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Dantwala (M.L.)

Marketing of raw

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MARKETING OF RAW COTTON IN INDIA

BY

M. L. DANTWALA, M. A.

PROFESSOR OF COTTON INDUSTRY, H. L. COLLEGE OF COMMERCE, AHMEDABAD.

EDITED BY

C. N. VAKIL

UNIVERSITY PROFESSOR OF ECONOMICS, BOMBAY.

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PREFACE

The poverty of the Indian peasant has become almost proverbial. Various schemes of rural reconstruction with a view to helping the farmer out of his present miserable condition are in the air. Some attempts have already been made partly by the State and partly by private organisations in this direction. But compared with the magnitude of the problem the success achieved by such efforts is bound to be meagre in view of the limited resources at their disposal. The situation has become so desperate that almost heroic remedies will be necessary to achieve substantial results. The attack will have to be on all fronts, because any attempt at piecemeal improvement here and there is not likely to succeed.

Systematic studies into the condition of the rural population have been made in different parts of the country, and these have thrown considerable light on the actual state of affairs. Among the various circumstances which conspire to reduce the income of the agriculturists is the system of marketing now prevalent in the country. This is such that even if the agriculturist succeeds in raising a larger and a better crop, he may not realise the full reward of his efforts, so long as the marketing system remains what it is. The Royal Commission on Agriculture recommended therefore, that a marketing survey be made as a preliminary to measures of improvement in this connection. The Agricultural Marketing Department which has recently come into existence as a branch of the Imperial Council of Agricultural Research has made some progress with the marketing survey of different products in the country. Their report on Wheat has been recently issued and those interested will look forward with interest to the result of their work in connection with other commodities.

Whereas the resources of an organised department with large sums at its disposal for the purpose of such an investigation are obviously greater, the work of such a department is, by its very nature, somewhat restricted to certain types and forms, which does not leave full discretion to the Marketing Officer concerned. An independent investigator into the conditions of marketing will, on the other hand, have to face difficulties involved in single-handed work, but nevertheless would be able to get into greater personal contact with the parties concerned, and would be able to use great initiative in the handling of his subject. While the marketing survey which is now being conducted by the Government of India will be of considerable use to students of Economics, it is well known that the economic point of view is not fully represented in the personnel and the machinery of the present organisation. In future, it will be left more to the students of Economics to continue this work of studying the marketing methods of the country with a view to timely changes and improvements. From this point of view a greater contact between the Economics Departments of the different Universities and the Marketing Department of the Government of India, which was contemplated by the Royal Commission on Agriculture, but which does not exist in practice, would have been desirable.

The present book is an attempt to make a systematic study of the marketing of raw cotton in the country from the farm to the Exchange. Cotton is the most important commercial crop in the country, and has a highly developed 'organised market'. The intricacies of 'an organised market' need to be fully understood, because its methods are being extended to other articles of trade also. This book is the first systematic attempt of its kind, and shows what private effort can achieve in this sphere provided the co-operation of the trade is obtained. The structure and organisation of the internal trade of the country on the one hand, and the working of the Cotton Exchange on the other, have a vital bearing on the price which the consumers pay and the agriculturists receive. Mr. Dantwala has examined these problems with a critical insight into them, and has suggested

market, which is the apex of the modern marketing system. And it is here that the problem of marketing is the most complicated. Speculation is often thought of as belonging to the domain of the vulgar, and the *élite* in society avoid speaking about it in public. But the speculative market, or to be more correct the futures market, if properly regulated, has certain very important economic functions to perform in the present economic system. But the matter of graver concern is that if the whole mechanism is faulty, there is no other agency that will do greater harm, both to the producer and the consumer. It is, therefore, imperative to investigate the position of the futures market for whichever commodity it exists.

It can be said without fear of contradiction, that there is no agricultural commodity in India, for which the speculative market is as highly developed, as in the case of cotton. Its comparative importance in the world market is second to no other crop grown in India.

It is our intention in this work to examine the movement of raw cotton from the farm to the exchange. By its very nature the study is divisible into two parts. In the first part, we shall examine the marketing of cotton from the time it leaves the farm and reaches the exchange, or to be exact the cotton exchange at Bombay. We describe the various stages in cotton marketing, consider their economic significance, try to ascertain how efficiently and economically various marketing services are performed to-day, and finally suggest improvements wherever possible. The study will thus be both descriptive and critical.

The scope of investigation in this field is admirably laid down by the Royal Commission on Agriculture. While concluding the chapter on marketing, they point out the importance of the collection and study of exact information on the subject, and then proceed to lay down an exhaustive schedule for the research work that could well be undertaken by provincial departments—necessarily, therefore too ambi-

tious for an individual. The present study, however, seeks to fulfil the requirements laid down by the Royal Commission. The various aspects which the Commission suggested for investigation are as under :—

1. A survey of production, internal consumption and the export trade.
2. Extent to which production is localised and, in some instances, to which it is seasonal.
3. The relation between the producing and the consuming centres and the state of communication.
4. Conditions of demand and a general appreciation of what is demanded in terms of both quality and quantity.
5. A critical examination of the marketing machinery, the efficiency of the markets, their physical conditions, their administration and the facilities they offer.
6. The relation of the cultivator to his primary market including the influence of debt upon his freedom of choice as to when and where he will dispose of his produce.
7. Comparison of price between market and market.
8. Amount of storage available as well as the consideration of the most suitable place to store.
9. The various type of middlemen and the services rendered by each.
10. The position of the co-operative movement and the extent to which savings in distribution costs can be secured by co-operative sale.
11. Movement of prices over a period of years and the extent to which seasonal fluctuations appear and to which prices differ between one locality and another.
12. Analysis of the whole price structure and as far as possible, the measurement of the margin attributable to the various functionaries concerned.
13. The existing system of marketing intelligence and the methods by which the utilization of such intelligence can best be extended.

Almost all the above aspects have been examined by us in this work as far as possible.

The Indian Central Cotton Committee has done some valuable work in this direction, by investigating the marketing and financing of cultivators' cotton in different cotton growing areas. It has, however, examined only a few problems connected with the subject and even in that it has not been able to achieve the desirable degree of accuracy and completeness. The Committee itself has admitted this in the preface to its general report.

But the one most important aspect of marketing, to which no reference is made by the Royal Commission or any subsequent enquiry into agricultural or trade economics, the one which forms the subject matter of the second part of this work is that of the futures market. In the second part, we have examined the working of the cotton exchange in Bombay which is by far the chief centre of futures trade in cotton in India. But before doing so we have devoted a chapter to the theoretical study of the evolution of the cotton market, its structure and its economic value. After giving a short history of the growth of the cotton trade in Bombay we have proceeded to describe and comment upon the working of the cotton exchange in Bombay, as managed by the East India Cotton Association. In the last chapter we have examined some aspects of prices on the organised commodity markets with special reference to the Bombay cotton market. The point of great interest in this respect is the determination of the 'spread' between prices in the Central and upcountry markets.

Hitherto no attempt has been made to systematically study the growth of the futures trade in Bombay, much less of the organisation that conducts and controls it. Public attention on this subject was to a certain extent attracted by the two cotton contracts Bills—of 1930 and 1931—introduced in the Bombay Legislative Council. But we may be permitted to say that a perusal of the debates in the Council brings

home with greater force, the need for some scientific discussion on the subject. That the organisation of the exchange has a vital bearing on the price that the agriculturist receives is a fact brought out by every book on the subject of commodity markets.

Few of us know that the conduct of speculative trade affects those problems with which we, as consumers, are faced; as an illustration it may be pointed out that a faulty technique of the futures market or even its absence may considerably increase the cost of our clothing. It is the facility provided by a futures market for hedging the risks of fluctuations in price, that makes possible the marketing of cotton at the present low margins.

Many of the important questions connected with the cotton trade of Bombay have been subjects of acute controversies. The discussions which appear in the press on these subjects are more or less coloured by party interests. It is one thing to write or speak on the subject as an interested party, and another to treat it from the point of view of a student. The people who are to-day engaged in the business have not the leisure—and in a large number of cases perhaps also the equipment—to study the problem critically. Perhaps the *laissez-faire* is working in their favour, and silence, therefore, is golden. If any conscious planning is to come, it can come only from a dispassionate study of the whole subject. Very often in such commercial pursuits the interests of the producers, traders and consumers are in conflict, but the primary producers are mostly ignorant and the consumers indifferent as to the issues at stake, and the whole show is run by the traders alone. At present things are allowed to take their own course; the Government in India is still adhering to the *laissez-faire* policy, because it suits the economics of the Empire. Whenever the question of regulating the trade in cotton comes before the Bombay Legislative Council, the Government members declare with an air of righteousness that the Government has no intention of

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interfering in matters of trade.¹ Thanks to its unpopularity, any such declaration of policy is acclaimed by the nationals of this country. In any other country, such a declaration would exasperate public opinion.

This work is an attempt to collect first-hand data on this important problem, and to discuss the same in the light of theory and practice in other countries with due reference to local conditions. Such studies in other leading commodities would go far to help the creation of a public opinion towards a suitable legislation or other action in the interests of the country.

¹ "I may state here Mr. President, that it is the policy of Government to interfere in trade as little as possible and they were most anxious to repeal the Cotton Control Act which was a War Measure as soon as possible."
Bombay Legislative Council Debates.

PREFACE

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schemes of improvement in the light of the experience of other countries.

This work was done by Mr. Dantwala as a research student in this school during the years, 1930-33. During his investigations he had the opportunity of being in contact with the trade at different stages of its operations. The work has been considerably revised and in parts rewritten in the light of further information before publication.

C. N. Vakil

School of Economics
and Sociology,
University of Bombay
31st August 1937.

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The author acknowledges his indebtedness to the University of Bombay for the substantial financial help it has granted towards the cost of the publication of this work.

M. L. DANTWALA

24th August, 1937.

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INTRODUCTION

When a country is said to be economically backward what is meant to be conveyed is that it has not kept pace with the development in modern economic thought and practice. India is often referred to as a backward country in this sense and somewhat rightly. Many of our economic organisations are much behind the times. Though in other walks of life to be up-to-date may mean to be fashionable, in the sphere of economic pursuit, it is the very *sine qua non* of progress. If we, both as individuals and as a nation, want to survive the struggle for existence that is so frantically going on to-day, we must make haste to give up all antiquated methods of production and distribution.

Being primarily an agricultural country, agricultural economics is the first to attract our attention. We have been lamenting over the low yield per acre of our crops, and the growing deterioration of the soil. Increased attention is given both by the Government and the Universities to agricultural research.¹ Till recently, however, research in agriculture was mainly confined to botanical improvements, for example, towards a higher yield per acre, or keeping the crops immune from the devastation of insects. (That agriculture has another entirely different aspect, the business aspect, is either not realised at all or realised very im-

¹ The Government of India took up in right earnest the question of improvement of agricultural marketing from 1935. They appointed Mr A. M. Livingstone as the Agricultural Marketing Adviser, and a Central Staff of 18 Marketing Officers. By the end of the year, 99 full-time Marketing Officers were operating throughout India and Burma. In addition 923 officers were nominated to deal with marketing questions in smaller Indian States and Minor Administrations. Several preliminary marketing survey reports have been submitted by the Provinces and States, from which the Central Marketing Staff will compile an All-India report on each important commodity. This is expected to be followed by practical market development work. The first investigations cover main cereals, fruit and live-stock products. The survey of the marketing of wheat is now published.

perfectly.) Although this aspect of agricultural economics has existed ever since the disappearance of the domestic economy, it has been greatly accentuated after the remarkable growth of commercial crops. Crops are now grown by farmers not for their immediate consumption, but mainly for selling them to others. As it is said, they produce for a market. Hence the factor that counts in the problem of agriculture is not so much the quantity that is grown by the farmer as the financial return for it. A layman will argue that a farmer will get more if he grows more, but a student of economics knows that that depends primarily upon the elasticity of demand. In the case of cotton, statistics prove that 'other things being equal, the larger the supply the less the value of that supply'. In 1924, the U. S. A. grew 13,628 million bales of cotton, the average price for the year was 23.0 cents; the value of the cotton crop was therefore, 1,567 million dollars; in 1926 she grew 17,977 million bales of cotton, the average price for the year was 12.4. So the value of the crop was only 1,115 million dollars or less by 452 million dollars in spite of an increase in production of more than 4 million bales.

[We will be concerned in this book not so much with the size of the crop, or its curtailment, but with the manner of disposal of whatever crop is grown by the farmers.] In the case of agricultural produce the act of sale is not merely an act of exchange, it is also an act of production in its most technical sense.] Before the produce of the farm becomes finally consumable, it has to undergo a variety of operations during which both time and place utilities are imparted to it. It is but a truism to say that these utilities should be imparted at the minimum cost.]

Hence the problem of marketing what the farmer produces is a two-fold problem, which may be described as an effort to realise the maximum price at the minimum cost. Though the lowering of cost will cause an increase of the return, it must be remembered that there are other factors than the

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factor of cost that go to make the price. In fact, the problem of maximum price is both more important and more difficult than the problem of minimum cost, because the scope for economy during the process of marketing is much less than the loss due to either artificial or avoidable influences depressing the prices. The adjustment of supply to demand and the maintenance of an equal opportunity for those who sell and for those who buy, are things that are difficult to accomplish.

The theory of Territorial Division of Labour, an off-shoot of the Industrial Revolution, made for an increase in the distance between the producing centres and the consuming centres. And with the increase in distance the complexity, not only in the physical process of marketing but also in its technique became greater.¹ The prices for the commodities that have a world market are determined independently of the cost of production in any particular country, especially when it does not supply the bulk of the demand. The price that a farmer receives for the cotton is, broadly speaking, determined by deducting the cost of distribution (marketing) from the price prevailing in any central market. The farmer is a residual claimant, and therefore it becomes all the more imperative to investigate all the deductions that are made from the price that is paid by the ultimate consumer, and to reduce them to as small a sum as possible. To put it in scientific phraseology, we must ascertain what percentage of the consumer's rupee is represented in the price that a farmer gets.

The Royal Commission on Agriculture was, we think, the first to draw pointed attention to the importance of the subject of marketing in the rural life of this country. Reporting in 1928, the Commission observed that "no syste-

¹ This point is explained in Chapter II.

matic survey of conditions under which agricultural produce is marketed in India has yet been made in any province".¹

The experts who were especially invited to help the Banking Enquiry Committee laid great stress on the question of marketing. Mr. MacDougall submitted a special Enclosure on 'Marketing' to the Central Committee. In the very opening paragraph he states that 'there is one great problem before India—to increase the prosperity of the Ryot..... There are only two ways—Co-operation (in its broadest aspect) and Marketing.'² It appears that the various Provincial Banking Enquiry Committees as well as the Central Committee were alive to the importance of the subject, for, each one of them has devoted a special chapter to marketing in their report.

The world is getting alarmed at the growth of its productive capacity. The cry in Western countries is not how to produce more, but how to dispose of the same. The Government of the U. S. A. under President Roosevelt sought the 'way out' in systematic destruction and curtailment of crops. England and France, countries with Empires to fall back on, found escapes at Ottawas and in Imperial preferences, while few other nations of the world are free from fetters such as steep tariffs, elaborate quotas, "blocked" currencies or exchange clearings. In India the need to produce more, and produce it better is not yet over, but if our industrial development is not to outrun our capacity to dispose of what we produce, we need to pay much greater attention to problems of marketing. Mr. MacDougall, the expert on the Banking Enquiry Committee was right in his warning that 'if steps are not taken to organise export in such a way as to meet the modern requirements of world trade, then the greater the quantity of produce grown in this country, the greater will be the internal congestion'. And this is

¹ Report of the Royal Commission on Agriculture, page 385.

² Enclosure XIV, Report of the Central Banking Enquiry Committee, page 721.

no mere imagination, for did we not witness the sorry spectacle of Calcutta buying Australian wheat when one million tons of wheat were rotting in the Punjab?¹ Of what use is the production, if no means are available for its disposal?

"Several witnesses have stated before us that the reputation of India's agricultural products is very low," write the Central Banking Enquiry Committee.² But the scope of enquiry both of the Agricultural Commission and the Banking Committees did not permit them to make a thorough investigation of the problem. The Royal Commission themselves have made this clear. "It was clear from the outset of our enquiry that it would not be possible for us.....to examine in detail the marketing and distribution of each important crop in every province....."

The selection of cotton as a commodity for investigation was made for more than one reason. Cotton is one of the principal crops of this country and forms the biggest item in our foreign trade. The marketing of a commodity which has a big foreign market must necessarily be very careful, efficient, and above all organised, if not standardised. The foreign purchaser must have a high regard for the system of our business. Trade with him must be very smooth and easy. The absence of these attributes gets discounted in the price, and the grower of the commodity has ultimately to suffer.

Besides, it is only in the case of commercial crops like cotton that all the modern aspects of marketing become fully visible. Only a few commodities have a speculative

¹ Report of the Central Banking Enquiry Committee, Evidence Volume.

² They quote a paragraph from the report—dated the 25th March, 1930—of Dr. D. Clouston who was deputed by the Imperial Council of Agricultural Research to the British Industrial Fair. The learned gentleman says that 'the reputation of India's agricultural products in the world's market is low. The price paid by the consumers in Europe for them is based very largely on that reputation, and this reacts unfavourably upon the price received by those cultivators who have improved the quality of their produce.'

Report of the Central Banking Enquiry Committee, page 208.

CHAPTER I

INDIA'S PLACE IN THE COTTON WORLD

When references to the existence of cotton thread are traced as far back as the Rig Veda,¹ few people would be in a mood to contest India's claim to be considered the birth-place, not only of the cotton plant but also of the cotton industry. Both the Asvalayana Sutra (800 B.C.) and the Manu Smriti (800 B.C.) contain very definite references to the use of cotton for the sacred thread (Yagnopavita) worn by the Brahmins. The celebrated Greek traveller Herodotus, to whom we often turn for all such hoary references, testifies that "India has wild trees that bear fleeces as their fruit" and "of this the Indians make their clothes".² However interesting this antiquarian pursuit may be, little useful purpose would be served in trying to prove a proposition which is widely, if not universally accepted.

THE COTTON CROP

It is interesting to note that even to-day, three to four thousand years after its mystic birth, cotton is holding a unique position in the national economy of India, and not an insignificant one in that of the whole world. (From 10.6 million acres in the year 1868, or 6.3 million acres in 1878, the cultivation of cotton to-day (1936) has risen to over 25 million acres of land which is nearly 10 per cent. of the total cultivated area in India.) From the point of view of the area cultivated, cotton holds the third place, rice and wheat claiming 30 per cent. and 12 per cent. respectively of the total cultivated area.

¹ The age of Rig Veda is variously judged from 4000 B. C. to as late as 1200 B. C.

² Herodotus, Book III, p. 106, quoted in the "Indian Cotton Textile Industry"—M. P. Gandhi.

MARKETING OF RAW COTTON

Cotton is the biggest money crop of India. The value of the cotton crop in the pre-depression year, 1928-29 was estimated at Rs. 60 crores, which was 6 per cent. of the value of all the principal agricultural commodities in the country.

Cotton is grown in almost every province of India, but the Bombay Presidency, the Central Provinces, Berar, the Punjab, the Madras Presidency and the Hyderabad State are the outstanding ones. Great possibilities are envisaged for growing long staple cotton in Sind on the Sukkur Barrage area. The following table gives the comparative acreage and yield of cotton in the important cotton growing provinces.

Estimated Acreage and Yield of Cotton by Provinces,
1935-36. (000's omitted)

Provinces and States	Acreage	Yield (in bales of 400 lbs.)
Bombay.	5744	1,122
Central Provinces and Berar.	4160	646
Punjab.	3542	1,596
Madras.	2649	541
Sind.	844	343
Hyderabad.	3698	569
Central India.	1202	180

The two main types of soil on which cotton is grown in India, are the black cotton soil or regur, which covers the greater part of the Bombay Presidency, Berar, the Western part of the Central Provinces, Hyderabad and Central India, and the alluvium of the Indo-Gangetic plain, embracing Sind, and parts of Rajputana, the Punjab and the United Provinces. The sowing and harvesting seasons differ in different tracts, depending on the nature of the soil, the climate and the rainfall; the former season extending from May to

December and the latter from October to June. A large variety of cotton is grown in India, vastly differing in grade, staple and character. The yield per acre also varies greatly, varying from 60 lbs. for the varieties known as Westerns, Northern and Hyderabad-Gaorani to 165 lbs. for the Sind-Punjab and the Cambodia. The bulk of Indian cotton, nearly 68 per cent. consists of short staple, below 7/8 inch. The annual Statistical Bulletin of the Indian Central Cotton Committee on the supply and distribution of the various types of Indian cotton, mentions 44 trade types, varying from the Punjab and Sind Americans (289 F) with a staple over one inch and a spinning capacity of 30's warp or 40's weft, to the Bengals and Comillas having a staple below 5/8 inch and a spinning capacity of 8's to 10's. The table on the next page gives some relevant information regarding a few important varieties.

