

BULLETIN

OF THE

AGRICULTURAL AND MECHANICAL
COLLEGE OF TEXAS.

AUGUST, 1915.

EXTENSION SERVICE

BULLETIN B 7.

VALUE OF COTTON

Address Before Farmers Congress, College Station, Texas, August 3, 1915, by Nathan Adams, Cashier, American National Exchange Bank, Dallas, Texas.

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Co-operative Extension Work in Agriculture and Home Economics, Agricultural and Mechanical College of Texas, and United States Department of Agriculture Co-operating.

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Address by Nathan Adams, Cashier, American
National Exchange Bank, Dallas, Texas,
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August 3, 1915.

Mr. President, Ladies and Gentlemen:

It affords me a great deal of pleasure to appear before a gathering of representative farmers and business men of this State to discuss "The Relation of Credit to the Proper Housing of Crops."

In the first place, credit is a peculiar thing. It is often extended on character and ability alone, and larger amounts have probably been entrusted to the man with ability and honor than have ever been loaned on collateral. But that peculiar class of credit is largely confined to transactions involved in the promotion of the great commercial and industrial enterprises of our country, where the cash "Turn-over" is made with greater rapidity and regularity than is possible in the case of agricultural pursuits. For that reason, in discussing the subject under consideration tonight, we must deal with the other kind of credit—that kind which has collateral for its basis, as well as character and ability.

Right here let me say that the credit which is extended to the farmers of this country is the very foundation upon which all other credits are based, and upon the soundness of this foundation depends the safety and stability of the entire credit structure of the Nation.

What is credit? From the lender's standpoint it is that confidence which is reposed in the ability and purpose of men to meet future obligations. From the borrower's standpoint it is the ability to command the use of money, or its equivalent, with a promise to pay. From the standpoint of society in general, credit is a species of machinery invented to aid the purposes of capital, and its chief function is to furnish a substitute for money.

When you stop to think of it, you must realize that every great crop produced is handled

on credit in some form, rather than upon actual money. It is estimated by the best authorities that in every one hundred dollar transaction, only five dollars in actual cash is used, the remaining ninety-five dollars being represented by some form of credit. So you can readily see that whenever a firm and permanent basis of credit is established, there are a great many things we can do that we are not doing now.

With this thought fixed clearly in our minds, it is easy to understand the relation between "credit" and "warehouses." Credits based upon commercial paper and self-liquidating bills of exchange usually run for only a short period of time; but when based upon agricultural products, its extension is often continuous and indefinite.

For years it has been the custom in the South to loan money, not upon the crop after it is gathered, but upon the seed in the ground; and I believe I am perfectly safe in saying that 50 per cent of the crops in the South are mortgaged at the beginning of every planting. We have always looked upon cotton as the one salvation of the debtor class. And yet, whenever October rolls around and the weather has been bad, the lack of adequate storage facilities invariably precipitates a mad scramble to sell our products. This movement results in a "near-panic," which spreads to every community in the South, and forces upon the market, whether it is prepared to absorb it or not, everything that is grown upon the farm.

It is an iniquitous system. Unfortunately, it is a system upon which a few men have grown rich at the expense of the many. In fact, it is this system which has placed this country where today it is practically impossible for the real producers to receive the rightful benefits of their labor.

But I believe that within the next five years the credit policy of Texas and the South will undergo a radical change. President Wilson and the Democratic Congress, by the establishment of the Federal Reserve banks, have placed at our doors the means of correcting the evils of this entire credit system. I believe that the Federal Reserve act will be the means of educating the bankers of this country to the proper

use of credit. It has already revolutionized our currency system, and, if it means anything at all, it means that when the banker of your community has fully realized the advantages of the new banking system, and is not afraid of the products of his own section, he can, with your assistance, protect these products absolutely from the speculator, and secure for them the price that is essential to the welfare of our people.

You can readily understand that credit cannot be based upon cotton that is left out in the weather to deteriorate, nor upon wheat that is not properly stored and insured, nor upon oats that you have neglected to gather and protect, nor upon any other product which is exposed, during the life of the loan, to inevitable deterioration.

It has always been such an easy matter to make money out of real estate transactions that the business men of our State seem to have lost sight of the fact of the vital and inseparable relation between the conservation of crop products, and the value of the land itself. They seem to have overlooked the fact that unless the proper care is given to the products of the soil, so that a reasonable price may be secured for them, the real estate itself has no intrinsic value, for, after all, when we come to sum up the year's work, the income from the property is the true measure of its value. It is my opinion that no better time will ever come than the period through which we are now passing to convince the business men and farmers that it is necessary to think of something more than speculating in real estate, if we are to receive the full fruits of our labor.

