

# COOPERATIVE COTTON MARKETING

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by

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### PART I

#### Primary Markets

The coöperative marketing of agricultural products is not a new idea. The development of the idea, however, has been comparatively slow. Not until within recent years, the past quarter of a century, has the movement come to be of such importance. Formerly, the farmer thought that the only thing he need to be concerned with was the production of his crops. This was, of course, due to the nature of the existing conditions.

Necessity for elaborate marketing mechanism. In times prior to the development of transportation facilities, to the growth of modern cities and the era of industrialism, with a consequent concentration of people, there was little need for concern about marketing systems. All that is now changed. The farmer of the present day is just as vitally affected by the manner of distributing his crop as by the methods of producing it. No longer can he afford the time and expense of huckstering the products of the farm to his neighbors in the near-by town.

Middleman essential to system. There must be had in this modern day the services of a varied group of persons,

more frequently referred to as the middleman, in the disposal of the farm products. But due in part to the writings and speechmaking of numerous and enthusiastic organizers and, further, to his own observations and contact with astute neighbors, the farmer has come to believe that these agencies for handling his product are exacting too wide a margin of profit for their services. A belief such as this is particularly wide-spread in periods of depression or panics.

Examples of other organizations. Having noted the organization of other industries and the favorable results of such, it was but a natural thing that the agricultural classes should organize for the distribution of their products. This organization has been accomplished on rather an extensive scale in some sections of the country and with some particular phases of agriculture, notably the wheat growers of the Northwest, the dairymen in such states as New York, Pennsylvania, and Wisconsin, and the fruit growers on the Pacific coast. These are outstanding examples of the movement for the cooperative marketing of farm products. The marketing of cotton by farmers' organizations has been on a much less extensive scale and within a more recent period than with other farm products. This has been due partly to the inherent nature of the people engaged in

the production of cotton and partly to the character of cotton farming.

Characteristics of cotton states. The cotton states are sparsely populated. The producing areas on the whole are cut up into small tracts making of the productive process a small-scale affair. Railway lines and means of communication are much abbreviated in comparison with the populous areas of the East and Middle West. All of these factors have played an important role in the slow development of coöperation in the South.

Questionnaire method limited in scope. Beginning with the crop of 1921-22 coöperative associations have been engaged in the collective distribution of a portion of the staple crop of the southern farmers. It is the object of this paper to inquire into the purposes, methods and accomplishments of these associations to the limited extent that the questionnaire method of inquiry will permit. Before taking up the associations and their most influential predecessor, the Farmers' Union, it is proposed to study the method of disposal of the product that cotton farmers have been using from time immemorial--the primary markets. Moreover, the cotton exchanges are highly important in distributing the product. So much has been written and said about the work of the exchanges that the public mind seems confused about the real nature and function of speculative and non-speculative trading.

An unbiased presentation of the facts in the case would undoubtedly label one, on the instant, as unsympathetic with the idea of coöperative marketing. Notwithstanding, an effort will be made to present some of the more fundamental ideas with reference to speculation and its function in the marketing system.

Study chiefly an introduction. The study cannot hope to more than scratch the surface of the subject; yet it is hoped that it may be of service until more detailed and comprehensive studies which can be made only by such bodies as governmental agencies are available. Such agencies can send representatives directly into the field and can make the necessary expenditures of money and devote sufficient time in gathering data to make a study of real significance. Such an investigation, in fact, has recently been made, but, unfortunately, is not yet available for general distribution. The present inquiry must be addressed merely to the consideration of some of the more outstanding facts bearing on the subject.

Customary practice of farmers. In practically every hamlet, town, and city in the southern states one may see in the fall of the year rows of cotton wagons parked alongside the curbstone of one of the main streets. In the case of the smaller towns it is frequently the custom of the farmers to gather about some street memorial erected to the sacred memory of a local celebrity. Privilege for thus

congregating to dispose of their product may have been granted the farmers in a few instances by legislation of the town but more often it is the result of the momentum of an early start--purely the godchild of custom-- and as such permitted by the pompous care-takers of the town.

Cotton "grounds" rendezvous of the "herd". The matter of winding streets in southern cities has frequently been noted by the casual visitor and facetious writers and the fact has been brought out that the origin of many of these streets was the homeward path of the lowing herd. In some such manner may be traced the history of the town square about which the farmers are wont to gather with their burdens of fleecy freight.

Office of local buyers. The local buyers usually have their places of business located near these selling grounds unless they be merchant traders, in which instance the store office serves their dual purpose. About nine oclock in the morning the cotton buyers will emerge from their several offices and saunter out in a very abstracted and disinterested manner to the wagons. The cotton farmers have a way of describing this maneuver as "the wearing of their most becoming poker face". Almost always the buyer keeps an open knife in his hand-- a knife of peculiar structure, similar in some respects to the old hook-bill, and well adapted to the business of slashing open two sides and an end of a cotton bale preparatory to "taking a sample."

Buyers' appearance disconcerting to farmers. The gloomy appearance of the buyer would seem to presage the approach of some mighty catastrophe, some economic disturbance or political upheaval. At the best it makes for a state of uneasiness in the mind of the seller. He fears that a declining market has precipitated this sad state of affairs. Added to this is the slow bidding of the buyer, and the farmer whose patience is nearing the point of exhaustion frequently disposes of his product at much less than its marketable value.

Advancing markets. Of course there may be occasions of a rapidly advancing market when the buyers become somewhat keener, and the bidding assumes a more lively tone. It may be said, however, that not many of the sellers are able to avail themselves of the opportunity for the more equitable prices. This is due in part to the comparative remoteness of many of the cotton farmers from the market, and in part to the precipitous manner of flooding the market by those nearer by.

Accusation made in regard to collusion among buyers. For a long time the buyers have been accused by the cotton farmers of collusion in buying---of entering into the Gentleman's Agreement with each other to hold the price down. When the experiences of so many of these farmers on the local market are recalled---the fact of desultory bidding, and in frequent cases of one buyer refusing to make an additional offer after being apprised of some other offer---there would

seem to be some basis for these complaints. It should be added that the accusations of collusion are not merely isolated cases of disgruntled sellers, but are widespread in the cotton belt and made by all classes of cotton farmers, from the one-horse tenant man to the plantation owner.

In addition, the matter of adjustment of price to grade and of discriminatory local practices have been constant sources of irritation to the cotton grower. This will be subject to a more detailed discussion on a later page.

Free movement of traders. The medium of the local market has no limit on the amount of cotton handled and in general the movements of the traders are of the freest nature. A grower may dispose of his product himself, or he may employ an agent to sell for him. The latter method, however, is not a general practice, because many of the growers would suspect the agent of being too closely connected with the buyers.

Basis of suspicion. The cotton farmer is not wholly to be censured for the undue amount of suspicion which is constantly harbored against "them cotton buyers." No class of people can be continually subjected to loss by dishonest traders--and no one can deny that there are such in the cotton market--without suspicion becoming somewhat ingrained in their nature.

Arbitrary classing by the buyers. Any man has the privilege of entering the market for the purpose of either

buying or selling. The purely trading class of course have to do with both features of the business. Due to the almost pathetic lack of knowledge concerning the grade of his product the grower has to accept the arbitrary classing of the buyer, excepting, of course, the larger growers who may engage the services of an "agent-classer." In the latter instance the trading is more likely to be taken out of the hands of the local trader and disposed of through a local manufacturer, or wholesaler, if there be such present in the town. But the small grower--and he constitutes the vast bulk of the cotton producers--due to the very size of his operations does not have recourse to the less oppressive avenues of sale.

The present system of local buying, developing coincident to the needs of the trade over a long series of years, offers a market at any and all times except in unusual situations, such as the frightened scurrying of the buyers to shelter in 1920.

Frequent absence of local markets. In spite of the fact of having to sell for less than their product was worth the cotton farmers have felt that they have at least some sort of market. They could almost always get a few bids anyway. Many farmers have responded to the tremendous diversification drives inaugurated from time to time by well-meaning individuals only to find no market for their new products

when grown. The point to be noted here is that the southern farmer is essentially a cotton farmer just as his western friend is a grain and a stock grower. This fact, it may be well to keep in mind in discussing any measures for relief or marketing programs.

Connections of local buyers. The local buyer makes use of the futures trading as a basis upon which to make calculations for present or spot buying, and he usually has arrangements with a dealer to send him the market quotations every day. If his trading is of such magnitude as to warrant it he may get the market direct from the Exchange. The "market" is the daily quotations of the exchanges. These quotations afford the basis for "offs" and "ons" of the futures. Offs and ons meaning respectively the price above and below some particular month.

Financing arrangement for buyers. Although the local buyer may not act independently in his operations--all classes being more or less interdependent--he usually has to exercise his own best judgment and ability in trading. Moreover, sufficient arrangements for financing of all operations must be made. This is an all-important factor, and notwithstanding the fact that many of the local buyers have virtually been found guilty of unfair treatment of the farmers, yet their dealings with the bankers must be above board in every respect. In this situation numerous cotton

growers have apparently discovered a somewhat paradoxical state of affairs.

Criticism of buyers against the growers. By no means should it be thought that the buyer is the only one subjected to criticism. The cotton grower has come in for a full share, and without doubt much of it has been rather well deserved. The business of handing to market bales of cotton which have been "treated for moisture," of swinging damaged ends or sides to the bottom of the wagon, and of the "scientific mixture"<sup>1</sup> may not be condoned, regardless of the provocations which apparently exist.

Buyers' limits. The various dealers send out to their local buyers the best price they will give for the cotton on that particular day. Such notices are known to the trade as "buyers' limits" and is for middling cotton. Whether or not the local buyer is acting independently, or for an employer, from whom he receives a salary, his maneuvers are essentially the same. When he receives a salary, however, the financing burdens are of course assumed by the intermediary or firm which he represents.

Claim of underclassing. The local buyers just referred to are more or less acquainted with the different grades of cotton offered for sale, but there seems to be a consensus of opinion that they never go above the middling basis in their classification, no matter how good the product is.

<sup>1</sup> This is the placing of the later pickings in the center of the bale.

Rather, the tendency has been to grade one or two classes below middling.

Lack of farmers' technical knowledge. One writer<sup>1</sup> attributes this tendency of local buyers to keep well below the middling basis to a lack of technical knowledge on the part of the farmer on the one hand, and, on the other, to inexpertness and timidity on the part of the buyers.

Classes of buyers. There are two general classes of buyers on the local cotton market. One of these is known to the growers as the "hog-round" buyers, and it includes both the country merchant, the town supply merchant--unless he has a local buyer representing him-- and the less expert of the independent buyers. The other class is composed of the local representatives of factors located in the interior and large wholesale markets, and in some instances of local firms who have such financial status as to enable them to buy independently and sell to the exporters or spinners.

Slight knowledge of "hog-round" buyers. It may be said that the "hog-round" artist has a very meager knowledge of grades, rarely being able to distinguish more than two or three of the most common classes, and more frequently his operations are largely in the nature of guess work.

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<sup>1</sup> Benjamin J. Anderson, Agricultural Cooperation (pamphlet), Chase National Bank, New York City.

It follows that this class must perforce buy the product for less than it is worth if ample protection is to be afforded against the wrong guesses.

Graduation of local buyers. It frequently happens that the country merchant, or the supply merchant, will devote some time to the study of the trade, in which instance he may become quite successful in his adventures. Eventually he may graduate from this class into the very respectable firm of factors such as W. E. Beatum and Co., of Sweetwater, Texas or Eufaula, Alabama. It is a fact that many cotton firms of the present time have evolved in some such way.

Street scalpers small operators. The presence of the wagon or street scalpers may be characterized by small operations and limited capital. They are of some use to the trade, notwithstanding. For the farmer it means some sort or a market when the need for such ~~may~~ be pressing, and their presence operates as a check or threat against other buyers, much to their discomfiture at times. For the wholesale dealer it means easier assembling and concentration to centralized warehouses.

Criticism of system. In spite of this the scalper is severely criticised, by both the farmer and the wholesaler, as being an unmitigated evil to the trade. Unquestionably, the attendant evils of the class far out weigh any advantages that may accrue. As a case in point, during the boom days of 1919-20, when the price of cotton was soaring to a

nebulous height, the scalpers over-expanded all out of proportion to the other classes. The result was bankruptcy for a large portion of the class and considerable inconvenience to the cotton grower by narrowing the market too suddenly. Great difficulty is experienced in periods of depression by this class in the way of financing their operations and it seems very probable that their operations could be dispensed with altogether.

Controversy between buyers and growers. The fact has been mentioned that the cotton growers have time and again accused the local buyers of aligning themselves together for the purpose of maintaining as nearly as possible a strangle-hold on the price. On the other hand, the buyers retort that the local market is a highly competitive mechanism in which the inexorable law of supply and demand "goes steadily marching on." Another argument advanced by the buyers is that the very nature of man's desire for gain will lead him to bid eagerly against his fellow for the product offered for sale. The farmer then recalls the old railroad rate wars of the pioneering roads and their many attempts at combinations and mergers. The grower can see no difference in effect between a merger and a collusion, or a private agreement between gentlemen.

Claims of variation in price. For years the growers claimed that there were considerable local variations in the price of cotton of the same grade and that the buyers paid

no attention to the staple. These variations and mal-adjustments of price to staple have been the subject of inquiry by cotton specialists<sup>1</sup> of the U. S. Department of Agriculture.

Federal investigation of subject. In a survey of seventy-three towns in nine states of the cotton belt 38,000 samples were obtained during the months of October, November, and December--a period in which most of the cotton crop is marketed, and a period that affords a fair basis of comparison, as practically all grades come to the market during this time. The average price for each grade was obtained by taking all the samples from the seven grades of chief importance.<sup>2</sup>

Nature of investigation. Special efforts were made to ascertain if cotton was being purchased on a daily average price or according to the accepted standards and differences as obtained on the exchanges. In order to determine whether or not the length of staple was considered by the buyer in their purchases, the prices in the different markets for like grades and staple on the same day were observed. The following tables present the results of the study in tabular form:

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- 1 U. S. Dept. of Agr. Bul. 457, Relation between Primary Market Prices and Qualities of Cotton, p. 3.
  - 2 These grades are as follows: Strict good middling, good middling, strict middling, middling, strict low middling, low middling, strict good ordinary.

