A crop like this means a year of plenty to one-third of the universe

The Slave of Cotton

How the South is Grappling with Her Gigantic Problem

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SECOND ARTICLE *

IF you will take a look over the whole cotton situation, you will see one thing looming altogether too large to be ignored, and that is the Southern Cotton Association. As to whether it is solid or not, a permanent factor in the world of cotton or not, there is much difference of opinion; but there can be no doubt that it is very big. It has upwards of a half million of members, it has a complete organization in every cotton state, and it has done, in the single year of its existence, some things of national importance.

It has this further claim to be treated seriously: its generation was spontaneous. It came into existence at once, all over the South, to meet a situation which was really tragic. It is an honest attempt to do something which badly needs doing; namely, to rescue the planter from the slavery which King Cotton has somehow imposed upon him.

In a late number of this magazine, we told the story of the great discovery made by the cotton-planters of the South during the year 1903; namely, that the price of cotton was not the remote, inevitable grinding of the law of Supply and Demand, as they had always supposed, but a mere man-made affair. We told how Brown, of New Orleans, and Sully, of Providence, Rhode Island, demonstrated the fact that you could put the price of cotton as high as you pleased if you would only buy enough of it; and finally, of Sully's catastrophic toboggan slide and his disappearance into the chasm where his kind always go at last. That was the end of one story, but it is the beginning of another one. Sully was lost to sight in March, 1904, when the descending rush of prices reached fifteen cents, and at this point the descent was for a while checked.

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The price was still around fourteen at the end of May, or in other words, *until the whole of the 1904 crop had been planted*. And the planters, instead of regarding this price as abnormally high, thought it was a temporary depression, the result of professional manipulation in Beaver Street; anywhere from seventeen to twenty-five was where they thought the price belonged.

When you stop to figure out that at fifteen cents and with good weather a man who had a thousand acres in cotton would get seventy-five thousand dollars for one year's crop, you can easily understand why every inch that would bear cotton that year was planted with it, to the unheard-of total acreage of thirty-one million. And the weather, as if Mother Nature enjoyed a rather grim joke, proceeded to make those acres yield as they had not yielded before in years. When the crop was in, it was found to total about fourteen million bales, or nearly four million more than the year before.

The price, of course, must have sagged under a load like that, but as a matter of fact it fell to depths that the most pessimistic planter never dreamed of. It never stopped falling until it reached six and three-quarters cents a pound, on the New York exchange.

I don't know whether these figures sound dry to the layman who is reading this article or not; at any rate they spelled disaster to the South. Serious as they are, they do not fully reflect the situation in the cotton belt. Farmers who brought their crops into the small interior concentrating points often parted with them at as low a price as four and a half cents a pound, which is actually less than it costs to raise it. The banks which had loaned money on the staple at eight cents a pound, and often higher, now owned the collateral at a ruinous loss, and merchants, manufacturers, and professional men suffered their share. And this says nothing of those who had gone into the speculative market months before and bought cotton for December and January delivery at fifteen cents a pound; for these there was no haven but bankruptcy.

The sum of it all is this: the South stood to get for its fourteen-million-bale crop *fifty million dollars less* than for the ten million bales they had raised the year before. No wonder they were dazed. They were ruined by a bumper crop! Something was very wrong indeed with the machinery;

Richard Cheatham, Vice-President of the Southern Cotton-Growers' Association

Whose energy stopped the "leak" in the Department of Agriculture

Theodore H. Price, Whose Reputation for Accurate Cotton Forecasts is Unexcelled

whether by the malice of man or the blind rage of economic law, they were being ground up, and they wanted to know why, and what to do. So when the call came for a great convention to debate the matter, there was not a cotton county in the South but answered, and the three thousand delegates met at New Orleans on the 23rd of January, 1905, in a good deal the spirit of those who met at Philadelphia in 1776.

Mr. Harvie Jordan, of Monticello, Georgia, called the convention to order, but it was the Honorable Tom Watson who really stated the case.

"What a singular situation is ours, my brethren! The world has never seen one similar to it. Famine has its millions of victims in India because the crops have failed. We sent the offerings of our charity years ago to Russia because her crops had failed.

To-night in Ireland starvation clamors for its victims throughout the length and breadth of that afflicted country, and it is because they didn't make the crop. Here we are threatened with bankruptcy and with commercial ruin, because we did make the crop!

"It is a curious state of affairs. I starve to death, not because I have no crust to eat, but because the table is bountifully spread. If we make no crop it's ruin, and if we do make one it's ruin too. It's the old predestination cry: You can and you can't, you will and you won't, you're damned if you do and damned if you don't."