India is the second largest producer of raw cotton in the world. The average annual world production of cotton in the decade 1925 to 1935 was 28 million bales of 500 lbs., out of which the United States of America contributes 10 to 12 millions. Till 1848 the cotton crop of India was larger than that of the U. S. A.¹ Large extensions in the cultivation of cotton have been reported from Soviet Russia and Central America in recent years. India produces on an average 5 to 6 million bales of cotton. The table below gives the production of cotton in different countries in 1935-36.

WORLD'S COTTON CROPS (TODD) 1935-36.

(In thousands of 500 lbs. bales approximately.)

U. S. A.	India*	Egypt	Russia	China	Brazil
11,638	5,728	1,707	2,493	2,309	1,539

¹ "It is even alleged by men who have paid great attention to the subject that India now yields a larger annual crop of cotton than is grown in the United States of America" Cotton Committee, 1847. Quoted in Vakil and Muranjan, "Currency and Prices in India," p. 192.

* 400 lbs. bales.

IMPORTANT VARIETIES OF THE INDIAN COTTON CROP.¹ 1934-35.

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Trade Name	Staple (32nds inch)	Spinning capacity	Estimated Production (In thousand of bales of 400lbs. each)	Marketing Season	Province in which grown
1. Punjab and Sind Americans 289, F1	34*	30's warp or 49's weft	57	October to March	Sind, Punjab
2. Hyderabad Gaorani	28	24's warp	129	September to April	(Protected Area) Hyderabad
3. Cambodia	32 and 28 to 20	30's warp	58	March to August	South Madras
4. Tinnevelles	24 to 30	22's/26's warp	150	March to August	South Madras
5. Punjab American. 4. F.	24 to 28	16's/20's warp	103	October to March	Western Punjab and Canal colonies
6. Central India	22 to 26	20's/24's warp	186	October to April	Gwalior and Indore States
7. Dholleras Wagad	26	16's warp	199	February to June	Parts of Bhopal, Malva Gujarat, Kathiawar and Cutch
8. C. P. No. 2 Oomras	16 to 18	10's/12's warp	436	September to April	Central Provinces
9. Khandesh Oomras	18	10's/14's reeling*	214	September to April	Bombay Presidency (Central Division)
10. Hyderabad Oomras	18	16's/20's weft	273	September to April	Akalkot and Hyderabad States
11. Dholleras Matheo	-16 to 20	10's/12's	395	February to July	Western Indian State Agency and other small.
12. Bengala	12 to 20	8's/12's reeling or weft.	1327	September to February	Kathiawar States United Provinces, Delhi, Rajputana, parts of Sind and Punjab

MARKETING OF RAW COTTON

¹ From the Statistical Bulletin No. 5, Indian Central Cotton Committee.

* Reeling is yarn spun for Indian hand-loom industry.

TRADE IN COTTON

By the beginning of the Christian Era, India had earned the name, and also the odium as we shall see, of being a great exporter of cotton and cotton goods. The Roman historian Pliny (73 A.D.) complained that there was "no year in which India did not drain the Roman Empire of a hundred million Sesterces", equivalent to nearly 15 million rupees. Bengal, the Coromandel Coast (Masulipatam) and Gujarat were the centres of production and supplied cotton to foreign countries like Turkey, Syria, Arabia, Ethiopia and Persia. During the 17th Century, trade in cotton developed between India and Great Britain. The East India Company encouraged the manufacturers to produce larger and larger quantities, as the export trade in cotton goods was very profitable. The opposition that this trade aroused in England from the woollen manufacturers, and the imposition of penal tariffs against imports of Indian cotton goods, and their gradual stiffening to the point of prohibition are facts too well known to need elaboration. Later, in the 19th century, England herself began to manufacture cotton goods on a large scale; their export to India and other countries was encouraged by an insistent propagation of the benefits of Free Trade; and their production in India was hampered by elaborate schemes of inland customs.¹ This double policy succeeded admirably for Britain.² The import of piece-goods into Great Britain from

¹ Besides "Inconceivable hardships... have been practised toward the manufacturers... who are monopolised as slaves. Various are the methods... such as by fine and flogging... They levied high taxes on the spinning wheels while the duty-free goods were forced upon the dealers..."

William Bolts, "Consideration of Indian Affairs", quoted by M. P. Gandhi, "Indian Cotton Textile Industry".

Year	Cotton Piecegoods imported from East Indies into Great Britain	British cotton manufactures exported to India
1814	1,266,608 pieces	808,208 yards
1821	534,495 "	19,188,726 "
1828	422,504 "	42,822,077 "
1835	306,086 "	61,777,279 "

² R. C. Dutt, "Economic History of India (Victorian Age)", p. 108.

India fell from more than a million 'pieces' in 1814 to 306,086 in 1835. During the corresponding period the imports of British manufactures increased from 8 lakhs yards to 51 million yards.

"The true policy of the Government" according to the Cotton Supply Association of Manchester "is to legislate so as to drain the raw cotton out of the country (India) and create a demand for manufactured goods in lieu of those now manufactured in India". The Government in England hardly needed this advice. Evidence was tendered before the Parliamentary Select Committee (1840) which affirmed that the British Government compelled the Indian territories to receive the British manufactures and woollens duty free, cottons at $2\frac{1}{2}$ per cent., while they continued to levy duties varying from 10 per cent. to 1000 per cent. on Indian goods.¹ No wonder, the story of that "philanthropic measure" called the Free Trade, "calculated to raise the natives of India in the scale of nations and to civilise them" is remembered in India with much bitterness.

With the death of the indigenous cotton industry, India was left with the only alternative of exporting raw cotton for the manufacturing countries. (The exports increased from 803 million lbs. in 1866 to 1570 million lbs. in 1930-31.) Raw cotton is the most valuable single item of our export trade. Out of Rs. 157 crores, the total value of our exports of merchandise in 1934-35, raw cotton was responsible for Rs. 35 crores or 23 per cent. On the other hand, the imports of cotton and cotton goods were valued at Rs. 27 crores, amounting to 20.5 per cent. of the value of the total imports of merchandise.

Japan is the biggest buyer of Indian cotton. Its demand has amounted to 45 to 50 per cent. of our total exports. The following table gives the share of different countries in the exports of India's raw cotton in the year 1935-36.

¹ Mr. Martin's evidence before the Select Committee of 1840. Quoted by R. C. Dutt, "Economic History of India, (Victorian Age)" p. 112.

EXPORTS OF RAW COTTON FROM INDIA IN 1935-36
(Thousands of bales of 400 lbs. each).

Total	Japan	United Kingdom	Germany	Belgium	France
3396	1759	456	261	228	165

Further statistics, showing the amount and the percentages of different kinds of cotton consumed by some of the principal cotton manufacturing countries of the world are given in the table below.

USE OF COTTON IN DIFFERENT COUNTRIES. 1934-35.
(actual bales—000 omitted).

Countries	Total of all kinds	Indian		American		Egyptian		Sundries	
			% of total		% of total		% of total		% of total
U. S. A.	6329	55	...	6210	98	45	...	90	...
Japan	3657	1655	45.6	1614	44	86	2.3	286	8
India	3012	2617	87	70	2	54	1.7	271	9
Great Britain	2733	386	14	1378	50	356	13	613	22.5
China	2340	70	3	109	4.7	24	1	2137	91
Russia	2063	111	5	1952	95

India is required also to import a considerable quantity of high staple cotton from abroad for spinning finer counts. Our chief suppliers are Kenya, the U. S. A. and Egypt. The table below gives the receipts of different varieties of foreign cotton at Indian mills.

MARKETING OF RAW COTTON

Foreign Cotton Receipts at Indian Mills'
(thousands of bales of 400 lbs. each).

Varieties	1932-33	1933-34	• 1934-35
East Africans	184	191	212
Egyptians	36	57	123
Americans	84	30	64
Others	26	19	33
Total	330	297	432

Between 1st September, 1932 and 31st August, 1935, the percentage of the East African, the Egyptian and the American Cotton received at Indian mills was 56, 20, and 17 respectively.¹

The Mill industry in India consumed in 1935-36, 2.7 million bales of Indian cotton which is 40 per cent. of the total Indian crop.² The Bombay Presidency, the Madras Presidency, and the United Provinces are the chief consumers of Indian cotton, being responsible for 44 per cent., 14 per cent. and 12 per cent. respectively of the total Indian cotton consumed in Indian mills. It is customary to ascribe a consumption of 750 thousand bales to extra factory or local needs.

THE COTTON INDUSTRY

The first cotton mill in India was established in 1818, with British capital, near Calcutta. In Bombay a cotton mill commenced work in 1856 under the management of a Parsi gentleman, Mr. Cowasji Nanabhoy Davar. Since then, with occasional setbacks, the industry has grown steadily. In 1935 there were 365 mills, out of which

¹ From the Report of the Special Tariff Board (Textile) 1936, page 39.

² Ibid, page 40.

³ This percentage has varied from 33 in 1930-31 to 50 in 1931-32.

29 were idle. 49 mills are purely spinning and 31 purely weaving concerns. 42 mills were under erection. The Island of Bombay and the City of Ahmedabad have 74 and 83 mills respectively. The total number of spindles in India is a little over 9 million and that of the looms is 186,139. The industry employs more than four lakhs of workers on an average.

In 1934-35 Indian mills produced 3397 million yards of woven goods and 1001 million lbs. of yarn. This hardly suffices for India's clothing requirements, and we import annually (1934-35) 943 million yards of cloth which is as much as 28 per cent. of the Indian mill production, and 34 million lbs. of yarn which is 3.39 per cent. of the mill production. Against this however, we should take into consideration the annual exports of 245 million yards of cloth and 20.5 million lbs. of yarn.

Handloom Production :—The production of cloth by handlooms in India is not negligible. (There are, according to the Special Tariff Board Report (1936), 2 million handlooms in India, consuming 354.5 million lbs. of yarn and producing more than 1400 million yards of cloth, which is approximately 26 per cent. of the total quantity of cloth consumed in India.)

Taking into consideration the production of cloth by mills and handlooms and the exports and imports of cloth, we find that nearly 5000 million yards of cloth are available for consumption in India. This comes to about 16 yards per capita, which compares miserably with the consumption in

CHAPTER II

MARKETING—FROM FARM TO EXCHANGE

THE PROBLEM IN MARKETING

At a conference of the Agricultural Economics Society several specialist committees were appointed, and among them was one to consider "Agricultural Economics (including Marketing)". The President of the conference, Sir Henry Rew, K. C. B. in the course of his address criticised the special mention in brackets that marketing was to be included in the discussion on Agricultural Economics. He remarked, "one wonders what conception of the scope of Agricultural Economics was in the minds of those who thought it necessary to explain that it included Marketing. It would have been just as reasonable to have explained that the subject included production".¹ The track of agricultural economic research extends from the first operations in the production of farm commodities right up to the passing of these commodities into the hands of the consumer. Obviously, therefore, the major part and perhaps the most difficult and important portion of the tract is covered by marketing.

Numerous definitions of the term market are available. The common definition, which says that a market is a place where buyers and sellers meet, does not take us far. A more scientific definition is required. Market is a sphere where price-making forces act.² Hibbard gives a picturesque idea of a market when he refers to the old saying that "two women and a goose make a market".³ The word market is

¹ Proceedings of the Conference at Oxford, dated July 6th-9th, 1928. The Agricultural Economics Society.

² Hibbard, "Marketing of Agricultural Products," page 13.

³ Ibid, page 13.

thus used to 'designate the collective feeling of a group or of groups as to prices'. In this sense, a commodity, the price of which is responsive to world forces, is said to have a world market. Cotton is such a commodity. World supply and world demand determine the price of cotton at any time.

The entire process of bringing a commodity from a farm to a final market, is termed marketing. The function of good marketing is to provide a steady and elastic supply whenever and wherever there is an effective demand. At no place and at no time should there be either a plethora or dearth of any commodity that has a market.¹

[A variety of operations is involved in getting a commodity from the producer to the consumer. The consumer's demand for goods is on the whole a continuous one, but the raw material, necessary for those goods is produced by Nature only at a certain time of the year. It is the function of efficient marketing to regulate a steady supply of raw material throughout the year for the purpose of production. The modern facilities of transportation have increased the distance between the centres of production and centres of consumption, making the marketing machinery elaborate and complex. Thus it will be seen that the function of marketing is to create both time and place utilities.]

The subject of marketing got a recognition in the economic theory chiefly after the Industrial Revolution. The Révolution which changed the whole technique of production also necessitated a change in the technique of distribution. The 'domestic economy' of the self-sufficient villages gave place to the large scale production and territorial division of labour. The stage in which some patriarchal families boasted that they neither sold nor bought was gradually destroyed. As the distance between the producers and the consumers grew, marketing functions acquired increased importance. Markets became cosmopolitan but the farmer remained

¹ A. Marshall, "Trade and Industry".

provincial.¹ Paradoxically, the transportation facilities which are supposed to annihilate distance, increased the distance between the producer and the consumer. Further, on the basis of the theory of international trade, it was considered economically advantageous for agricultural countries like India to confine themselves to agricultural production, leaving the process of manufacturing to so-called industrial countries. This extension of commercial farming greatly accentuated the business side of agriculture. Thus the economics of agriculture now claims as much attention as the practice and science of agriculture. The farmers have begun to produce crops not for their immediate consumption but with a view to realise maximum money return for their crop. This involves the question of economic and skilful disposal of the produce. Not being acquainted with the business aspect, the farmer failed to pay adequate attention to these functions of marketing, and taking advantage of this lacuna a distinct class of persons, the middlemen, almost monopolised these functions. They gradually developed these functions into one of the most complex systems of intermediaries and worked it in a fashion which did not often prove to be in the express interest of the farmer. But whereas the farmer in the West is increasingly becoming aware of the lacuna, the farmer in India is still groping in the dark, sometimes almost pathetically contented with a supreme resignation to the God of Rain.

The Industrial Revolution which heralded immense industrial developments in the West saw their gradual ruin in India, giving rise to a peculiar phenomenon—quite natural and even greatly advantageous according to the theory of territorial division of labour and international trade—in which India the ancient home of cotton goods, began to export cotton in large quantities for the spinners of the West. Whatever that may be, its significance for the farmer and the marketing of his produce was great. Due to

¹ Hibbard, page 12.

the exposure of his commodity to the competition of international markets and the cross currents of world trade, the price determining influences (factors) for these commodities went completely out of his control, nay, even his comprehension. Henceforth his profit or income, whatever it may be came to depend, as far as he could help it, solely on the economies he could introduce in the marketing of crop, for both the price and the cost of production to some extent were determined independently of him.

As the demand and supply widen the markets become more and more exposed to outside risks. A political crisis in Japan, a decision of the Supreme Court of the U. S. A. or the validity of a piece of agrarian legislation, or a possibility of a Franco-German war will throw the market out of gear. And in this whirlwind of international affairs, the farmer in this part of the globe remains unprotected. The Government with its glorious *laissez faire* and heavy red-tape, and the politicians with their contemptuous disregard for applying the scientific mind to our main economic problems are but poor guards of the farmer's interest. The great depression, however, has begun to disturb the complacency both of the Government and the public; the rising tide of peasant discontent has made the need for some action very urgent.

IMPORTANCE OF MARKETING TO THE FARMER

The success of any scheme of agricultural improvement will depend largely on the facility the agricultural community possesses for disposing of its surplus produce in the most advantageous manner. The need for the proper distribution of produce is of no less importance than the need for its proper production. Most of our efforts for securing prosperity of the agriculturist are concentrated on increasing and improving the quality of the production of his field, but we forget that abundance might mean cheapness or even

poverty, and that a lion's share of what the consumer pays for the commodity may be absorbed in the various marketing processes. Our concern, therefore, should be to secure for the farmer a maximum money return for his crop. If the marketing machinery is choked up with malpractices or if the organisation of the produce exchange market at the top is defective, not only will the benefits of improved quality disappear, but what is worse, it will also throw the producer into a mood of pessimism and helplessness, making him indifferent to the quality he grows. If the farmer does not get an adequate premium for his improved varieties, no *raison-d'etre* is left for him to take pains to grow them. We long neglected this aspect of agricultural development. The 'Royal Commission on Agriculture' rightly drew our attention to the failure of the Agricultural Department to give substantial help to the cultivator for realising the best possible financial return for his improved quality and increased out-turn. The importance of marketing is not sufficiently recognised in schemes of agricultural development. Both the Royal Commission on Agriculture and the various Provincial and the Central Banking Enquiry Committees stressed this point by devoting separate chapters to marketing in their reports. But the very wide scope of their enquiry made a detailed investigation of every link in the marketing process impracticable for them. No survey of the conditions under which any particular agricultural commodity is marketed has yet been attempted,¹ except for the investigations of the Indian Central Cotton Committee into the finance and marketing of cotton, and even these though valuable in their own way, have omitted to examine the commercial circles, confining their attention mostly to the farmers. Besides, the most crucial point and the crowning link of the whole structure, the organisation of the central market or the Exchange as it is called, and its repercussions

¹ A Marketing survey has now been undertaken by the Government of India.

on the whole process of marketing have not yet been investigated by any one.

The addition to cost, due to the process of taking a commodity to the ultimate purchaser, the manufacturer, has an integral relation to the price that the cultivator receives at the hand of the first purchaser. [This is especially so for commodities on world market like cotton, the price of which is fixed from above.] The price [for such commodities] is not determined by adding the cost of marketing to the cost of production as would seem natural, but is determined, generally speaking, by world demand and world supply. The farmer gets only the residual share, left after deducting the intermediary charges from the price prevailing in the central market. Such being the case, the burden of the cost of distribution falls entirely on the shoulder of the cultivator. If the price per candy of cotton in a central market like that of Bombay is say, Rs. 200, and the cost of marketing—bringing cotton from a farm to the exchange—is say, Rs. 50, the farmer will be offered Rs. 150 only, for one candy of cotton. If by systematising the marketing processes we can reduce the expenses, we shall be rendering a visible service to the agricultural community. Apart from this direct saving by better economies in marketing, a greater adjustment of demand and supply is of vital interest to the farmer. If the total available supply can be so distributed as to never allow the supply to be in the excess of the demand, the farmers would get what is called the 'just' price, which may in many cases be a better price. Further, we shall notice as we proceed that better handling of any commodity during the marketing process definitely raises its price especially where this aspect is neglected. And this indirect benefit often far outweighs the direct benefit referred to above. Generally the average farmer is ill-informed as to the changing factors of demand and supply, especially when both of these are extraneous to him. The supreme importance of the element of time and space in modern business economics needs no emphasis and

what we expect of organised marketing is that it should annihilate both time and space in such a way as to facilitate a maximum adjustment between demand and supply.

The inability of the farmer to devise the best means of marketing for himself is easily explicable. "He generally regards marketing as subsidiary to production and the circumstances of the average cultivator (in India) favours this attitude".¹ The hedge of his field, which he can almost touch by stretching his hands reminds him of his smallness. Added to this, his ignorance of the commercial side of his business generates an attitude of resignation towards the interplay of economic forces which he regards as his destiny. The merchants on the other hand, are proverbially considered to be shrewd and are often suspected of unfair dealings by the ignorant farmer.]

It is therefore expedient that the path of a commodity from a farm to the exchange market be searched, revised and re-planned with the eye of a critic; this long weary journey of the scattered heaps of cotton from a field to some distant spinning mill is full of woes. It will be our concern in the following pages to indicate clearly the various stages as "cotton goes to market", point out the economic services rendered by each of them, investigate whether these services are performed efficiently and cheaply, and then to suggest improvements.

A DESCRIPTIVE SKETCH OF MARKETING METHODS IN GENERAL

In any enquiry regarding the existing method of marketing, the very first feature that strikes us is the total absence of any organised scheme. Except in Berar and recently in two or three places in West Khandesh, the primary cotton markets are not at all regulated. Consequently there is no one uniform marketing procedure that can be taken as truly representative. A variety of marketing methods are followed

¹ Report of the Royal Commission on Agriculture, page 328.

in the different parts of India, controlled at the most by local customs and conventions.

The farmer disposes of his cotton either in the village itself or takes it to some adjoining market. Sales in villages appear to be more favoured. A discussion about the respective merits of sales in towns and sales in villages is given later. The purchaser in the village is either a petty local merchant or an itinerant trader or a dalal. Occasionally some big Bombay firms, having their offices in town markets in the mofussil, send their agents into adjoining villages to accumulate a sufficient quantity of cotton. All these together make the demand side fairly competitive, and the prices in villages compare favourably with those in primary markets. In Gujarat, the gin-owners, who often are themselves cotton merchants send their representatives in villages to purchase cotton directly from cultivators. The money-lenders, though they advance money to the cultivators, seldom purchase their crop.