TABLE I

THE AVERAGE PRICES OF COTTON ON THE SAME GRADE AND STAPLE  
IN EACH OF THE NINE COTTON STATES STUDIED  
OCTOBER, NOVEMBER, DECEMBER<sup>1</sup>  
(Cents per Pound)

State	Strict good ordi- nary	Low midd- ling	strict low middling	Midd- ling	Strict middling	Good midd- ling	Strict good middling
October							
Miss.	13.05	12.99	13.33	13.39	13.30	13.36	13.32
Ark.	12.00	12.38	12.67	13.05	13.20	13.66	15.08
La.	11.92	12.18	12.62	13.40	13.70	14.25	13.91
Texas	10.18	11.50	12.23	12.83	13.26	13.03	12.67
Okla.	11.31	12.06	12.52	12.91	13.14	13.21	13.36
N. C.	12.99	13.00	13.15	13.24	13.57	13.54	13.50
Ga.	13.06	13.02	13.20	13.36	13.41	13.50	13.58
S. C.	13.31	13.25	13.18	13.41	-----	13.48	13.43
Ala.	13.51	13.34	13.19	13.39	13.42	13.42	13.47
November							
Miss.	11.56	12.07	12.26	12.36	12.57	12.80	12.70
Ark.	11.21	11.73	11.83	12.17	12.87	13.32	13.40
La.	10.91	10.86	11.21	11.76	-----	-----	12.78
Texas	9.88	10.48	10.88	11.35	12.04	12.01	12.17
Okla.	9.95	11.02	11.56	11.91	12.16	13.45	11.68
N. C.	12.06	12.44	12.38	13.18	13.25	13.32	13.50
Ga.	12.31	12.41	12.86	13.14	13.27	13.39	13.43
S. C.	12.42	12.85	12.97	13.16	-----	13.29	13.41
Ala.	12.45	12.94	12.98	12.96	13.02	13.09	13.34
December							
Miss.	10.75	-----	11.82	12.40	12.26	12.30	12.29
Ark.	10.87	10.89	11.36	11.46	11.86	12.58	12.94
La.	10.20	10.51	11.46	11.50	11.38	13.38	-----
Texas	9.11	9.09	10.16	10.65	10.96	11.31	12.00
Okla.	9.40	9.75	11.00	10.76	10.80	12.63	12.00
N. C.	10.90	11.13	12.00	13.25	12.13	13.15	13.13
Ga.	11.35	11.66	12.16	12.66	12.79	12.86	12.95
S. C.	11.19	12.10	12.43	12.44	-----	12.71	13.00
Ala.	11.59	12.02	12.14	12.35	12.46	12.54	12.49

<sup>1</sup>Taylor, Fred, Relation between Primary Market Prices and Qualities of Cotton. U. S. Dept. Agr. Bul. p. 3.

TABLE II

VARIATIONS IN THE PRICE OF MIDDLING COTTON IN THE SAME MARKET,  
THE SAME DAY, IN DIFFERENT STATES IN THE COTTON BELT<sup>1</sup>

Market	Date	Length of staple	Price per pound	Length of staple	Price per pound	Differ- ence in points	Differ- ence per bale
		Inches	Cents	Inches	Cents		
S. Carolina							
Chapin	Feb. 10 '14	3/4	13.00	1 1/16	12.00	100	\$5.00
Alabama							
Huntsville	Dec. 4 '13	1	12.50	1 1/16	11.50	100	5.00
Troy	Jan. 8 '14	1	12.50	1 5/16	11.25	125	6.25
Montgomery	Jan. 24 "	1 5/16	13.12	1 5/16	12.12	100	5.00
N. Carolina							
Raleigh	Nov. 11 '13	7/8	13.38	7/8	12.38	100	5.00
Georgia							
Dublin	Dec. 19 '13	1	12.50	1 5/16	10.00	250	12.50
Moultrie	Oct. 22 '13	1 3/16	12.75	1 5/16	11.75	100	5.00
Washington	Dec. 11 '13	1	13.00	1	11.00	200	10.00
Mississippi							
Aberdeen	Nov. 25 '13	1 5/16	13.00	1	12.50	50	2.50
Corinth	Dec. 5 '13	1 5/16	13.00	1	11.00	140	7.00
Starkville	Nov. 28 '13	1	12.75	1 5/16	10.10	260	13.25
Oklahoma							
Altus	Nov. 1 '13	1	12.50	1	11.00	150	7.50
Atoka	Oct. 30 '13	1	13.00	1 1/16	11.00	200	10.00
"	Nov. 13 '13	1	13.00	1 1/16	11.25	125	8.75
Boswell	Oct. 16 '13	1	12.25	1 1/8	10.00	225	11.25
Durant	Oct. 21 '13	1 1/16	13.00	1 1/8	10.05	295	14.95
"	Oct. 21 '13	1 1/16	13.85	1 1/8	11.30	255	12.75
Erick	Oct. 24 '13	1	13.38	1	11.00	238	11.90
"	Nov. 7 '13	1	12.75	1 1/6	10.50	225	11.25
Texas							
Jewett	Nov. 7 '13	1	12.50	1	10.00	250	12.50
"	Dec. 12 '13	1	11.00	1 1/8	9.00	200	10.00
Longview	Nov. 30 '13	1	14.50	1	12.10	240	12.00
Sweetwater	Nov. 20 '13	1	11.50	1	10.55	95	4.75
Taylor	Oct. 30 '13	1	13.55	1	12.35	120	6.00
Waco	Oct. 23 '13	1	13.50	1	12.00	150	7.50

<sup>1</sup> Taylor, Fred, Relation between Primary Market Prices and Qualities. U. S. Dept. Agr. Bul. 457, p. 6.

TABLE III  
 AVERAGE PRICE FOR EACH STAPLE AND AVERAGE STAPLE  
 LENGTH FOR EACH STATE<sup>1</sup>

(Cents per Pound)

State	Average staple length	Price per pound for staple of following lengths						
		3/4 inch	13/16 inch	7/8 inch	15/16 inch	1 inch	1 <sup>1</sup> / <sub>16</sub> inches	1 <sup>1</sup> / <sub>8</sub> inches
	Inches	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.
Ga.	.955	12.89	13.11	12.94	13.01	13.09	13.14	13.09
N. C.	.915	11.70	12.35	12.86	13.19	12.58	13.30	13.17
S. C.	.93	12.59	12.52	11.70	12.89	13.11	13.27	11.53
Texas	.98	11.33	-----	11.28	11.05	11.19	10.87	10.94
Okla.	1.02	10.50	11.50	10.59	11.29	11.73	11.21	12.75
La.	.98	11.12	9.94	11.05	11.41	11.83	11.90	12.87
Ark.	.95	11.63	11.93	11.82	12.05	12.06	11.87	12.57
Miss.	.98	12.03	13.13	12.94	12.93	13.01	13.13	13.31
Ala.	.96	13.23	12.90	12.95	12.97	12.91	13.06	13.00
Average price for belt		12.73	12.28	12.28	12.76	12.58	12.12	12.76
Total number samples of each staple		457	556	6,840	7,510	10,084	2,275	1,191

<sup>1</sup> Taylor, Fred, Relation between Primary Market Prices and Qualities of Cotton. U. S. Dept. Agr. p.9.

## Explanation of Tables

Table I. "In a general way this table indicated that the cotton was sold with some regard to grade, for, with a few varieties, the price advanced with the grade up to middling. But this was not true in all cases for it will be seen that for October, in Alabama, Strict Good Ordinary cotton averaged 13.51 and Strict Good Middling 13.47. While the latter grade sold for 20 cents less per bale than the former, on a basis of New Orleans differences it was actually worth \$7.50 per bale more. Again, Low Middling averaged 13.34, Strict Low Middling 13.19, and Middling 13.32; and in November, Strict Low Middling averaged two points higher than Middling. During the same month in South Carolina Low Middling averaged 13.25 and Strict Low Middling 13.18. Strict Low Middling was actually worth at least 25 points, or \$1.25 per bale more than Low Middling.

No premium for higher grades. These variations are but a few of the many instances that might be cited, and tend to prove either that the higher grades are being priced too low or that the lower grades are bringing prices above their value, or that a combination of the two is true. That the higher grades are not bringing their value is clearly shown by an examination of Table I, for it will be seen that practically no grade above Middling commands a premium; but in the lower grades, Strict Good Ordinary to Middling, a gradual advance in price is usually shown as the grade improves.

This fact shows that the very existence of the higher grades is practically ignored.

System penalizes careful producer. Probably nothing retards improvement in the methods of handling cotton more than this penalizing of the higher grades, for the thoughtful producer sees his product priced the same as that of his careless and indifferent neighbor, and naturally feels that there is no inducement to continue his painstaking work so long as such marketing conditions exist. In effect, it is placing a premium on the careless and indifferent farmer and penalizing the intelligent producer. Table I also shows that the differences as quoted on the various exchanges were disregarded. The New Orleans exchange quotations for the month of September, October, November, and December of the year indicate that the differences between each grade above Middling were about 25 points, or a quarter of a cent, and below Middling from a quarter to three-eighths of a cent per pound.<sup>1</sup>

Table II. It should be stated that the data for Table II (accompanying) showing the results of the study of prices of cotton of like grade in the same market and on the same day, and illustrating the presence of widely varying prices, were not confined to any particular section of the cotton belt. The conditions are present in each state of the belt.

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<sup>1</sup> U. S. Dept. of Agr. Bul. 457, p. 3.

In discussing the situation the investigators state that "this condition clearly indicates that a large amount of cotton is sacrificed at prices below its real value-----. The wide range in prices would seem to indicate that in many instances the prices on a great many bales have been seriously depressed for some reason which a careful examination of the available data failed to disclose---. When such variations in prices are shown by this investigation involving two or more bales of Middling grade in any market it is apparent that gross injustices may occur in many individual cases and in the aggregate assume enormous proportions. These variations show a condition that is unfair to the producer, for it is the farmer, ignorant of the value of his crop and knowing least about marketing his product, who as a rule is called upon to submit to such practices."<sup>1</sup>

Table III. The table (III) shows that practically no difference in price between  $\frac{3}{4}$  inch staple and one inch staple obtains. If any difference, the  $\frac{3}{4}$  inch staple is the more favored, and this in spite of the fact that the longer staple cotton is much superior for the purposes of spinning. It was also developed that the price of  $\frac{3}{4}$  inch staple and  $1\frac{1}{16}$  were frequently, and  $1\frac{1}{8}$  less frequently, the same. It may be seen that the average price of the  $1\frac{1}{8}$  inch staple throughout the cotton belt was found to be .03 of a cent per pound more than the  $\frac{3}{4}$  inch staple. This means

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1 U. S. Dept. Agr. Bul. 457, p. 17.

a net loss of \$17.50 per bale for every 1<sup>1</sup>/<sub>8</sub> inch staple bale grown and marketed in the South. Further than this, the fact was discovered that a considerable portion of the cotton crop is sold not on a basis of either grade or staple but that the old system of averages was the governing method.

Results of investigation. Somewhat in the way of a summary the authors conclude: "This study indicated that practically no premium is paid for the grades above Middling. Of the 38,000 samples collected 9,916 bales were above Middling in value, or \$2.05 per bale. Assuming that the crop of 1913-14 graded the same as the samples in this survey, it would indicate that the producers lost that year, through a failure to secure premiums on their high grades, a sum in excess of \$7,500,000."<sup>1</sup>

Surprising results. These figures and discussion of results by government investigators will be in the nature of a distinct surprise to those unfamiliar with what has been going on in the local cotton markets for the past several years. The cotton growing farmers have keenly felt the injustice of such practices and it is this fact coupled with other abuses impinging upon each other that have no doubt exerted such a profound influence in the formation of the numerous cooperative associations.

#### The Intermediaries

Interior markets. This class of buyers operate more

extensively in the larger markets of the interior, in such cities as Montgomery and Selma, Alabama; Albany and Athens, Georgia; Vicksburg and Meridian, Mississippi; and Fort Worth, Waco, and Austin, Texas. The chief difference between these markets and the local centers is to be found perhaps in the greater volume of wholesale trade, the diminution of country and supply merchants, and the increase of the purely cotton factor. In addition, the larger markets are equipped with better facilities for handling the product. Practically none of the small towns is provided with a compressing plant and such warehousing facilities as are afforded are usually of a very inadequate nature.

Who intermediaries trade with. The intermediaries or wholesalers buy from the country merchant, the supply merchant, and other retailers in the local market. They may do this by wire or phone, but it is customary to have branch offices with a local representative throughout the territory. In this way personal contact, and consequently a better understanding, is maintained with the small traders and information of the present and probable supply of the various grades on the market may more accurately be estimated.

After the product has been assembled or concentrated it is then sent to the compressing plant where it is prepared for shipment to the more distant mills, or for export. Tagged samples of each bale purchased is sent by the local

representative to the main office of the firm which as a rule is located in the heart of the territory covered.

Here these samples are classed and stapled under the direct supervision of experts. This close supervision of the classing is necessary in order to check the agents' work and it may prove a good insurance feature against the claims of the clientele.

Central office handles major activities. All the major activities such as selling and financing are carried on from the central point of concentration, that is, the main office of the firm. There may be a number of partners in the firm of cotton factors. In such instance one will supervise the financing of the deals, another will have charge of the sales division, and a third may look after the classing and compressing. Quite frequently, however, the product is not compressed until it reaches the large wholesale markets.

Financing must be cash. The financial side assumes unusual importance when it is considered that the cotton business is a cash transaction. That is to say, whenever the wholesaler purchases cotton from the retailer, whether farmer, country merchant or supply merchant, it is necessary for him to "deliver" the cash on the spot. No such terms as "net sixty days, 5 % 10 days" are familiar to the retailer. He likes to look on the greenbacks. The raising of sufficient funds to meet the needs of heavy buying requires a deal

of business ability and finesse. Not only this, but the securities of the firm as well as the warehouse receipts must be turned over to the bank granting the loans. These loans may be in the form of either demand or time obligations. One firm may handle as much as several hundred bales of cotton in the short period of four or five days, involving advances from the bank of amounts frequently up to \$75,000 and \$100,000. This handling of such tremendous volumes and involving high-powered finance has been much facilitated by the Federal Reserve System, which now rediscounts the paper of cotton factors provided it conforms to certain stipulations, and provided, further, this paper is handled through a local member bank.

