to market by the end of each month for a series of years, and shows better than can any mere statement the regularity and uniformity of movements of this great staple.

In addition to the system of buying and selling "futures," which is probably the greatest change that has been made in the methods of buying and selling cotton, the manner of marketing the crop has undergone a considerable change since the war. The cotton factor or merchant of the southern port has ceased to be the important personage that he was previous to 1860. The disturbance given to southern agriculture and commerce by the war left these factors with claims on the planters for future crops which either were not raised or could not be marketed. Many factors were thus completely ruined by their inability to obtain the crops on which they had made advances, and they abandoned the business. But if the war had ruined the money lender at the South, it had not relieved the planter from the necessity of borrowing and of obtaining advances on his crops. While the merchant at the port became of less importance to the cotton trade, the country merchant in the interior became of vastly more importance. The decrease in the size of farms and the increase in the number of renters, made the necessity of obtaining local credit the more urgent, as the small farmer could not furnish the security which made it desirable for money lenders at a distance to advance him the desired funds. But the country merchant was able to make advances in the shape of food, mules, agricultural implements, etc., and could himself secure credit from the wholesale dealer, importer or manufacturer.

With the decline of the business of the cotton factor

at the ports, and as the chief cause contributing to this decline, there came the increase of interior buying. The extension of the railway and telegraph lines throughout the South made it easy for the New England and Lancashire spinners to obtain supplies direct from the interior. In some cases they have done this themselves by sending their agents to various points in the South, instructing them to buy cotton and send it direct to the mills; but usually they have preferred to make use of that great class of nineteenth century traders, the brokers. The mill treasurer "has now only to put a few packages of cotton outside of his door, thereby indicating that he is buying, to receive calls from a great number of persons anxious to provide him with material."¹ These men are called "buyers," but they are in reality brokers. Having named the prices at which they can deliver cotton to the manufacturer, which they are able to do because the telegraph has put them into easy communication with all points in the South, and having received their orders, the brokers immediately telegraph to one of their agents among the brokers who are scattered throughout the South. These southern brokers go to the country merchants, or may even buy from the planter the cotton which he has brought to market.² This latter practice, called "wagon buying," is, however, seldom followed. The planter has usually pledged his crop months ahead to the merchant for cash or supplies, and can exercise no freedom in selecting a purchaser for his cotton.

Having purchased his cotton for cash and shipped it to his consignee at the North or in England, the southern broker procures a bill of lading and with this evi-

¹ *Bradstreet's*, XIII: 227.

² *Ibid.*

dence that cotton is on its way, he is enabled to draw a draft on his consignee and cash it at some bank at the shipping point, thus procuring his pay days or even weeks previous to the delivery of the cotton at the factory. The advantages which this new method of marketing possesses are these: To the manufacturer there is a saving in the cost of transportation, cotton now being shipped direct from the interior to the factory, thus saving the expense of drayage and storage at the ports as well as avoiding the payment of one or more commissions, the usual charge for brokerage by the new method being fifty cents a bale, which commission is divided between the northern and southern brokers.¹

To the country merchant or planter the new method of marketing furnishes a buyer at the home market who can and does make cash payments for cotton purchased. It has been estimated that a saving of one-quarter cent per pound is made by the new method.² But in spite of the undoubted advantages which the new method of marketing cotton (which, especially since 1876, has become widespread) gives to buyer and seller, there are still many obstacles to its introduction and some disadvantages connected with it in practice. The dependence which the cotton planters or country merchants sometimes have on the commission house in the large city, compels many of them to promise to give the marketing of their cotton into the hands of the factor, in order to obtain advances for planting a crop or carrying on business.

Thus the factor's business is still important at such inland towns as Augusta, Ga., Montgomery, Ala., and

¹ *Bradstreet's*, XIII: 227. There is no fixed charge for brokerage in buying and selling "spot cotton," Mr. Powers tells me, not even on the New York Cotton Exchange.

² *Ibid.*

especially at Memphis, Tenn., where planters and merchants often send their cotton to be sold for them on commission. Besides, many of the buyers throughout the country are agents for these houses in the port cities, and they come into competition with the buyers for the New England or British mills.