It was all very bewildering, but there was little difference of opinion as to where the blame for their troubles should be laid; it was consigned on all hands to the shoulders of the "dear" speculator, the man who was backing his opinion that cotton was not low enough by selling "futures." This piratical bird of prey came in for some very incandescent oratory, and a good many ingenious devices calculated to put him out of business and to help the patriotic and benevolent Sullys and Browns. The more immediately practical suggestion, however, was picturesquely stated by Tom Watson.

"Spot cotton is king and always will be king if you will be true to it. The mills can't run on cotton futures. The railroads can't get rich on cotton futures. The fertilizer companies won't get fat on cotton futures. The gambling contracts made on Wall Street itself can't always be settled by other contracts. Sooner or later they have got to have spot cotton.

"What is Wall Street doing? It is simply betting that you will sell your cotton in April, May, June and July at six and a fraction. For them to win the game you have got to do it, for if you don't do it they lose the game and you win it. Put yourselves with spot cotton, just where Sully stood a year ago. Let us keep in our hands that which they are obliged to have. Let us hold it like grim death and when they want it let them come to us and pay us our prices for it."

That, in the main, was the line taken by the convention. They organized a permanent association with Mr. Harvie Jordan as president, for the purpose of making concerted action possible — the Southern Cotton Association. The convention developed the machinery of its organization in every cotton-growing state, county and civil subdivision of the counties. It appointed or elected general and local officers, inspectors, reporters on the crop and acreage, and it provided liberally for money enough to keep all this machinery in operation. Aside from the general doctrine of strength in union which underlies every organization, the Southern Cotton Association stands for two cardinal propositions.

(1.) The cotton-grower should hold his cotton for a minimum price of ten cents a pound.

(2.) The members should pledge themselves to reduce the acreage to be planted in cotton for the next crop, and also their consumption of fertilizer, by at least twenty-five per cent.

The association was formed along these lines and at the moment of writing has been in existence more than a year. It is ably officered and as an organization it has prospered. It wears one very large feather in its cap which the convention had no thought of its acquiring—the exposure of the leak in the Cotton Bureau at Washington. The convention had expressed a good deal of dissatisfaction with the government estimates, published monthly, on the acreage, condition and probable size of the crop, as these estimates had seemed to the grower to give undue aid and comfort to their enemies, the bears; and shrewd observers among them began to note that the effect of these reports was always anticipated by a day or two on the New York Cotton Exchange. Perhaps half the rise caused by a bull report or the drop caused by a bear report would occur before the report was supposed to be known to anybody outside the chief statistician's office in the Department of Agriculture. There was a sinister look to this when one came to think it over, and the secretary of the association, Mr. Richard Cheatham, after a particularly flagrant case of this sort and after chancing on a clue to some definite evidence, went to New York to investigate. It will be well remembered how completely he made his case how it was nothing less than documentary demonstration that he carried to Washington and laid before the incredulous eyes of Secretary Wilson. It proved more than was anticipated; the report had not only been sold in advance of publication, it had been falsified in the interest of certain cliques of speculators. The chief statistician, John D. Hyde, resigned, pending the investigation, and went to Europe; his private secretary resigned and Edward Holmes, Hyde's chief subordinate and the most obvious culprit, departed for the West in advance of a criminal prosecution.

Along the direct line of its activity, holding the crop and reducing the acreage, the Association is also able to give a good account of itself. The downward trend of prices was checked and the acreage reduced so that last year's crop will hardly count more than ten and one-half million bales. But of course you must remember that the great economic engines called Supply and Demand, and Action and Reaction, were working their way. What will happen when they try to push against these forces is matter for conjecture.

The situation which confronted the cotton-growers a year ago was fully as serious as they took it to be: it was really little short of tragic. They were facing ruin because they had made a bumper crop, a wider spread ruin than they would have had to face if the crop had failed outright. Before that grim paradox they were right in crying out that something was very wrong indeed.

The Convention, as I said, laid its troubles, without misgiving, to the bear speculator. But if the bear is responsible the bull is equally so. Abolishing the bear and encouraging the bull is a notion off the same piece with taking the last car off all trains with a view to doing away with rear-end collisions. It is to say, let everybody buy cotton futures and let nobody sell them. Sully had just as much to do with seven-cent cotton as the bears had. So the question we must ask is whether speculation, whether all buying and selling of cotton for future delivery, is the cause of the cotton-grower's plight.