Methods of financing sales. Many of the factors finance themselves through the aid of the spinners' buyers and brokers. Acceptances are drawn on these and after being accepted may be presented at the local bank by the intermediary. Many of the factors who sell direct to the mills are financed through acceptances on the mill with which they are dealing. All three of these methods of acquiring funds to carry on the business are common to the trade. Essentially the wholesale factors of the cotton trade bear the same relation to the retailers as exists in any other business. The methods of business are quite similar, differing mainly in volume and precision of handling.

### Spinners'-buyers and Exporters

Outlet of sales for wholesaler. In the study of the intermediary it was seen that he frequently relied on the spinners'-buyers for financial assistance in conducting his transactions. Whether or not this aid be secured from the spinners'-buyer, it remains a fact that the main outlet for the sales of the wholesaler is through spinners'-buyers and exporters. The exporters are, by and large, but another name for spinners'-buyers of foreign mills.

Spinners prefer agents. For various reasons most of the spinners seem to prefer making their purchases through an agent, rather than deal directly with the wholesalers. Rarely, except in the case of the smaller mills located in the South do the mills buy direct from supply merchants or intermediaries. Certain advantages by thus having such an agent accrue to the spinner. The broker or spinners'-buyer keeps in close personal contact with the mills, visiting and conferring at frequent intervals throughout the season with the manager and owners of the mill represented.

By so doing a better knowledge will be had of just what the requirements of the mill are. The personal equation in the business is not neglected by this class of cotton traders. They profit accordingly. The broker by keeping himself informed of the condition obtaining in the different markets will be able to compare the various prices and secure the more favorable buys. Not only is the broker of great service

to the mill in relieving the management of the harrowing details connected with purchase, transportation and the like, but he is of equal value to the merchant in affording him a market, in giving out market news, adjusting claims etc.

Tendency to become merchant brokers. There is apparently a growing tendency for this class of factors, if they may be so called, to act independently, that is they operate as merchant-brokers. When this happens they of course do their own buying from the various intermediaries in the market, and contract with the mills to make future deliveries of the product. By hedging in the futures trade they may protect themselves from loss in case of being caught on the wrong side of the market. There is in the trade a type of factor acting in the dual capacity of merchant-broker. In the role of merchant it is necessary that the buyer himself do the hedging. The broker hedges for the mill, taking care of all the details, even to the booking of the transaction, but it is not necessary that he furnish his own funds for this purpose.

Eastern and southern brokers. One distinction between brokers located in the South and those in the East should be noted: The spinners'-buyer in the South is more frequently an exporter than is the case with the Eastern buyer. In short, he may buy for mills in the South, acting in the capacity of merchant-broker and, in addition, represent foreign mills on either a salary or percentage basis. Whenever a

business of this tripalite character is engaged in, however, it is usually by the very large brokerage firms in which there may be a half dozen partners. Each of these has charge of some specialized branch, and thus the multiplicity of detail is accomplished with less confusion. Rarely does the broker for an Eastern mill do an export business, due perhaps to the greater development of the textile industry in the East than in the South.

Small mills may buy direct. In the case of the small mills located in such little towns as Lafayette, Trion, Summerville, and Aragon, Georgia it is not an uncommon thing to see the cotton farmers living near-by drive up and sell to the mill buyer without further ado, but the percentage of the crop thus handled is of little significance compared to that disposed of in the more ambitious towns of Rome, Athens, and Columbus, Georgia; Dallas and Houston, Texas; Selma, Alabama and Vicksburg, Mississippi. A mill such as the Massachusetts mills in Georgia--the second or third largest in the South--will deal with the supply merchant and wholesaler very largely through their local spinners'-buyers or brokers.

Eastern cotton markets. With the distinction between the brokers in the two sections previously observed it should be added that spinners'-buyers and brokers in the South apparently have less hesitancy in operating on the

futures market in the way of protective hedging and the like, than buyers for the New England mills. This is probably due to the fact that the southern contingent are better acquainted with the actual conditions or should be at any rate, since they are hard by the field of activity. Mere mention of the eastern markets will be made; Boston, New York, Baltimore, New Bedford, Fall River, Providence, and what may seem surprising, Chicago is added as a western exchange. This latter is of very recent date.

Spinners'-buyers usually efficient. The business of being a spinners'-buyer or broker is highly complex. It requires a thorough knowledge of the technique involved, well-formed business connections, intellectual integrity of the highest order, and a specialized organization of the necessary machinery for carrying on the business not less efficient in functioning than that of the railway or express service, or some large manufacturing concern. It seems very improbable that the spinners'-buyer and broker, rendering as they do a valuable service alike to the wholesaler and manufacturer, are in any immediate jeopardy of their position. New organizations for the handling of the crop are coming into the light, and may continue to appear on the horizon but if they are to displace this last stronghold of the middleman it will be only by presenting a more efficient mechanism that will either give better services or perform the same services for less money or both.

## PART II

## The Cotton Exchanges

Origin of exchange. The first cotton exchange was established at Liverpool in 1842, and was known as the Liverpool Cotton Association. It was not until 1870 that future dealings were inaugurated there. The establishment of the Exchange arose out of the growing necessity for a centralized point where buyers and sellers might assemble to obtain information regarding the general trade in cotton. Of considerable importance was the news gathering facilities of the Exchange. Here was a place of assemblage where the members could meet to discuss the tendencies of the market and other phases of the cotton industry.

Limitation of early market. As the members were the sole buyers of cotton from this country they could set the price almost to suit themselves. This they very generously did for a number of years until the American exchanges and manufacturers became of sufficient importance to make the practice inexpedient.

Origin and purpose of American exchanges. The New York Cotton Exchange had its beginning in much the same way as the Liverpool Association and for practically the same purposes. It was incorporated under the New York State Laws in 1871, aiming, as stated in the charter, to:

"Provide a suitable building or buildings, with the

proper facilities therein, for a cotton exchange in New York City, to adjust controversies arising between the members, to establish just and equitable principles in the trade, to maintain uniformity in its rules, regulations and usages, to adopt standards of classification, to acquire, preserve and disseminate useful information connected with the cotton interests throughout all the markets, to decrease the local risks attendant upon the business, and in general to promote the cotton trade of New York City."<sup>1</sup>

Future dealing by members. The function of buying and selling cotton is left to the individual members, the exchange itself performing no such acts as a body corporate. In addition, only the members are allowed to execute trades in futures. The assembling of buyers and sellers together in a common meeting ground may be considered the primary purpose of the exchange at the outset.

Extensive facilities of exchange. The members of this exchange are the foremost cotton men in the United States--manufacturers, growers, dealers, exporters and spinners'-buyers, who trade in both spot cotton and futures. The exchange controls a net work of telephone and telegraph lines extending to all parts of the United States, and cables to the important foreign markets. The facilities for news gathering and informational data are among the best in the country, as the source is so extensive. These sources of

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<sup>1</sup> Report, Commissioner of Corporations on Cotton Exchange, Part I, p. 56.

information furnish the members data as to the demand for cotton, growing crop conditions, daily receipts in southern markets at gathering time, exports, mill output, strikes and all news of any nature that may have a direct bearing on the trade.

The New Orleans Exchange. Another exchange of perhaps equal importance is the New Orleans Cotton Exchange, which fulfills the necessities of the spot traders to a much better extent than either the New York or Liverpool associations. In general the functions and purposes of these great exchanges are very similar, varying only in unimportant details. New Orleans ranks as the largest market for spot cotton. The main difference between the New York and New Orleans exchange and the smaller types is that the latter do no trading in futures. The function of the organized exchange is to furnish the machinery whereby the marketing risks may be shifted.<sup>1</sup>

Nature of speculation. The primary business of the speculative class is to anticipate market trends as nearly as may be and to operate in such way as will tend to equalize the price of the product with the changing market conditions.<sup>2</sup> Necessarily, the speculators must assume a good share of the normal risks attendant upon such trading.

The risks may be borne directly by the speculator in certain transactions and in others he may succeed in

<sup>1</sup> Brace, H. H., The Value of Organized Speculation, p. 8.

<sup>2</sup> Emery, H. C., Speculation on the Stock and Produce Exchanges, p. 12.

distributing it in such way that all of the traders involved will assume their proper share.

Importance of speculator. The economic importance of the speculator is obvious when it is considered that through this class the risks of the business are more equitably distributed. By their close study of market trends and conditions the speculators have frequently been able to forecast or anticipate price or value changes. In this way they have been of real value to the trade in general, and in particular to the class of traders who have found it necessary to hedge their buying or selling activities. In its broadest aspect speculation may be conceived as fundamentally a socio-economic phenomenon. For the sake of taking a profit all that body or group of persons engaged in speculative trading must assume an economic risk.

Advantages of speculative trading. In speaking of the advantages or benefits accruing from speculative trading on the exchanges, it is well to keep in mind the fact that speculation does not set future prices, as is sometimes charged. What really happens is that the organized trades act somewhat in the way of a barometer or trade gauge, and as such merely record the prices that may obtain at some future date. It is merely a process of estimating the price at which future demand and supply will be equal.

The advantages of speculative trading which are perhaps

most obvious, are stability of values, stability of prices, the broadening of the market, and finally, speculative trading operates as a constant threat against monopolistic activities. Taking up the last point first, it may be readily seen how this would occur. It is apparent that speculators trade in both future contracts and "spots." If speculative operations should be prohibited in the futures market, then these traders would be forced out and into spot trading. Now, spots require a considerable amount of ready money. This would necessitate combination of the traders into a relatively small number. But they would exert a much greater influence. The tendency would naturally be toward monopoly. A number of active speculative traders in the market will act as a restraining agency against this tendency of the more powerful influences.

Efficient news. Notwithstanding the fact that methods of gathering crop data and industrial information have progressed to a remarkable degree in recent years, if it were not for the mechanism of the speculative market much of this information would be of little worth. Putting it another way, this market may be thought of as a highway along which the very valuable marketing data and news may be sent. In order that future prices may be estimated by the marketing specialists it is necessary that many factors be considered. Among the more important may be mentioned the amount of production or size of crop, the warehouse supply, and the

rate at which the consumers will likely take the crop.

Anticipate "surplus and scarcity." Plans must be made to cope with the possible situation of a surplus or a short crop. To meet this condition with any degree of adequacy it has been found necessary to make an estimation of a general price level. The degree of accuracy with which this level has been estimated and the efficiency with which it is maintained will very largely determine the condition of so-called overproduction or under-consumption.

Frequent minor fluctuations. In a well organized market such as the exchanges afford the traders are in continuous contact and are constantly buying and selling the product in which they are dealing. The very fact that this manner of continuous sale obtains, though causing no doubt frequent minor fluctuations, operates to make for less severity in such fluctuations as would normally occur in an unorganized market.

An examination of the class of traders will illustrate this point. There are two kinds, the optimist or bull and the pessimist or the bear. The bulls apparently find their chief delight in buying long at every favorable opportunity, whereas the bears are hurrying and scurrying around in an effort to sell short. It is quite obvious that there will come a time when these two classes will have respectively reached a limit in their activities.

Counteracting forces constantly at work. It is

precisely these limits that operate to lessen the violence of the fluctuating prices. The bulls must begin their unloading process; the bears must obtain sufficient quantities to meet their short sales. The result is a counteraction against prices reaching a very high peak or very low trough. Of course such a process as described is considered as occurring under normal conditions. Under such the leveling influence on prices of the two forces acting against each other is of immeasurable value not only to all the brokers, spinners'-buyers and merchants who are hedging in the market, but manufacturers and producers as well.

One writer speaking of the effect of speculation on price says:

"The fact is that the effect of speculation on price (including short selling) is merely to put on the brake in price-----. It is in this manner that the two conflicting interests, 'bears and bulls,' in protecting themselves, tend to take the opposite sides of the market with any definite price changes, thus tending to check any wide and sudden fluctuation."<sup>1</sup>

Continuous market necessary. The numerous offerings and buying of the traders when unhampered tend to make a broader market. By a broad market is meant not only a market having many buyers and sellers, but also a market which is continuous and in which there are many small fluctuations rather than

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<sup>1</sup> Boyle, James, E., The Chicago Board of Trade, (pamphlet) p. 56.

a few violent ones. Such a market may be illustrated by the exchanges of New York, New Orleans and Liverpool. This sort of market furnishes the machinery--the speculative traders--for cushioning violent price fluctuations.

Stable values. Concerning the stabilization of values it may be said that many of the banking concerns will not accept such paper as that of cotton or grain unless the product has been hedged. It has been said that hedging seems to depend for its greatest usefulness upon pure speculation.<sup>1</sup> And almost all writers are agreed that without hedging the marketing machinery would be very crude and inefficient indeed. The value of any paper offered by the various factors would, on account of the haphazard methods obtaining under such conditions have so many elements of uncertainty that the whole process would become a bedlam of unknown and unpredictable status. This is hardly to say that organized speculation is wholly good.<sup>2</sup>

Evils of speculation. The system has by the very nature of its machinery possibilities for "crying evils" to creep in. And this is what has happened and is still happening to some extent. It is very probable that if there were no bad speculation there would be no evils of speculation for the evils of speculation are those most commonly associated with bad speculation.

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1 Clark, F. E., Principles of Marketing, p. 372.

2 For good discussion of speculative evils see Taussig, F. W., Prin. of Econ. V.I, p. 167. Also Ely, R.T., Outlines of Economics, Third Edition, pp. 622-625.

One economist sums up the evils of speculation as consisting of three classes, all of which are unfit to indulge in this form of trading:

"(1) The ignorant--those who do not know enough about market conditions to have an intelligent opinion.

(2) Those who cannot afford to lose----.

(3) The third group comprises all those persons in a position of trust. Fortunately, many members now utterly refuse to handle any such business. The evils of these forms of speculation--and these are all abuses rather than proper uses of speculation--fall hardest on the membership themselves of the organized exchanges. Theirs are the losses through bad debts, theirs the odium."<sup>1</sup>

A fourth evil of speculation has been assigned by another writer,<sup>2</sup> that of price manipulation.