But there are reasons affecting the mill owners as well as the planters and merchants which have prevented the new method of buying from becoming universal. One reason is the irresponsible character of some of the buyers.¹ According to the law of "the survival of the fittest," always operative in commercial matters, this obstacle is not likely to be a lasting one. Another and more serious difficulty lies in the fact that under the new system the buyer has no such opportunity to inspect the cotton purchased as when it is in a warehouse, and mill owners often find the cotton delivered to them of a quality inferior to that desired.² Some of the mills, especially the smaller ones, are not in a position to make purchases for so long a time in advance, or are afraid of losing by falling prices, as the new method followed to its logical conclusion consists in selling "futures" against expected arrivals, and thus diminishing the risk. Many mill owners are afraid of the future delivery business, or are opposed to it on principle.³ It will be a long time, therefore, before the business of the factor has become so unremunerative as to compel the complete abandonment of this method of buying and selling cotton, although that the new method of marketing is becoming every year more and more universal is apparent to all interested in the cotton trade. The decline in the sales of

¹ *Bradstreet's*, XIII : 227.

² *Ibid.*

³ *Ibid.*

"spot cotton" at the principal ports, though not an absolute measure of the increase of interior buying, is an index to its growing importance. The following table gives the annual sales of spot cotton at five leading ports for the past twenty-two years:¹

ANNUAL SALES OF "SPOT COTTON" IN NEW YORK, CHARLESTON,
SAVANNAH, MOBILE, NEW ORLEANS AND GALVESTON
SINCE 1875.

	New York Bales.	Charleston Bales.	Savannah Bales.	Mobile Bales.	New Orleans Bales.	Galveston Bales.
1874-5	448,064	309,069	226,898	260,000	1,057,200	238,841
1875-6	372,642	326,447	255,660	343,000	1,446,400	340,858
1876-7	404,018	368,322	226,205	303,000	1,185,000	328,311
1877-8	327,717	375,534	270,461	340,000	1,271,600	267,507
1878-9	277,147	451,130	347,670	251,000	1,136,200	263,708
1879-80	311,140	388,498	362,248	275,000	1,544,900	233,428
1880-1	314,504	546,935	509,298	280,000	1,384,500	363,744
1881-2	368,630	419,182	449,602	200,000	1,233,000	246,241
1882-3	264,764	551,931	446,477	210,000	1,196,360	401,949
1883-4	310,577	395,151	320,421	160,000	1,164,470	253,282
1884-5	179,277	444,412	305,005	150,000	972,720	162,041
1885-6	211,288	471,488	309,849	160,000	1,072,300	204,736
1886-7	202,988	372,740	270,039	119,000	806,925	215,183
1887-8	291,815	414,386	304,347	146,000	961,011	180,000
1888-9	432,892	304,008	294,344	139,000	863,060	208,000
1889-90	271,036	244,552	259,089	133,000	1,034,417	166,000
1890-91	146,805	290,969	271,356	179,000	1,154,300	173,000
1891-2	180,171	231,000	275,836	161,000	1,228,050	239,000
1892-3	188,656	185,000	209,815	94,000	866,300	216,000
1893-4	204,238	201,500	198,344	118,000	983,329	220,000
1894-5	253,753	135,000	163,364	124,000	1,128,800	334,000
1895-6	342,712	99,641	103,913	75,000	865,660	135,000

Closely associated with the purchase of cotton in the interior, and its shipment on through bills of lading direct to the factories, is the increase in the overland movement, which has taken place since the war.² There is, however, no necessary interdependence between these two movements. Much of the cotton which passes

¹The data for this table have been furnished by the secretaries of the cotton exchanges located at these ports, in some cases directly, and in others through the Report of the Senate Committee on Agriculture and Forestry. (53d Congress, 3d session, No. 986, Vol. II: p. 545) and through Shepperson's "Cotton Facts."