In 1914, at the Bankers' Convention in Fort Worth, I took occasion to call attention to the terrific waste occasioned by the "Country Damage" on cotton. The annual loss from this source is absolutely staggering, and, as it is almost wholly preventable, and therefore inexcusable, I am going to quote you a few of the figures published by the Maritime Association, in order to give you some idea of just how much wealth the farmers of this State are literally throwing away every year.

"Country Damage" includes "wet, muddy, rusty, oily, greasy, stained and soiled cotton."

Out of a total of 2,725,000 bales handled through the ports of Galveston, Aransas Pass, Texas City, and Port Arthur, between September 1, 1913, and March 1, 1914, the "Country Damage" was on 1,190,000, or 43 per cent, while in the port of New Orleans, handling 1,252,000 bales, there was "Country Damage" on 43,288 bales, or only three and a half per cent.

The port of Galveston alone handled 2, 244,074 bales during this period, and the inspection covered the following points:

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|------------------------------|---------------|
| Country Damage | 985,913 bales |
| Not thoroughly covered | 564,074 bales |
| Spider bands | 56,521 bales |
| Insufficient density | 2,093 bales |

Total exceptions 1,854,731 bales
or eighty-two per cent of the total amount handled.

The year 1913 was what is known as a normal year, that is, cotton was sold by the farmer immediately upon gathering it. And yet, it is my opinion, based upon the figures that I have just quoted, that the waste on the entire crop of Texas cotton for that year was not less than twenty-five million dollars.

I know of instances where cotton could have been sold as high as 11 1-2 cents, but was carried on the farm, and sold later for 8 1-2 cents. On the other hand, I know of a farmer who had one hundred bales of cotton for sale, and was offered such a low price for it in his home town, that he concluded to ship it to Dallas. He had the cotton worked over in Dallas at a nominal cost and it brought him nineteen hundred dollars more than he was offered for it in his home town.

I want to say to you that if the farmers of this country are to receive the full advantages of this great banking system of ours, it is necessary for them to co-operate with the business men of their community, and place their farm products where they will not deteriorate, and where the receipt offered to the banker as security will be as well known at the Federal Reserve bank of New York or San Francisco, as it is to their own banker.

It seems to me that no better example of the right kind of "nerve" on the part of the bankers

could be given than that displayed by the bankers of Terrell, in Kaufman County, who not only had faith in cotton, but took it upon themselves last year to go out among their farmers, and show them that, with this cotton properly warehoused and insured, they could double their circulating medium, as cotton would then be available as a basis of credit. Mr. Raley, president of the First National Bank of Terrell, told me that the cotton thus warehoused (and carried for less than five months) was sold at an average of over eight cents a pound.

I am not one of those who believe that the price of cotton can be forced to fifteen cents a pound. But I do say, without fear of successful contradiction, that it is the duty of the bankers and business men of this State to so change the credit system of Texas, and to so change their own methods as to be able to help the farmers to secure a fair and reasonable price above the cost of production for the products of his labor. And this, I do believe, can be done.

The present credit system has been in vogue in Texas for many years, and no substantial effort has been made to improve it. In every other phase of industrial and business activity you can see improvement and progress during the past twenty years. Starting on the farm, the up-to-date farmer now employs all the latest improvements in the way of farm implements and farming methods. Take the banks, or the great mercantile establishments of this country, and they have been quick to adopt all of the newest devices and office systems that make for a more efficient and economical handling of their business.

But when it comes to our credit system, we have gone on year after year taking the same old crop mortgage, under the same old loose and makeshift methods of protection, with no thought of using cotton as a standard and permanent form of collateral. There is no reason why it should not be so stored, insured, and protected that it would provide a basis for a safe and satisfactory loan for twelve months out of the year, thus enabling at least eighty five per cent of our farmers to place themselves upon an absolutely cash basis for all their

needs. I say about eighty-five per cent of them would take advantage of such a system, because we know that probably fifteen per cent of them will never pay cash under any system. But by properly warehousing cotton, and changing the credit system of Texas, you could make it entirely unnecessary to ever force the crop upon the market.

Certainly, if a banker has the nerve to lend his money upon the seed in the ground, and a pair of mules (which he can't afford to sell in order to get his money back, even if he has a mortgage on them), it seems to me that he could well afford to help the farmer after the crop is gathered, warehoused, and insured, and a receipt issued for it, which he can take to the Federal Reserve bank and receive one hundred cents on the dollar, at a nominal charge.