It may be said that the phrase, "those who do not know enough about market conditions to have an intelligent opinion," assuredly covers a multitude of sins. "Fliers" by this class of traders usually result in far more losses than gain to themselves. Their ignorance of market conditions prevent them from anticipating with any degree of accuracy whatsoever changes in price. Not only is the result unfortunate to those engaging in such practice but the effect upon the market itself is of considerable harm. Whenever such fliers

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<sup>1</sup> Boyle, Jas. E., The Chicago Board of Trade, p. 64.

<sup>2</sup> Emery, H. C., Speculation of the Stock and Produce Exchange, p. 171.

are taken on a hunch that the market is going to be "good", and the said market is quite dilatory about this matter, there will be a natural tendency to bend the trend of the market away from what it would normally have been.

May cause loss to the innocent. The trading by those who cannot afford to lose is not so extensive as formerly. Its most pernicious effect is that it may entail loss to a third party, one who has made contracts in good faith for future delivery and who cannot meet these obligations now that his chief dependence has failed. As protection against this form of evil most of the exchanges have passed regulations requiring that a differential deposit be made by the traders. This deposit to represent the difference between the current price of the futures market and the bargaining price for acceptance or delivery. Further than this, out-of-town traders, non-members, and the like, operating through the agency of brokers or member representatives, are frequently required to advance sufficient sums to cover margins in times of fluctuation.

Price manipulation. The opinion is quite prevalent that the speculator can maneuver the price at will and in either direction. The evil may come under the head of (1) false reports, (2) stampede of the market, (3) washing of sales, and (4) corners.

False reports of market. The matter of circulating

false reports about the market is a very ancient device and has been productive of considerable harm. It is easy to see how this may have happened before the modern instruments of communication were perfected. But even after this there were many occasions where false rumors were set going by market tricksters. As an offset to these reports there have been developed in recent years by both governmental and private organizations remarkably efficient crop reporting agencies. The progress of these bodies in collecting and distributing of data relative to crop conditions has been little short of phenomenal. It is very unlikely that this form of speculative evil now exerts any appreciable influence on market trends.

"Stampeding" of market. The "stampeding" of the market very probably has received more attention from the public than almost any other form of market news. This is due very largely to the avidity with which budding newspapermen seize upon and colorfully write about the subject. Much of the reasoning involved has been decidedly unfair and misleading in that it has considered the question merely from one angle. It is quite true that a group of speculative traders may by selling a very large quantity of a product at one time succeed in forcing the price much below what the normal trend of the market would be. The fact should be understood that for every sale there must eventually be a purchase. If short selling depressed the price of the

product below normal may it not be equally true that the purchases to cover these short sales will in turn inflate the price? Such a balancing of the two forces is what actually happens in practice, though by no means does it approach perfection. Perfection is not so easily attained.

"Raids and drives." The selling of enormous quantities of a product on a market in order to force the price down and then buying a like amount without having an opposite effect would indeed be a sizeable accomplishment. It would be a task requiring not only a consummate skill in marketing technique and an unusual amount of daring, but also a task in which tremendous amounts of capital and secrecy would necessarily be involved. Very rarely do premeditated market raids or drives occur at the present time. It is more likely that the conditions existing are naturally of either a bearish or bullish tendency and that the traders are merely obeying a common impulse, in buying and selling heavily at this time.

Legislation investigation. There have been at various times investigations by legislative bodies concerning this form of manipulation. The extent of its actual existence in the trade has been materially reduced in recent years simply because the traders themselves have found it an unprofitable practice.

Washed sales activities. It is very probable that the washed sales activities of speculative traders is one of

the most pernicious forms of manipulation, the insidious nature of the operations making it extremely difficult if not impossible of detection. The invidious effect is to create a quotation on the market by false price-making artifices.

An entirely innocent person may be made the means through which such sales are made. It is only necessary that the operator have two representatives on the floor, one to buy and one to sell. These brokers may never know that they are employed by the same person or firm. In fact, it is much the safer for them not to know. A further example of this type of manipulation may be found where the members by prearrangement buy and sell to each other.

Factitious price quotation. This method of creating factitious activity and artificial quotations in the market by dishonest speculators cannot under any conceivable circumstances be condoned. At the same time what is true here is true also of almost every other form of trading. It is simply one of the evils present that can never be entirely eliminated from the system of a speculative business. In fairness to the great body of speculators who do not sympathize with practices of this sort, it should be said that constant efforts are being made by the more substantial of the class to minimize washed sales activities in the market.

Corners. Owing to their spectacular nature the matter

of corners has excited a great deal of public interest. A corner has been described as an acute attack of monopoly.<sup>1</sup> Like some other of the more pronounced speculative evils corners were more prevalent in the early development of markets. Coincident with the rapid progress of marketing machinery there has been a substantial decrease in the attempts of one man or group of men to so dominate the market as to virtually be able to control the price.

Corners a thing of past. So decided has been the decline of corners in recent years that only three instances of notable importance have occurred since 1888.<sup>2</sup> Of these one may be said to have been successful, one a dismal failure, and the latest one, occurring in 1909, could not in the strict sense of the word be called a corner. One of the keenest students of speculative trading has said that corners as a form of manipulation has excited far more adverse comment than, from the economic point of view, they deserve.<sup>3</sup>

Difficulty in controlling supply. In order for a corner to be successful it is necessary for the supply to be under the complete control of one man or group so that when the short sellers attempt to cover their sales it will be necessary to buy from this source of supply. Necessarily the short sellers will be compelled to pay almost any price

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<sup>1</sup> Hibbard, B. H., Marketing Agricultural Products, p. 128.

<sup>2</sup> Hibbard, B. H., op. cit.

<sup>3</sup> Emery, H. C., Speculation on the Stock and Produce Exchange, p. 173.

dictated by those controlling the supply or else forfeit their transactions. And they can ill afford to do the latter. Few persons, however, appreciate the difficulties in the way of obtaining sale control of the supply of a product even for a very brief time. A corner of interstate commodities has been declared by the United States Supreme Court as being illegal and as such subject to criminal action. Regulations and prohibitions have also been passed by numerous trade bodies and exchanges relative to market corners. These several rulings together with the technical problems of supply control make the business of market cornering an extremely hazardous undertaking.

Purpose of hedging. The purpose of non-speculative trading, or hedging as it is generally known, is to insure against loss which might incur in the buying and selling of a commodity. Various definitions for hedging have been given by different writers on the subject. One author states that "hedging is a purchase or sale for future delivery intended to offset and thereby to protect a transaction in actual merchandise."<sup>1</sup>

Definition of the term. Hedging has been defined by another writer, a cotton factor, as "a trade insurance carried on in such manner as to make a world-wide market for instantaneous buying and selling."<sup>2</sup> Thus we have the term

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1 Weld, L. D. H., The Marketing of Farm Products, p. 338.

2 Hubbard, W. Hustance, Cotton and the Cotton Market, p. 314.

described by an economist and by a cotton factor. Practically any trader may hedge his purchases or sales of cash cotton, but undoubtedly the greater portion of such hedging is carried on by the manufacturer, the broker or spinners'-buyers, and the larger of the merchant factors.<sup>1</sup>

Advantages of hedging. The advantages of hedging to the manufacturer, the broker, and the merchant are not well understood by the opponents of the future trading system. By shifting the risk due to fluctuating prices the spinner can afford to sell his cloth on a smaller margin of profit; the broker can pay the merchant more for the product, and in the long run the grower and ultimate consumer will both benefit through the smaller margins taken.

A comparison of the margins of profit on commodities that have been hedged in the future market with margins taken on commodities which were not hedged is of interest. This comparison has been made between wheat, oats, and barley. This was before barley had been placed on the future trading.

"Taking 15 normal years as a fair test, free from wars or panics, 1900-1914, we find the following fluctuations in cash prices----. Not once in this period did wheat show a fluctuation of 100 per cent in any one year.

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1 For technical explanation of hedging details see, Hubbard, W. Hustance, Cotton and the Cotton Market, and Clark, F. E., Principles of Marketing.

Only twice in this period (1901-1902) did oats show a fluctuation of over 100 per cent. Seven times in this period barley did show a fluctuation of over 100 per cent."<sup>1</sup>

Another author, writing prior to the time when future trading in barley had begun, says:

"It is significant that there is no speculative market for barley and rye, and that they are handled at wider margins all along the line. Country elevators, for example, take out a much wider margin on barley than they do on wheat, and yet they are more apt to lose money on the former than on the latter. On a gradually sagging market they are almost sure to lose money on barley, because they cannot protect themselves against a fall in price."<sup>2</sup>

There seems to be little doubt in the minds of those who have any acquaintanceship with marketing conditions that hedging materially reduces the cost of marketing on any commodity subject to future trading.

Summary of non-speculative trading. Summarizing the non-speculative trading, it may be said that hedging is made possible by the presence in the market of speculators who are ready at any instant to buy and sell future contracts, assuming in large part the risks involved for the sake of profit. Furthermore, hedging is a vital part of the cotton trade, engaged in by brokers and spinners who depend upon

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1 Boyle, Jas. E., Chicago Board of Trade (pamphlet) p. 52.

2 Weld, L. D. H., The marketing of Farm Products, p. 346.

this method as a means of insurance; and, finally, hedging by enabling all the factors involved to operate on smaller margins due to the decreased risk is a most pronounced factor in reducing the cost of marketing the product.

Popular concept of future trading. The evils of speculation have from time to time received due attention from the public at large. Almost without exception the various farmers' movements have launched their vitriolic diatribes against the future trading system in general and speculative trading in particular.

Broadside attacks. In view of the fact that the Farmers' Union perhaps represents the most extensive effort of producers' organizations in their pioneering days it is thought that their spokesman was voicing the opinion of a considerable group when he said:

"Gambling in farm products has done more real harm to the farmers than all the droughts, pests, and diseases with which he has to contend on his farm. Droughts come and destroy or cut his crop. Pests, like the caterpillar, the boll worm and the boll weevil in the cotton states, and the locust and other pests in the grain states, annually destroy millions of dollars for the farmer. Diseases play their part in lowering production. The loss from these is very large, but the operation of the grain pits and cotton exchanges by gamblers who grow fat on the sweat and toil of the poor farmer, cost the farmer many more millions annually than all

of these destructive elements combined."<sup>1</sup>

Criticism of system among farmers. The criticisms against speculation and future trading are almost universal among the farming classes and have also been made from time to time by the agricultural journals of the country.

It is charged by the producer that short selling forces the price down and by the consumer that it forces the price up. Hedging has been said by leaders of some organizations to be a useless and dangerous operation.<sup>1</sup> All speculation in the marketing of the farmers' products, say others, should be eliminated. There is a considerable number of people who believe hedging to be legitimate, yet believe speculation is unnecessary. How hedging is to be carried on without the speculative traders has not been clearly explained by this group.

Correction rather than elimination. The whole question seems to simmer down to this fact: There have been in the past many cases of flagrant missuses of the legitimate future trading system. There is yet imperfection in the system just as in all other businesses. But the feasible thing would seem to be a correction of the evils rather than a wholesale attempt at eliminating speculation.

The efforts to reduce so far as possible the evils of speculation in the cotton trade are praiseworthy; the attempts to increase the competitive conditions in the market are

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<sup>1</sup> Hibbard, B. H., Marketing of Agricultural Products, p. 121..

commendable, but the idea that speculation may be eliminated from the system is both an unfortunate and an impracticable one. This is not to be understood to mean that much of the speculation which is bad speculation should not be purged from the trade such, for example, as the activities of many of the buyers in primary markets. What is meant is that speculation will continue to be part of the marketing system just as it is a part of every other business.

The efforts of producers' associations should be applied along educational lines. It would not of course be possible to satisfactorily explain the inner workings of speculative functions to the average cotton farmer. Neither would it be a desirable procedure. But a great deal might be accomplished among the more intelligent classes by the use of the right sort of propaganda. Simple explanations of the nature of hedging and why it is necessary would do much toward disabusing their minds of preconceived notions. In this respect leaders of the organizations may be of great help.

Moreover, there yet remains ample room for improvement in standardizing grades and staples. Cooperation among local groups in the growing of a product of uniform staple would enhance its value as well as the selling possibilities. The problem cannot be solved by recriminations. Rather, it seems to present itself as a matter of business expediency, and as such requires careful study before action.

## PART III

## Coöperative Associations

While there has probably been at one time and another sporadic associations for marketing cotton coöperatively, it appears that such must have been purely local in nature and of small-scale activity. Unfortunately, no data are available concerning these associations. However, there is one association which, from the size of its operations and the nature of the activities engaged in commands attention in a study of coöperative cotton marketing. This association or society, known as the Farmers' Educational and Coöperative Union of America occupied the center of the stage in the cotton states for some six or eight years before a subsidence of its influence occurred. It is proposed here to examine the society from the standpoint of membership, form of organization and policies relative to its marketing program, in order to ascertain what its chief contributions to coöperative marketing have been.

## The Farmers' Union.

Founder of Union. The founder of the Farmers' Union is said to be Newt Gresham who organized several local unions in Texas in the spring of 1902. Growth at first was comparatively slow, and it was not until 1905 that sufficient momentum had been gained to authorize the formation of a

national union.

Objects of society. The objects of the society were, broadly speaking, to improve marketing conditions, obtain higher prices for farm products, and to enlarge the social and intellectual life of the agricultural class.

These purposes were set forth more specifically in the preamble to the constitution adapted in 1906. After paying due respect to the speculative class the Union declared their organization as having been formed:

"To establish justice-----.

"To discourage the credit and mortgage system.

"To assist our members in buying and selling.

"To educate the agricultural class in scientific farming.

"To teach farmers the classification of crops, domestic economy, and the process of marketing.

"To systematize methods of production and distribution.

"To eliminate gambling in farm products by boards of trade, cotton exchanges, and other speculators.

"To bring farmers up to the standard of other industries and business enterprises.