²Report on the Internal Commerce of the U. S., 1882, 84.

through the ports has been purchased in the interior, and is consigned direct to the factory. Necessarily, all the cotton which goes abroad must pass through the the port, whether or not it was purchased in the interior. On the other hand, there is no reason why sales transacted in the exchanges of the port cities should not be of cotton shipped from the interior direct to its destination, whether by an all rail or an all water route. Nevertheless, it remains true that the same development in methods of communication and transportation which has led to an increase in interior buying, has facilitated the shipment of cotton by an all rail route, thus avoiding the necessity of unloading and reloading the cotton at the ports. Even where the cotton does not go all the way by rail, much of it now travels to the seaboard cities by rail, where there are reasonably good facilities for sending it by water. Lines of railroads parallel the Savannah, the Alabama and the Mississippi rivers, and carry the cotton to Savannah, Mobile, New Orleans, Memphis and St. Louis, which formerly found its way to these ports entirely by means of the river craft. So, too, much of the cotton trade of Wilmington, N. C., Norfolk, Va., and the northern cities, is due rather to arrangements entered into between railroads and coastwise or trans-Atlantic steamers sailing from these ports, than to the fact that these ports are the natural outlets for this cotton.¹ Thus some of the cotton raised in Central Alabama and Northern Mississippi finds its way to market through Norfolk.

For a time after the war the total overland movement, which before the war, as we have seen,² was very slight,

¹ Report on the Internal Commerce of the U. S., (1882), 84.

² Page 297, note 2.

grew at a more rapid rate than did the increase in the cotton crop. But during the last nine years the gross overland movement has scarcely held its own, and its increase has been less rapid than has the increase in the crops grown, although during the twenty years ending with 1895 the rail movement increased nearly 165 per cent. against a gain in total yield for the like period of about 112 per cent.¹ Cotton not being a perishable commodity seldom requires rapid transportation, and the usually greater cheapness of a water route is likely to give this method of shipping cotton the preference for some years to come.

In the preceding pages, reference has several times been made to the great change which in recent years has been wrought in the methods of marketing cotton by the introduction of the system of buying and selling for future delivery. The system is of so much importance to the cotton trade, and it has been the subject of so much criticism within the past few years by people who are either not familiar with its workings or have not appreciated its service to the cotton trade, that it seems best to devote some attention to a discussion of the system and to describe, even at the risk of being tedious, the method of dealing in "futures" on the American cotton exchanges, and the uses which the commercial world makes of this system.

There seems to be no clear idea as to just how and when the system of trading in "futures" began on the cotton market. Mention has already been made of transactions of this character having been carried on in Liverpool early in the century.² The earliest transac-

¹ *Commercial and Financial Chronicle*, LXI: 404.

² See page 235. According to the statement of Mr. Alfred B. Shepperson, an organized system of trading in "futures" began on

tion in "futures" in New York which Mr. Edward R. Powers, who has been superintendent of the New York Cotton Exchange since 1873, can recall, was where a broker contracted with a manufacturer who was anxious in regard to the future supply of cotton for his mills, to furnish him each month for a year with a certain amount of cotton, the prices for each month being also agreed upon. This transaction, Mr. Powers thinks, was made even before the Civil War. It was doubtless in some such simple beginning that the system of future delivery contracts had its origin. But it was during the Civil War that the first great extension was given to the system on the cotton markets. Manufacturers with heavy contracts for future delivery of cotton goods to the government on their hands, had to be guaranteed a supply of cotton at whatever prices might be established. With the great cotton fields of the world in the hands of the enemy, with the means of transportation and communication subject to constant interruption, and with the destruction of cotton incident to warfare, the risks of trading in the ordinary way were too great for the manufacturer to undergo, and he was glad to turn them over to a body of traders who willingly assumed them, because of the large profits which were sure to result from a favorable issue of trading. The addition of the future delivery business so largely increased the number of transactions between brokers, that in September of 1870 the New York Cotton Exchange was organized to regulate all the commercial relations of the brokers engaged in the cotton trade of that city, but "primarily for the control and regulation of the new ('futures') system."¹

the cotton market of Havre, France, as early as 1855. Report of Senate Committee on Agriculture and Forestry, I : 453.

¹ Alfred B. Shepperson in Report of Senate Committee, I : 453.