Right here I want to say this in regard to the banker's profit. It will be bigger when he has a loan account that runs the year round, and shows a steady average earning power, based on warehouse receipts, instead of one that shows a "peak load" in April, and then is liquidated in full in November. You know that all of your life it has been the rule in Texas to have, "first a feast, and then a famine." This is as true of the banker as of any one else. When there is a big crop and a good price for it, he is full of money. His loans are paid, and stay paid for five months. Then he commences to roll upon himself the burden of meeting a tremendous demand for money and credit, concentrated within a short period. How much better it would be to maintain an average loan account all the year, with his loaning power evenly distributed at all times to a contented and prosperous people.

A certain banker came to me in 1914, and because I had faith in cotton and advised him to go home and warehouse the crop raised in his section, he told me I was crazy, not exactly bad enough to be sent to the Terrell Asylum, but almost that bad. I talked to another banker from the same county, but a different town, and he went home, built a warehouse, and by issuing currency against his warehouse receipts under the Aldrich-Vreeland act, he was able to take care of the farmers and of his town's trade. As a result, the first banker came back to see

me this year, and told me he was going home and assume the presidency of a warehouse company, "because the banks in the adjoining town which had built a warehouse had accumulated more deposits than his bank, and that thirty-three per cent of the mercantile trade had switched from his town to the other one.

In order to give you some idea as to just how Texas ranks with other Southern States in the matter of warehouse facilities, I quote from a report published by the Federal Reserve Board at Washington, with reference to the percentage of warehouse receipts furnished by Southern banks last year as collateral to emergency currency taken out under the Aldrich-Vreeland act.

It must be borne in mind that under this law there were three kinds of collateral upon which this emergency currency could be issued, namely, warehouse receipts, commercial paper and bonds, and it was the emphatic ruling of the department that warehouse receipts were the most highly desirable of the three. And although Texas banks took out eighteen million dollars of the new currency, which was almost one-third of the entire amount issued in the South, yet she was able to furnish only one per cent of her collateral in warehouse receipts; while the State of Florida put up twenty-one per cent, Arkansas put up nineteen per cent, the Carolinas fourteen, and the South, as a whole, furnished ten per cent, as compared with only one per cent from this great State of ours, which, by all natural laws and resources, should have been able to lead the entire South.

I believe Senator F. C. Weinert has been quoted as saying that Texas now has a total warehouse capacity of only 850,000 bales, against an average crop of four and a half million bales, which means that eighty-two per cent of our crop is now being left unsheltered and exposed to the weather.

In contrast with this situation, let us consider for a moment the example set by the State of California in the matter of warehouses. Figures published by the United States Bureau of Plant Industry show that the citrus fruit organizations of that State are handling fifty thousand car loads of fruit per annum, and commanding top prices for it the year round.

Through their packing houses, storage plants, and selling agencies, they have revolutionized the business of marketing their products by controlling the supply placed on the market, and thus avoiding its glutting. The grain growing farmers of the Northwestern States, according to the same authority, have organized more than a thousand elevator companies, handling as much as \$250,000,000 annually worth of grain.

Is there any reason why Texas cannot do with her cotton what California and the Northwest are doing with their fruit and grain? As a matter of fact, we ought to be able to do even better, for the reason that, compared with their products, the imperishable nature of cotton makes our handling and marketing problems much easier than theirs.

In this connection, I want to go a little into the details in regard to the Federal Reserve act, because everywhere there has been a recent discussion of the need of a "Rural Credit System" for the United States, which is a subject not embraced in the Federal Reserve act. I want to say that it is my candid opinion, after twenty-five years of active banking in this State, that when you establish the necessary facilities for warehousing the oat crop, the wheat crop, the peanut crop, the pea crop, and the cotton crop, there will be no need of a rural credit system in this State. That may sound strange to you, but I have such an amount of faith in the note-issuing power of the Federal Reserve banks, that I believe it is possible, within the next five years, to convince the people of this country that it is not necessary to force the sale of any farm product, but that it can be used as collateral, without sacrifice and without loss.

It is my opinion that no issue of currency should ever be made except upon the security of a liquid asset, such as the actual products of the farm and factory. These are the things that bring the money and possess the necessary redemptive power. The sale of these products liquidates the currency issue in an easy and natural manner. You and I know that we would be in a bad way today if the currency heretofore issued had been based upon land notes, because land cannot be sold upon short notice for its value, and for this reason, when

you force a man to sell it, he does it grudgingly and ungraciously. But when you have made a loan on cotton, wheat, oats, or on manufactured articles, and perhaps in the meantime the price has increased twenty-five to fifty per cent, the owner is willing for it to be sold, and with the payment of the note, the currency that has been issued against it is automatically retired.