"To secure and maintain profitable and uniform prices for grain, cotton, livestock, and other products of the farm."<sup>1</sup>

Membership of Union. The membership of the Union has

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<sup>1</sup> Report of Commissioner of Corporations on Cotton Exchanges, Part V., p. 322.

been estimated at various figures by the different officials ranging from a little less than a million in 1907 to more than three million in 1909. Officers of the society claimed 2,000,000 as active members in the cotton states in 1909. Some writers are inclined to disagree with these figures and since no accurate data concerning the membership are available there may be room for a reasonable doubt as to the higher claims. One writer<sup>1</sup> believes that three-quarters of a million would be more nearly correct for the membership. Familiarity with the sanguine nature of most organizations when the question of membership is involved would lead one to accept the more conservative estimates. One feature of the Union is especially commendable from the farmers' point of view and that is the aim to confine the membership to those who actually produced crops.

Form of organization. The form of organization is typical of practically every farmers' movement that has occurred in the United States. That is, the composition included a national body, state organizations, local and county unions. In general, the constitutions of the several organizations are almost identical in their essential features.

With few exceptions the policies of the Union have not been made in secret, but published officially by the leaders so that the public might be informed concerning the activities

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<sup>1</sup> Hibbard, B. H., Marketing Agricultural Products, p. 241.

of the organization.

Features of Union program. The efforts to improve marketing conditions and increase prices may be considered as falling under four major divisions:

1. The minimum price feature.
2. The limitation of supply.
3. Feeding the market--warehousing and financing.
4. Pooling of sales.

The first attempt by the Union at price maintenance was made in the early fall of 1904, the minimum below which the farmers were not advised to sell being fixed at ten cents per pound. The effort does not appear to have been effective, as cotton was selling early in the following year for seven cents per pound and less. The crop was exceptionally large, however, and this no doubt exerted a great influence in forcing the price down.

Minimum price feature. The minimum price set for the 1905-06 crop was ten cents per pound for middling basis. The bulk of the crop sold for around eleven cents. It would seem to appear from this that the Unions' minimum price policy was having considerable effect. But the fact should be remembered that there was a marked decrease in acreage harvested for the year. The total crop was less than that of the previous year. It is altogether probable that the price under these conditions would have advanced if there had been no effort at control, for the demand was greatly

enhanced by the decreased supply.

Decreased supply. The efforts toward acreage reduction for the year very likely exerted a more potent influence on the price than any other one factor.

"It is important to distinguish," writes an investigator, an advance in price due to a reduction in the crop, or to an increase in demand, from an advance in price due to organized efforts to exact an arbitrary figure after the crop has once been produced."<sup>1</sup>

Later minimum price efforts. Encouraged by the apparent success of the price-fixing feature the officials of the Union decided to name 11 cents per pound as the minimum for the 1906-07 crop. The average price obtained for the season was about 11½ cents, though cotton sold during the last four months of the season for twelve and thirteen cents per pound.

The producers and leaders of the order unquestionably felt that the price policy was succeeding. It should be remembered that the demand for the raw product at this time was unusually good. The farmers had recovered to some extent from the effects of the severe depression in prices in 1904-1905. They were therefore able to allow a slower movement of the product to market. Notwithstanding, the bulk of the crop had been disposed of before advantage could be taken of the late-in-the-season prices.

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<sup>1</sup> Report, Commissioner of Corporations on Cotton Exchanges, Part V, p. 342.

Unfortunate effect of advance. The advance at this particular time was unfortunate to some extent in that it seemed to have created too much of a sanguine spirit among the leaders of the Union. That a spirit of optimism prevailed may be seen from the next move of the organization toward price maintenance. The recommendations of the committee on a minimum price of 15 cents per pound for the 1907-08 crop was approved by the national body in the following words:

"Resolved by the Farmers' Union in national convention assembled, that we will renew our allegiance to our 15-cent minimum, declaring it right, just, and fair, and pledging ourselves in holding out for it and the using of every proper means to obtain it. We call upon every Union man and every loyal and patriotic southerner to stand by us in the matchless fight we are making for a just and fair price for our cotton."<sup>1</sup>

Complicating factors present. In spite of the fact that cotton was withheld from the market during the rush season to a greater extent than ever before, the greater portion of the crop brought less than 12 cents per pound.<sup>2</sup> This might appear as if the effort at price maintenance was entirely without effect, but other factors of a complicating character were present and should be taken into consideration.

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1 Report, Commissioner of Corporations on Cotton Exchanges, Part V, p. 344.

2 Hibbard, B. H., Marketing Agricultural Products, p. 243.

Complicating factors present. The panic occurring that year may very properly be given credit for its great influence in forcing the price downward to such an extent that before the close of the season cotton was selling for less than 10 cents per pound. This occurred just at a time when the market should be at a fair level. Many of the farmers were severely hit by the depression and were compelled to sacrifice their product at whatever it would bring. But there were enough producers left who could hold for a while to gradually iron out the distressing situation. It seems very likely that the price level might have gone much lower had it not been for the efforts of these producers in withholding their cotton from the market. The inactivity of the buyers due to the sudden decrease in demand appears to have been an important factor in the slow movement of the product.

Advance late in season. The minimum price named by the Union for 1908-09 was 12 cents per pound. Most of the crop was marketed for less than 10 cents, only an insignificant amount being left in the hands of the producers when the advance in prices came late in the season. It was not until the last two months of the season that the minimum price was reached. Obviously, the efforts of the Union for this year fell far short of the expectations. Whenever the Union set a minimum price that approximated one at which the supply would normally equal the demand it seems that greater success

crowned their efforts. When the price set by the Union was considerably out of line with what the existing market would naturally have been it appears there was no actual relation between the price set and that actually obtained.

Acreage reduction policy. Efforts to limit the supply of cotton by restricting the acreage planted did not engage the attention of the Union officials to any appreciable extent until 1905. It should be said, however, that the Union did not originate the idea of acreage reduction, but merely gave their indorsement and encouragement to the movement sponsored by the Southern Cotton Association and the Southern Bankers Association.

Actual reduction resulted. The acreage for the year was decreased something like one-sixth, and was very likely due chiefly to the counsel of these associations. The increase in price for this years' crop over the previous year was doubtless due more to the efforts in decreasing the area planted than to those of the minimum price policy. Similar attempts at reducing the acreage in subsequent years were much less fortunate in their results.

Later attempts. In 1908 after the crop had already been planted and a good portion of it ready for the first or second cultivation an ingenious plan was devised and advocated to curtail the production. A patriotic appeal was issued by the leaders to the farmers asking that a portion

of the crop be ploughed up. This plan did not appear to meet with approval by the planters. The percentage of the crop harvested that had been planted was but very little changed from that of previous years.<sup>1</sup>

The cotton growers were frequently advised to diversify their crops, as it was thought that only by this method could prosperity be maintained.<sup>2</sup> The major portion of the attention seems to have been given to this phase rather than actual acreage reduction drives. It was urged that every farmer give his earnest cooperation in order that money crops for each month of the year be produced.

Difficulty in acreage reduction. The greatest difficulty in the way of acreage reduction was the fact that the advice of the Union officials was not heeded by the growers. Individual minds seeking to profit by fortuitous circumstances began to function collectively. The temptation of possible good prices due to the other fellow reducing his acreage simply could not be resisted. As a result of this mode of thinking there was an unprecedented acreage planted and harvested the following year. The efforts at area curtailment were allowed to gradually die out after it was seen that a reduction one year meant an increase the following year.

Pooling plan unsuccessful. Attention of the Union

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1 Report, Commissioner of Corporations on Cotton Exchanges, Part V, p. 337.

2 Ibid, p. 335.

leaders was next turned to the matter of pooling. Briefly, the plan was to form a pool consisting of at least a million bales of cotton, the Union proposing to contribute one-half of this amount and the other half to be furnished by the business concerns of New Orleans. It was hoped by the producers' association that in this way a sufficient amount of the product would be controlled as would materially influence the action of the individual producer in holding, as well as create a favorable buying market.

Warehousing facilities found inadequate. This plan failed to materialize due to the fact that the representatives of the commercial firms rejected the proposition, and instead of the pool advocated the general policy of holding for the association. But the officials of the society soon realized that a plan of this sort in order to be effective would require more adequate warehousing and financing facilities. Immediately a program was launched for the building of numerous warehouses and the leasing of others throughout the cotton states. It was claimed that by the close of the season (1909) 1600 Farmers' Union warehouses were in operation.<sup>1</sup> The aim was to enable the members to secure loans more readily on their product through the issuance of warehouse receipts as collateral. It was thought that bankers would lend money on more favorable terms if assured of the safety of the loan.

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<sup>1</sup> Report of Committee on Interstate Commerce, XI-2, p. 340.

Many of the warehouses in use previously were in fact but little more than sheds and obviously the risk of lending against cotton so unprotected necessitated high interest charges. Not only this, but the individual producer was often unable to secure loans on any terms.

Plan capable of development. Without question the warehousing plans of the Union was capable of considerable development along sound lines. That the efforts did a great deal of good is apparent. Less apparent perhaps is the fact that most of the benefit derived from the building of such warehouses accrued to the larger growers. The tenantry system then, as now, was a real obstacle in the way of progress of coöperation among farmers in the marketing of their chief cash crop. These small tenant farmers had neither the capital nor the inclination, in many cases, to work together in the building of proper storage facilities necessary for the most advantageous disposal of the crop.

Tenants unable to grasp the plan. It has been seen that neither the efforts made by the Union to control the price through its minimum price policy, nor the attempts at acreage reduction, and thereby the control of production, were to any measurable extent attended with success. That is, more than merely a temporary success. It is probable that the warehousing plan of the Union may be considered as its chief permanent contribution toward coöperative marketing of cotton.

Gap in coöperative efforts. After the decline of the Union it was some years before any concerted efforts were again made to market cotton through coöperative associations. The price debacle in 1920 on products of the farm was the most pronounced that the producer had ever experienced. Not even the edpression period of the seventies had been so ruthless in its effects. In less than a year the price of middling basis cotton tobogganed from 42 cents a pound to twelve cents per pound. This cotton had been produced at a high cost, fertilizers, supplies, labor--everything that entered into production costs--had been purchased at the inflated level. Many estimates place the cost of production of cotton for the 1920 crop at as high as 30 cents per pound. A person wishing to be ultra-conservative would not name less than 25 cents.

Spur to organization. The forced sale of so large a portion of the crop at approximately one-half of what it had cost to produce brought about a desperate situation in the cotton states. And just as the farmers had in earlier years formed coöperative associations to meet the unusual conditions, there seems little doubt that the immediate and primary motivation for the present-day coöperative cotton associations was to make a concerted effort at remedying the situation. A situation in which the product was being produced at less than the price it would bring on the market.

Term "coöperation" frequently illusion. As a preliminary to a study of the associations which are now actively engaged in the marketing of cotton, it may be well to give a little thought to the matter of coöperative principles, how these have been evolved and how in so many instances they have failed to be understood. Further than this, a definition of the term seems necessary as a basis for the discussion. The idea of the general reader has not always been clear in regard to coöperation, but he is not wholly to blame for this. It has sometimes been difficult to understand even by those who have made considerable study of the subject.

Definition of the term. There have perhaps been as many attempts at defining coöperation as there are societies in existence. Probably the following definition will do about as well as any: An association of persons together in an organized manner for purposes of controlling the various processes of production and distribution in such a way as will give a more adequate satisfaction of human wants. as applied to agriculture, coöperation may be said to be an organization of farmers for mutual aid in performing certain functions of their business which might otherwise be accomplished with greater difficulty or with less efficient methods.

Popular concepts. The popular idea with reference to the term is a more or less vague and hazy one. The expression

"coöperation is a good thing" is frequently heard and often with no allusion to any particular condition or state of affairs. In short, it seems to be considered as a general panacea, a sort of cure-all capable of successful application to a multitude of ills. Nothing could be further from the truth. Coöperation is not an indiscriminate remedy or an economic nostrum. Neither should it be regarded as a cause. It is a business requiring definite, organized methods for successful operation.

Exaggerated savings. It is particularly unfortunate that such an attitude or concept has come about and is finding lodgment in the minds of so many persons. Extravagant claims by enthusiastic organizers in regard to what cooperation will accomplish is no doubt very largely responsible for this understanding of the term.

Exaggerated prophecies put forth by "sign-up" agents of cooperative associations have led too many farmers astray about the possible savings resulting from coöperative marketing. Savings of course are effected, but not to the extent claimed by some of the advance agents or contract-signers. All too frequently the profits of the "despised" middleman are made to appear much greater than they really are. Citations and comparisons of what is being accomplished by other workers in other industries seem to have become a stock-phrase argument of some of the advocates of coöperative

marketing.

Claims are harmful. There is unquestionably a vast amount of harm done to the progress of the movement by those who are either unacquainted with the real concept of the term or those who for the sake of temporary gain willfully misrepresent the matter. Many of the ablest leaders of coöperative marketing and those who have most at heart the problems of the farmer deplore the fact of these misconceptions.

Only by a careful study of the needs of a community and organization based with these clearly in mind can coöperative leaders hope to attain the success for the movement that it seems to deserve.

Gradual evolution of principles. There are certain fundamental principles of coöperation in the marketing of agricultural products that must be observed by any group who hope for success in the field. These principles have been gradually evolved over a period of years by the different societies. In many instances some principle has been discovered largely as the result of a failure of many associations. Mere mention of these principles will be made:

1. Necessity for organization.<sup>1</sup>
2. Sufficient volume of business.
3. Good management.
4. Adequate financing.
5. Loyalty of members.

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<sup>1</sup> Jesness, O. B., The Cooperative Marketing of Farm Products, p. 176.

6. Employment of business methods.
7. Performance of service for members.<sup>1</sup>

Organization by commodity. There have been many attempts at organizing community coöperative associations. Some of these efforts have been attended with a fair measure of success but others have not been so fortunate. It has been found through experience that only by organization on the basis of the commodity can the greatest degree of success be attained. The consumer is primarily concerned with the quality of the product, not where nor by whom produced, though this may enter into the consideration with reference to some particular commodities.

The producer who is offering a commodity of superior quality has the opportunity of combining with others who are producing goods of like quality. In this way there will be secured the advantage of not only a greater saving in the expense of marketing, but also that of eliminating to a considerable degree the destructive individual competition. Commodity marketing by its ability to handle greater volumes of the product over a longer period of time than is possible by the individual has a tendency to exert a steadying influence on the market.