Besides these direct transactions, a system of forward sales prevails in some districts, the price being either fixed at the time of the contract or left to be fixed at the option of the seller. In Central Gujarat—Broach, Panch Mahal and Baroda State—the gin-owners arrange with the cultivators, at the commencement of the harvesting season, to purchase their approximate crop at a particular price on the basis of samples. As the crop is harvested, the farmer delivers his cotton directly at the ginneries for weighment. Sales by auction are not frequent.

In villages the transactions are done leisurely at any hour of the day. But in town markets the carts assemble at some fixed place mostly in the early morning. In some districts the compound of a ginning factory serves as a cotton market. In Khandesh and the Karnatak some municipalities, e.g. those of Jalgaon and of Hubli, provide open spaces for the purpose of the cotton market. In Dhulia, the biggest market of West Khandesh, prior to the establishment of a regulated

market, and even afterwards, two ginning factories allowed the use of their land gratis for the purpose.

Merchants and brokers begin to assemble in the market place from early morning. By the time they come, most of them are telegraphically informed both about Bombay's closing rates the night before and the latest American Futures. Soon after begins a process of noisy bargaining between buyers and sellers, but more often between their respective dalals and adatiyas. Dalals move about with samples from the carts of their clients, showing them to prospective buyers. Bids are made under cover of a piece of cloth by a peculiar code of figures.

The first price that is agreed upon by any two parties is taken as the ruling price for the day, allowance being made for the difference in quality. Within an hour or so the whole market yard is cleared, with none but a few stray cattle grazing unconcernedly.

The carts go to the ginneries, where the cotton is weighed. At some places the co-operative society provides a weigh-bridge. To the confusing variations in the weights used in different markets, we shall refer later. After the weight is recorded, the kapas is heaped on the bare ground, to await its turn for ginning. A few factories now-a-days provide godown facilities. By evening the cultivator usually gets his payment, and returns to his village, after making some purchases in the town or indulging at an ale-house.

Having reviewed the whole picture cursorily, we proceed to the more important stages in marketing in greater detail. The transport facilities, the ginning process, the storage, the middlemen, all claim our fuller attention.

PICKING

Marketing of cotton begins with its picking. It is absolutely essential that our cotton should have a good reputation, especially in foreign markets, for its cleanliness. Once the purchaser gets an impression that cotton in India is not

well-picked and well handled, he will make it a general rule to provide for a somewhat heavy blow-room loss while offering his price for any transaction. This will depress the price of Indian cotton and every cotton grower will suffer the axe, whether he picks his cotton clean or not.

Our way of picking cotton is crude and much evil is associated with it. But while much of it is due to the ignorance of the farmer, some no doubt, is due to deliberate fraud. Under the present system ripe and unripe bolls are picked up indiscriminately. No doubt the dryness of our climate is, to a certain extent, responsible for the presence of the cotton leaf which is very brittle and clings fast to the boll. Picking should not be done in the early morning because cotton is considerably damped by the dew.¹ But if we have to choose between the two evils, it is better to advise picking early, for heavy dew is not common in all parts and scarcely persists late in the day, and at the most, the buyer may be allowed suitable allowance for the dampness.

A clear day should be selected for the purpose of picking. The practice of heaping the picked bolls on the bare ground should be discouraged, and the American system of providing two bags to every picker, one for the clean cotton and the other for the dirty, should be introduced. Payment to pickers on the basis of the quantity they collect, needs to be discouraged, as their sole aim then becomes to collect as much as possible, regardless of its cleanliness. Instances of deliberate mixing of earth and small stones with the bolls with a view to increasing the weight are in no way uncommon.

It must be remembered that the working of all these reforms is not easy for the farmer and the expenses involved in cleaner picking may far outweigh the premium paid for the cleaner stuff.² In fact, it was the experience of the Agri-

¹ Examples are known of cotton losing 10 sheers in a maund (40 shr.) after such pickings.

² Cotton systematically picked by a large landholder in the Kumta tract and sent to a local mill lost only 5%, against 12 to 14%, from the cotton

cultural Department in Madras that under the present condition a sufficient premium is not obtained for clean cotton, to make it worthwhile for the cultivator to undertake to produce it. In the Madras experiment the stained and damaged kapas was picked out and marketed separately. The buyer paid very little more for the better quality than the market rate for the ordinary quality and considerably less for the remainder, so that for the whole lot, the cultivator obtained less or at least no more than he would have done if it had all been of one quality; in spite of the fact that he had incurred an expenditure estimated at Rs. 3/- per acre on careful picking. However, fifteen years have elapsed since then and an experiment on similar lines, though with some fundamental changes, might yet be undertaken by either Agricultural Departments or Co-operative Societies with better chances of success. At present quite a good premium is paid—though not solely for better picking—on what is known as 'Society Cotton' in Khandesh and other parts for its better quality. The Agricultural Department or the Co-operative Societies, in different districts, should suggest systems of picking suited to their peculiar climatic conditions and the rural economy. Conditions vary considerably to make a single plan practicable for all. Strenuous propaganda will be required to bring about any change in the traditional methods. But the Agricultural and Co-operative departments should not stop merely at propaganda work; they ought to help the farmers more actively. They should select certain tracts from which they can get cotton in good quantity, organise the picking and should also make arrangements to market the whole crop separately in the name of the Department or the Co-operative Society.

In order to persuade the more conservative farmer, it may become necessary in the initial stage to guarantee a premium

picked in the usual way, but was valued by the mill only at 7 to 9% more than the cotton ordinarily bought from respectable merchants.

Report of the Indian Cotton Committee 1919, Evidence Vol. V

for better quality. Such an undertaking may be deemed risky by the authorities concerned, but there is every reason to believe that the experiment, if conducted on proper lines, will succeed. Again looking to the benefit it will confer on the growers of cotton, a far-sighted Government ought not to hesitate to conduct such experiments and even to suffer some loss. The bane of careless picking being not immediately visible, is not realised at first by the agriculturist or the trading class. In all such cases it is the duty of the State to take the initiative. An individual, whether a farmer or a trader, may not have the patience and the means required to make the experiment a success. He is generally conservative and takes to novelties with distrust. If, after giving sermons to the farmer, we leave him to the mercy of the merchant and expect the latter to give him proper premiums, we are sure to be disappointed, for we over-estimate both the strength of the farmer and the scrupulousness of the businessman.

GINNING AND PRESSING

Ginning¹ and pressing of cotton are important items in the marketing of cotton. Most of the cultivators in India, unlike cultivators in America, dispose of their cotton before it is ginned. So ginning marks a stage in marketing from which the cotton grower in India ceases to take any part in the further onward journey of his produce. He is mostly ignorant about the remaining marketing functions and more so about their economic significance. Few people, much less the grower, know that it is the farmer who suffers the burden of inefficiency in marketing and bears its cost. The farmer does not think it his business to be concerned about it. This indifference has resulted in a system of marketing that came to be controlled by a non-agricultural class, who, to say the least, is indifferent about the interests of the farmer. The management of these marketing services by a separate class

¹ Ginning is a process by which seed is removed from Kaps.

of people logically results in their being performed much above the cost price. The very purpose of the co-operative movement is to replace this system, by performing these services at cost price on behalf of the farmers.

Had the Indian farmer been not so poor, and his land and its output so meagre, he could have, like the American grower, organised his own ginning and pressing. But as the case stands, a class of capitalists has taken upon itself the task of ginning and pressing the cultivator's cotton. Any pure profit made by it—meaning by pure profit, profit unalloyed by return for labour and capital—is a direct deduction from the farmer's due.

The ginowners in India are not of one type. Generally in Khandesh, Central Provinces and Berar, ginowners are not themselves the traders. They simply undertake to gin or press their customers' cotton at a fixed rate. Recently, however, some big Bombay firms and foreign firms—Japanese and others—like the Toyo Menkwa and the Volkart Bros. have established their own factories at some big centres in the interior. In Gujarat the ginowners are mostly themselves cotton merchants. They purchase unginced Kapas from the farmer, gin it, and then sell it to the exporter or the spinner.

Our enquiry into the cost of marketing showed that the cost due to the ginning and pressing cotton forms 20 to 30 per cent. of the whole cost.¹ A general impression seems to prevail in certain quarters that these charges are generally high, and as a result of that a portion of the farmer's due is cut off. It is a general practice with the factories in a town to form themselves into an association and fix a common charge for ginning and pressing cotton in order to eliminate competition. A portion—fixed by agreement—of this charge is retained by individual factories as a cost for working the factory and the remainder is pooled together and distributed amongst the participants pro rata. For example, if five rupees

¹ See Appendix II, p. 39.

per boja (393 lbs.) is the ginning rate, three rupees are retained as working charges, and two rupees are taken in the pool. Even the factories that do not work are entitled to a share in the pool. This return, reward or ransom, whatever we may consider it, to functionless ownership is unjustifiable. Besides, this unearned income constitutes a direct deduction from the price that the farmer ought to receive.

It is, however, erroneous to believe that the portion of the charge that is taken into the pool constitutes a regular profit for the gin-owners, as will be seen from the following typical example. Suppose, in a particular town there are 10 ginning factories, and 50,000 bojas are ginned in a particular season. If a ginning factory gins 10,000 bojas, it will not make a profit of Rs. 20,000 ($10,000 \times 2$) because Rs. 100,000 ($50,000 \times 2$) will have to be distributed amongst all the ten factories and the share of our ginning factory, assuming the shares to be equal, will be only Rs. 10,000. But the fact remains, that this "Profit Fund"—if we may coin the word—diminishes to that extent the income of the cotton cultivators.

The question was critically discussed by the Cotton Committee of 1919. The evidence it received was in no way conclusive. Those who were not in close touch with the matter believed that the rates were high and the farmer suffered as a consequence, while those actually connected with the ginning and pressing factories and men of unquestionable integrity maintained that the high rates were mere exceptions. A lot of money is sunk in ginning and pressing factories and in a system in which private profit is considered the motive force of enterprise, a certain return is naturally expected on that. If there were no pools, these ginning and pressing factories, it is contended, would all be ruined.¹

¹ The following few quotations from the Evidence Vol. of the Cotton Committee of 1919 would prove illuminating.

"The belief seems to be that the difference between the pool rate and retaining rate is the pure profit of the factory. This is a mistake. You have to pay full pool share in the pool, whereas you only get a share

The Cotton Committee of 1919 reported that the factories in order to protect themselves against cut-throat competition and to secure a reasonable return for the capital invested in them, formed themselves into a pool..... but the result has frequently been that new ginning and pressing factories which have never worked and which were never intended to work have been erected in places that are already over supplied. The only object with which they were erected was to share in the profits of the pool and the mere threat to start working was sufficient to secure the entry of their owners in the pool. "In consequence rates have been forced up to a level which can only be regarded as excessive to the detriment of the cultivator. Whilst in most districts, the ginning and pressing charges including the contribution of the pool average about Rs. 5 to Rs. 6 for ginning and the same amount for pressing a bale of 400 lbs. of lint, in some cases we found rates as high as Rs. 11 or Rs. 12 for each process".¹

Various proposals were made to remedy the evil of high rates. It was suggested that Government should fix the maximum rates. The proposal obviously is such as cannot be

according to the number of factories. Example will make it clear. The large workers always try to keep the rates down, they never get a share based on their actual work."—Sir Purushotamdas Thakurdas.

"It is argued that at certain stations there are more factories than are required and the pool is formed under which some work and others remain silent, and the silent one's share is the profit of the working; therefore a plethora of factories is a crushing burden on the cultivator. It seems to be overlooked by the supporters of the view that such stations are few in number and that in many more, excess of factories results in cut-throat competition, and in ginning and pressing work being done at cost price or at dead loss to the factory. The cultivator gains a great deal more than he loses by the excess of factories..... Moreover, there is, as far as my Company's experience goes, no justification for the theory that unduly large profits are made by capital invested in the ginning and pressing factories. I think in the particular station where the pool is, the extra profit comes from the pocket of the cultivator. But my point is that while present conditions in some cases produces a pool, in other cases the same condition causes cut-throat competition. So that the matter is as broad as it is long.

Mr. Moore, Vol. V. page 125.

¹ Appendix I gives the ginning and pressing rates at a few big cotton centres for the last three years.

given effect to, both because of the difficulty of arriving at the rate that could be considered just and the difficulty of providing an administrative machinery for supervising the working of the statute. Again Government interference to such an extent may not be desirable. While piously looking forward to a great increase in the number of ginneries run by co-operative societies, the Cotton Committee made more than one recommendation, viz :—

1. No licence should be granted to a ginning or pressing factory which does not undertake to work for at least eight weeks in the year.

2. Where ginning and pressing pools exist, and, in consequence, there are more factories than are really required, concession in regard to the grant of land should be offered to induce the surplus factories to move to other localities.

3. No night shift working should be permitted.

None of these recommendations is given effect to except in Madras. The Madras Government by an Order dated September 17th, 1929, announced that no licence should be granted to a ginning or a pressing factory unless the owner thereof undertook to work it for at least eight weeks in a year. The Chairman of the Municipal Council and President of the Taluqs and Union Board are accordingly requested to see that before they issue a licence the owners of the ginning and pressing factories give the undertaking.

After the enactment no adequate study of the situation was possible for judging the effects of the working of the act. But *prima facie* the clause laying down that no licence should be given unless the factory works for eight weeks is capable of doing great harm. It may not be difficult for the factories to so arrange between themselves that each factory works for eight weeks. The only effect of this will be a very considerable increase in the working expenses of each factory, and these, at least, the factory owners will be, in a way, justified in charging to the cultivator. Though such an agreement between the factories is very difficult to achieve, looking to

the dreadful alternative of being ruined by compulsory closure of the factory, there are fair chances of such an arrangement being arrived at. The legislation may thus aggravate the trouble rather than eliminate it.

The failure to tackle the problem is to a certain extent, due to the misreading of the situation, and the undue importance given to the system of pool. The root of the trouble is the excessive number of ginning and pressing factories in certain areas compared with the capacity of their respective markets to feed them.¹ In places where the number is just sufficient to cope with the market, pool or no pool, high charges can be maintained, as the question of competition does not arise. But where there are factories far in excess of what the market can support, if cut-throat competition and utter ruin are to be avoided, a pool may be allowed on some reasonable basis. The basis thought out by the Cotton Committee of 1919 and the Madras Government is prohibitive. The cotton ginning and pressing factories perform an important service of processing and are "a necessary link between the buyers and consumers. Any blow to their legitimate functioning will in the long run prove injurious to the farmers themselves".²

So the prohibition of the pool is not going to bring the millennium. In a case, where the charges are high, not because of the excess of factories but because of the scarcity of (at least) sufficiency, prohibition would prove ineffective. But the cases in which high charges are due to a scarcity or want of sufficient competition among the ginning factories, are, to our mind, few. Even in those cases, the remedy is the same as we have suggested for the existence of many

¹ There are 233 ginning factories and 80 press factories in the districts of the East and West Khandesh. It is estimated that if all these work regularly the whole of the cotton crop of the district would be ginned and pressed within less than a month. As it is, the ginning and pressing seasons last from 4 to 8 months.

² Resolution XIII, passed at the 5th Annual General Meeting of the Berar Factory Owners Association, states that the prohibition of pools will prove totally detrimental to the interests of the agriculturists themselves.....and finally to the progress of ginning and pressing industry of this province.

factories, namely, official check on rates charged. But the trouble in the majority of cases is due to failure of enlightened self-interest to check the employment of capital in the industry beyond the stage when marginal return falls below the cost of working.

Whenever there is an over-capitalization in an industry, two things might take place. The owners or the capitalists might either cripple themselves by cut-throat competition or if they have capacity to organise themselves into a combine or an alliance they will manage to live by raising the price of the services they perform. It is for the powers that be, to choose between the two alternatives. A third alternative, if we may have it, is to socialise the major economic activities of the community.

Economists, as far as we know, have as yet found no painless remedy for over-capitalization. Efforts, however, may be made for preventing the conditions from getting worse. We, therefore, make a few suggestions in the matter :

1. The erection of new factories in a place where there is already a sufficient number of them, with reference to the most optimistic estimate of seasonal arrival of kapas in that particular market, should be prohibited.

2. The factories must be made to submit, before the commencement of the season true information about the rates they intend to charge to the Municipality or the local Government, who should, in consultation with impartial public opinion, examine the same in view of local conditions. If the rates are found to be excessive, they should demand an explanation from the factory.

3. Local Governments should be empowered to bring injunction to prohibit charging of excessive rates. Charging of rates higher than those declared before the authorities, should be made penal.

4. No night work should be allowed where some factories remain closed even in the day time.

In the end we may describe the situation as it exists to-day.

In our investigation we found that the high rates were not universal, rather they were only exceptions. Competition is very keen, quite a number of factories have gone into liquidation and the condition of those still holding on is so precarious, at least in certain districts of Khandesh and Berar that it will not be long before they too go bankrupt.¹

THE MIDDLEMAN

The middleman everywhere has been a subject of both just and unjust criticism. He is primarily held responsible for the spread that exists between the consumers' price and the producers' price. His contributions to the economy of marketing have been variously assessed. To some he has appeared as gloating at the cost both of the producer and the consumer, to others he appears as an inevitable and useful link in the chain of marketing services. The question resolves itself into two parts. Are the services performed by the middlemen, useful and necessary, or are these services superfluously thrust upon society for maintaining a class of parasites? Secondly, if the middlemen do perform some really useful services, is the system economic and efficient? But before we attempt to answer the queries, we will acquaint ourselves fully with the middleman and the nature of his services in the marketing of cotton.

Long ago in a milk convention a cartoon was exhibited.

¹ Dividends declared by certain Gin and Press companies during the years 1934-1936, the face value and the present quotation of their shares.

Name	Dividend in 1933-34	Dividend in 1934-35	Dividend in 1935-36	Face Value	Quotation in April, 1937
The New Mofussil	nil	nil	nil	400	40
The Indian Cotton	nil	nil	nil	100	12
The Manmad Mfg.	nil	nil	5%	250	150
The Prince of Wales	nil	nil	nil	500	40

These are the only ones whose share values are quoted by "The Times of India".

It was in two parts—"The first picture showed the farmer very lean and dour; the milk distributor fat and happy; the consumer ill nourished. The second scene showed the consumer on the limb of a co-operative tree, the farmer on the limb of the organisation tree, with these limbs so close together that the smiling farmer pours the milk from his pail into the consumer's quart cup while down below in a sad plight is the distributor".¹

No proposal ever evokes greater enthusiasm on the part of the reformer than the proposal for the elimination of the middleman. We almost instinctively resent any discrepancy between the price paid by the consumer for any commodity and the price received by the farmer for the same. Yet, however idyllic the picture in the second part of the cartoon, strenuous efforts at co-operation and organisation amongst consumers and producers are required before we reach the ideal. The cartoon itself makes this plain; and even in that perfect system, though for all outward appearance, the middleman is eliminated, what is really eliminated is his profit and not his charges or wages if you will.

The Cotton Committee of 1919 believed that the cultivator is heavily handicapped in securing adequate prices because of a large number of middlemen. Soon after, the tide began to turn in the favour of the middlemen and the Royal Commission on Agriculture, 1928, opined that the aim of better marketing is achieved not by removing any links in the existing machinery but by enabling them to function to greater advantage. Accordingly they state "we have no suggestion to offer which involves the root and branch elimination of the middleman. In the economic organisation of the modern world he fulfils essential functions and neither in India nor elsewhere is it possible to eliminate him".² The Central Provinces Banking Enquiry Committee state that they have not found evidence to support the propo-

¹ Quoted in Hibbard, *op. cit.* p. 43.

² Report of the Royal Commission on Agriculture, p. 383.

sition that the existing middlemen are on the whole either unnecessary or rapacious. Neither, they think, will it be possible or desirable to eliminate the itinerant trader.

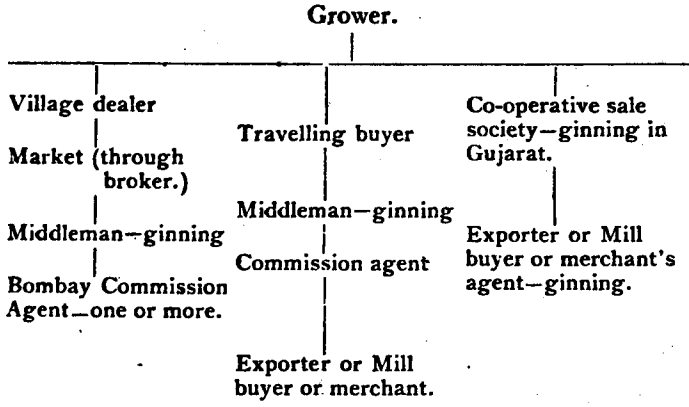
"In the main, the functions of the middlemen are little understood by the producer or by the consumer, and imagination is prone to draw grotesque pictures in the dark. Journalists, cartoonists and politicians never lose any opportunity to play upon the ignorance of the public."

