GOLD SUPPLY AND COTTON PRICES

In Last Ten Years Both the Price and Production of Cotton Have Doubled—Cheapening Cost and Increasing Supply of Gold Furnishes Only Explanation of This Economic Paradox—Future of Gold and Prices

By THEODORE PRICE

THOUGHTFUL students of commercial phenomena cannot fail to be profoundly imprest by the history of the cotton market, during the past 10 or 11 years.

The American cotton crop for the season ending August 31, 1896, was 7,147,000 bales, and was marketed at an average of about 7½ cents per pound. In the interval since, the production has nearly doubled, and we have about completed the sale of a crop of between thirteen and fourteen million bales at an average of probably 10½ cents per pound.

An increase of nearly 100% in the supply and a coincident advance of 30% or 40% in the price is an economic paradox which justifies the closest scrutiny of the conditions which have made it possible.

Until recently, some had attributed it to the newly discovered advantages of "holding back" by the planters; but aside from the intrinsic fallacy of such a theory, its falsity has been this year more evident than ever, for there has rarely been a season when planters sold as eagerly, as freely, or when the "uncommercial appeals" of Southern newspapers "to sell" exhibited such a bearishly speculative bias, as during the past six months.

Paradox Explained by Gold Production.

Others claim that speculation in cotton, which has been enormously popularized during the past 10 years, is responsible for the higher range of values, but this is mistaking effect for cause and ignores the effect now being made in the South to suppress cotton speculation entirely as inimical to still higher prices.

In my opinion, the real answer to the problem is exceedingly simple, but exceedingly profound.

It is the world's gold production. I had almost said gold inflation.

The following facts, which are indisputable, permit of no other conclusion, and if this conclusion is correct, it is fraught with tremendous importance to the commercial world.

I. There is no other single product of labor as essential to civilized humanity as cotton, and the increase in the demand for it is coextensive with the spread of civilization, industry and wealth.

II. There is, in consequence, no article of commerce that it is as promptly and as easily exchangeable for gold as cotton. As Henry Grady hath it, "It is gold from the instant it puts forth its tiny shoot."

III. That during the past 50 years the "units of labor" involved in cotton production have been practically unchanged, while in the case of nearly every other product of human industry, labor-saving machinery, which has materially reduced the amount of labor, or "units of labor," required for production, has been successfully applied.

IV. That during the past 10 years, and especially during the last three years, the value of these "labor units," i. e., a day's work, as exprest in the terms of gold, has greatly increased.

V. That in 1895, cotton sold at 5 9-16 cents, which was lower than since 1848, and that in the next year, 1896, silver was finally demonetized in the United States, and thereafter practically thruout the world.

VI. That the increase in the purchasing power of gold, anticipated as a result of silver demonetization, has so stimulated gold production that in 1906 there was produced twice as much gold as in 1896, i. e., $400,000,000 against $200,000,000; that, since 1895, there has been produced and added to the world's supply of gold the incredibly large sum of 3,319 millions of dollars, and that, by 1910, it is not at all improbable that the world will produce annually 600 million dollars in gold.

VII. That this increase in the world's gold production is without precedent, the total production from the discovery of America in 1492 to 1892 (400 years) having been only $8,175,000,000; and that we are, therefore, dealing with strange conditions, of which, perhaps, it can only be said certainly that they promise no reaction until the inflation shall cease.

VIII. That such an increase in the gold production has only been made possible thru the appliance of chemistry and labor-saving machinery that has much reduced the labor, or labor units, required to produce a pound of gold, and has, therefore, reduced the cost of its production, as exprest in the terms of those things for which men labor, i. e., food and clothing; and that, therefore, the cost of food and clothing, as exprest in the terms of gold, has advanced and must continue to advance as long as gold production continues to increase.

IX. That this advance in the gold value of life's necessities will be most apparent in those things for which, like cotton, no cheaper substitute can be found, and to which no labor-saving machinery has been applied that reduces the amount of human energy required for its production.

I have chosen to put this demonstration in syllogistic form in the hope that its force may be more readily apparent, and that the temptation which the subject offers to the imagination might be avoided.

It is, however, difficult to control one's enthusiasm, in the face of such facts as the progress of the world's cotton trade unfolds, and such possibilities as the increase in the world's gold production suggests.

Effects of Gold Inflation.

It is plain, I think, that the inflation of our gold standard is progressing at a rate that will ultimately lead to the demonetization of gold as a measure of value; but before that is accomplished the stimulus of "gold inflation" will drive prices to heights that will make cotton at 20 cents a pound and corn at 80 cents a bushel seem reasonable.

Already, "the increased cost of living" and the consequent advance in wages exemplify the first stage of the process. And, altho, if the cost of living has doubled, the man who earns $10,000 a year and spends $8,000 a year is no better off than he was when earning $5,000 and spending $4,000, he feels that he is and this feeling engenders speculation and the continued anticipation in word and deed of still greater fancied prosperity.

Some two years ago I wrote that the time would come when an American cotton crop of 26,000,000 bales would be viewed without alarm as no more than equal to the world's demands, and already we seem to be in measurable distance of the time when 15,000,000 bales is a necessity.

Statistics of Present Cotton Crop.

I have been interested to figure out what surplus would be left in America this year, if this crop was 14,000,000 bales and we exported as much as we did in 1904-5, i. e., 8,877,000 bales. The following are the figures: (thousands omitted).

Visible supply in America, Feb. 15, 1907, (ports and counted interior towns, less on shipboard)		1,474
In sight Feb. 1	10,314	
If crop	14,000	
there would still come into sight		3,686
With a crop of 14,000 the total supply to end of season, of American cotton, would be		5,160
Exported to Feb. 15, including on shipboard, 6,188.		
Further exports necessary to equal 1904-5		2,689
Balance remaining for American requirements, required February to August		2,471
North and Canada	1,122	
South	1,381	—2,503
If crop 14,000,000		
all stocks at counted interior towns and ports would be wiped out, and DEFICIENCY of		32

Exported after Feb. 15.
(Less on shipboard at that date).

1905-6,	2,191
1904-5,	3,255
1903-4,	1,168
1902-3,	1,827
1901-2,	1,643

I invite anyone to challenge the correctness of these figures, altho they point to an impossible conclusion. A minus supply is unthinkable; it will, of course, be compensated for by a price adjustment, that will check the demand. How soon this advance will come, cannot be said. The longer it is delayed, the more sensational it will be, but if it should become apparent that this crop is, or that the next crop is likely to be, substantially under 14,000,000 bales, the result, I verily believe, would be a speculative convulsion that not all the fulminations of the Southern Cotton Association or all the anti-option bills in Christendom could restrain.