Territory organization. The territory of the modern coöperative associations for cotton marketing embraces twelve states. These state associations have as their central

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<sup>1</sup> See also Macklin, Theodore, Efficient Marketing for Agriculture, Chap. 13, for good discussion of principles.

organization the American Cotton Growers Exchange, with the executive office located at Dallas, Texas, sales headquarters in Atlanta, Georgia, and the field service and public relations division at Memphis.

The Oklahoma Association was the first to organize under the new plan of commodity marketing. Organization in this state was completed in time to open for business with the 1921-22 crop. Three other state associations completing organization in the same year were the Arizona Pima Cotton Growers, the Texas Farm Bureau Cotton Association, and the Staple Cotton Cooperative Association of Mississippi. Five more states, Alabama, Arkansas, Georgia, and the Carolinas entered the list in 1922. These were followed the next year by Missouri, Tennessee and Louisiana. From this it may be seen that the formation of the several associations is of comparatively recent origin. Notwithstanding this fact, the total volume of business of the associations for the second year of operation was said to be \$100,000,000.<sup>1</sup>

Leading associations. The Staple Cotton Association of Mississippi is the leading organization in the number of bales marketed, amounting to more than 150,000 bales for the 1922-23 season. North and South Carolina rank second and third respectively in the volume of business. The number of bales marketed through nine of the associations in 1922-1923 amounted to approximately 800,000. An official of the

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<sup>1</sup> McKay, L. F., Director Public Relations, American Cotton Growers Exchange (personal correspondence).

central organization estimates that the volume of business for the present season will be something like \$120,000,000.<sup>1</sup>

Purpose of association. Broadly speaking, the purposes of the several associations are very similar. The following purposes, as set forth by one of the liveliest and most aggressive of the state associations, seem to be about the clearest and most comprehensive:

(a) "To promote, foster and encourage the business of marketing cotton and cotton seed coöperatively; to minimize speculation and waste in the production and marketing of cotton and cotton seed and their products; to stabilize cotton and cotton seed markets; to handle coöperatively and collectively the problems of cotton growers;

(b) "To engage in any activity in connection with the grading, handling, processing, treating, storing, shipping, warehousing and marketing of cotton or cotton seed and their products of the Association and of its members; and in the financing of any of said operations;

(c) "To purchase and sell any cotton or cotton products of its members; or cotton seed or cotton seed products of its members; and to purchase and sell to its members machinery, equipment or supplies used in any of the above mentioned activities either by the Association or by the members thereof;

(d) "To borrow money and make advances to the members of the Association; and to incur indebtedness without limitation;

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<sup>1</sup> McKay, L. F., Director Public Relations, American Cotton Growers Exchange (personal correspondence).

(e) "To lend money to the members of the Association in connection with any of the said activities, upon any adequate security; and to accept as collateral for any such loans, warehouse receipts, mortgages, or any other kind of property or security permitted by law;

(f) "To sell, issue, discount or borrow money upon any commercial paper or negotiable instruments, or promissory notes, or warehouse receipts, or mortgages, or bonds, or any other kind of property or security owned by or under the control of the association;

(g) "To act as the agent, representative, or broker of its members in any of the above activities.

(1)<sup>1</sup> "The Association shall make no profits for itself from any of the activities; but all of its operations shall be for the mutual benefit of its members only and shall be coöperative in character. The operations and activities of this Association shall be limited to activities arising out of the processing, treating, grading, snipping, storing, warehousing, handling and marketing of the cotton or cotton products or cotton seed or cotton seed products, of the Association and of its members only and to the financing of any of the said operations of its members and of the Association. The Association shall not be permitted to buy or sell cotton or cotton seed except from and for its members only and on a standard coöperative basis. It shall not buy or handle any  
1 Omitted paragraphs relate to acquiring real estate, etc.

cotton or cotton seed whatsoever from non-members; or be permitted to go in the open market to buy cotton or any cotton products, or cotton seed or cotton seed products whatsoever.

(m) "The Association is expressly forbidden to do anything with the intent or effect of lessening the production or use or consumption of cotton or cotton seed; but this Association shall do everything within its power to prevent speculation in the handling of cotton and cotton seed and their products and to secure for its members a fair price for their cotton or cotton products, or cotton seed or cotton seed products in the markets of the world; and do everything reasonable within its power to stabilize to a fair level downward the prices to be paid by the ultimate consumers; to increase the sale, use and consumption of cotton and cotton products and cotton seed and cotton seed products by all possible commercial and merchandising methods; and to use every possible means to improve the supply and to extend and increase the demand for cotton and cotton products and cotton seed products."<sup>1</sup>

Eligibility for membership. Only such persons who are actually engaged in producing cotton, or who are officers or members of firms or corporations producing cotton are eligible for membership in the present type of coöperative

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<sup>1</sup> Articles of Incorporation. North Carolina Association, p. 4 (pamphlet).

associations. This is undoubtedly a very wise provision of the associations. In the past the matter of indiscriminate membership has proved to be one of the chief contributing causes in the failure of coöperative organizations. Always it creates a diversity of opinion among the members leading to internal bickerings. The divided house is then not long in tumbling. If all the members are producers, all will have a genuine interest in the progress of the movement.

The total membership of the twelve states which go to make up the Exchange, is said to be in the neighborhood of 270,000.<sup>1</sup> Recent figures concerning the membership of the several state associations are far from complete. Oklahoma numbered in 1921 around 35,000 members. The North Carolina Association claims more than 35,000, while the Texas and Alabama associations each have close to 25,000.

Membership fees. In each of the state associations the initial membership fee is ten dollars unless such association be a Farm Bureau cotton association. The ten dollar fee in the Farm Bureau Association of Alabama includes membership in the cotton association. This fee holds for the duration of the contract which for most of the organizations is five years.

Form of organization. The general plan of organization is that of state-wide associations on the non-stock, non-profit

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<sup>1</sup> McKay, L. F., American Cotton Growers Exchange (personal correspondence).

order, with subdivisions of county or district and local units. The associations may either own or lease the warehouses necessary to carry on the business. Where ownership is planned the usual scheme is to have a separate corporation for the warehousing facilities. Since the purely marketing associations are of the non-stock sort difficulty has frequently been experienced in securing the necessary funds for storage facilities at the outset of the organization. The warehousing corporation issues both common and preferred stock. The preferred is sold to the general public while the common stock is retained by the marketing association.

Sinking fund. A sinking fund is created by the association out of sales from the cotton and the preferred stock is gradually retired over a period of years, finally leaving complete ownership of the warehouse in the hands of the parent or marketing association. In addition to the advantage of having available sufficient funds to make the initial payments or advances there may be mentioned one other: If there should be no separate organization established for warehousing, the marketing association would plainly be under the necessity of issuing warehouse receipts to itself for the product. The separate corporation by the issue of receipts to the parent association for cotton stored eliminates this complication. The plan of issuing preferred stock is in substance nothing more than that of obtaining a loan until

such time as the association can better afford to own outright the necessary storage equipment.

Similarity of plans. In general it may be said that the plans of the local and county units of several state associations are similar. Apparently every effort is made to have the greatest possible uniformity in the organizations. The locals, composed of the growers in a militia district or school district, or whatever name the unit may go under, usually meet regularly at some definitely appointed place such as the voting precinct or the rural school building. As a rule, the only officers necessary in a local are the president, vice-president, and secretary. Delegates are appointed by these to meet with the county associations, which commonly occur once a month, to discuss important problems that are constantly arising. The local and county units form the nuclei upon which the state and central associations are superimposed. Though the functions of the smaller subdivisions may vary somewhat among the several associations, yet these variations are of minor importance.

Aims of local units. Essentially, the smaller groups have in mind a consideration of the following aims: To secure a larger membership; to maintain loyalty among members; to cooperate in making prompt deliveries; to adopt better standards in seed selection; to improve the production

methods and manner of harvesting; to advise with the directors in regard to important association business; and to compile and have available for the associations the necessary statistics.<sup>1</sup>

The contract or marketing agreement. Before discussing the important features of the methods of operation such as the consignment or delivery of the product by the farmers to the association, financing of sales, orderly marketing, and the like, and as a means of a better understanding of these processes, it seems advisable to get acquainted with the nature of the contract between the growers and the associations. This contract, known as the standard marketing agreement, has, with almost identical wording, been adopted by each of the state associations.<sup>2</sup> It is by far the most important single document with which either the grower or the association has to deal.

The essential features of the marketing agreement are: All cotton produced or acquired by the grower is to be delivered to the association for a certain period, usually five years. Exception to this is the existence of previous contracts. Delivery of the cotton is to be made at the earliest reasonable time after picking and ginning. The association agrees to provide graders and classifiers to grade and standardize the product and to resell all cotton acquired, returning the

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<sup>1</sup> Handbook of Coöperative Marketing, N. C. Assoc. (pamphlet).

<sup>2</sup> The complete text of the contract is appended.

price received, less cost of service to the grower. The title to the product is held by the associations. The internal pooling system is used in the disposal of the product--all cotton of like grade and staple being thrown together in one seasonal pool. The association aids the grower where necessary, in securing loans upon delivery of the cotton to the warehouse or, failing, surrenders the warehouse receipts to the grower.

The association may sell cotton to any agency at any time, may establish selling offices, warehouses, or any other facilities whenever expedient or desirable. Growers are not compelled to grow cotton or to deliver any specified amounts to the association. The only stipulation is that all cotton grown must be delivered. A penalising clause provides for the payment by the grower to the association of a certain sum, for example, ten cents per pound, in case the contract is broken. If the contract is broken by the grower and litigation becomes necessary, the grower agrees to pay all costs of the procedure. The grower signs the contract only after carefully reading and considering the various clauses in the agreement. No agreements between the grower and the association, other than the standard marketing agreement, are made.

The consignment or delivery. It will be noticed from the contract that the grower agrees to deliver his product at the earliest reasonable time after picking or ginning, to the order of the association. The methods of delivery

and payment of advances necessarily vary somewhat with the different associations. In the West the grower is more likely to deliver his cotton to a shipping point than to the warehouse direct as do many of the farmers in the East. The policy of the associations in Oklahoma, Arkansas, Mississippi and Texas seems to be that of concentrating the product in just as few warehouses as possible. Indeed one of these, the Texas Association, makes use of only one point of concentration, that of Houston.<sup>1</sup>

Contrast of sections. The eastern associations, on the other hand, may each make use of as many as 150 or 200 warehouses in the state. It is not clear just how this difference of policy regarding storage came about, unless it should be perhaps the greater concentration of the population, but the advantages of utilizing only a few points for assembling are obvious. It is a few, large and well-equipped warehouses against many small and poorly equipped plants. This is not to say that because a warehouse may be small it necessarily must be inadequate, but the installation of modern storage devices, such as sprinkler systems and trackage in the smaller plants is much less feasible. It is apparent that the volume handled does not justify the cost.

Sprinkler systems important. If the grower delivers his cotton to a warehouse operated directly by one of the

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1. Montgomery, R. H., A Study of Texas Farm Bureau Cotton Association, p. 3.

associations he is given a receipt which, when presented to the local bank, acts as collateral for the first advance payment. In case the warehouse is merely rented by an association the receipt is sent to the association headquarters and a check for the advance is mailed to the local bank with which the grower deals by the association. This brings the farmer and banker into closer contact and affords opportunity for a better understanding of the problems confronting each. Further, it leads to an increase in deposits at the local banks by the farmers in the surrounding territory, as frequently the farmers will decide to leave the checks on deposit rather than make a call for the cash.

Order bill of lading necessary. When the cotton is delivered to a shipping point rather than a warehouse it is necessary for the grower to obtain from the freight agent an order bill of lading for the shipment. This is used by the association as a collateral upon which funds may be obtained to make advances to the growers on their cotton. The order bill of lading together with the shipper's draft on the association for the initial advance is presented by the grower at his local bank. The bank pays the sum of the draft, and mails the papers to its correspondent located in the city where the association has its headquarters. The correspondent bank exchanges the bill of lading with the association for a warehouse receipt and retains this receipt

as security for the loan until the final disposal of the cotton.

Advances or initial payments. Initial payments to the grower upon delivery of his cotton varies from time to time, depending somewhat upon the trend of the market, and among the different associations. The Texas association in 1921-22 started out with \$25.00 per bale, increasing this before the close of the season to \$60.00 per bale.<sup>1</sup> With the Arkansas association advances are said to be about 60 per cent of the marketable value of the product.<sup>2</sup> The same is true of the Alabama, North Carolina and Oklahoma associations. In general, anywhere between one-half and three-fourths of the value of the product is advanced as an initial payment to the producer. The value is determined by the current price on the market. As the cotton is sold throughout the year additional payments are made until finally at the close of the season any balance which may be left, less the cost of service, is mailed to the grower.

High credit rating essential. In order that the credit rating of the associations may be kept as high as possible the policy of making conservative initial payments, as well as further distributions, has been found to be advisable. Whenever an association departs from this policy and begins

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<sup>1</sup> Montgomery, R. H., A Study of the Texas Farm Bureau Cotton Association, p. 4.

<sup>2</sup> Hodson, E. A., Coöperative Cotton Marketing in Arkansas, Extension Circular 156, p. 16.

to make advances of such amounts as the trend of the market does not seem to warrant it is nothing short of inviting disaster. On the face of the matter, about 65 per cent of the market value of the product would seem to be sufficiently high as to take care of any emergencies of the farmer and at the same time not be out of line with sound business judgment.

Classing. In a study of primary cotton market conditions by investigators of the U. S. Department of Agriculture the fact was disclosed that cotton which had been properly classed and put into even-running lots commanded a premium over the ordinary methods of sale.<sup>1</sup> This careful classing and stapling of the cotton by experts is handled in the concentration warehouses of the different associations. The estimated loss to the cotton farmers every year due to the lack of knowledge in grading and stapling has previously been mentioned. What the individual farmer cannot hope to accomplish along these lines the associations are trying to do in a collective way.

Classing by experts. The classing is done by licensed men under the provisions of the U. S. Warehouse Act, and the work is under the supervision of district inspectors. Some of the associations store their cotton exclusively in government licensed and bonded warehouses.<sup>2</sup> It has been stated

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1 Taylor, Fred, Relation Between Primary Market Prices and Qualities of Cotton, U. S. Dept. Agr. Bul. 457, p. 8.