In the cotton trade especially there is such a network of intermediaries, that it raises serious apprehension in the mind of the casual enquirer that this body of aliens must be detrimental to the interests of the farmer, absorbing a good portion of his legitimate income. Throughout this investigation careful attention has been given to the question of the necessity of these intermediaries, to the economic services they perform, to the remuneration they charge for the performances of these services and to certain malpractices connected with their business, and ways are suggested in the next chapter by which these services can be performed in the most economic and efficient manner.

Who then are the intermediaries in the cotton trade? The Bombay Provincial Banking Enquiry Committee give a diagram of intermediaries. The task of reducing such a highly variegated system to a common denominator is difficult and can only approach some approximation.

In dealing with this problem of middlemen we must, at the outset distinguish between the merchant who intervenes between the farmer and the spinner, and one who does commission business, the dalal or the adatiya. In other words, we must distinguish between a sale to a middleman and a sale through a middleman. The services of the two are quite distinct. The latter, i.e. a dalal or an adatiya performs quite visible services for the farmer, services that are absolutely essential and can never be reduced or avoided. There cannot be any question of their elimination beyond their substitu-

¹ Central Provinces Banking Enquiry Committee Report.



tion; and in their charges there is little of profit and much of wages. Anyone who needs to be convinced about this, can mark the hard work they do from early morning, in the burning heat, right up to late at night. Further, the competition that prevails in their sphere of work is so keen that their remuneration is barely in excess of the minimum. No doubt this very competition has tempted them to resort to some objectionable practices but these we shall consider later; what is stressed above is not their impartiality or even efficiency but their need. The second type, the merchant or series of merchants intervening between the farmer and the spinner, is the only one whose services are not so visible as to be appreciated. The problem of elimination or reduction exists, if at all, only with regard to it.

In villages where the greater part of the cotton crop is sold, an itinerant trader or a representative of some big cotton firm is the immediate purchaser. Sometimes, agents of foreign firms go to the villages to purchase cotton but generally they do not deal directly with the cultivator. The trader collects these small lots into a sufficiently big one and takes it to a market near by and sells it to some bigger

merchant or an agent of the spinner. In these upcountry market centres, however, the ultimate purchasers, the exporters and the representatives of Indian spinning mills, have already made their way, and in certain districts such as Khandesh and Gujarat, they are the biggest purchasers. So we can say that a major portion of cotton that goes to the market, whether brought by the farmer or a trader, goes directly into the hands of the shipper or the spinner. This spreading of firms of the spinners and the exporters in the interior has proved very advantageous to the farmer. Being big purchasers of cotton their cost of transportation to Bombay or any such centre is comparatively less compared with that of other small buyers, and consequently they can afford to give a better price to the farmer than other petty merchants can. This also applies to all other expenses incidental to marketing; e.g. firms like Volkart Brothers have their own insurance department, which effects a great saving in their working expenses. An attempt was made during the course of our enquiry to ascertain the share of different classes of buyers in the purchase of a season's market arrivals.¹

The local merchant, who is essentially a cotton trader and therefore a middleman, purchases only 25 per cent of the total arrival of seed cotton in a season, while the remainder, 75 per cent, is purchased either by the agents of the spinning mills or those of the foreign companies, who are, for all practical purposes, the ultimate consumers of raw cotton.

This shows that a substantial part of the market for raw cotton is purchased directly by the spinner or the consumer of raw cotton. So even if the middleman intervenes for the remaining, he will have to pay the price that the spinner pays to the farmer. The presence of these final purchasers and their big demand make it impossible for the middleman to strike prejudicially the interest of the farmer. He works on a narrow margin. He buys kapas, gets it ginned and pressed,

¹ See Appendix III, p. 40.

sends it sometimes to the Bombay market and hopes to realise some profit out of the whole transaction. But it is the fluctuation in price that forms the underlying motive for all this trouble. The risk he undertakes is great, and if sometimes he makes enormous gains, his losses are no less. So in the long run, the cotton merchant in the mofussil, unless he is fortunate or influential, does not come out very prosperous. Whoever is familiar with the cotton merchants in the mofussil can testify to this. The majority of them belong to the lower middle class and in view of the hard work they undergo their income cannot be considered very large. Our submission, therefore, is that though this type of middleman does not perform many useful services beyond shouldering the risk of market fluctuation, his existence does not operate as harmful to the cultivator. If by co-operative effort some organisation of the farmer could be formed to shoulder the risk incidental to the market, the portion of price that is supposed or suspected to be absorbed by the middleman could be saved for the farmer.

The fact that prices in the mofussil markets are always higher in view of the parity with Bombay¹ gives a conclusive proof that the middleman of the mofussil does not deprive the farmer of his legitimate return for his produce. The fact that the prices in the central and upcountry markets are not so large enough to raise any apprehension about the middleman's profit. But for the eternal hope of a favourable market prices, so seldom realised, the whole class of middlemen would be automatically swept off. In short, they live more on hope, than on profits.

This defence of the middleman—as it may appear to some—should not be understood as endorsement of whatever evil is connected with the system. It is only the prevalence of an opinion that traces every evil 'to the existence of hordes

¹ 85% of the replies to the question in the enquiry—Are the local prices higher in view of Bombay parity? gave answer in the affirmative.

Appendix I, Questionnaire I, Q. No. 26.

of rapacious and unnecessary middlemen' that makes it necessary to enter into this long discussion. Our next problem, therefore, will be to find out exactly what services are performed by these middlemen, and to investigate what defects exist in their working.

"When the number of middlemen between the producer and the consumer is large, the interest of both or either must suffer, as each intervening agency has to be paid its price",¹ write the Bombay Banking Enquiry Committee. The statement makes a curious supposition that if the number of middlemen is more, the intervening agencies would also be more. Cotton is not like a football that can be passed with ease to anyone who wants to play with it. Cotton need not and does not pass through every middleman, neither is it true to say that if their number is large it will pass through more hands. All those acquainted with the ready cotton trade know that in its transit from a farmer to a ship or a spinning mill not more than three or four transactions are made. To imagine that everyone professing to be a middleman will intervene and all those intervening will have to be paid for, shows ignorance of trade methods. The only effect of the excessive number of the middlemen will be to make the competition more keen, which means the performance of marketing services at a cheaper rate, which is a positive gain to the producer, as far as the cost goes. The Committee themselves unconsciously support this view, when they state, "In most marketing centres the number of middlemen has increased to such an extent that, as a result, some of the unscrupulous amongst them have been forced to resort to certain malpractices in order to eke out a livelihood".²

It is sometimes believed that the itinerant trader pays a lower price in the villages than the price prevailing in the Bombay market. Due to the absence of specific standards for cotton in the mofussil an exact comparison between the

¹ Bombay Provincial Banking Enquiry Committee Report, p. 110.

² Ibid. p. 110.

Bombay rate and the village rates is very difficult. But, as pointed out before, the one outstanding feature of the prices in the mofussil is that they are generally higher than the Bombay price, taking into consideration the transportation charges. In the face of these facts, a statement that the farmer receives a lower price at the hand of a village or a city merchant will not stand scrutiny. Even the Indian Central Cotton Committee have to remark that "rates offered (in the villages) compare very favourably with those obtaining in the market". Another peculiar feature of the cotton trade upcountry is the strong demand throughout the season. In active seasons there is a regular scramble for purchasing cotton at the prevailing rate. And though this excessive demand will not raise the price, it will at least make a wide 'spread' in the price impossible.

It has been pointed out, further, that the exporters and the spinners have penetrated and are penetrating into the interior, and that they, being in a position to introduce better economies, can afford to pay better prices and consequently all in the trade have to pay higher prices. Besides, the proverbial ignorance of the farmer is no longer a fact, and he generally keeps himself in touch with the prices in bigger markets. In markets where hundreds of transactions take place, the prevailing price cannot remain a secret for long. The one time when there are some chances of his being deceived is when the prices jump up all of a sudden, and the town merchant getting the information quickly, motors to the village and strikes a bargain with some advantage. The villager, even then is shrewd enough to understand the significance of such sudden sojourns and sits tight over his produce.

From the above discussion it will be safe to conclude that the existence of middlemen, thanks to the usual overcrowding in their profession, does not directly reduce the income of the cultivators. So much for the economy of the system, but what about its efficiency? Here things are not as

complimentary to them as in the former case. As noted in a later chapter and admitted by the Bombay Banking Enquiry Committee in the quotation just given, these middlemen resort to many malpractices "to eke out a livelihood". Nothing better could be expected from uncontrolled capitalism. In it people remain poor and yet have to become unscrupulous. The system gives neither prosperity nor efficiency. And the middlemen in India testify to it.

In spite of their numbers, the middlemen have not been able to give us an efficient marketing system. Perhaps they cannot afford to. They even cannot afford to market our cotton unadulterated or unwatered. Our cotton goes to market ungraded and ill-stored. We have no licensed warehouses and the financing of marketing is costly and inadequate. Capitalism cannot work in colonies, because there it always remains an infant, and the provision of facilities for efficient marketing is beyond its capacity. Instead, the substitution of such private enterprise by co-operative effort will make for efficiency, and will give these very men better economic security with dignity. For men will be required to perform these services even then as now, and no one class will be better fitted to perform them than the one who has this accumulated business experience and knowledge. We deal with the co-operative marketing in a later chapter.

VILLAGE SALES VS. MARKET SALES

There are primarily two ways in which the farmer disposes of his cotton. He either sells the cotton in his own village or takes it to a bigger market in the neighbourhood. In order to understand the present position of cotton marketing, a critical study of the relative merits of the two systems is essential. The Central Cotton Committee have collected very useful material on the question, which will supply us with a basis for the following discussion.

Before trying to determine which of the two ways is more advantageous to the farmer, a statistical statement of the

actual position in various provinces will greatly elucidate the matter.

The Central Cotton Committee have given the following figures :—

	Percentage of the amount sold.	
	In Village	In Market
Berar	32	68
Khandesh	81	18·6
Middle Gujarat	51	49
Sind	79	21
The Punjab	80·5	19·5
Madras	87	13

The position of Berar is evidently exceptional as the cotton markets of Berar are organised according to the Berar Cotton and Grains Markets Law of 1897. So if we exclude Berar, 72 per cent. of the total crop is disposed of in villages and 28 per cent. in town markets.

If we take the figures of the number of cultivators who sold in the market and those who sold in the village, we get similar results. In the early period in Khandesh, Middle Gujarat, Sind and Madras :—

60·5% sold in villages, 37% sold in markets and 2·5% sold partly in the village and partly in the market.¹

and in the later period :—

78·6% sold in villages, 20% sold in markets, and 1·4% sold partly in villages and partly in markets.

The above figures show very definitely that the cultivators display a clear preference for selling in villages. Strictly speaking, however, though over 60 per cent. of the crop is sold in the villages, we cannot call this a preference over sales in the market. If the demand is sufficiently keen to penetrate the interior, it is but natural that a large portion of the crop should be sold where it is produced. Taking the cotton from the village to the market involves both labour

¹ General Report of the C. C. C. page 21.

and expenditure. A town market is sometimes 20 to 25 miles distant from the village and if the prices in the village compare favourably with those in the markets, why should a cultivator cart his produce to such a long distance in the thick of a wintry night? Only when the farmer does not receive a fair price—the prevailing price—in his own village, he might think of taking his produce to the market. The preponderating village sales are but the most natural phenomena, and show that market prices are well reflected in village sales. The imperfect organisation of the upcountry market, the want of storage facilities, the prevalence of disputes and faulty weights might to some extent offer further impediments. If, as the Indian Central Cotton Committee have observed, 'there is always a strong local demand and the rates in the villages compare very favourably with the prevailing market rates' there is no earthly reason, whatever the state of the organisation of the market, for the farmer to take the produce to a market some twenty miles away. We can, however, reasonably anticipate, that if the upcountry markets are well regulated and adequate provision for storing, grading and pooling are made, it will be highly desirable and beneficial for the villager to bring his produce there. It is also true, that in order to make the experiment of grading and pooling a success, large quantities of cultivators' produce should come to the market. It is a vicious circle no doubt and can be broken only by perfecting the upcountry markets.

APPENDIX I.

Ginning and Pressing rates at Certain Cotton Centres.

Place	Ginning rate per Boja of 392 lbs.			Pressing rate per bale of 392 lbs.		
	1933-34	1934-35	1935-36	1933-34	1934-35	1935-36
Dhulia	3-8-0	5-0-0	5- 0-0	3-12-0	3-12-0	3-12- 0
Shirpur	3-0-0	3-0-0	2-12-0	3- 0-0	2-12-0	2-12- 0
Amalner	4-9-0	4-9-0	5- 1-0	4- 0-0	4- 0-0	4- 0- 0
Malegaon	3-8-0	4-0-0	4- 9-0	4- 5-0	4- 5-0	4- 5- 0
Chalisgaon	6-8-0	6-8-0	5-12-0	4- 6-0	4- 2-0	4- 2- 0
Jalgaon	4-9-0	4-9-0	3-12-0	1- 8-0	1- 8-0	1- 8- 0
Akola			2- 9-0			2- 9- 0
Khamgaon			2- 8-0			1-10-10
Wardha			5- 0-0			3- 0- 0
Nagpur			3- 0-0			4- 2- 0

APPENDIX II.

Cost of Marketing¹—per Boja of 392 lbs.

KAPAS MARKETING

Brokerage	0 2 0
Hamalee (Coolie charges)	0 4 0
Ginning Charges	2 8 0
Gunny hire	0 12 0
Insurance and Interest charges	0 4 0
Total :	<u>3 14 0</u>

¹ Out of many replies received to Question III of Questionnaire No. 1, the above has been taken as the most representative. See Appendix I.

MARKETING OF RAW COTTON

COTTON MARKETING

Cartage	Rs. 0	5	0
Pressing	"	4	4 0
Pala mixing	"	0	10 0
Zari arranging	"	0	1 0
Cartage on bales	"	0	4 0
Adat	"	0	8 0
Discount	"	0	1 6
Insurance	"	0	6 0
Railway Freight	"	5	13 0
Transit Insurance	"	0	2 6
Bombay Tax	"	1	0 0
Bombay cartage	"	0	6 0
Mukadami	"	0	8 0
Sample allowance	"	0	4 0
Jatha charges	"	0	12 0
Interest	"	0	8 0
Any other	"	0	12 0
	Total Rs.	16	9 0
Local Municipal Tax	"	0	8 0
Bombay extra	"	0	4 0

APPENDIX III.

21.13

CONSTITUENTS OF UP COUNTRY MARKETS.¹

Place	Percentage Share of the following in the Total Business of the City		
	Local merchants	Bombay firms or Mills	Foreign Companies
Amraoti	40	10	50
Khamgaon	25	25	40/50
Ankola	20	25	55
Chalisgaon	40/50	20/25	20/25

¹ From answers to Question 28 of Questionnaire 1. Since this was investigated, there has been a shift in business in favour of Bombay Merchants.

MARKETING—FROM FARM TO EXCHANGE

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Place	Percentage Share of the following in the Total Business of the City		
	Local merchants	Bombay firms or Mills	Foreign Companies
Chopda	15/25	25/35	50
Shirpur	20	20	60
Dhulia	10	30/40	50/60
Jalgaon	25/30	—	60/75
Valod	10	70	20
Surat	65	25	10
Malegaon	10	40	50
Average			
Approximately	27	30	45

CHAPTER III

DEFECTS AND MALPRACTICES IN MARKETING

Naturally, one important purpose of this book is to point out the defects in the present system of marketing cotton. That the Government and the public have seriously begun to worry about the science and practice of marketing cannot be denied. The anxiety of the Government to create some record of constructive work for the betterment of the cultivator and the desire of the Indian traders to conform to the international standards of efficiency and system in their business, coupled together, have brought the problem of the marketing of goods and commodities to the forefront. The Indian Central Cotton Committee which consists of the representatives of all cotton interests, vigilantly attends to the problem of improving the cultivation and marketing of cotton. We shall examine in the following pages the main drawbacks in our system which have acquired notoriety by frequent censure.

It will be interesting to note along with this the various official and non-official remedial measures for combating each evil. During the last 25 years cotton has been the subject of a dozen provincial and central pieces of legislation. The history of cotton legislation, an analysis of its nature, and an appraisal of its utility and effectiveness, will help us to understand our cotton problem from a new angle.

MIXING

The foremost defect in the marketing of Indian cotton is the widely prevalent practice of mixing different varieties of cotton at the time of its ginning and pressing. In recent years such ingenuity is expended on the matter that the practice has developed into almost a fine art. The evil is an

old one but with the shrinking of margins in trade profits, the devices began to be perfected till in certain parts a thoroughly scandalous position has developed. Experienced merchants dealing in spot cotton tell us that hardly 10 per cent. of quality cotton is marketed pure. The evil has by now penetrated one stage below to the cultivator, who finding out that it does not pay to market the pure and the inferior cottons separately does not care to pick and store the two varieties separately, and often deliberately mixes them. We, therefore, hardly get hundred per cent. pure Kapas in the primary markets.

But the more objectionable type of mixing takes place in the ginneries and press factories. Whereas on the farm, cotton that gets mixed is of the same strain though of different grades, the mixing practised by the merchants is that of different strains of cotton, e.g., of the Punjab American with Deshi. The mixing of cottons having different staples disastrously reduces the spinning value of the cotton, bringing it almost to that of the lowest variety in it.

It would be interesting to search the *raison d'être* behind the practice of mixing. Surely the merchants do not mix different varieties out of malice for the cultivators. It is easy to understand that there must be a profit motive somewhere in the business. It has been repeatedly pointed out in the debates over this controversy at different times and places that there is a definite demand for mixed cottons. Even the Lancashire merchants who are the most vocal in protesting against this evil of mixing, either because they are unwilling to pay a proper premium for the pure variety or otherwise, take up large quantities of mixed cotton knowing them to be mixed.¹ Another indication of this demand is provided by the types that the exclusively foreign shippers prepare for their up-country purchases. Invariably the active types are those of mixed cottons.

¹ Cf. Minutes of Proceedings of the Thirtieth Annual Meeting of the Indian Central Cotton Committee.

One wonders what chances of deceiving buyers remain after the practice becomes notorious for its universality. Because everyone takes care to discount for the fraud. Perhaps the only chance of getting the one better of the buyer is regarding the extent of adulteration. As was pointed out before, it is impossible to determine this by touch or sight. Men reared up on normality simply cannot imagine the things to be so bad. But things have got so desperate that every time your worse fears come true. Hence the eternal complaints that bad things are worse.

No one, however, has a right to complain about the evil except the final dupe, the spinner, and least of all the Lancashire cotton merchant. For, he plays the same trick of passing off his stuff to the Lancashire spinner under an illusion of its being not so bad, just as the Indian merchant does in passing it on to him. "Caveat Emptor" is the essence of the economy based on private property in which the consideration is not one of social utility but of individual profit. It matters little what stuff a merchant sells as long as he can sell it at a profit. Malpractices remain the only source of profit when competition becomes 'cut-throat'. Capitalist morality is after all the function of capitalist economy. The same game whose final is played by the Lancashire merchant, is played all along at all the stages of marketing. It is seen in its most aggravated form when an up-country agent of a big firm—perhaps in his zeal to do business with lower limits—manages the mixing more courageously than his employer would desire, knowing the limitations of the occult faculties of the sampler at the head office. Instances are known of cotton 'fly'¹ from local mills and cotton from old bales being used for adulteration. The mixing is elaborately planned at the time the dokras² are arranged in rows for final pressing. With a particular type in view, the proportion of mixtures of different varieties is carefully regulated.

¹ Stapleless fibres which collect in the blow-room of mills.

² Dokras are the foot-pressed baggages of lint cotton.

The history of legislation for preventing adulteration of Indian cotton and improving its variety especially its staple, is full of interest for the student of economic history of India. Ever since the East India Company got a foothold in India for the purposes of trade, the spinners in Lancashire dreamt of an incessant supply of raw cotton from India. Spinners obviously require pure unadulterated staple cotton.