Certainly, if any rural credit system is established, it should be kept separate and distinct from the national bank system of the country, and no currency issue should be based on loans made through a rural credit bank. Another thing: I may be looked upon by some of my bank friends as Mr. Bryan is by some of his political friends—as a “dreamer”—but I believe that in the next five years Texas will realize that it is better to have one marketing center for cotton in every county in the State than it is to have it sold individually by every farmer in the county. I know it sounds unusual for a man holding a position like I do to argue this way, but I say to you that I have seen cottonmen buy five thousand bales of cotton in one territory and from it cull enough high grade cotton to make a handsome profit for the season, and I believe that when this warehouse system is properly established, it will provide not only a place to keep this cotton out of the weather, but it will establish in the minds of the farmers the correct understanding of the kind of cotton they are offering to the market—and if you had a cotton warehouse in one central point in each county of the State, you would see some real competition on the part of the cotton exporters of Texas.

There is another thing that I want to call attention to, and that is the fact that there is no other crop, involving an equal amount of money, that is handled by so few men. I saw in a paper not long ago that twenty-seven cotton exporters in the city of Dallas had bought a million and a half bales of cotton, which is one-tenth of the country's normal crop. Multiplying twenty-seven by ten, it would indicate that there are 270 export cotton firms in the United States. But granting that we have missed it by four times two hundred and seventy—don't you believe, and don't all other thinking men believe, that when we have convinced one

hundred of these one thousand and eighty exporters that the farmer, co-operating with the business man and the banker, is able to finance himself, we have put two cents more per pound on the price of cotton?

There is a great deal of talk just now about the demand for cotton this year, and the "Law of Supply and Demand." I have before me a circular letter sent out by Renskorf, Lyon & Co., No. 33 New Street, New York City. I don't know who they are—never heard of them before in my life. I suppose they are cotton brokers. But this is their argument as to why cotton should be held:

"The exports of cotton during 1914 proved to be 8,500,000 bales, while the 'wise ones' said that three million would be the limit. The mills have taken 13,500,000 bales, whereas it was predicted that less than 9,000,000 would be taken.

"Cotton is worth thirty cents a pound in Germany, and over thirty cents in Russia."

They also ask these questions:

"Will the hystericz of money of last August and September repeat itself?

"Can the South take care of what she has on hand and has in prospect?"

In answer to these questions, the very first thing they mention is what I have made my talk on. They say:

"The Federal Reserve banks were not in operation when the previous crop was being moved. They have enough money on hand now to finance ten million bales of cotton."

(By these they do not mean, of course, that these banks have the actual cash to finance ten million bales, but they have the note-issuing power, based upon warehouse receipts, sufficient to protect ten million bales.)

They add:

"The United States, Spain, Japan, and India have machinery sufficient to manufacture every bale of cotton grown, if that machinery should be taxed to its potential possibilities.

Some of the powder that has been burned up during the present war was made of cotton grown many years ago. The powder necessary to continue the war must come out of the cotton of today. Both India and Egypt have made

radical reductions in cotton acreage, and today's world crop, based on a normal yield per acre, should be at least five million bales less than last year's."

Finally, in answer to the questions: "Who is going to use this cotton?" they give as the total amount to be used this year, 20,505,500 bales.

Whether they are right or wrong, I will give you the following estimates as my opinion, and they are worth just as much to you as any other man's guess:

The amount of cotton carried over is four million bales; and assuming that we will have a normal crop this year, or fifteen million bales, and a fifteen per cent decrease in acreage, it means a crop of 12,750,000, which, added to the four million bales carried over, makes a total supply of 16,750,000 bales.

If they take fourteen million bales, the same farmers who were able to hold 1,500,000 bales on their farms this year will be able to do so again, and it is my opinion that with reasonable shipping facilities we can market a large portion of this crop by the first of May, 1916. All that is necessary in order to do this is an extension of credit along reasonable business lines.

While the bankers and business men of Texas are perhaps not especially concerned with a situation a thousand miles away, they are directly interested in their own communities. It is a problem to be solved by education, and I say to you that it is the duty of the thinking men of each community—the men who had the advantages of education, to gain the confidence of their fellowmen who have not had such advantages, and show them that this is the way to protect the crops of Texas and the South. For, in protecting our farm products, you are protecting every known value and commodity that enters into the structure of the world's commerce; you are protecting the value of every share of bank stock in the State; you are protecting the value of absolutely every foot of real estate of her cities and of the soil of her farms; and in protecting these interests of your people, you are giving them nothing more than that prosperity and happiness to which they are justly entitled.

COTTON SUPPLY AND DEMAND.