2 Handbook of Coöperation, N. C. Association (pamphlet) p. 12.

by one writer<sup>1</sup> that a change of only 1/16 of an inch in the length of the staple meant a corresponding change of from 10 to 30 per cent in the value of the cotton. Many of the associations claim to have effected material savings in the matter of loose cotton taken as samples.

Importance of storage. The proper storage of the product entails a considerable expense, probably amounting to a fourth or at least a fifth of the total cost of handling. Undoubtedly, the expenses of warehousing are heavier among those associations which must resort to the smaller, less efficiently operated plants. Efforts are being made to install sprinkler systems in warehouses wherever it is practical. Those having this equipment are able to materially reduce the insurance--a large item of expense in the total costs of operation.

Advantages of pooling. The pooling system more effectively accomplishes the disposal of a given grade and staple of cotton than could possibly be done under the ordinary system of individual sales. A manufacturer who would be willing to pay the necessary premium on 100 bales of superior staple cotton could ill-afford to deal with the small individual grower. The farmer by agreeing to the full-seasonal pool is assured of obtaining the highest average price for his product. The effect of the pooling system is to remove

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1 Montgomery, R. H., A Study of Texas Farm Bureau Cotton Association, p. 5.

some of the guess work from the process of marketing. The associations do not try to guess the highest spot in the market nor do they have to sell on the lowest level. The gradual distribution or process of feeding the market obviates the necessity for either. The revised cotton standards act provides for 32 legal grades and 16 possible staples. This would enable an association to form as many as 500 seasonal pools. In practice, however, but little more than half this number are used. For example, the Arkansas Association used 372 pools in one year.<sup>1</sup> The use of too many pools merely complicates the work of the office force and results in lost motion.

Financing. Financing of sales has from the first been something of a mooted question. It was thought by many persons that this matter would be the most difficult of any of the problems facing the associations. Some trouble at first was experienced by the associations, especially with a few of the country banks who had been in the habit of buying cotton. The opposition of many of these banks has lessened considerably as the work of the associations progresses. A great number of the state banks and many nationally known bankers are now giving their indorsement to the work of the coöperative marketing associations.

Credit channels used. In so far as it is possible the

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1 Hodson, E. A., Coöperative Cotton Marketing in Arkansas, Extension Circular 156, p.

associations appear to be making use of all the customary channels of credit. In every case effort is made to obtain funds on the most favorable terms and due to the nature of the collateral which is highly liquid and the business principles adhered to, in most instances this has been accomplished in a very satisfactory manner. Trade and bankers' acceptances, time and sight drafts, and demand notes are some of the means of securing the necessary funds to carry on the business. The services of local and state banks are utilized quite extensively wherever the proper cooperation is shown by the officials of these banks. A tremendous reserve has been placed by the War Finance Corporation at the disposal of the associations. One association alone was allowed a limit of \$15,000,000 by the corporation.<sup>1</sup> Not more than one-tenth of this amount, however, was actually used by the association in question. The Alabama association secures most of its money from the banks in the state, though of course a reserve line of credit is always maintained with the larger eastern capitalists in case of emergency.

Interest rates. Interest rates on money borrowed by the different associations will probably average around 5 per cent or a little better. The Texas association is said to be securing all the funds needed for  $5\frac{1}{8}$  per cent while the Alabama association has been able to obtain money for a little less than 5 per cent.<sup>2</sup> In view of the fact that

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1 Montgomery, R. H., A Study of Texas Farm Bureau Cotton Association, (pamphlet) p. 6.

2 The Alabama Farm Bureau Cotton Association, (pamphlet) p. 9.

prevailing interest charges are around 8 per cent this appears to be a marked saving that is being effected by the associations.

Financing of crop production. The financing of sales seems to have been worked out in a fairly satisfactory manner by the various associations. Financing of crop production has apparently not received any considerable attention in comparison with that of sales finance. Though several of the associations have been concerned with this problem, yet it seems that only one or two of them has been able thus far to achieve any definite results.

The North Carolina corporation. In North Carolina a plan has been put into operation for assisting the growers' in obtaining the necessary funds for crop production. The plan devised by officials of the state association is as follows: An organization, the North Carolina Agricultural Credit Corporation with an authorized capitalization of \$2,000,000 was formed. The purpose of the organization was to bring into more active operation the machinery of the Federal Government in extending credit to the farmers for the production and marketing their crops. This fund of \$2,000,000 is made available to the banks upon the purchase of stock in the corporation, or the banks may become merely agents for distribution of the money, the farmers in the latter case purchasing the stock. At present only state banks can

engage in purchases of stock in other corporations, but efforts will probably be made to make this apply also to national banks in the state. Credit to the amount of ten times the stock purchased by banks or farmers is made available, but the local bank is required to guarantee 10 per cent of the amount whether buying the stock or simply acting as agent for the farmers. Money from the corporation may be secured through the local banks only by landlords or by tenants who have their notes indorsed by the owner of the land.

Interest rates of corporation. The rate of interest paid by the growers for funds to produce their crops under this plan is 7 per cent. In a discussion of the plan the author points out that the farmers in North Carolina had been accustomed to paying on an average 22 per cent interest for money with which to finance production; that the total amount of interest paid by the farmers of the state in 1921 for crop production credit was approximately thirteen million three hundred and eighty thousand dollars; and, further, that under the new plan of 7 per cent interest if all the farmers in the state were to make use of the plan an estimated saving in interest charges of more than nine million dollars would be made.<sup>1</sup> The Credit Corporation does not propose to compete

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<sup>1</sup> Financing of Crop Production (pamphlet) N. C. Coöperative Cotton Association, p. 10.

with or supplant existing banks. It is merely a reinforcement of existing institutions in such way as to enable producers to secure production credit on reasonable terms. The method is said to be finding increasing favor among both the bankers and farmers. As the knowledge of the economies afforded by the plan becomes more widespread it is expected that the producers will in still greater numbers take advantage of the opportunity presented.

The method seems worthy of consideration as a possible solution, or at any rate a great aid in solving the pressing problem of crop production credit. Until this problem is more adequately handled by the several associations any efforts in marketing activity will necessarily be handicapped. The burden of producing crops on money borrowed at 22 per cent or even half this amount, is simply too much to labor under with expectation of growing crops at a profit. Efforts of coöperative marketing associations may well be made in the devising of plans whereby the prohibitive interest rates on crop credit may be reduced to a reasonable amount. And what has been found to be happening in North Carolina in the matter of high merchant credit may be said to be equally true of the other cotton states.

Associations must perform service. Underlying the life of any association is the loyalty of the membership. A great deal has been said and written about the question of the members' loyalty to their associations. Granted that this

is properly so, the background of the subject that upon which fidelity of the membership depends has just as frequently been overlooked or given scant attention. It may be laid down as a fundamental principle that loyalty of the members to any association is going to be maintained only so long and to the extent that genuine services are being performed by such associations, whether these services be in the nature of economies in operation or higher prices for the product or both. Performance of services may take the form of increased prices due to more accurate classing and stapling of the product or more equable method of sales distribution; a reduction in the amount of country damage through the use of more adequate warehousing facilities; savings effected on loose cotton taken as samples; cheaper interest rates for the members, reduction of insurance and other miscellaneous savings which may result from large scale operation.

Higher prices claimed. The several associations claim to sell the product of their members at an average price which is perceptibly higher than that received by non-members who utilize the old established street auction system of sales. In Arkansas, a statistical study has been made in order that prices received by members of the association and those obtained by non-members in the state might be compared.<sup>1</sup> Investigation was made of association prices, farm prices and

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<sup>1</sup> Hodson, E. A., Coöperative Cotton Marketing in Arkansas, Univ. of Ark. Extension Circular 156, p. 21.

dealers' prices.

Comparison with non-members. The results of the study disclosed the fact that the average price received by non-members for the 1922 crop was 22.52 cents per pound as against an average of 26.95 cents per pound received by members of the association. This differential in price amounts to approximately \$21.00 per bale. The following explanatory note concerning the study is made by the author:

"In comparing prices received by non-member growers in Arkansas, for example, with prices received by the Arkansas association it must be remembered that about 85 per cent of the former was sold during the period from September to December inclusive at from 20.00 to 24.10 cents, while the association sold about 25 per cent of its receipts during this period at from 22.2 to 27.5 cents, and from January to April inclusive the non-members sold about 10 per cent of the crop at about 24.5 to 28.5 cents while the association sold 45 per cent of its receipts at 27.6 to 31.39 cents."<sup>1</sup> The association in Texas is said to be marketing the cotton of their members for an average of about \$20.00 per bale more than would have been received under the street auction system.<sup>2</sup>

Savings on samples. A saving which is not inconsiderable has been effected by this (Texas) association in the matter of loose cotton or samples. It is estimated that

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1 Hodson, E. A., Coöperative Cotton Marketing in Arkansas, Univ. of Ark. Extension Circular 156, p. 22.

2 Montgomery, R. H., A Study of Texas Farm Bureau Cotton Association, p. 3.

something like \$50,000 was saved during the 1923-24 season. The Arkansas association is averaging around 16 cents per bale in its receipts for samples. This sum though apparently an insignificant factor readily totals a considerable item in a hundred thousand bales.

"Country damage." The question of country damage to cotton has received quite a deal of attention from the associations. In fact, the clause in the marketing agreement relating to the delivery of the cotton within a reasonably short time after picking and ginning has a direct bearing upon the subject. Anyone who has travelled over the cotton states in the fall of the year is familiar with the sight of cotton laying on the ground with neither floor nor shelter as a protection against the weather. The early delivery of the product to the association eliminates to a considerable degree this difficulty. Many cotton buyers have become thoroughly familiar with the extensive losses incurred through this careless method of handling. Anywhere from a half cent per pound to four or five cents per pound loss may result from cotton being thrown on the ground for the short period of two or three months. Farmers here have a splendid opportunity to display a real spirit of cooperation by exerting every effort to make early deliveries to their associations.

Orderly marketing. Reference has been made to the inability of the individual or of an association to guess the

high point in a market and the advantage which the association afforded by gradually distributing the sales over a longer period thus securing for the grower the highest average price. A comparison of association sales during the first four months of the season with those made by non-members for the same period has been made.<sup>1</sup> It was found that under the street auction method the portion of the crop marketed for the first four months of the season during the period 1912-1922 was 65 per cent. The data from four typical coöperative associations for the first four months of the season, September to December inclusive, showed that a much smaller percentage of the crop of members was thrown on the market than that of non-members. The figures were: Alabama, 19.2 per cent of receipts; Arkansas, 27.9 per cent; Oklahoma, 52.3 per cent; and Texas 33.9 per cent.<sup>2</sup> The data of the associations are for 1922-23 season.

Comparison of sales. It may be seen from these data that the association having the heaviest sales during the season were almost 15 per cent less than those of the street sellers, while the association having the lightest sales for this season was approximately 45 per cent less. The average sales of the four associations were for the same period one-third less than non-member sales. While too much should not

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1 Hodson, E. A., Coöperative Cotton Marketing in Arkansas, Extension Circular 156, p. 18.

2 Ibid, p. 18.

be concluded from this comparison in view of the small number of associations studied, yet the result of the investigation is suggestive of how the program of orderly marketing is working out in some states. The enactment of the U. S. Warehouse Act was a forward step in providing uniform facilities for storage of farm products. The act has been of incalculable value to the associations in carrying out their program of orderly marketing. Furthermore, the warehouse receipts from licensed warehouses seems to be much safer collateral and enables the associations to secure funds readily and on favorable terms.

The following table of receipts and sales of cotton, compiled by the Alabama association, shows how the program of orderly marketing is being carried out in that state:

TABLE IV

SEASONAL DISTRIBUTION OF RECEIPTS OF COTTON BY  
ALABAMA COTTON ASSOCIATION<sup>1</sup>

Three Year Period, 1921, 1922, and 1923

Month	Receipts	Sales
September	100,874	35,404
October	183,270	46,448
November	103,020	38,192
December	32,047	41,084
January	6,961	40,248
February	4,078	40,787
March	1,990	38,735
April	1,121	44,151
May	345	38,324
June	296	30,903
July	147	18,319
August	32	20,015
<b>Total</b>	<b>434,281</b>	<b>432,710</b>

1 Alabama Farm Bureau News, Montgomery, Nov. 15, 1924, p. 3.

Probable influence on price of orderly marketing. Sales of the other associations are similarly distributed throughout the season. It seems very probable that the policy of the associations in gradually feeding the market will if consistently followed tend to exert a stabilizing influence on the market. The volume handled by the associations, however, in comparison with the total crop is yet too small to be the basis for any conclusions of a general character. The effect of orderly marketing on fluctuations in prices will be much easier to determine if the time comes when as much as one-half of the crop will be marketed through cooperative associations. The control even of one-third of the total crop would doubtless profoundly influence the matter of violent breaks in the market.<sup>1</sup>

Field service. The department of field service performs an important function or rather a number of functions in any association. One of the most important of these is the furnishing of information to the growers. In addition, aid is extended the farmers in increasing membership, formation of county and local units, and in collecting and making available data concerning the associations. The matter of data collection and distribution by associations thus far does not appear to have kept pace with some of the other functions of the department. The newness of organization may in part

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<sup>1</sup> At present time about 15 per cent of total crop is handled by associations.

account for this. The importance of gathering and compiling information about the various methods of operation can hardly be overemphasized and may be a determining factor in the success or failure of the organization.

Sales policies. The sales policy of each association is determined by the board of directors after conferring with the sales manager in regard to the conditions of supply and demand of the product. The needs of both domestic and foreign markets are studied and requests for special staples and grades complied with so far as possible. Each of the state associations advises with the central organization in the handling of special problems.

Buyers of the product. The associations have so far made no especial effort to deal directly with the mills, but have simply sold the cotton wherever it could be disposed of most advantageously. Some of the product has gone to exporters, some to spinners'-buyers and some to the mills. Not an inconsiderable portion has been exported to foreign cotton merchants by the various associations. These latter sales have usually been handled through the central organization which has its sales headquarters at Atlanta. The principal sales offices of the Exchange are at Atlanta, Charlotte, Greenville, Spartanburg, Boston, Bremen, Liverpool, Havre, and representative in Barcelona, Rotterdam, Copenhagen, and Vienna.