There is enough documentary evidence to show that this one idea was predominant in the mind of the Indian Government in sponsoring legislation and investigations on the matter. The first few lines of the Government of India Resolution appointing the Indian Cotton Committee in 1917 read: "The question of extending the cultivation of long stapled cotton in India is one which has frequently engaged the attention of the Government of India. It has again been brought to special prominence as the result of investigations by the Board of Trade which have shown *the importance in Imperial interest of increasing the production of this class of cotton within the Empire*".¹ The Government, of course believed that the interest of this country in the matter coincided with that of Lancashire. The European interests which gave evidence before the Committee too, had no doubts as to the utility of the long staple cotton cultivation. "And looking at it from the Imperial point of view," said the Directors of the Bombay Cotton Trade Association (a purely European concern) in their evidence "(the object is) to render British manufacturers, be they in England, in India, or in any other part of the British Empire more independent of the imports of the raw material from foreign countries".²

The first effort to control the cotton trade in India started from 1829. Act XV of 1851 extended the scope of the legislation. In 1863 as a result of the enquiries of a commission on the subject, the Government of Bombay passed the

¹ Report of the Indian Cotton Committee, 1919, P. 1.

² Ibid. Evidence Volume IV, P. 116.

Bombay Cotton Frauds Act which imposed penalties of fine and imprisonment for fraudulent adulteration and deterioration of cotton and also for offer of adulterated cotton for pressing. It enacted that all cotton presses should be licensed and made to use a distinguishing name or mark. The Act provided for a costly administrative net-work of Inspectors of cotton for supervising the execution of the Act by a levy of four annas on every bale of cotton exported from any place in Bombay to any place outside British India.

The Act aroused keen resentment in the commercial community. The interference of Cotton Inspectors proved to be a great nuisance and the export levy unjustly penalised the cotton grower for no fault of his. The agitation against the Act compelled its modification, and in 1878 another Act was passed in which penal inflictions for adulteration or sale of adulterated cotton were substituted by a provision for confiscation of such cotton. Other provisions regarding licensing of gins and presses and use of press marks, however, remained. Even this Act was staunchly opposed by the commercial class. Ultimately it had to be repealed in 1881. //

After this the next effort to tackle the problem was made through the Indian Cotton Committee appointed by a Resolution of the Revenue and Agricultural Department of the Government of India in 1917. The Committee was primarily appointed to investigate into possibilities of extending the growth of long stapled cotton in India; it was also asked to enquire into possibilities of improving the existing methods of ginning and marketing and also of preventing adulteration and damping of cotton.

The Committee received voluminous evidence on the problem and came to the conclusion that "transport of cotton waste or fly by rail or sea and of loose Kapas or lint in dokras by rail except for certain specified bona fide purposes under license should be totally prohibited".

In order to enable cotton dealt with in ginning and pressing

factories to be traced, the Committee recommended assignment of distinctive marks and numbers to each factory.

The Committee also recommended the formation of an all India organization to look after the problems concerning the growing and marketing of cotton. The Government of India, in response to this, by a Resolution dated 31st March 1921, constituted the Indian Central Cotton Committee. This Committee which has since grown into a body of considerable weight and authority has now taken upon itself the work of suggesting and initiating reforms in the growing and marketing of cotton. Since its inception the problem of mixing has engaged its attention and it was mainly through its effort that the Cotton Transport Act, 1923, another effort towards eradicating the evil, was passed.

The Act empowers the local governments for the purpose of maintaining the quality and reputation of Indian cotton to prohibit the import of cotton into any particular area notified for the purpose. The object of the Act was to prevent the transport by rail, road, river and sea of inferior cottons to areas growing a better variety, resulting in the general deterioration of the quality of cotton. All the cotton growing provinces have tried to implement the provisions of the Act by notifying from time to time tracts which grow better varieties, transport of cotton to which from other districts is banned.¹ Since this Act was passed, six Indian States² have issued similar legislation for preserving the purity of cotton.

Reviewing the working of the Act, one is not in a position to say that it has successfully achieved its purpose. This has happened because there are certain inherent defects in the legislation itself e.g. the Rules issued by the Government of Madras under the Act do not prohibit the transport of cotton by road and river. This is an important loop-hole and people were not slow to take advantage of this. The

¹ For details refer to "Bombay Cotton Annual", yearly publication of the East India Cotton Association, Ltd.

² They are Hyderabad, Baroda, Indore, Sangli, Rajpipla and Chhota Udepur.

omission is intentional, as it is impossible to devise an administrative machinery sufficiently cheap but effective that would check the transport by road and river.

Further, the Act did not contemplate the transport of inferior seed to tracts growing staple cotton. The urge to grow short staple cotton provided by its better ginning percentage and comparatively higher price was so great that tons of seed of inferior varieties began to be imported into "prohibited" areas. In the Surat tract, for example, all attempts of the Government and the Indian Central Cotton Committee to encourage the growth of the better variety, 1027 A. L. F. came to nought by the persistence of the inferior Goghari seed. In the 1933-34 season, Goghari cotton, it was found, formed 25 per cent. of the total cotton ginned at Navsari. In 1935 the Bombay Legislative Council passed the Cotton Control Act prohibiting the growing and handling of Goghari cotton in the Surat zone. The Act empowers authorised officers to enter any land or place in a controlled area, in which cultivation or mixing of Goghari cotton is suspected, and to uproot or seize such cotton. A penalty of Rs. 25 for cultivation of and Rs. 500 for trading in or mixing such cotton is levied.

In the Central Provinces, Garrow Hill Cotton is doing similar mischief. This variety has no staple and no spinning value, but gives a much higher yield than the C. P. Verum cotton. It is widely used for the purpose of mixing. Adulteration is practised on a large scale to the great detriment of the reputation and value of the genuine C. P. Cotton. The Government of the Central Provinces is contemplating legislation to penalise the mixing of different varieties of cotton but is not prepared to prevent the growing of Garrow Hill Cotton. The Central Cotton Committee have passed a resolution at their 31st meeting (1935) requesting the Central Provinces Government to re-consider the question of prohibiting the growing of Garrow Hill Cotton, as in the opinion of the Committee the proposed legislation to prohibit

the sale of mixed cotton as pure, will not prevent the sale of this inferior cotton. ✓

Another line of attack on the evil was thought out. It was felt that any scheme by which the adulteration could be traced to the persons guilty of it, would have a deterrent effect. With this purpose in view, the Cotton Ginning and Pressing Factories' Act was passed in 1925. Section 3 of the Act makes it obligatory on the owner of every cotton ginning or pressing factory to maintain a register, containing a record of all cotton ginned or pressed in the factory, and of the names of persons for whom the cotton was ginned or pressed. Section 4 of the Act provides for marking in a prescribed manner every bale pressed in the factory with a serial number and with the mark assigned to the factory. The press owners had also to submit returns showing the total number of bales pressed weekly, to a prescribed authority.

Originally, the Rules under this Act required the press marks to be indelibly punched or stamped on the hoop. This method was so meticulous that it entailed considerable hardships on the merchants. Bales had to be rejected as not being fair tenders for the most trivial deviation from the form of marking. On the request of the East India Cotton Association and the Indian Central Cotton Committee, the Rules were amended, allowing the marks to be stencilled in ink on the hessian on the lashed side of a bale.

In August 1935, the International Federation of Master Cotton Spinners' and Manufacturers' Association passed a resolution, in which they expressed their regret that it was now lawful for the press marks on Indian Cotton bales to be merely stencilled on the hessian cover, and that it was no longer obligatory to stamp the same on the hoop. The Federation's complaint was that the hessian cover containing the mark was often removed and replaced in the act of sampling, it therefore, became impossible to trace back the bales to the factory where they were pressed. The amendment of the

Act according to them defeated the very purpose of the Act. The resolution was sent to the Indian Central Cotton Committee requesting them to press for the reinstatement of the original rules. In the discussion that ensued in the meeting of the Central Cotton Committee on the letter of the Federation, it was pointed out that other cotton supplying countries like America had not adopted any system of marking bales. American bales were in no way free from the abuse. Such extraordinary things as an iron bar of 30 lbs., nails, large lumps of wood, match boxes etc., were found in them.¹ The Indian legislation, was more advanced on the point, and it would be unfair to the mercantile community in India to make it more stringent. The Central Cotton Committee, therefore, regretted their inability to recommend reversion to the original method.

Closely allied to this legislation, is the one contemplated regarding the licensing of the ginning and pressing factories. The Indian Cotton Committee, reporting in 1919, suggested a scheme of licensing the factories under certain specified conditions. All new factories were to conform to a standard form and the existing ones were to provide for sufficiently wide and paved platforms for Kapas and lint.

Gins were to be kept in proper order, so that no undue proportion of cut or crushed seed might get mixed in the lint. Licences were to be withdrawn for the non-observance of any of these regulations and also in cases in which it could be proved that cotton was excessively damped or fraudulently mixed and adulterated. In order to avoid vexatious interference from the administrative officers, the Committee suggested that action against the offender should only be taken on the complaint of the ultimate user or exporter to a body like the Central Cotton Committee.

The proposal of licensing the ginning and pressing factories by an all-India legislation did not find favour with

¹ Proceedings of the Thirtieth Meeting of the Indian Central Cotton Committee. P. 11.

a number of interests. Even the Central Cotton Committee did not favour an all-India system of licensing. Instead, they suggested that the Cotton Ginning and Pressing Factories' Bill which was then (1924) under preparation should contain a clause enabling Provincial Governments to introduce licensing "if they found it necessary and practicable". The Ginning and Pressing Factories' Act passed in 1925 contained neither the all-India legislation recommended by the Mackenna Committee nor the enabling clause suggested by the Central Cotton Committee. Since then the Central Cotton Committee have from time to time repeatedly pressed for the amendment of the Ginning and Pressing Factories' Act on the line suggested by them in 1924. Again and again they have repeated their conviction that the real remedy for mixing and other malpractices is the introduction of a system of licensing gins and presses. The question came once more to the forefront with the completion of the Sukkur Barrage, and the Government's decision to preserve a compact block for staple cotton cultivation. The Chief Agricultural Officer in Sind in his Note to the Central Cotton Committee emphatically stated, "as one very important condition towards achieving this end, I consider that the introduction of a system of licensing of ginning and pressing factories is absolutely essential".¹

In August 1933 the Cotton Committee referred the question

¹ So overwhelming was the case for some controlling legislation in Sind for cotton grown under the Lloyd Barrage that the Bombay Government introduced early in 1936 a Bill to amend the Cotton Ginning and Pressing Factories' Act with a view to prevent the malpractices of false packing and of watering and adulteration of cotton by licensing the ginning and pressing factories. The provisions of this Act are at present extended only to Sind. The Act requires the owners of cotton ginning and pressing factories to take out licences for working the factories. Failure to do so is made punishable. Further the Act forbids the ginning or pressing of cotton if it is watered, contains seed in excess of a prescribed quantity or contains any foreign matter. As for the question of adulteration, the Government are authorised to forbid in particular areas the ginning or pressing of cotton which contains admixture of two or more varieties. It also provides for a penalty of Rs. 500 in the first instance and Rs. 1500 thereafter for the contravention of the provisions of the Act.

to different trade organizations for opinion, and it is interesting to note that the East India Cotton Association, Ltd., Bombay, the Indian Merchants' Chamber, Bombay and the Karachi Indian Merchants' Association strongly opposed licensing legislation, while the Millowners' Associations both of Bombay and Ahmedabad and European Chambers of Commerce declared themselves in favour of such legislation. In June 1935 in reply to the representation of the Cotton Committee and the Millowners' Associations, the Government of India intimated that they were not prepared to undertake central legislation but they had no objection to Local Governments introducing the necessary legislation in their own Councils.

In view of this emphasis we may well examine the merit of the question. The Act seeks to penalise the factory owner for the practice of adulteration and damping of cotton. Is he really the person who is responsible for the evil? In many places the factory owner does not at all engage himself in cotton business. His job is simply to perform the ginning and pressing services. He is a mere processer. The mixing or damping of cotton is done by the cotton merchant for his own benefit. The gin or press owner gets nothing from it. No doubt his factory is the place where these tricks are practised. But to hold him responsible for the sins of the cotton merchant is, to say the least, unfair. The legislation may insist on his keeping a record of all cotton ginned and pressed in his factory, and ask him to observe a system by which the bales pressed in his factory could be properly traced to the merchant who offered it for the processing. In this manner the real perpetrator of mischief could always be known and whatever penalties are deemed desirable should be imposed on him. As the malpractices take place in the ginning and pressing factories, the owners can at the most be compelled to disclose the names of the persons who resort to them. To penalise him any further than this would be unjust.

The argument that there is no such legislation in other countries supplying a foreign demand for cotton, and in which conditions are as bad, should not hold much water. If the malpractices complained of are harming the reputation of Indian Cotton, and thereby reducing its value, it is the duty of the Indian public and the Indian Government to devise ways and means whereby these harmful practices could be stopped.

WATERING

Similar to this evil of mixing is another evil of watering the cotton before it is pressed into bales, but whereas there is no justification for the former, an attempt is made to justify the watering of cotton on more than one ground. It is said that a little damping of cotton makes cotton soft, strengthens the staple and also lengthens it, and makes the pressing easier. Though there is some truth in this statement, it is very difficult to draw a line between useful damping and damping with fraudulent motives. Cotton from certain parts e.g. from Berar is very thick, and therefore pressing is rendered difficult specially in summer. But the real motive in watering is not to ease the pressing but to increase the weight of cotton; for, in many pressing factories hose pipes are used for the purpose of watering and instances are by no means rare in which dokras of cotton are watered for 4 to 6 hours. The legitimate purposes referred to above will be served merely by damping the ground on which the zari¹ is arranged. So the wholesale watering of dokras by a hose pipe is utterly unjustified and is a pure fraud. One is surprised to hear that this sort of watering is done, even by foreign firms, which are exporters and, as such, their interest is to get as pure cotton as possible. We surmise that the only reason why even the responsible agents of these firms in the mofussil allow watering is to make good the local loss in

¹ The merchants refer to the arrangement of dokras before the time of pressing as a zari.

business or increase the profit in districts under their supervision, by fraudulently raising the weight of cotton.

But the strangest part of the story is that when watering becomes common enough in a market, the very purpose of fraudulently getting profit by addition to the weight is defeated. There will always be some buyer who has no loss to make good or who has good parity limits, and if he also resorts to watering, he can afford to bid a slightly higher price to capture the business. In fact, it has always happened in markets where watering is commonly prevalent, that the additional advantage of weight of water is always neutralised by the higher price of cotton, for, every buyer reckons on that prospective increase in weight while making his purchases. One marked characteristic of upcountry markets is the keen competition and every trader thinks that he may bid a little higher, secure the business and make good the loss by watering. The extent to which the prices will be higher will depend on the courage of the most unscrupulous buyer to water his cotton, up to a maximum beyond which watering will visibly deteriorate the grade. Unfortunately a vicious circle is formed compelling even the most honest trader, if he wants to be doing business, to water the cotton, because the prices always remain at a higher level—as explained above—that makes honest business impossible. Once the traders get involved in this vicious circle, they cannot escape from it as long as a single trader does the watering, knowing that the margin due to watering is already lost by higher prices. Their only chance of profit in this respect then consists in the extent to which they outdo their fellow traders in unscrupulousness in watering.

From this it is argued by some that the farmer benefits from the higher prices resulting from the system of watering. Arguments of this sort are put forward even by some responsible associations.¹ This view is absolutely false and

¹The Factory Owners Association C. P. and Berar, in their Fifth Annual Report write: "Damping of cotton to a moderate extent does not deteriorate the quality, and if anybody is thereby a gainer, it is ultimately the agriculturist." Fifth Annual Report, page 7.

short sighted as it conveniently ignores the effect of watering on prices in the long run. Although it is true that the farmer realises higher prices immediately in districts where merchants resort to watering, it must be remembered that the final consumer of raw cotton is the spinner and it is he who ultimately determines the price. For him, not only is there no advantage from watering, but there is also a decided harm done to the quality of cotton by watering. The fear of being cheated by false weight of water compels him to guard himself against such frauds while offering the price. So in the long run, like all malpractices in marketing, watering will depress the price; and while temporary advantages will be enjoyed by the farmers of a particular area where the malpractice is resorted to, the price depression will adversely affect the whole community of cotton growers in the long run. It is surprising that there is yet no law forbidding watering of cotton.

ABSENCE OF INFORMATION REGARDING THE RULING PRICES

The representatives of farmers' interest have often brought to our notice the absence of any means in the upcountry markets for the farmers to ascertain the ruling price for their produce in the central market. It is believed that in the absence of such information they can be cheated by the merchants. Paradoxical though it may seem, the first part of the complaint is true while the second is not. It is true that the farmers upcountry have no independent or official source through which the day-to-day prices of cotton, for example in the Bombay market, may be made known to them. The business community on the other hand, by arrangements with its Bombay agents, is almost in hourly touch with the price movements in the Bombay market. But in spite of these facts, we have no ground for believing that the farmers are in any way cheated. As pointed out before, the competition in the upcountry markets is too

keen to allow any but the highest permissible price. We have given a few figures to show that it is often higher than what may be permissible.¹

Besides in a market all the sellers are not farmers; we have given figures showing their proportion.² There is always in a market a considerable proportion of merchants who sell kapas, and they at least are generally in touch with Bombay prices. So unless we assume, against the law of markets, that there are two prices prevalent in the same market, our fears about the farmers being cheated need not exist. Besides the farmers generally employ Dalals or Adatiyas for effecting transactions and if these people did not safeguard the interest of the farmers on such a vital point, it would not be long before they were thrown out of the ring. It sometimes happens that when there is a sudden rise in price, the town merchant takes a motor drive to some adjoining village, bids a somewhat higher price than the one prevailing on that day, but equal to the new price parity and secures a good quantity of cotton at a favourable rate. But such occasions are rare. The traditional ignorance of the cultivator is becoming a myth, and he is shrewd enough to understand the significance of these swift sojourns of the merchant from the town.

BIDDING UNDER A PIECE OF CLOTH OR DRESS

There is a curious system in many parts of India by which a prospective buyer makes known his bid for the commodity on sale under cover of a cloth by a code of finger signs. As these bids are made to the sellers' Dalals, the practice causes great annoyance to the seller, and gives rise to suspicion. Many believe that bids are made under the cover of a cloth because they are intended to be kept secret from the owner of the produce. As a matter of fact their only purpose is to keep such bids secret from other purchasers. No buyer likes

¹ See Chapter X.

² Ref. Appendix, Chapter II.

to make his 'limit' known to other buyers. But these under-cloth bids do not remain secret for long. Those who have observed the markets closely must have seen the Dalals who first receive the bids, communicating the same to their clients, who either give their approval or withhold it. The system is, therefore, more superfluous than mischievous. The system of open bids is undoubtedly better, being more straightforward. Yet the merchants as a class are conservative and are unwilling to make any change in the methods of business. With the introduction of Regulated Markets, the abuse of the practice, if any, will automatically disappear.

Besides it must be remembered that as long as there is a single honest Dalal, who informs his client of the ruling prices, the interests of the farmer in this respect are safe. So unless we are prepared to believe that the whole class of Dalals acts in conspiracy for hiding the true prices, we cannot subscribe to the view that the farmers do not know the ruling prices for their products in the Central Market. Besides the mere posting of the Bombay prices will not materially help the farmers. It is not easy to calculate the price of kapas for the local unit from the price of one of the three Futures Contracts in Bombay. At any rate, such calculations are beyond the capacity of a farmer.

Sometimes these Dalals act both for the buyers and the sellers and it is alleged that they fraudulently discriminate in favour of the former.¹ We believe that a persistent behaviour of this kind will soon bring the whole class of Dalals into serious disrepute and will bring their existence to an end.²

DISPUTES OR VANDHAS

Another evil most complained of is about the disputes or vandhas between the cultivator and the purchaser at the time

¹ Journal of Indian Economics, November 1938.

² It may be pointed out that there may be a few cases of abuse regarding the questions referred to in this and the previous section. But the evil is not so general as is supposed to be.

of weighing the kapas. It is alleged from various sources that a purchaser of a cart-load of cotton, when its weighing begins in a compound of a ginning factory, often picks up a dispute with the seller alleging that the quality of his kapas is inferior to what was shown to him when it was purchased in the market.¹ He then asks the seller either to take away the cart-load or reduce its price. The seller, it is said, has no alternative but to accept a reduced price since he has no facilities for storing his kapas, and it is difficult to find a ready buyer at the original price after the dispute. This is indeed a fine piece of chicanery, if the allegation be true. One wonders how such disgusting practices are tolerated and exist. The merchants and gin-owners, however, give us a different version, which it would be interesting to examine.

In the middle of the season when business is swift, the local merchants and representatives of big buying firms get good 'limits', and big orders to buy at market price as much as they can. However big a market may be, the arrivals on any particular day are hardly sufficient to meet the demand of all the purchasers. Everyone tries to fulfil his order, and in order to accumulate as big a stock of kapas as possible, some courageous buyer bids a little higher price in the market, all the while confident of chopping off the extra height at the time of weighment. The alluring bid enables him to purchase as much as he desires. But this raises the price of kapas to a higher mark than would be justified with reference to Bombay prices; and this cannot continue for long. Merchants, therefore, resort to this unscrupulous method to get over their difficulties and sow the seeds of dispute.