If it is, the thing to do is to legislate it absolutely out of existence. It is needless to say that there was no hint of this at the Convention. Probably not many of the delegates could affirm that they had never taken a flier in cotton futures themselves. I tried to show in my last article what is true, that the whole South plays at that game, that large planters and small farmers, merchants and clerks, women and boys, all essay this perilous short-cut to wealth. I have shown my conclusions to many men who know the South far better than I, and have not heard them seriously disputed. If they be true there can be no question of the incalculable harm that speculation, as at present conducted, does the South. But can it be, and ought it to be, abolished on that account?

Texas thought so and passed a law to that effect, only to have it rendered nugatory by a court decision that the transactions complained of do not take place in Texas at all but in New York or in Louisiana where the exchanges are located. And Georgia has tried to mitigate the evil by a high license which makes the rural exchange of Texas impossible but merely concentrates the business in the larger towns. North Carolina passed a prohibitory statute with the effect of warming up the telephone and telegraph wires leading across the line into her sister state. Still it is perhaps not impossible to prevent by law all but the most surreptitious dealings in future contracts.

But, after all, is the speculator a mere bird of prey, or has he a place in the economy of commerce and is he, in the broadest sense, a producer? There is, of course, no sort of trade or industry but has some element of chance about it. The merchant who buys goods with the idea of selling them at a profit, may see the demand for them disappear while they lie on his shelves; or the wholesale price of them may go down, so that his competitors, who bought later than he, can undersell him. The manufacturer must always speculate when he buys his raw material; if he thinks the price is going up he buys a great deal, if he thinks it will lower next week he buys as little as he can get on with. You cannot go into any line of commercial or industrial activity without becoming a speculator, and whether you succeed or fail will partly, at least, depend on whether your guess on the future was right or not, whether or not you rightly foresaw at the beginning of the transaction, the conditions which would prevail at the end of it.

The element of chance is there, always, and the only question, then, is, who shall take it? If it is small, it will probably be absorbed by the merchant or the manufacturer himself. But if in the nature of the case it is large, so large that it is altogether the big end of the operation, then he will look for some one to share it with him. That person will be the professional speculator; he is a man not hampered by the problems of manufacture or sale of the finished product, who has specialized in the one art of foreseeing the probabilities. He has the best information that can be got and he has learned the trick of striking a balance from it, so he is willing to back his opinion and to carry the risk.

Now the yearly value of the crop which the cotton-spinners of the world must consume is about five hundred million dollars. A fall of one cent a pound in the price of cotton after the spinner had bought his year's supply would wipe out his entire profit for a year's work. Obviously the chance is the big end in this operation and is much too big for the spinner himself to assume; he needs somebody to stand between him and the planter, to carry that colossal load of cotton safely across the year, as steadily as may be and without letting it drop on anybody.

Theoretically, then, the speculator has his place, is a real producer and not a bird of prey. Ideally, mind you, "a speculative community of highly trained intelligence would constitute an insurance company." But do these ideal conditions prevail? Is the machinery of speculation as good as it should be? Is the speculator altogether guiltless of the widespread ruin I have been describing in the South?

I am very glad, in so technical a matter as this, that my case does not rest on my own unsupported observation. The man who made that remark about the insurance company was Mr. Theodore Price. He is not only the most important figure in the speculative cotton market, he dominates that market to an extent to which no other market that I know is dominated by any one man. What he says is additionally important from the fact of his singular power of detachment from his own point of view. He can talk about cotton with the even temper of the man who never invested a dollar in it, and with the information of the man for whom it has made two fortunes.

To begin with, he makes a distinction between gambling and speculation that is worth noting; the basis of it is the degree of intelligence behind the operation. The man who takes a blind hazard is a gambler. The speculator must be a man capable of "intelligent theorizing with regard to the operation contemplated." And he adds that "in so far as the speculator is intelligent, thoughtful and well informed, his influence is probably in the direction of good."

He then proceeds to a sweeping and fundamental indictment, on three separate counts, of the methods of speculation as practised by the two great exchanges of the country. It would be impossible to quote a higher authority on this subject.

"The machinery of speculation," says Mr. Price, "in the great cotton exchanges of the world is faulty in that it stimulates over-trading. It is practicable for a man to-day to go into the office of a broker in New York, New Orleans or Liverpool, with five thousand dollars margin, and buy or sell, if he has reasonably good credit, five thousand bales of cotton, for delivery, say, next October. At current prices these 5,000 bales are worth about $275,000. The $5,000 margin deposited is about two per cent. of the total value of the cotton thus bought or sold. In no other business that I know of is it practicable for anyone to enter into a contract of such magnitude upon so small a cash commitment. The inevitable result is that where a speculator sees a possibility of doubling a two per cent. margin in a few days he will buy or sell more cotton than his means justify."