Function of the central exchange. The general duties of the American Cotton Growers Exchange are of a supervisory nature in coordinating the work of the state associations. Negotiations with foreign buyers are carried on in behalf of the state associations. All sales from an individual state are pooled together and credited to that state, but no pools beyond the state are made, that is, no interstate pooling is done. The Exchange maintains a department of field service and public relations, and there seems little doubt that the latter is kept busy most of the time for the public has ever been of an inquisitive turn of mind. That the matter of looking after the welfare of the public is a huge task may better be understood from the fact that one of the state associations is said to be receiving 300 to 500 letters daily, and mailing out from 800 to 2500 pieces of mail daily.<sup>1</sup> The officers of the exchange are: Carl Williams, Oklahoma, President, B. W. Kilgore, North Carolina, Vice-president; C. O. Moser, Texas, Secretary-treasurer.

Economies effected by association. The economies claimed by the associations for their members may be summarized as follows:

1. Savings in loss due to improper grading and stapling.
2. Trained salesmen sell the product gradually, thus avoiding the process of dumping and consequent slump in price.

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<sup>1</sup> Cotton Stalks, American Cotton Growers Exchange, N. C. Edition, April 1923, p. 7.

3. Product is properly stored and adequately insured. Saves loss from country damage.

4. Income of farmers placed more nearly on the year around basis.

5. "City crop" or samples are saved.

6. Interest charges, on money obtained for crop production, are considerably lessened.

7. Higher prices on account of orderly marketing-- collective disposal of the commodity avoids destructive individual competition.

Impending difficulties of association. There seems to be certain difficulties in the way of membership expansion and of meeting the problems of production credit. The adequate solution of these difficulties may go far in establishing the permanency of the association.

Both of these major problems have as their origin the nature of the cotton farmer--not all of the class by any means, but a considerable portion of them. In the first place, the cotton states have an appreciably larger proportion of tenant farmers than the average of the United States. The following figures of the census bureau are suggestive:

TABLE V  
FARM TENANTS IN COTTON BELT, 1920<sup>1</sup>

State	Total number farms in operation	Number farms operated by tenants (all classes)	Farms operated by share tenants and croppers	Per cent of farmers who are tenants <sup>2</sup>
N. Carolina	269,763	117,459	98,758	43.5
S. Carolina	192,693	124,231	82,212	64.5
Georgia	310,732	206,954	142,532	66.6
Florida	54,005	13,689	6,959	25.4
Tennessee	252,774	103,885	81,235	41.1
Alabama	256,099	148,269	87,676	57.9
Mississippi	272,101	179,802	136,159	66.1
Arkansas	232,604	119,221	94,884	51.3
Louisiana	135,463	77,381	61,808	57.1
Oklahoma	191,988	97,836	77,364	51.0
Texas	436,033	232,309	211,022	53.3
Total	2,604,255	1,421,036	1,078,609	54.5

From these data the percentage of share-tenants and croppers in relation to the total number of farms in operation was found to be approximately 42 per cent. The figures are significant in revealing so high a percentage of "third and fourth" renters, and "croppers."

Large proportion share-tenants and croppers. Tenancy within itself is not indicative of a poor farming system.

1 Fourteenth U. S. census report, 1920, V. 6, Part II, pp. 31,36.

2 Gray, L. C., Introduction to Agricultural Economics, (1924) p. 267.

Some of the most prosperous agricultural regions in the country have a notably high tenancy. In general it may be said that tenants in the cotton states are not home-acquiring farmers, or if so, of much slower development than in agricultural sections of the West. Among the tenant classes there is considerable proportion who may be designated as somewhat shiftless in disposition. Not only is this true, but these people are constantly moving about from place to place.

Nature of tenancy. It is almost the universal practice to lease or rent a farm for only one year, making a condition particularly favorable for migratory habits. Continual shifting does not conduce to the development of mutual acquaintanceship nor does it lend itself to considerations of confidence and trust in those persons who follow this custom. Coöperation is above all a form of organization that requires the utmost in team-work and concerted action. A tenant who is in one county this year is quite likely to be in another county or another state next year. Moreover, he is a person of little or no education and suspicious of any move looking to the improvement of agricultural conditions or development of the farming class in general. Not infrequently he spends enough time to produce a crop while evading compulsory school laws, or training some half-dozen beagles.

Close supervision necessary. Whenever such person rents a crop either on the "halves," or by agreeing to pay a third and fourth of the returns to the owner it is necessary that the landlord supervise the work very closely in order to get results. Such conditions as these are complicating factors of the first magnitude in the progress of coöperative cotton marketing associations. It is the fear of loss or risk involved, no doubt, that causes so many owners of land to allow their tenants to secure through the country merchant the necessary financial aid in making the crop. This method of financing crop production, known as store or merchant credit, with its accompanying evil of crop mortgage arrangement is a blot on the rural credit system of the cotton states.

Merchant credit chief source. Merchant credit is the chief source of financing for the majority of these tenants. It has been estimated by careful students of credit conditions in the southern states that more than one-half of the white tenants and practically all of the negro tenants depend upon the country merchant for all of their supplies, offering as security a mortgage on the prospective or growing crop. In addition to the nominal interest charge of from 10 to 12 per cent the merchant usually prices the goods sufficiently high to make a total charge of 20 to 25 per cent interest on the

money involved.

For the merchant's promise to take care of him for the year the tenant usually agrees to plant a specified number of acres in cotton and further agrees to "sell" this to the merchant as soon as gathered. This system is a bleeding procedure on the honest tenant who must bear the burden of risk for those who might leave in the fall without settling their accounts with the merchant.

The merchant the banker's agent. The merchant borrows the money from his local bank to finance the various customers paying the usual interest rate of 8 per cent. There are several reasons why this class of tenants would find difficulty in securing funds at the banks. First and foremost, the banker cannot have the intimate personal knowledge of the various tenants that the merchant may have. Banks, as a rule, do not make a practice of loaning on crop mortgages except on the indorsement of reliable merchants. Another factor is that the loans are small and for several months. The banker must predicate his loans on the borrower's willingness to pay and his ability to pay and both of these are often difficult of determination. Furthermore, the merchant in lending to the various tenants risks only his own property. Banks, operating on funds of other people, feel that too much risk is involved in lending money to this class of customers.

Credit union proposed. There have been various methods suggested for handling this peculiar problem of farm credit in the cotton states. One of these which seems to have some possibilities among the better class of tenants is in the nature of a credit union or chattel mortgage group.<sup>1</sup> Essentially, the plan is to have a small body of farmers organize local unions to secure funds collectively through the offices of a central association. The aim is for each farmer to give his note secured by a chattel mortgage to the credit union. The union deals directly with the local bank, borrowing whatever sum may be necessary, \$10,000 for example, and distributes this sum out to the members according to the individual needs. It is of course evident that a plan such as this could offer no succor to the cropper or tenant who has no livestock to offer as security. If the landlord of such tenant will not agree to aid him in getting money, about the only thing possible is to have recourse to the store credit. But there are many share-tenants who might find this plan feasible.

Advantages claimed for the plan. Some of the practical advantages of the plan as pointed out by the author, are:

1. The integrity of the cooperative group can be raised higher than the average of the class.
2. Interests of immediate borrowers and lenders are harmonized.

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<sup>1</sup> Haney, L. H., American Economic Review, V.I, No. I, Mr. 1914, p. 66.

3. Borrowing power of individuals increased by a pooling of credit.

4. Careful scrutiny of purpose of loan will increase the security and a close supervision of its application will result in its being used for the purpose intended.

5. The paper of the farmers by collective action is made more liquid and negotiable.

The successful operation of a plan of this nature would result in the elimination of much of the 20 and 25 per cent merchant credit so harmful to the interests of better methods of farming.

Difficulty of application. The biggest drawback to the plan is the fact that in order to be of most worth it would require unlimited liability on the part of the members. It is very doubtful if the spirit of cooperation has thus far made sufficient progress among the cotton farmers to cause many of them to be willing to assume the necessary responsibility.

North Carolina corporation more feasible. Between this scheme for financing of crop production and that devised by the North Carolina association the present conditions would seem to make of the latter a more practical plan. This in spite of the fact that the tenant in order to receive benefit from the credit corporation must have the indorsement of his landlord. It may be said, however, that the

capable, honest tenant is usually able to get this indorsement and finance his crop. The less fortunate tenants who own no stock of any kind, and their name is legion throughout the cotton states, have at present to make the best of a bad situation.

"The present problem," says one writer in speaking of rural credits, "reveals itself not so much one of fashioning from whole cloth some new type of rural credit institution, but rather the conserving and coordinating task of standardizing the practices, enlarging the vision, and perhaps integrating the organization of agencies already established in a position of usefulness."<sup>1</sup>

Use of present machinery recommended. The Federal Reserve system and intermediate credit banks have functioned as an aid to cooperative associations by rediscounting the commodity paper of the state banks. The intermediate credit banks affords a market for long term agricultural paper which is of too long a maturity for the Federal Reserve system to handle. It is the state banks which are chiefly concerned with the commodity paper of farmers and hence they are more immediately affected by the provisions of the act. However, any bank, state or national, may rediscount with the intermediate credit banks any note or obligation, provided the sum lent in the original case was for agricultural purposes. It is not necessary to be a member of the Federal Reserve

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<sup>1</sup> Nourse, E. G., Agricultural Economics, p. 712.

system in order to have the paper accepted. The act provides that the borrower shall not be charged an interest rate greater than one and one-half per cent above the rediscount rate of the intermediate credit bank and this rediscount rate must not exceed by more than one per cent the rate on the last debenture issued. The maturity of the notes must be within the limits of not less than six months, nor more than three years.<sup>1</sup> The intermediate credit banks may make loans direct to cooperative associations with warehouse receipts of the product as security. The Federal Reserve Act has been amended to allow the Federal Reserve banks to rediscount agricultural paper of nine months maturity. The rediscount rate has been 3 to 3½ per cent. Both of these systems have been in the nature of supplementary aid to institutions already in existence rather than any attempt to compete or supplant them.

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<sup>1</sup> One year under present ruling of Federal Farm Loan Board.

## SUMMARY

The present method of cotton marketing used by the majority of the growers is known as the street auction system. Two classes of buyers operate in the primary markets--the hog-round traders, and the local representatives of factors located in the larger interior and wholesale markets. The larger of the independent local factors may also be included in the latter class. A study of the methods of these traders developed the fact that many persons of little information were engaged in buying cotton. Due to this lack of knowledge wider margins of profit are taken as a means of protection against mistakes in buying. Furthermore, an investigation of cotton marketing conditions by agents of the U. S. department of agriculture showed that the growers were receiving no premium for the higher qualities of staple. The loss to the farmers each year on this account has been estimated by the investigators to be \$7,500,000. Coöperative associations by employing expert graders and classers can effect worthwhile savings for their members in this connection.

The methods of the spinners'-buyers and export factors were studied. On the whole, it seems that these traders are operating with a high degree of efficiency and that their margins of profit are reasonably close. It was concluded that this class of buyers were in no immediate jeopardy of their

position because any marketing association in order to displace them would have to render more efficient service than is at present being rendered by these traders.

The cotton exchanges were found to be a highly developed mechanism, performing through its members a real service to the cotton trade. The nature and function of speculative and non-speculative trading were explained. Speculative trading operates as a cushion for market fluctuations and distributes the marketing risks more uniformly. Hedging is very essential to the cotton business. It seems to depend primarily for its effectiveness on speculative trading. Much criticism of the work of the exchanges has been made by the public in general and by agricultural journals and producers' associations in particular. It was pointed out that a great deal of this resulted from a lack of understanding of the nature of future trading. Programs of education were suggested as a means of informing the more intelligent classes of farmers of the essential facts in the case. Rather than indulgence in word-battles concerning this phase of marketing, the more practical alternative seems to be that of concentrating attention on such matters as better methods of handling and improvement of grades and staples.

The Farmers' Union as a producers' organization was studied from the standpoint of its form of organization, principal features and accomplishments. The features of minimum price, acreage reduction, and pooling plan were not

predicated on a sound basis and consequently failed. The warehousing plan may be said to be the chief permanent contribution to the movement of coöperation in cotton marketing. The lack of development of the coöperative spirit among the members, the fact that no contract for the delivery of the product was executed and the failure to employ business methods were the important factors in causing the decline of this society.

The subsidence of the Union seemed to have cost a heavy damper over the spirit of the growers and nothing further of any importance was attempted until 1921. The period of depression and sudden price decline of 1920 reawakened an interest in coöperative cotton marketing. Organizations for this purpose began to be effected. By the close of 1923 twelve states had organized and begun to function. The formation of their association, their methods, policies, and accomplishments have been examined with some care. The services performed and economies claimed to have been effected have been noted. The chief of these seem to be in the matter of standardization of grades and staples, the securing of premiums for the higher qualities of the product, the reduction of interest rates on money used in marketing and crop production, and a decrease in the amount of country damage. Difficulties in expansion of membership and in the financing of crop production were mentioned, and suggestions offered as to the methods of approaching the problem. The tenancy

system of the cotton states seems to be the chief obstacle in the way of progress of the coöperative cotton marketing organizations. An impediment of so serious a nature can only be handled by the adaption of more progressive programs of education.<sup>1</sup> The work of coöperative associations in developing this idea is praiseworthy, but needs to be emphasized a great deal more. The percentage of illiteracy of native whites for the ten chief cotton producing states is an average of approximately 5 per cent, 1920 census. Here is a great field for endeavor. The state of North Carolina is forging ahead in the matter of educating her citizens and is spending more money for this purpose than any other southern state. What could be accomplished if each of the cotton states were to inaugurate and carry out a program of education such as that under way in North Carolina at the present time<sup>2</sup> is impossible of measurement. This is the problem. When it is attacked with sufficient vigor the other problems accompanying this major one will be less difficult. The measure of success and permanency of the associations, in the final analysis depend upon whether they can market the product more efficiently throughout the marketing processes than it can be marketed by other methods.

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1 Strother, French, *World's Work*, Nov. 1924, pp. 72-85.

2 An admirable discussion relative to this phase may be found in *Economics of Marketing and Advertising*, W. D. Moriarty, p. 522.

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