The result of such a scramble as is referred to above would

¹ In Khandesh the transactions take place in the market and the carts come immediately for weighing, while in Gujarat the transactions take place a month or fifteen days before and come for weighing in a ginning factory. Hence in Gujarat there are greater chances of a disparity between the quality shown and that brought for weighing.

be a rise in price. But the price of commodities like cotton is determined from above, and no businessman could afford to pay any such artificial extras. The unscrupulous practice is the result of these two conflicting forces. It manifests itself by a short-lived artificial rise in price destined to resume the normal level soon. The seller also accepts the reduced price not so much because he is helpless, but because in his heart of heart he knows that in spite of the deduction he has received a fair price. The very fact that in spite of such grave abuses the arrivals of cotton in markets in which such tricks are practised have not diminished is a sufficient proof of the non-existence of any serious injustice. The belief of the Central Cotton Committee and many others that the farmers have no alternative but to accept the deduction, as no storage facilities are provided by the market; and that once the cart is unloaded the cost and trouble of reloading it are great, is not true. Though the markets provide no facilities for storage, the ginneries do provide ample facilities without any charge at the mere request of the seller's Dalal, whom the manager of the ginneries is always eager to please in his own interest. The only instruction the manager will give to the Dalal is to ask the pipe-loving cartman not to smoke in the vicinity of the kapas. As regards the cost and trouble of re-loading, they do not form any serious obstacle. The cultivator who brings his cart-load of kapas in the thick of a wintry night over a distance of many miles does not mind the trouble of taking it to some other ginning factory in case of dispute, and he can always be sure of obtaining a purchaser in the active season.¹ Besides the Dalal of the seller, whom the farmer employs for the transaction on his behalf is cautious enough not to displease the client and has to protest against any unjust cut in the price settled before. He is often a poor man and can ill-afford to lose a cultivator from his limited clientèle. Sometimes no doubt the same

¹ In fact, the writer personally has often seen some carts being re-loaded and taken away from a factory's compound because of a dispute.

Dalal acts both for the seller and the purchaser; but even in that case he cannot go on continuously injuring the interest of the seller, unless he has some magic wand by which to keep the seller magnetically attached to him in spite of continuous ill-treatment.

Sometimes the farmers also deliberately mix small stones with kapas to increase the weight, or place inferior quality beneath a few layers of a better quality. In that case the purchaser who is shown a sample from the top layers, is justified in demanding some compensation for the inferior quality. The case in Gujarat is somewhat different. There the transactions are made and prices fixed a long time before the kapas is weighed and paid for. If during the interval the prices have gone down considerably, the purchasers become reluctant to pay the price agreed upon, and then under the plea of inferior quality claim a *kadada* or a compensation in the shape of a lesser price. Here also though there is a distinct breach of promise, the purchasers at any rate do not pay less than the price prevalent on the day of delivery. Such is the defence put forth by the community of merchants and gin-owners.

This elaborate explanation does not satisfy us. The practice of bidding high for securing business and then picking up disputes in order to chop off the extra price is hardly laudatory. Even if the prices have gone down after the bargain was struck, the practice of *kadada* as it obtains in Gujarat, is positively fraudulent. The merchants may entreat the farmers to show some consideration for the fall in price. They have no justification in altering the terms of the contract. On the other hand, the disputes in Khandesh though deplorable as causing much trouble to and discontent amongst the farmers, do not entail any serious monetary loss to them. On the whole the practice is more dishonest than unjust. At the most this distinction may be made. The fears of the Central Cotton Committee and other bodies were perhaps exaggerated. However that may be, with the introduction of

regulated markets suggested hereafter, there will be no room for the evil.

STORING FACILITIES

The farmer's capacity to withhold the produce from selling, in case the prices were too low, would depend on the cheap and adequate facilities for storing his produce. We have already pointed out that though the market as such, at any place, provides no facility for storing, the ginowners do provide an overnight accommodation, without any charge, when approached through the Dalal, who is their customer. The farmer is, therefore, not compelled to sell his produce under any and every circumstance. There is also another alternative. The farmer can get his cotton ginned and then he can keep the Dokras as long as he desires in the ginning factory. But this involves the expenditure for ginning, insurance etc., and this the farmer is hardly capable of bearing. Secondly, looking to the importance of the storing facilities in a proper system of marketing the above facilities seem to be hopelessly inadequate. An overnight accommodation is valueless and will not add much to the farmer's waiting capacity, except for bridging over an unusual temporary breakdown in prices. The problem of the farmer in this respect is not as simple as that. Unless the farmer has adequate storing facilities he will have to sell off his cotton soon after the harvest, however unfavourable the price may be.

But what is more important is not the accommodation of his crop but his financial standing. It might happen that a farmer might have at his disposal huge godowns and yet might be compelled to sell off his produce being hardpressed for money to be paid either to his sowkar or to the Government.

WAREHOUSING

The financial organization in any efficient system of marketing should secure to the farmer at least some return for his produce as soon as it is harvested, in order to free him from the seasonal debt which he invariably incurs. At the time of the harvest his monetary stringency is the highest, a long time having elapsed since he realised cash on his previous harvest. At the same time, the produce cannot be sold as rapidly as it is harvested, for, that would depress the price.

With a view to solving this problem of temporarily accommodating the farmer, a system of licensed warehouses is introduced in many countries. All the produce delivered to the warehouses by the farmer is systematically graded, and a warehouse receipt describing the quality and quantity of the produce is handed over to the depositor. If the whole produce is fully insured, and the work of the warehouses is officially inspected and an official guarantee is given for the accuracy and honesty of the receipt, such warehouse warrants will be good securities for any financing agency, specially because they will enable it to calculate fairly accurately the amount of credit that can be given.

CHAPTER IV

IMPROVEMENTS BY CO-OPERATION AND REGULATION

The one most outstanding effort at improving agricultural marketing, is the application of the principle of co-operation to it. The advantages of co-operative marketing are too obvious to need much theoretical advocacy. The aim of co-operative marketing is to equip the farmer with the means to cope with the new technique of marketing, that emerged out of the industrial and commercial revolution. Its aim is to oust the non-agricultural interest that made its way into the new economic order, interposing between the producer and the consumer. This class of intermediaries is to-day considered to be superfluous and not conducive to the economic good of the community. On the other hand, experiments in some Western countries have convincingly demonstrated that the performance of marketing services by organizations of the farmers themselves has a double advantage of securing cheaper living for the consumer and higher prices for the producer. And anyone who understands this will require no further arguments to be convinced of the necessity of co-operation in this field.

It is necessary to remember in this connection that what the co-operative enterprise seeks to do, is not the elimination of the functions of the middlemen but their profit. It means only the substitution of private enterprise by an association of farmers working on a non-profit basis.

The description of the obstacles and evils in the existing marketing system must have awakened all those interested in the problem of rural benefit to the imperative need of some marketing organization to assist the farmer. Co-operative marketing, if well organized, will surely go a long way in assisting the farmer.

The one great impediment in the progress of the co-operative credit organization is the total lack of any arrangement for helping the farmer in the disposal of his raw produce. Co-operative credit goes only half the way in helping the farmer, leaving him, all of a sudden, in the lurch at the most critical time. Thus, much of the good it confers upon the farmer is soon wiped off. For a farmer, the harvest time is the climax of the long suffered financial stringency, because at that time, the debit side of his budget reaches the highest mark and both the Government and the Sowkar begin to press their demands ruthlessly. If at such a critical time no help is extended to him, he will once more sink into that abyss of insolvency from which it is our effort to raise him. Besides, co-operative arrangements for the disposal of the farmer's produce will strengthen the foundation of co-operative credit, because that will create a moral—if to make it legal violates the co-operative principle—obligation on the farmer, who avails himself of the co-operative credit, to sell his produce through the co-operative sale society. The problem of repayment, perhaps the most difficult one in the problems of co-operative credit, will also thus be immensely eased. Even if we do not deduct outright from the realisations of the sales, the money that a farmer owes to a credit society, the mere knowledge of his resources will considerably aid the credit society in realising its dues. In fact, co-operative marketing is a logical corollary of co-operative credit; and the one without the other is incomplete and imperfect.

The need of co-operative marketing organizations is much greater in India, because of the small holdings and scanty output of our farmers. It is more difficult as well as expensive to sell any commodity in small lots, and any isolated farmer is bound to be at a disadvantage in dealing with big merchants due to their obvious unequal bargaining powers. In the sphere of agriculture, as of industry, the unequal bargaining power not only destroys the good features of the

competitive system, but creates opportunities for exploitation resulting in grave injustice.

Secondly, the smaller the amount of produce for sale, the larger will be the number of hands through which it will pass; which if not unproductive is surely uneconomic. The small bulk of the produce gives an opportunity to small traders to try their hand at it, as the bigger purchasers, like the exporter or the spinner, who require their raw material in large quantities, cannot deal direct with farmers possessing small lots. An organization of farmers, on the other hand, by assembling cotton from many farmers can provide to the bigger purchasers big lots of uniform quality.

The more visible of the advantages of co-operative marketing in the shape of better weighing, accurate accounts, economy in insurance etc., it is not necessary to expound in a work of this nature. The sale societies in India do the work of distributing better varieties of seed, thus helping to improve the quality of Indian cottons.

Over and above all this, immense are the benefits conferred by the auxiliary organizations utilised by the co-operative system in order to fulfil its purpose. We refer to the devices like grading, pooling, warehousing, and orderly marketing. Though each of these devices has a separate entity, they are so invariably associated with the co-operative idea that they are discussed here as accessories to co-operation. They should not, however, be considered as a monopoly of co-operation. They can function independently of it, and should do so wherever co-operation has failed to make its way. It is necessary to sound this note, lest their inclusion under co-operation might disturb the proper perspective in which they ought to be viewed. Each one is, in fact, a device for achieving better marketing. All these devices are generally worked together, co-operation being the chief or the marshalling officer. We give the whole discussion the name of co-operation much after the fashion of an author who gives his book of collected

stories or dramas the title of the first or the best story or drama in the book.

The contribution of each of these devices to the betterment of marketing is so great that each will have to be separately explained, before we can proceed to review the working of co-operative sale organizations in India.

MEMBERSHIP CONTRACT

The membership contract is an instrument that legally binds a member of a sale society to deliver, for sale, all the produce that he may grow during the year to the society. He is not allowed to dispose of it in any other way, under penalty of liquidated damages. While on the one hand, this restricts the freedom of the farmer in the disposal of his produce, there are on the other, sound economic reasons for its enforcement. The contract, however, can be so drawn as to minimise the danger involved in the curtailment of freedom. But unless a society is assured of a reasonable volume of business, it will not be able to perform the marketing services with any great economy. Provision for grading, pooling and warehousing facilities, presupposes a sufficient volume of business and the co-operative organizations which do not provide those facilities are no better than ordinary commission shops and are not likely to survive the competition of such shops.

In the U. S. A., membership contracts are considered the *sine qua non* of marketing associations. Their case is, however, very different from ours. The American co-operative associations are state-wide, large scale organizations, and the plant they are required to erect in order to cope with such a vast territorial jurisdiction is so elaborate and expensive, that it is not safe for them to leave the question of the bulk of business—the very foundation of their existence—to a mere verbal understanding. Secondly, such ambitious designs require more than a year to prove their

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worth. So the tendency in the U. S. A. is to cover the first few years of the life of an association by an iron-clad agreement but to allow later stages of growth or decay to be met by annual self-renewing contracts.¹

What sort of a contract will suit our purpose, is difficult to state. Societies in each district can adopt a suitable contract in view of local requirements. Whether there should be a separate contract, or a binding clause in the bye-laws should be considered sufficient, will also depend upon the character and temperament of the people concerned. The annual self-renewing contract which allows a member to withdraw on notice before the commencement of a season, will provide a sufficient safeguard for the farmer's interest. It will have a sanguine effect on the societies also because they will have to strive constantly to maintain their efficiency for keeping members attached to them.

Whether the contract should provide for a transfer of title to the produce to the society, or simply empower the society to act as exclusive agents for the purpose of sale is also a question of detail which can be profitably left to the societies to decide. A text of one such agreement of the second type may be quoted with advantage. "The member hereby appoints the Exchange the sole and exclusive agent of the member and also as the attorney in fact of the member, for the said purposes.....with full power and authority in its own name.....to transact such business and take such action..... including power to pool, such almonds.....

"The Exchange on its part agrees to prepare for market, and sell the almonds as the agents of the member and rateably to divide the proceeds of the sale of almonds of like variety and grade pooled....." (The California Almond Growers' Exchange).

¹ B. Forester, "Report upon Large Scale Co-operative Marketing in the U. S. A." p. 80.

GRADING

The question of grading is discussed with a little elaboration because of its importance in any good scheme of marketing. In the present system of marketing, provision for scientific grading is rarely made. The farmer mixes indiscriminately whatever is grown on his field, and when the whole produce is marketed he receives the price for the ✓most inferior quality in the lot. As the spinner requires cotton in even-running lots, a systematic grading at some stage is unavoidable; the earlier it is arranged the better for all concerned.

The necessity of grading is little appreciated by many, and the farmer in India is not educated enough to understand what it means to him. The absence of any demand from him in this respect should not, therefore, be interpreted as indicating its uselessness. Men in the business too, resent the introduction of any complexity in the present system. Further, if the produce is well graded there remains little scope for shrewd bargaining, and the merchant is deprived ✓of a convenient loophole for profit-making. To others it may seem a needless complication of an already complicated process. But the seeming complexity is due only to its novelty. Once we become used to it, the whole process of bargaining will be much more simple and much more just. If the farmer knows the exact grade of his cotton he will be able to make better bargains, and the chances of his being cheated will be considerably reduced. A code of well defined grades will also establish a better parity between the prices in the Central market and those in the mofussil. Grading ✓again is a pre-requisite of the process of pooling the farmer's produce, the advantages of which we shall discuss hereafter.

The grave injustice that results from the absence of grading facilities was most effectively brought to light by certain investigations of the United States Department of Agriculture. In the absence of any such investigation here, we have

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to content ourselves by summarising some of the results of the American enquiry.¹ The data collected are so pertinent to our enquiry that its enumeration here in detail will be justified.

In 1912-13 the United States Department of Agriculture undertook a detailed investigation of the primary cotton markets of Oklahoma. The officers visited 103 towns and sampled 3,250 bales of cotton and recorded accurate information concerning their grade, staple and price. The result was astounding.

Table 1.
Variations in the price of Middling Cotton in certain Oklahoma Towns.

Place.	Date.	Price of	Price of	Range	Number of
		Bale No. 1 reduced to 500 lbs.	Bale No. 2 reduced to 500 lbs.	in price.	
		\$	\$	\$	bales classified.
Ryan	Oct. 26	51.25	54.58	3.33	14
Norman	Nov. 4	55.00	57.50	2.50	11
Terrall	Nov. 4	55.80	59.50	3.70	5
Mountain					
Park.	Nov. 4	56.25	59.00	2.75	4
Caddo	Nov. 5	55.00	59.38	4.38	4
Erick	Nov. 6	52.66	58.00	6.00	6

Prices paid for bales of the same quality in the same market on the same day show variations that will astonish a classical economist.

¹ They explode the classical economic dogma "that enlightened self interest and freedom of enterprise assure minimum profits, maximum prices and equality of prices as between different markets and different qualities of cotton, due consideration being made for carrying costs between these markets and for the relative spinning values of these various qualities of cotton." Montgomery, R. H., "The Co-operative Pattern in Cotton" p. 10.

Table 2.
Variation in the Price of Middling Cotton sold in the same manner on the same day in different States of Cotton Belt.

Market	Date 1913-14	Staple.	Price per lb. in Cents.	Staple.	Price per lb. in Cents.	Difference in point per pound.	Difference in Dollars per Bale.	
							Actual.	Adjusted to the same staple length.
Chopin, S. C.	Feb. 10	3/4	13.00	1-1/16	12.00	100	\$ 5.00	\$ 15.00
Huntsville, Ala	Dec. 4	1	12.50	1-1/16	11.50	100	5.00	10.00
Fray Ala.	Jan. 8	1	12.50	1-5/16	11.25	125	6.25	3.75
Montgomery Ala.	Jan. 24	1-5/16	13.12	1-5/16	12.12	100	5.00	5.00
Raleigh N. C.	Nov. 11	7/8	13.38	7/8	12.38	100	5.00	5.00
Dublin Ga.	Dec. 19	1	12.50	15/16	10.00	250	12.50	10.00
Moultrie, Ga.	Oct. 22	13/16	12.75	15/16	11.75	100	5.00	6.25

Table 3.

High grade bales selling for less than low grade, and amount of premium they should have brought.

Date 1912	No. of Bales	Grade	Average price per lb.	No. of Bales	Grade	Average price per lb.	Total penalty on good bales	Difference sheet prem, on bales	Loss to the grower
							\$	\$	\$
Nov. 7	5	S. L. M.	11.50	3	S. M.	11.41	1.35	7.50	8.55
Nov. 11	1	S. L. M.	11.85	5	S. M.	11.75	2.50	12.50	15.00
Nov. 12		S. L. M.	11.61	3	M.	11.75	0.45	5.63	6.08
Mountain Park and Oklahoma									
Nov. 4	4	M.	11.49	5	S. M.	11.47	0.50	3.23	3.73
Nov. 11	2	M.	12.03	7	S. M.	11.87	5.60	4.38	9.98
Nov. 18	6	L. M.	11.09	5	M.	10.98	2.75	31.25	34.00

The following table illustrates what is gained by grading.

Table 4.

Comparison of the average prices received for strictly middling cotton before and after stapling at the Primary Markets in the Arkansas with New Orleans for identical cotton.

Date	Length of staple	Price at New Orleans C per lb.	Price before stapling C per lb.	Price after stapling C per lb.	Diff. of 1-2		Diff. between 2-3	
					C per lb.	\$ per bale.	C per lb.	\$ per bale.
September 15	1-1/16	35.00	30.00	32.50	5.00	25.00	2.50	12.50
September 15	1-1/ 8	36.50	31.50	33.00	5.00	25.00	1.50	7.50
September 15	1-3/16	38.00	30.00	33.00	8.00	40.00	3.00	15.00
October 1	1-1/16	35.12	25.00	34.00	10.12	50.60	9.00	45.00
October 1	1-1/ 8	37.12	26.00	35.50	11.12	56.60	9.50	47.50
October 1	1-3/16	39.12	26.00	38.00	13.12	65.60	12.00	60.00
November 1	1-1/16	31.75	25.00	31.50	6.75	33.75	6.50	32.50
November 1	1-1/18	34.50	27.00	33.50	7.50	37.50	6.50	32.50
November 1	1-3/16	37.00	29.00	35.00	8.00	40.00	6.00	30.00

MARKETING OF RAW COTTON

Table No. 2 tells the same tale about the whole of the cotton belt. In addition, the last column shows the difference after adjustment is made for the staple of the bales classed.

A study of the above table leaves little doubt that "gross injustice may occur in many individual cases, and in the aggregate assume enormous proportions".¹ Was not every student of economics taught the law of markets which told him that in a given market where there is free competition, the price for the identical quality of a particular commodity is always the same? Even a cursory glance at the two tables above will leave no doubt that a rapid transvaluation—or malvaluation—of values is going on.

Apart from the student of economics, every housewife knows that the price for better quality goods is always higher than the price for an inferior quality. Let us look at table No. 3, and no such illusion would remain. Better grades were sold at a lesser price, involving a grower, in one instance, into a loss of \$34 per bale.

The unimaginable chaos revealed by the above series of tables compiled from statistics collected by the experts of the U. S. Department of Agriculture shakes to its very foundation our fond faith in free competition, and will surely awaken every one of us to the imperative need for providing grading facilities for every pound of cotton that is sold.