It seems to me that here is a more practical distinction than Mr. Price's, though I admit it is less interesting, between the gambler and the legitimate speculator. The man who bought 5,000 bales of October cotton for $5,000, stood to double his money if the price advanced one-fifth of a cent a pound, a frequent daily fluctuation. And, contrariwise, he stood to lose the whole of it on a decline of a fifth of a cent. That man, no matter how intelligently he may have theorized, is a gambler. It is the gambler's instinct which has taken him into the game. If his $5,000 had availed only to buy him five hundred bales, and if, therefore, the probability was of his making or losing ten per cent. on his money in a single day instead of the whole of it, it seems safe to say that the game would not attract him.

It is upon this gambler's basis that the game is played throughout the South. The lucky one in the small town who "cleans up" five thousand dollars in one week is the nine days wonder; the scores who have seen their hundred dollars or their twenty-five, for it is these amounts that are dealt in, swallowed up, have pocketed their losses and said and thought as little about it as possible. It is the dazzling possibility of extravagant gain that constitutes the lure, and it is reasonable to hope that with the demand for a margin that represents an investment and not a bet, cotton speculation in the South would be drained of its venom.

There are two more serious flaws in the machinery of the great cotton exchanges, both of which Mr. Price exhibits very clearly.

It may be said by way of preliminary explanation, that if you "sell" a hundred bales of August cotton and have not disposed of the contract in advance, you must deliver that cotton before three o'clock of August thirty-first. It will do you no good to come around with it the morning after, nor even one minute after three on that day. The men who are covering August cotton have only by manipulation to maintain the price till three o'clock of August thirty-first. What happens to September cotton doesn't matter.

"In its last analysis," says Mr. Price, "speculation in cotton is or should be simply anticipatory of its value to the consumer, and it is obviously absurd to say that cotton on the thirty-first day of August at 2:59 P.M. is worth three or four or five cents a pound more than the same cotton is worth one minute later or the next day. It is not conceivable that a difference of two minutes in the time of delivery of one hundred bales of cotton could make a difference of four or five cents a pound in its value to any consumer of the article, and it is a well-understood rule of equity that punitive damages cannot be recovered for default in a commercial contract. If this principle shall come to be generally understood and accepted, corners in cotton for delivery in New York, New Orleans, and Liverpool in any particular month will become a thing of the past, and the menace to trade which is always latent in the possibility of such corners, will be removed. Such corners are in fact the very *reductio ad absurdum* of speculation in cotton. They are not business or commerce, but simply an attempt to get something for nothing and to wrest money from another without an adequate *quid pro quo*."

The third defect which Mr. Price points out is that the contract cotton is not, from the spinner's point of view, actual cotton at all. In other words, he cannot buy September cotton, for instance, allow its delivery to him during that month, and manufacture it into cloth. The reason is that though cotton is the most minutely graded perhaps of all agricultural products and though the grade has the most to do with determining its value, yet this contract simply provides for cotton, and a single hundred bales may contain twenty different grades, and may not contain a single grade available for the particular needs of the spinner who bought it. The cotton contract is not, then, a commercial transaction at all. It is a speculative device, pure and simple. It bears the same relation to a genuine contract that a fiat, inconvertible currency bears to gold certificates, and it produces the same evils, the same fluctuation and confusion in values, the same irresponsible speculation that a fiat currency produces.

Those are the three indictments of the present machinery of cotton speculation; it permits trading on so narrow a margin that the gains or losses, whichever they may be, are of a magnitude, compared to the original stake, that constitutes it a gambling and not a commercial transaction; its arbitrary regulations for delivery make various sorts of juggling with the price enormously profitable; and, at last, it deals throughout with a fiat and not a real contract.

And after all, are we really at the bottom of the question? Is the speculation we have been concerning ourselves with, the cause, the essential cause of the evil, or a symptom of it?

Look at the history of cotton! It wasn't with Brown and Sully and their little operations that it began its career of enriching and then enslaving, making great and then grinding in the dust, a whole society; that it first proved itself a blessing and a curse, a great strength and a fatal weakness, a hope and a despair. Always, beginning with the Whitney gin, that has been its history.

In my last article I tried to show that cotton is a cash crop; it can always be sold, but it is useless to the planter, except to sell. There is nothing that he can do with it; from his point of view it has no intrinsic value. So the same cotton that gave the South the wealth and leisure which enabled her to govern the country all the years before the war, was what rendered her helpless during the blockade.