August 2, 1915.

Hon. W. D. Lewis,
Care Farmers' Union Convention,
Houston, Texas.

Dear Sir:

I take the liberty of calling your attention to some facts about the present cotton situation, which I hope you will present to the State meeting at Houston. I would go to Houston and ask the privilege of appearing before your body in order to convey this information, but a pressure of duties prevents me from doing so.

At this time last year in several public addresses I made the confident prediction that the world would use about as much cotton for the season of 1914-15 as it had used for the season 1913-14, for the simple reason that men fighting in the field would wear out more clothing than men working in the factories and on the farms, to say nothing of the cotton used in tents, explosives and other war supplies. The only decrease in consumption that I could foresee would be the decrease due to the economy practiced by those not fighting.

For these reasons I combatted the contention made by many of our friends at this time last year that we would carry over six or seven million bales of the crop of 1914. My forecast has been more than fulfilled. Besides, at this time last year we were expecting an American crop to not exceed fifteen and half million bales. Instead, we made more than sixteen million bales.

The world's visible supply of cotton on the 24th of July, 1913, just before the war was declared, was 3,405,501 bales. The world's visible supply on July 24th, this year, after a war involving more than half of the civilized population of the globe, and practically paralyzing the spinning industry of Germany, Austria, and Northern France, was 4,966,809 bales. The difference is 1,563,308. Allowing 500,000 bales of unexpected increase in the 1914 crop, you will note that my allowance of surplus was quite two million bales above the actual result. In other words, the world used in the season 1914-15 some two million bales more than I ex-

pected and some nine or ten million more than the bearish calamity howlers were dolefully proclaiming at this time last year.

I have not at hand the figures of actual world's consumption of American cotton for the season of 1913-14, but it was something like fifteen million bales. The present world's visible supply shows, therefore, that the world used in 1914-15 only about one million bales less than in 1913-14.

The present stocks on hand are no more than a normal supply, which mills should have in their warehouses at any season of the year. This may be easily confirmed by comparing the stocks on hand in the mills during the average of normal years in the past.

As to future supplies, the condition is such that not since the bull season of 1904 has there been more abundant reason for good prices during the season of 1915-16. In the United States we have reduced the acreage more than fifteen per cent, and the condition of the plant is not quite so favorable as it was this time last year. We can hardly hope to make a greater yield per acre than last year, and the chances are ten to one that we will make a smaller yield per acre. With the present acreage it is not possible for the Southern States to make this year more than thirteen and a half million bales, and the probabilities are that the crop will be between eleven and twelve million bales. The acreage in other cotton-growing countries has been decreased to about the same extent. Mr. W. P. G. Harding of the Federal Reserve Board estimates that the world's production in 1915 will be five million bales less than in 1914. Taking into consideration the difference of about one and a half million bales of present supply above the supply at this time last year, and calculating even a continuance of the European war and the consumption of no more cotton this year than last year, it must be seen that with the present adverse trade conditions, due to the war and to disorganized shipping facilities, there will not be more than cotton enough to keep the mills going until the new crop of 1916. In fact, with any improvement in the conditions now prevailing in the world's affairs, there will be a cotton famine by this time next year.

All these circumstances considered, there is no reason in the world why a pound of cotton should be sold for less than ten cents, basis middling, and there are many reason why cotton should bring twelve cents, or better. It is absolutely certain that if our farmers will stand firmly together; will put their cotton in bonded warehouses, so that it may be safely and economically financed, and will preserve their poise and not be mislead by hysterical persons or by demagogues, who seek to make political capital out of this situation, or by bears, who try to stampede the market, they will receive fair prices for their product.

I beg you to urge the farmers and the friends of the farmers everywhere to study the statistical situation; to note carefully the trade movement, and especially the reports of domestic and foreign consumption, which are published monthly from Washington. Since I saw you last, the Department of Commerce has begun reporting through our foreign consuls on the consumption of cotton and the condition of the cotton trade in all the cotton-consuming countries. As you may know, I have been working for this information for several years, and at last we have obtained it, so that hereafter we will have exhibited each month the rate of consumption and the state of the cotton trade, just as we have exhibited each month the condition of the crop and the number of bales ginned.

Now, if we will insist that the same consideration be given to the figures of demand as are given to the figures of supply, we will be able always to demonstrate the economic value of cotton under the law of supply and demand.

I think our statesmen at Washington may be trusted to do all that properly may be done for the present trade situation, but even without any relief in this respect, we are in a position to obtain a fair price for our cotton, if we do not lose our heads. Yours truly,

CLARENCE OUSLEY,
Director of Extension.