Though we have no grounds to suppose that a similar state of affairs is existing in India, we, at the same time, have no courage to close our eyes to such a colossal economic maladjustment and piously hope that all is well in this country. The dreaded injustice is so acute that it will not allow us to rest in peace. Once such conditions are revealed in one part of the cotton world, the absence of statistics justly raises presumptions as to a similarity rather than a contrast. All we can do at present is to urge, with all the strength at our command, upon the Agricultural Department or the Central Cotton Committee, which exists as the guardian of the

¹ Bulletin 36, U. S. Department of Agriculture p. 13.

interests of the agriculturist, to initiate similar investigations in certain parts of India, without any delay. The burden of allaying the fears of all interested in the question lies on their shoulders.¹

POOLING

Pooling denotes an arrangement by which the cultivator's produce of equal grade is mixed together, and sold together. The income from the sale is divided amongst the contributors to the pool according to their share. Instead of handling the produce of each cultivator separately, it is positively more economic to market together a large quantity of cotton of similar grade. It would, on the one hand lessen the handling charges and on the other, make it more acceptable to the purchaser who usually requires large quantities of cotton ✓ of the same quality. A stock of cotton of equal grade and staple, sufficient for the purpose of the exporter or the spinner is difficult to get, especially in India where the holdings of the farmer are very small and standardization of crop has made little progress. If the co-operative sale societies by scientific grading and systematic pooling are able to meet this requirement, their bargaining power is sure to be greatly increased. The purchaser too, is saved the trouble of assembling similar grades from different cultivators. All these things ✓ have a salutary effect on prices.

Another merit of the device of pooling is that it introduces equity amongst the farmers. When the income from a pool is distributed pro-rata to the contributors to the pool, all ✓ who grow a similar quality get the same price. In the present system this rarely happens.² There is no such averaging of income, and a grower of a better quality may get even less than a grower of an inferior quality.³ The system of pooling

¹ The Marketing Survey of India now in progress may also make similar inquiries.

² See Table 2.

³ The evil of hog-round sale is not referred to here. Reference is to seasonal fluctuation of prices.

is an advance towards the ideal of 'to each according to his merit'.

If the produce is pooled its warehousing becomes easy. It would be almost impossible to stock the produce of all the cultivators separately. The expense involved in that will far outrun the benefits of warehousing. It is also more easy and safe to finance a pooled stock. The financing agency is saved the trouble of valuing numerous separate lots, and keeping a vigil for the margin in so many accounts.

By spreading the sale of cotton over the whole season, the unevenness of prices due to short period fluctuations in prices can be spread over the whole group of farmers producing a particular grade. No doubt while protecting the farmer from a loss due to a sale in an unduly depressed market, it also does not allow him the benefit of a sale at a high price. But, on the whole, the system can be said to achieve increased fairness. Moreover, it is better for the farmer to avoid the almost impossible task of judging the inscrutable movements of the market.

No doubt, pooling presupposes a community of farmers intelligent enough to understand, appreciate and allow the mixing of their produce with the similar produce of others. Much, however, depends upon the strength of the propaganda. It is idle to speculate, *a priori*, whether the farmers in India can be made to take up the scheme. We have just to try and see. The sale societies in Gujarat even at present, pool the produce of their members, and what is being done in Gujarat should be capable of achievement in other parts of the country.

At this stage it is necessary to discuss certain problems connected with the question of pooling. Should the produce of the cultivator be purchased outright by the society or should the society act merely as his agent? In the latter case the society can give a good percentage of the value of the produce at the prevailing rate as an advance on the deposit of goods, and settle the balance at the end of the season,

when the cultivator's share in the pool is determined. Without discussing the detailed arguments on both sides, we may say that though the system of advance, does not relieve the farmer of the risk of changing prices, almost all pooling organizations follow the same system, in order not to degenerate into a sort of a commercial body. The following points can be cited in favour of that policy.

1. It is not advisable for a co-operative enterprise to brave trade risks especially when it is working on the cost of service principle; its duty is to minimise them by using its better judgment and by 'orderly marketing'.

2. The averaging of good and bad prices will not be possible.

3. The heavy financial burden falling on the co-operative body would impede the policy of 'feeding' the market. Its financial condition rather than the market condition will influence its sale policy.

Besides, if a provision can be made for a 60 to 70 per cent. advance on the deposit of goods, the farmer will be well accommodated, and then the specialised marketing organization can use its accumulated or collective force to secure the best prices.

FEEDING THE MARKET

Pooling by a co-operative organization enables mobilization and control of a considerable supply of cotton in one hand, and is, therefore, suited better than the system of many independent sales for a policy of systematically feeding the market. Pooling is, therefore, called 'the orderly mobilization of the produce to be sold'.

The period over which a pool should extend is a question that can well be determined by the administration of the society in view of the peculiarities of the members.

The pooling area should be sufficiently wide to supply the society with a quantity which would give the society some status and an effective voice in the market.

SURVEY OF CO-OPERATIVE MARKETING IN INDIA

We shall now survey the growth and the present position of co-operative marketing in India. It must be noted at the very outset that both the nature and the working of the co-operative sale societies are essentially different in different parts of the country. So we shall examine the main features of the societies in different places, make a comparative study and point out the defects in each, together with the lines on which the system should be developed.

GUJARAT

It was only after 1922, when a separate Agricultural Organizer was appointed for Gujarat, that the non-credit agricultural work on co-operative lines was started. During the cotton season of 1918-19, when prices had gone down considerably, some cultivators of three villages—Sonsek in Surat District, Islampur and Karely in Broach District—pooled their produce, got it ginned, and sold a portion of it in the local market, and marketed the remaining to Bombay.¹

The embodiment of one of the most forward principles of co-operative sale—pooling—in the very inception of the Gujarat movement is really very satisfactory. We appreciate the move by the Sonsek and Islampur farmers still more when we know that at that time the quality of the cotton was not uniform enough to admit of pooling.

In spite of this, these pioneer co-operators received better prices and were satisfied. But gradually the two groups of the Broach District gave up the experiment and Sonsek only persisted. The group was registered as a co-operative society in 1921. In June 1935 it had a membership of 553, and Rs. 19,000 as the working capital. In the first few years of their growth, the societies had a hard time in facing the troubles created by the local dalals and commission agents. The detailed history of the growth is, however, of no value

¹Bombay Provincial Co-operative Conference Report, 1924, p. LVIII.

to us, except for the fact that the growth was slow and cautious, and no sound principle of co-operation was ever sacrificed in order to show rapid progress.

By the end of 1935, there were 26 cotton sale societies in Gujarat, out of which 16 were in the Surat District. In the 1933-34 cotton season the societies of the Surat District sold 1,84,717 maunds¹ of cotton valued at Rs. 16,18,548. The pioneer society of Sonsek had a jurisdiction over 32 villages. Last year, however, 13 of these—the Talod group as it is known—formed themselves into a separate society with a membership of 450, on the ground that the cotton grown in these villages had a higher ginning percentage than the improved variety introduced by the Agricultural Department and by the Sonsek Society.

The societies usually give loans for cultivation at Rs. 4 per acre and charge $7\frac{1}{2}$ per cent. interest. The ginowners who are societies' competitors in the field of marketing, offer much better facilities, but many farmers wisely prefer co-operative to private aid.

By now there are four co-operative ginning factories. The Purshottam Ginning Factory at Jehangirpura in the Surat District, which was started as early as 1927, has to-day (1935) 500 individual members plus the membership of some sale societies. The factory has a reserve fund of Rs. 10,000 and a depreciation fund of Rs. 49,000. It has re-paid the loans it borrowed for initial expenditure. In the season of 1930-31, the factory had to remain closed because many sale societies had postponed working due to political unrest. In 1934 it ginned 7,400 bhars of cotton charging Rs. 27,000 and making a net profit of Rs. 8,740. The factory makes this profit in spite of the fact that it charges only Rs. 3-8 for ginning with a rebate of annas eight, against Rs. 5 charged by private ginning factories.

There are three other co-operative ginning factories in the district. But the biggest venture in this field is the establish-

¹ A maund=40 lbs.

ment of the Farmers' Co-operative Ginning and Pressing Society, which has acquired in Surat proper a press factory costing Rs. 70,000, and a ginning factory costing Rs. 35,000. The society has for its object, the establishment of co-operative gins and presses throughout the district wherever necessary. Besides six sale societies, it has 750 individual members. The Farmers' Society was a challenge to the private factory owners who were charging excessive rates by forming combines. The actual expenses of pressing a bale of cotton are Re. 1-8, while the private owners were charging Rs. 4-8. The society successfully broke this ring by lowering its rate to Rs. 3-4. In 1934 it pressed 8,540 bales of cotton and made a profit of Rs. 12,500.

Constitution of the Societies :—Generally the conditions for membership in the society are :—(1) residence within a territorial area, (2) approval of the written application by the majority of the managing committee, (3) payment of (Rupee 1) admission fee, and (4) purchase of one share of the society. The general body elects annually a managing committee, a managing director and a secretary. The societies have grouped their members in such a way that the quality of cotton grown by the members of any one society is fairly uniform, and it is only due to this that the societies in Gujarat have been able to pool the produce of their members.

Method of Work :—At the most two heaps are made from the cotton that is delivered to the society, one for the pure farm-seed kapas and the other for the remaining. There is only one pool for the whole year. This sometimes results in grave injustice to some farmers, especially in a season in which there is a wide variation in prices in the beginning and in the end, e.g. if the prices continually go up with the advance of a season, those who deliver their kapas at the end of the season will have to share also the low prices of the early season. Suppose the price of Broach cotton at the commencement of the season is Rs. 200, and in the

end the price rises to Rs. 350, the farmers who might have brought the cotton towards the end will have to unnecessarily suffer the early slump in the prices. Though the principle of equalization of income is at the very root of the idea of pooling, such wide changes would create dissatisfaction amongst the members, who may not be sufficiently enlightened to appreciate the principle. To steer clear between the two ends, the societies should organize monthly or bi-monthly pools so as to lessen the chances of a wide range between the highest and the lowest prices.

One thing that strikes us at once in the otherwise perfect Gujarat societies, is the absence of grading. The reason for this is that the quality of cotton grown in many parts of Gujarat is fairly uniform. Besides, care is taken while a group is formed, to restrict the membership to only those villages which grow a uniform quality of cotton. Experience has shown that the difference in the ginning percentages of cotton from different farmers is not large. Yet, if some glaring variation in the quality is discovered, some expedient is found out to maintain equity. On a repeated delivery of inferior quality by a particular member, he is asked to resign.

In Gujarat though there is nothing like the American membership contract, the bye-laws of the society invariably contain a clause making it obligatory for every member to sell his cotton through the society alone, and imposing a penalty of Rs. 50 to Rs. 100 for the slightest breach of this undertaking. Members are, however, showing exemplary loyalty, though in cases of disloyalty full penalty is rarely imposed. The kapas is generally ginned and then sold. Only in some exceptional cases, when the price of kapas is higher in relation to the price of lint, the society decides to sell unginning kapas.

The Sale Organization:—The farmer generally gets 70 per cent. of the value of his cotton at the prevailing rate, as soon as it is brought to the society. The kapas after

weightment, is collected in a big heap and is gradually ginned and pressed into katcha bales. The Managing Director, who is a man of considerable experience, has complete discretion in the sale of the cotton. A meeting of the Managing Committee is held once or twice a month, which, after taking stock of the whole situation, decides to sell a certain quantity of cotton during the next month or fifteen days. After this the Managing Director is free to sell the settled stock as and when he likes. As can be seen from above, the success of a society depends mainly on the competence of the Managing Director. The element of speculation is inherent in all commodity markets, and therefore the realisation of best prices will depend solely on the judgment of the salesman. He might sell a big lot to-day and the prices might rise afterwards, or he might prefer to wait and the prices might go down continuously. In either case the members might complain that they did not realise the same price as was realised by their neighbours. The best method for any society to follow in normal times is to sell its stock regularly and gradually in an orderly way; and not to wait for any chance rise in prices. Another way of minimising the trouble is to shorten the period of the pool.

The sum realised out of all the sales is divided pro rata amongst the members, at the end of the season. The societies sell their cotton in the usual way by private treaty. Cotton seeds are also sold in the usual way, preference being given to members.

Sale and Ginning Societies' Union:—A Federal Union has been started at Surat with the object of co-ordinating the work of the various societies. Till now about 16 sale societies and 3 ginning societies have federated, and some more are likely to come into the fold soon. The societies have engaged a salesman at the Union's office. This will prove very advantageous to the societies, because better transactions can be effected in the Surat market, which is more fully represented by big purchasers, than in many

of the village markets. The salesman keeps all the societies informed regarding the market conditions at Surat and price quotations in Bombay. It must not be forgotten that the agriculturist is not as well equipped as the businessman to manage the commercial aspect of his industry. A Union of the Gujarat type will go a long way in making good this deficiency.

The aim and objects of the Union as stated in its report are :—

1. To facilitate the sale of goods of affiliated societies.
2. To make arrangement regarding financial needs of affiliated societies; to give advice and necessary help; and to do all acts which would promote their interests.
3. To maintain regular supervision and to suggest remedies regarding the defects of the affiliated societies.
4. To make provision for the supply of indented goods of the affiliated societies.
5. To start, develop and direct in the right direction new cotton societies.
6. To examine and audit the accounts of affiliated societies and to give advice and help about their proper maintenance.
7. To arrange for experienced hands which the affiliated societies may require.
8. To plan study classes to impart the necessary training to the members and workers of the societies.
9. To call conferences for discussing matters of the well-being of the affiliated societies.

In the 1934 season the Union arranged for the sale of 15,000 bales worth Rs. 16 lakhs. It commands 10 to 20 per cent. of the business of the Surat market. The Union also does the work of auditing the accounts of the societies. This is over and above the departmental audit, and helps to inspire greater confidence in the working of the society. In the year 1931 the audit enquiry of the Union brought to light some mismanagement in two societies.

Further by an arrangement with an insurance company,

the Union has been able to secure handsome rebates for the insurance of Societies' cotton.

The Gujarat societies are perhaps the best managed in the whole of the Bombay Presidency. The Managing Directors are honest and intelligent. Every effort is made to secure the best prices for the members at minimum cost. The societies have successfully eliminated the biggest chain in the marketing of cotton in Gujarat, the ginowner. We have already noted his preponderance in marketing of cotton in this District. From the above description of co-operative marketing in Gujarat, one may say that the abuses in the marketing machinery referred to before, are to a great extent eliminated by the co-operative sale societies. The farmer gets correct weighing and fairly just price, unless there is some grave mistake in the judgment of the Managing Director. What is more, he gets 70 per cent., of the value of his produce by delivering it to the society; so he is not forced to sell it off in the early period whatever be the price. The sale societies perform these marketing services economically, and in case there is a surplus after deducting the actual cost, it goes to the farmer himself in the form of dividends. But the greatest profit that has occurred to him is that the societies' cotton has earned a reputation for being an unadulterated stuff, and hence fetches better prices from the Gujarat spinner who is the principal buyer of staple cotton. On the whole, therefore, the co-operative marketing has done much good to the agricultural class, and the only thing to be desired is its rapid extension all over the province.

THE KARNATAK

Co-operative marketing in the Karnatak originated from the attempt of the Agricultural Department to introduce better quality of cotton—(Dharwar No. 1 and Gadag No. 1) by distribution of better seeds. The one difficulty that hindered the progress of the scheme was the indifference of the trade in recognising the improved quality, and its refusal

to pay an adequate premium for it. It must be remembered that the omission to pay the premium is not only a loss of gain, but a positive loss inasmuch as growing of better quality means less outturn per acre and less ginning percentage. In order, therefore, to secure for the farmer using the new seed an adequate premium, the Department itself undertook from 1910 to sell their produce in the market by auctions to the highest bidder. Cotton from different cultivators was pooled and was graded into different qualities according to its ginning percentage.

By 1917, the sales had reached as high a figure of returns as Rs. 10,00,000. In 1917 two societies were started, one at Hubli and the other at Gadag, and the whole work of cotton sale was transferred to these societies.

By now these societies have assumed a formidable status. The cotton sale societies of Hubli and Gadag have an outstanding place in the realm of co-operation in India by the sheer bulk of business they transact. The Hubli Society has 25,000 acres of "reserved area" from which it gets no less than 2,000,000 lbs. of improved seed, enough to feed two lakhs of acres of cotton fields. The society markets, co-operatively of course, 10 per cent. of the cotton that arrives in the Hubli market.

In June 1935 the society had 2,632 members including 44 sale societies. It had a share capital of Rs. 18,000 but its reserve and other funds amounted to Rs. 40,000. It had a cash credit of Rs. 1.25 lakhs. Its Managing Director gets Rs. 150 per mensem as car allowance, and is entitled to one-third of the net profit of the society, not exceeding Rs. 3,600 per year.

As we mention in our comment hereafter, the societies of Karnatak sell unginced seed cotton. This leaves the many remaining marketing processes in private hands. The society is endeavouring to fill up the lacuna by getting some of the cotton ginned, and by entering into direct contracts with purchasers in Bombay. In 1935 it made its first efforts; haled

a thousand bales of cotton and sold them to the spinners in Bombay. It is endeavouring to expand this business of selling ginned and pressed cotton.

Only next in importance to the Hubli society is the society of Gadag, 35 miles away. Like Hubli, the Gadag society interests itself in the propagation of an improved variety of cotton. It too, has a large "reserved area" which supplies it with nearly 3,00,000 lbs. of improved seed sufficient to sow 1,300,000 acres of land. Ninety village credit societies and 2,100 individuals form the membership of the society. In 1934, it sold 28,000 docras of kapas, which amounts to 15 per cent. of the business in the Gadag market. The value of the cotton sold was Rs. 8.5 lakhs on which the society secured Rs. 8,880 as profit. The financial position of the society is very sound, with Rs. 42,000 share capital and a reserve fund of Rs. 54,000.

The one outstanding feature of the working of the societies in the Karnatak is that the cultivator's produce is graded. It is unnecessary to repeat the advantages of grading referred to in a previous section of this chapter. The produce is, however, not pooled as in Gujarat; hence is absent one of the most fundamental principle of co-operation. There are some reasons for the absence of the system of pooling. The variations in the same type of cotton grown by the producer are so many, that the produce cannot be pooled without causing serious injustice to the growers of a better sort of cotton. But one fails to understand why with a little elaboration of the system of grading and classing, it should not be possible to devise a dozen different pools, especially when the quantity handled by some of the societies is sufficiently large, to make a dozen pools a practical proposition. But there is one more difficulty in the way. In the Karnatak, as in Khandesh, there is a considerable demand for unginned cotton. This is because the unginned cotton is better suited for mixing, which is a very common practice with the merchants. Secondly, there is always a class of petty buyers who

purchase unginced cotton, get it ginned, and sell the lint soon after, hoping to make some profit somewhere from a favourable turn in price, if not from the labour they put in the process. This keeps the price of unginced cotton higher compared to the price of lint, taking into consideration ginning and other incidental charges. If such is the case, the cultivator is justified if he desires to sell his cotton unginced, thus giving no scope for systematic grading and then pooling.

Conduct of Sale :—When the cultivator brings his kapas, it is weighed in his presence, and a receipt is passed to him for the same. It is then graded according to the quality and insured on behalf of the owner. The grades of the cotton are published a day before the auction, and complaints if any, are made to the Managing Director, and that lot is then withdrawn from the auction. The Managing Director conducts the sales personally in the presence of the owner, and is responsible for honest weighment and proper prices. The delivery of the purchased cotton is given after full payment is made by the purchaser. In deserving cases exceptions are made.

It will be noticed that cotton is sold here by auction and not by private treaty as in Gujarat and Khandesh. The method seems to suit the local requirements. Secondly, in Gujarat, once the cultivator hands over the cotton to the society, the society or its managing agent has full liberty to sell off the cotton whenever it likes; but in the Karnatak, unless the owners advise the society to sell their cotton, the society does not place it for auction. From the point of view both of co-operative principle and administration this is a fundamental difference.

In the Karnatak, members of the society do not enter into a contract with the society to deliver all their cotton to it, nor do the bye-laws make it compulsory. There is not, therefore, that cohesiveness and comradeship which exist amongst the members of the Gujarat societies. The comparative

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efficiency and advantages of better reputation rather than the spirit of co-operation seem to attract business. In fact, a considerable proportion amounting to 25 per cent. of the societies' business comes from non-members. To this extent the Karnatak societies are less co-operative.

Even the financial aspect has some peculiarity here. Unlike Gujarat, even some of the credit societies are members of the sale societies; and the sale societies have the authority to advance loans to their member societies, and they in their turn, advance the same to their members. The loans are to be repaid at the ensuing cotton season. This extension of the work of the sale society is an unnecessary duplication of the work which belongs properly to credit societies.¹ Loans on standing crops might involve a society into trouble in case the harvest fails. The sale society is by its very nature not meant to take that risk. It should lend only on the deposit of actual stock.

The societies give to the farmer 60 to 70 per cent. of the value of cotton actually deposited in the societies' godown at the current market rate. As a member is here allowed to determine the time of selling his produce, this loan, if outstanding, is to be repaid within six months, on the failure of which, the society gets the authority to sell off the produce at market rate. In Gujarat such loans or advances are recovered from the realization of the sales at the end of the season.

Statement of the Sale of Improved Cotton Seeds.