Everybody knows the heroic struggle she made, during those four years, to grow an adequate food supply and to manufacture those necessities which it had always been so much easier to buy from the North or from England; and it is easy to say that she should have kept it up when the war was over. But the country was not only impoverished, it was exhausted, and the average price of cotton for five years after the war was thirty cents a pound. Not to devote all your energies to growing it was like refraining from washing the gold that you knew was in your pasture creek. So it is not wonderful that the South went back to her old thralldom, went back to producing something she could sell and to relying on the proceeds of the sale to furnish her with food, clothing, lumber, tools, everything, just as in the old days. Cotton was King again. But he had a new viceroy, the credit merchant.

The South had never been served with banks in any adequate degree; in the old days the planter had been financed by his factor at the port or at some great inland point of concentration; the factor had carried him through bad years or expansive ones, amply secured by his instantly salable property in slaves. But the planter had given place to the farmer who had no security to offer for a loan, who was not only poor but likely to be thriftless, who could only be trusted, if at all, by some one dwelling at his elbow, intimate with all his most minute concerns. That person proved to be the country merchant.

He took up his position at the cross-roads and made himself the universal purveyor to the neighborhood; the farmer came to him for food, clothing, agricultural implements, everything; there was no one else who would sell to him. Every spring the merchant took a mortgage on the as yet unplanted crop of cotton. All through the year he let the farmer have his supplies as he needed them, charging them up against the day of harvest and of reckoning. When the crop was picked and ginned he bought it of the farmer and paid him in cash any surplus that there might happen to be over the amount the books showed he owed.

The farmer had no way of knowing where he stood, no way even of reckoning the rate of interest he was paying on every pair of shoes and every gallon of molasses he bought, every pound of corn-meal or pork, let alone of resisting it; and in the end he had to sell, within rather wide limits, at the merchant's own price and on the basis of his own grading. And if you ask why he did not raise his own corn and sorghum, and so achieve at least that measure of independence, you will learn that this, precisely, is what the merchant did not want him to do and was in a position to prevent his doing. The farmer was given clearly to understand that if he wished supplies on credit he was not at liberty to devote any of his time or of his acres to raising any of them himself; he must grow as big a cotton crop as possible and plant nothing else. It sums up to this: the merchant could make exactly as much as he pleased, both going and coming, as the phrase is.

So it is not wonderful that with all the immense quantity of cotton that the South was raising and selling, the hundreds of millions of dollars that each year's crop brought into the country—it is not wonderful that the merchant still had the producer of all this wealth in his debt; that the mortgage on next year's crop had to be renewed each planting time.

The credit merchant has seen his best days. He is not obsolete yet, but his root, and that of his brother, the warehouseman, who did the same thing in a little different way, has really begun to wither. Banks are springing up all over the South, and the day when credit shall become a commodity instead of a weapon of a highwayman, is visible to the eye of hope.

But now that the merchant is reluctantly accepting cash instead of cotton mortgages for his goods, he has only to look across the street at the wide-open door of the rural "cotton exchange" to see his successor, the new agency, that will infallibly rob the South of the fruits of its labor, just as he did: that will do far more than he ever did to demoralize its society. Cotton is still King, but he has got a new viceroy.

They talked a good deal at the great convention of the fact that the South has a monopoly in the production of the world's cotton; but this is the more important fact, that Cotton has a monopoly of the South, of all the South, all its life, all its activities. It was said in one of the speeches that Cotton has enslaved those whom it has not enriched. But Cotton has enslaved those it has enriched as well as those it has impoverished; it has enslaved the whole South, ever since its history began with the Whitney gin. It has been the great slaveholder, the only one, if you will go to the last analysis.

So, when all is said, I think we must go past that pair of extortioners, the credit merchant and the warehouseman, past the professional speculator, with all his imperfections on his head, past the bogey of overproduction, which the Southern Cotton Association is fighting so lustily, to account for the paradox which Tom Watson stated with such picturesque irony.

I think we must come to this: that no farmer or planter can be independent until he grows what will feed him. The man with a crop of cotton alone cannot live on it and therefore, unless he is a whole year ahead of his necessities, he cannot keep it. Whatever the price, he must still sell.

That fact accounts, I think, for the farmer-speculator, for the credit merchant, and for the terrific monster, Overproduction.

And here again, I am glad to offer the evidence of a man who really knows. The words I shall quote are the keynote of the first speech which those three thousand delegates at New Orleans heard. They were spoken by the man who presided, whom they proceeded to elect to the presidency of the Southern Cotton Association, the Hon. Harvie Jordan:

"While we need and must have a better system for financing the cotton crop of the South, *yet I tell you, the strongest financial institution for every farmer is a well-filled corn-crib and smoke-house.*"