

THE COTTON ASSOCIATION vs. THE COTTON EXCHANGE

Mistake to Suppose That Either "Long" Buying or "Short" Selling Depresses Prices—
Even the Bad Grading Methods of the Cotton Exchange Does Not Keep Prices Down

By THOMAS GIBSON

THE Southern Cotton Association has declared bitter war on the New York Cotton Exchange. The representatives of the Southern Association claim that prices have been kept down for years, largely on account of the acts of speculators, and that the time has arrived to call a halt. At the annual meeting of the Southern Cotton Association, held at Birmingham, Ala., on Jan. 17th, Mr. M. L. Johnson, president of the Georgia division, expressed himself on the subject thus:

"For forty years we have paid tribute to Wall Street gamblers."

Mr. Harvie Jordan, president of the Association, on the same occasion said:

"This Association has no desire to make war upon any Cotton Exchange which issues an honest, legitimate contract, but all forms of gambling and speculation we will continue to combat until relief for the cotton growers has been fully obtained."

Mr. Jordan further stated that he was unalterably opposed to alien ownership of southern lands; that he was unalterably opposed to any but the most restricted immigration; that the Southern Cotton Association has established a minimum basis of ten cents a pound and that that price is recognized as unalterable thruout the cotton spinning world.

Everything unalterable.

Also, Mr. Jordan suggested that the manufacturers of cotton in Manchester and Lancashire close their establishments, move their mills to the cotton belt "and settle down here as good American citizens."

Verily, if Mr. Jordan is to accomplish these things he has his work cut out for him.

Does Speculation Depress Prices?

But it is with the speculative phase of the matter that this article has to deal.

In all its tirades against the Cotton Exchange, the representatives of the Southern Cotton Association have taken the ground that speculative movements depress prices. This is exactly the reverse of the truth. Almost all great speculative campaigns have been for high prices. In cotton—the Price-McCormick campaign, the Sully campaign and dozens of minor deals stand out in bold relief; just as the operations of Old Hutch, Harper, Leiter, Coster-Martin and Phillips are landmarks in cereal speculation. The high prices established in such movements offer an opportunity to the producer to dispose of his property for more than it is worth, an opportunity he seldom accepts.

Ignorance of the technical machinery of speculation leads many people to believe that short selling depresses prices. This is a mistake. A short interest is the greatest sustaining feature of any market and is often made the entire basis for "squeezes" and sharp advances. Nothing is more dangerous to the participator than short selling. These are statements which will be supported by any man who understands the machinery of speculation.

But there is a phase of speculation which often results in declines and

periods of low prices. And here is the real meat of the matter. So far as speculative influences go, it is over-trading for the *long* account which causes depression. The greatest declines in cotton prices have been caused by the marginal operations of southern speculators who believed in higher prices. They have done more damage than all the bears in Christendom.

A Prophecy Fulfilled.

Let me support this statement with a little ancient history. In an article in MOODY'S MAGAZINE for Jan., 1906, when cotton was selling above eleven cents and fifteen cents was confidently predicted, I said:

"There is a serious situation in the South today.

"Marginal speculation has become widely popular. It need not be stated that this speculation is one-sided. The planter, the business man and the small capitalist believe in the ability of the Cotton Growers' Association to force prices upward. It naturally follows that if they speculate at all it is for long account.

"The great danger of this state of affairs cannot be over-estimated. It is possible for such a course to undo all the good accomplished by organized effort. To those who understand the machinery of speculation this statement needs no support.

"If the present campaign in cotton does not end in disaster to the public participants, and if they are not heavily committed to the losing side on the eve of a material decline, a new page will be written in the annals of speculation."

These remarks, made a year ago, were drawn forth entirely by a recognition of technical conditions. We all know what happened to cotton after January, 1906.

And after everything is said, mere speculation cannot keep the price of cotton either above or below its normal value for any great length of time. Supply and demand and general conditions

will, in the last analysis, determine prices. It is useless for the Southern Cotton Growers' Association, or any other combination, to talk about making or sustaining prices. The temporary ups and downs occasioned by speculators are fleeting. The truth of this view is so recorded in statistical history as to render it unimpeachable. Prices of all commodities have steadily advanced for years and cotton has kept its pace and place in the advance. It could not have failed to do so and no association could by any means either have caused or prevented this readjustment. In making this statement, I do not wish to belittle the efforts or accomplishments of the Southern Association, but, if that body had never existed, cotton would have moved into its proper place just the same.

And looking at the matter from the standpoint of the Cotton Exchange, I do not think it will be gainsaid that it is to the great advantage of the producer of any commodity to have a recognized and immediate market for his product. I do not see any way that the New York Cotton Exchange, the New York Stock Exchange, the Chicago Board of Trade, or any like institution, can prevent its members speculating. Speculative ventures in cotton, stocks, real estate and every other form of property will always exist. If a member of an exchange contracts to receive or deliver a commodity and binds the bargain with a cash deposit, who is to delve into his mentality and say he does not intend to receive or deliver the goods? We might eliminate optional trading altogether, but if we do this comprehensively enough to avoid class legislation, we will undertake a sweeping revolution in present business methods.

The Cotton Exchange is a valuable adjunct to the cotton fields of the South;

the broker is the middleman between the farmer and the spinner. So far as speculation goes, it has already been pointed out that, taken the year 'round, it does not depress prices. And to attempt to throttle such a universal and inborn part of human nature is quixotic.

Grading Methods of Cotton Exchange.

The contention made by the Southern Association that the grading methods of the Cotton Exchange are bad, has some foundation in fact. It is possible that the poor cotton which barely comes inside of the grading requirements may act as an incubus. It is not probable, however, that it is so great a bugbear as it appears. The buyer of cotton who has this poor stuff delivered to him, simply throws it back on the market. This method keeps a lot of low grade cotton here at all times. It might be suggested to Mr. Jordan that he buy up and clear out all this poor cotton, even at a loss. This proceeding would be a small task compared to some of his schemes.

One more point: It is the spinner and the spinner's agent who is interested in buying cotton at low prices. No one can blame him. They are, in the light of modern business methods, as much justified in trying to buy at low prices as the cotton planter is in trying to sell at high prices.

What is keeping the price of cotton down? Nothing; it is not being kept down. Considering the cost of production, 10 cents a pound is a fair price for cotton and that figure shows a good profit to the farmer. I know what it costs to make cotton, and I know that the average selling price has been 10 cents a pound for a period of five years. It would be a great thing for the South if it; could make cotton at a cost of 6 or 7 cents and sell it for 15 cents, but that is asking too much.

As the orators of the Southern Cotton Association seem to lean toward pointing their morals with a story, I will wind up with one. The story is about a sea-serpent. The figure is not used in an offensive sense, but so runs the narrative:

One day a sea-serpent was swimming along, and he came to a little island. He decided to swim around it. After going quite a distance he saw before him the tail of another sea-serpent, which was also swimming around the island. The first sea-serpent decided to bite off the other's tail. Just as he did so, the other serpent bit off his tail.

Now the queer part of this story is, that there was only one sea-serpent and that he had grown so big he bit off his own tail.