Cotton Seeds.	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29
	(lbs.)						
Gadag No. 1 (Upland)	78300	421100	1045500	597611	1096800	961000	987155
Dharwar No. 1	—	46100	115350	70000	121300	50000	79800
Total lbs.	78300	67200	1160850	667611	1218100	101000	1066955

¹ See the Report of the Bombay Provincial Co-operative Conference, 1924, p. LXXI.

From the above description, the co-operative movement seems to have spread widely in the Karnatak. But the societies in the Karnatak are not working strictly according to the co-operative principle as followed by societies in Gujarat. This does not mean that they have been less useful to the cultivators. The advantages they secure through grading and maintaining the purity of the quality are immense. Besides, they secure cheap and efficient marketing services. They have also been able to avoid the many evils and abuses of the traditional marketing system.

KHANDESH

Another prominent cotton growing area in the Bombay Presidency is Khandesh—both East and West. The organization of cotton sale in the area commenced from the year 1916 when sale societies were started at some six centres. The experiment did not prove a success. The Committee appointed to investigate into the causes of their failure attributed it to inefficient management, opposition or apathy of merchants, ignorance of the cultivator and inadequate financial arrangements.

In this case the sale societies also combined the work of purchase. Two Sale Unions were thus started one at Dhulia and the other at Jalgaon. The societies have made little progress from the point of view of the co-operative principle. For all practical purposes, they are not very different from the ordinary Dalals or commission agents, except for the satisfaction they give to the cultivators that they are not cheated anywhere in the transaction. Neither grading nor pooling is done by them; nor do they provide any storing facilities. All that the societies can claim to do for the farmers is to ensure better weighing and prompt payments. What is still more surprising is that some of the societies do not manage even the sale of the cotton. They enter into a contract with some respectable Dalal or Adatiya for looking after the sale at a slightly

cheaper rate. The Pachora society, said to be the best one in this area follows this practice. The society otherwise keeps a paid salesman to manage the sale. The salesman of the society is often not as efficient a businessman as many of the local people. Anyone who knows how important is the role played by these brokers, in securing better prices, will realise how this comparative inefficiency will react on the work of the society.

It is stated that pooling is not possible, because the variations in the quality grown are many. Experiments, however, should be made by grading all the cotton that comes to the market, and then ascertaining whether it would be possible to divide it into a reasonable number of pools. Of course, the working of more than one pool will be possible only if a sufficient quantity of cotton is received by the society for sale. If the varieties of cotton arriving are many, it is a greater reason for grading to be introduced, for it is when many varieties of cotton arrive in a market that the possibility of the farmer not receiving his due price is increased.

Another difficulty in expanding the work of the societies is that here also the price of kapas is generally more favourable than the price of the lint. So the cultivators do not want their cotton to be ginned, but are anxious to sell off the kapas as soon as it is brought to the market.

Again the tendency to sell the cotton in the village itself is more marked in Khandesh. This curtails the field for the sale societies who have necessarily to select a town or a bigger village for their operation, since the quantity handled must be sufficiently large to make it an economic proposition.

There is no compulsion for the member to sell his kapas through the society. The societies often sell the kapas of non-members at a slightly higher charge. It seems that farmers of this district are more illiterate, and therefore, slow to appreciate the benefits of co-operation. The work of

the sale societies also depends greatly on the spread of the credit societies, for as long as the farmer gets his current finance from any outside agency such as a sowkar or an Adatiya, he may have to sell his produce through him. The credit societies in this district should advance loans on condition that the borrowers would sell their produce only through the local sale society. Such an arrangement will strengthen their own position and that of the sale societies. It will be mutually beneficial inasmuch as the sale societies, in that case, will have a guaranteed quantity of work.

COTTON MARKETING IN AMERICA

Having reviewed the co-operative enterprise in the marketing of cotton in India, we may devote a few pages with advantage to the study of similar efforts in the U. S. A., where the world's biggest cotton crop is marketed.

The problem of agricultural marketing regarding its magnitude and its technique is best illustrated in America. Apart from its huge production of foodstuffs, its production of cotton alone is three times as much as that in India. In spite of this magnitude and in spite of a comparatively late start in cotton growing, the technique of marketing in the U. S. A., though not yet perfect is much better organized than in India. The following pages give a brief sketch of marketing of cotton in the U. S. A.

Nearly 20,00,000 farmers over some 16 States grow cotton on about 400,00,000 acres of land. Most of the ginning is done by the farmers themselves, and only a small portion of the crop is sold as seed cotton. The average cotton farmer produces from 5 to 10 bales of lint. Bigger planters have their own factories and it is only after the increase in the cost of modern well equipped gins, that custom ginning has come into vogue. Most of the gins are saw gins, they have mechanical feeders and they give a much greater out-turn of work. In many States there is an Association of gin operators, for fixing the rates. Ginning begins in September

and is generally at an end by December. The lint is baled in the same factory. Three kinds of bales are made, but the most popular are the square bales having a dimension of 54 by 21 by 45 inches.

The immediate buyers from the farmers, in primary markets are local shop-keepers, petty street buyers and sometimes local bankers and ginners. The bigger merchants of the central markets often send their representatives to the primary markets; they are known as road buyers. Smaller farmers sell their cotton invariably to local store-keepers and street buyers. Often they are indebted to the former. It is a curious fact that these store-keepers pay better prices than any other type of purchasers.¹ The larger cotton planters sell their cotton to the road buyers—representatives of big cotton firms. The store-keeper and the interior buyer also sell their purchases to these road buyers.

The purchases in primary markets are at a "hog round" price, that is to say a flat price is quoted for the entire lot irrespective of the difference in the quality of each bale. Cotton is then shipped to, what are known as, concentration points, and here it is classed and graded into even-running lots. There are considerable differences in the big merchants' practice of purchasing cotton. The following quotation well sums up the position. "One large firm.....says that 65 per cent., of its cotton purchases are from local supply stores and 35 per cent., from growers directly. Another firm..... estimates that 90 per cent. of its purchases are from dealers in the local markets; from 3 to 5 per cent. from the growers and the remainder from the co-operative marketing association. Another large organization estimates that approximately 50, 40, and 10 per cent. of its purchases are from growers, dealers and co-operative associations respective-

¹ It was generally conceded that a merchant who did not depend upon the handling of cotton for a livelihood, but who employed it for the purpose of collecting accounts.....would often handle cotton for mere cost or even in some cases at a loss. Federal Trade Commission Report 1924, p. 25.

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ly".¹ Another significant fact in the American marketing is the high degree of concentration of business in a few large firms. The Federal Trade Commission which investigated this problem give the following interesting data.²

Item	August 1, 1921—July 31, 1922		
	No. of concerns reporting	No of bales (sales)	Per cent. sales to production
Concerns reporting sales of 100,000 bales or more	24	4,775,830	59.9
Concerns reporting sales of 25,000 bales or more	98	7,249,449	90.9
Concerns reporting sales of less than 25,000 bales	217	1,281,771	16.1

As much as 90 per cent. of the crop was sold by 98 giant concerns. The opinion of the trade is divided regarding the advisability of such high concentration. Some merchants look at it with alarm and depose that this gives the big few unlimited opportunities for manipulations in price, while the others interpret it as a triumph of business efficiency making for desirable economies. One would desire to get similar statistics for India, but unless a comprehensive study, as suggested in our conclusion, is undertaken by the State, chances of such information coming out are rare.

CO-OPERATIVE MARKETING

The organization of nearly 15 state-wide co-operative cotton marketing associations is an achievement of which the Americans may well feel proud. These 'non-stock, non-profit, centralised marketing associations' handle nearly 10 per cent. of American cotton crop. The following table from the 'Agricultural Year Book gives the percentage of

¹ F. T. C. Report, p. 27.

² F. T. C. Report, p. 79.

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cotton crop delivered to the co-operatives. Oklahoma, where the co-operative associations seem to have triumphed the most, handled in the year 1929-30, 28.6 per cent. of the total arrivals in that State.

Percentages of Cotton Crop Delivered to Large Scale
Co-operative Associations

	1925-26	1926-27	1927-28	1928-29	1929-30
U. S. A.	9.1	6.7	6.4	8.0	9.7
Oklahoma	12.2	11.1	15.8	30.2	28.6

And when we know that practically all, if not all, such associations now in existence have been organized since 1921,¹ we cannot but admire the will and determination of the pioneer organizers.

We propose to give a short review of the operations of the co-operatives, hoping that the American experiment may prove a source of inspiration, if not a model, to us.

A vigorous membership campaign precedes the formation of an association. Thanks to the Great War and the Fascist dictatorships, the technique of propaganda is to-day one of the wonders of the Century.² That the Americans use high powered machinery for the advancement of the co-operative movement is perhaps unknown to co-operators and the Government of this country. The wonted ease and complacency with which we, in this country, approach such problems, stand out in a glaring contrast.

Along with the membership, the farmer has to sign a marketing contract, which binds him to deliver to the Association all cotton produced or acquired by him. The first contract is generally a long-term contract, extending over five to seven years. The only restrictions to membership are

¹ Gatlin, "Co-operative Marketing" p. 1.

² "This high powered machine stood ready to the hand of the new leaders. Its components are gate signs, lapel buttons, magazine articles, house organs, broadsides, page ads, graphics, conferences, campaigns, committees, captains, teams, teas, suppers, breakfasts and dinners, varbecues, picnics, country debates, county fairs, victory week and everybody shout". Montgomery, "The Co-operative pattern in Cotton", p. 107.

territorial limitations, payment of a membership fee (varying from 3 to 10 shillings) and bonafides as a cotton grower. The management of the Association is sufficiently democratic, each member having one vote irrespective of the quantity of cotton produced.

The Associations are on a commodity basis, that is, there are separate associations for different commodities. All of them are large-scale organizations, aiming at the control of a definite volume of business. They are organized on a non-stock, non-profit plan. Each member, therefore receives "the average sale prices of his pooled cotton, less freight, insurance, interest and deductions to cover his pro-rata share of other marketing and overhead costs, including deductions for reserves".¹ Though there is a provision for deducting 1 to 5 per cent. from the gross proceeds for reserves, the actual deductions have ranged from 0.5 to 2 per cent.

The principle of orderly marketing i.e. of distributing the sales evenly throughout the year, underlies the sale policy of the co-operatives.² This does not mean selling fixed quantities every month. Such a procedure would be anything but orderly, since demand does not distribute itself with mathematical accuracy over the twelve months.

The equity between members is maintained by annual pools and orderly sales. The losses of sales at bottom prices are compensated for by profits of sales at top prices. Almost

¹ Gotlin, "Co-operative Marketing of Cotton", p. 26.

² The semi-monthly sales of Texas Farm Bureau Cotton Association in the year 1924 are given below:—

Date 1924	Bales	Percentage
January 15	2,929	1.6
January 31	948	.5
February 15	415	.2
February 29	1,950	1.1
March 15	3,749	2.1
March 31	17,203	9.4
April 15	23,212	12.7
April 30	3,810	2.1
May 15	5,400	3.0
May 31	2,100	1.2

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all the Associations maintain a large number of such annual pools.¹

The bye-laws of these Associations provide for the organization of informal local branches "to render aid in obtaining contracts, to encourage deliveries, to disseminate information relative to association affairs, to furnish statistical data, to promote better farm practices and to bring about general improvement in rural life". Most of these 'locals', however, become defunct after the membership campaign.

The members deliver their cotton after ginning and baling, either to the designated warehouses, or to railroad companies or to the local receiving agents of the Association. With the bill of lading or the warehouse receipt, the farmer draws a bill according to the declared rate—60 per cent.—on the Associations, which the local banker discounts.

By their speedy warehousing, the Associations claim to have effected a substantial saving of "country damage", caused by weather. Similar economies are rendered possible by collective merchandising in insurance, interest charges and sampling. Another advantage to the member is that his cotton is classed before it is sold, unlike that of non-members which is sold at a "hog-round" price. This provides an incentive to grow better cotton.

FINANCING

It is evident from the large business of the Associations that they should require a huge sum for making payments to the farmers on the delivery of their cotton. In 1921 some associations had started work "without funds, credit or

Date 1924	Bales.	Percentage
June 15	8,558	4.7
June 30	416	.2
August 31	13,375	7.4
September 30	9,745	5.3

¹ During the 1924-25 Season, for example, Oklahoma had 65 active pools; North Carolina 96, and Alabama 46. One large association had 86 pools in the 1921-22 Season, 56 in 1922-23, 76 in 1923-24 and 120 in 1924-25 Gatlin, *Op. cit.* p. 31.

territorial limitations, payment of a membership fee (varying from 3 to 10 shillings) and bonafides as a cotton grower. The management of the Association is sufficiently democratic, each member having one vote irrespective of the quantity of cotton produced.

The Associations are on a commodity basis, that is, there are separate associations for different commodities. All of them are large-scale organizations, aiming at the control of a definite volume of business. They are organized on a non-stock, non-profit plan. Each member, therefore receives "the average sale prices of his pooled cotton, less freight, insurance, interest and deductions to cover his pro-rata share of other marketing and overhead costs, including deductions for reserves".¹ Though there is a provision for deducting 1 to 5 per cent. from the gross proceeds for reserves, the actual deductions have ranged from 0.5 to 2 per cent.

The principle of orderly marketing i.e. of distributing the sales evenly throughout the year, underlies the sale policy of the co-operatives.² This does not mean selling fixed quantities every month. Such a procedure would be anything but orderly, since demand does not distribute itself with mathematical accuracy over the twelve months.

The equity between members is maintained by annual pools and orderly sales. The losses of sales at bottom prices are compensated for by profits of sales at top prices. Almost

¹ Gotlin, "Co-operative Marketing of Cotton", p. 26.

² The semi-monthly sales of Texas Farm Bureau Cotton Association in the year 1924 are given below:—

Date 1924	Bales	Percentage
January 15	2,929	1.6
January 31	948	.5
February 15	415	.2
February 29	1,950	1.1
March 15	3,749	2.1
March 31	17,203	9.4
April 15	23,212	12.7
April 30	3,810	2.1
May 15	5,400	3.0
May 31	2,100	1.2

IMPROVEMENT BY CO-OPERATION AND REGULATION 95

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reputation". In January 1921, however, the National Congress passed an act recreating the War Finance Corporation with a capital of \$500,000,000, with the express purpose of aiding agricultural marketing. Liberal credit facilities were given by this body to the co-operatives. Gradually private banking firms began to give credit on even better terms. In 1924-25 a committee of the American Cotton Growers Exchange arranged for a credit structure of \$100,00,000 at a rate of 4 to 4½ per cent. for its members. With these facilities, it was not difficult for the Associations to advance 60 per cent. of the crop value to their members on delivery of the crop. The Agricultural Credits Act has facilitated the formation of credit corporations for solving the problem of mortgaged cotton. These corporations not only pay off mortgages, but they also prevent the probable mortgaging by supplying adequate production credit.

Lastly we shall consider the management of their sales organization. The one centralised organization for sale is the American Cotton Growers' Exchange, to which are affiliated thirteen regional Associations. The use of the services of the Exchange is voluntary, and whatever sales are made through the exchange are on the advice of the individual associations only. It must be admitted that the early aspirations of direct-to-mill sales have not been fully realised. Only the staple cotton co-operative association sells approximately 92.5 per cent. of the cotton direct to the mills. The failure of the associations to do this direct business is sometimes attributed to their refusal to enter into the futures market, and their consequent inability to agree to business on 'buyers' call'.

THE FARM BOARD AND THE A. A. A.

Our study of the American marketing would be incomplete without a mention of the Federal Farm Board and its activities. The operation of the Farm Board has evoked such a mixed uproar of praise and condemnation that it is difficult

to maintain an even attitude. After years of cogitation and deliberation, the Congress passed in June 1929, the Agricultural Marketing Act with the object of placing 'agriculture upon an equality with other industries, and to that end controlling the currents of commerce'. Some of its declared aims were to (1) minimise speculation, (2) prevent an inefficient and wasteful distribution system, (3) organize a producer-controlled distribution system, and (4) to control surpluses. The Act seems to be the result of a sudden reaction against a prolonged inability to do anything substantial for the agriculture of the country. It created a Federal Farm Board, and being itself incompetent to lay down in clear terms, its *modus operandi*, left to the Board wide and undefined powers. The main line of its attack was to come through the co-operative marketing organizations whom it was authorised to help by liberal grants of loans with the aid of the Federal Treasury. It may be said at the very outset that so far as the Board attempted to foster a better distributive agency, its activities were beyond reproach, but the moment it began to try stabilization (in price) experiments it entered into a field, treacherous and beyond its control. The very establishment of the Board was characterised by some as "an arrogant attempt to fly in the face of providence". People thought that words like "orderly marketing" and "stabilization" were mere euphemisms devised to "mask the ugly face of price-fixing". We are, however, not prepared to accept that all this was pre-conceived. On the contrary, the Congress that passed the Act was uncertain as regards the line of action. The Board was, therefore, given liberal discretion and limited instruction. The Congress was content to enjoy the satisfaction of having done something great and noble for the country's agriculture. We will content ourselves by examining only some outstanding actions of the Board with regard to cotton, leaving aside all questions of intention and motive.

As early as October 1929, the Board predicted a rise in

prices and with unjustified confidence offered without limit to the co-operatives, loans at 16 cents a pound.¹ It had the ambition to 'peg the price' at 16 cents. The willingness of the co-operatives to accept cotton on futures contracts, during April and May of 1930, sustained the price of cotton. Merchants who had sold hedges for protection had to deliver the premium cotton against their hedges. The price on the American futures market thus remained at an artificially high level. As a result the export of American cotton fell from 8,053,000 bales of the previous season to 6,697,000 bales. Rather than ease the flow of commodities, the action of the Farm Board began to create a glut. The current so to say was reversed, and began flowing in the narrow channels of the Farm Board. The balance-sheet of the Farm Board on 1st January 1931 made a staggering revelation. The amount of advance outstanding on that day was \$68,151,328.05, out of which a sum of \$48,635,964.86 was outstanding on cotton stabilization. Not less than \$116,000,000 were employed in stabilization operations. In spite of this the Federal Farm Board could not prevent the precipitous fall in the prices of the protected commodities. The merchants stood aghast, confused at this gigantic corner backed by the Federal Treasury. Private enterprise was completely paralysed, leaving the Board all alone to bear the brunt of the battle. Even the Board had to admit that "the accumulation of substantial volume, most of which necessarily must be in the visible supply, has a somewhat depressing effect on prices". Assurances of not making immediate sales do not prevent restriction of purchases to immediate needs. There is no forward buying and "purchases in the cash markets" as an annual report of the Board says, "alone are inadequate to sustain prices and do great injury to legitimate operations in the option

¹ "The price was then 18 cents. It is now (1931) 8 cents. This prediction did not cost the Board anything. It cost the cotton farmer his shirt." International Cotton Bulletin, Vol. IX, No. 36, p. 628.

market....." Thus melts away all the erstwhile opposition of the agrarian leaders to speculation and futures trading. 'Atheism was preached from the pulpit of a cathedral'.

No doubt a severe crash in commodity prices—due to causes extraneous to the Farm Board—was following the operations of the Farm Board like an evil spirit, ultimately to engulf it in its morass. But it is not solely from the results that we desire to judge the policy of price control. Other opposition to, it is due to a fundamental economic error involved in it. What a Board, like the one we are considering, purchases, it does not consume. It is a stimulant that does not get absorbed in the system but visibly threatens reaction. All purchases and no consumption (or sale) would make anyone bankrupt, and America would not be an exception. It is all very well for a Joseph divinely inspired to accumulate the over-surplus of seven years of plenty against the need of seven lean years to come. No temporal power, however great, need try the experiment.

Exclusive of the 500,000 bales which the American Government had earmarked for the Red Cross for clothing the needy, the Farm Board had, by the end of 1932, 800,000 bales in its possession. Over and above this the co-operatives had 2,000,000 bales of cotton, which they were forbidden to sell by the Reconstruction Corporation till the price reached 12 cents. In August 1932, the Reconstruction Finance Corporation announced the loan of \$35,000,000 to the American Cotton Co-operative Association and \$15,000,000 to the Cotton Stabilization Corporation.

But the prices came down with a crash. The nadir was reached when cotton was quoted at 5 cents (June 1932) on the New York Market. Gross farm income came down from \$11,500 millions, the average of seven years before 1929, to \$5,331 millions in 1932. The net income of farmers declined from \$6,828 millions to \$2,573 millions in 1932.¹

¹ The Economist, October 3, 1936.

What was more disastrous was the fall in the ratio of prices of agricultural and non-agricultural products.

This was the state of affairs when President Roosevelt enthusiastically launched his New Deal. The chief plank of the New Deal's agricultural programme was the Agricultural Adjustment Act. Its main object was to restore agricultural prices to 1909-14 level. In cotton this was to be achieved by a reduction of acreage by nearly 25 per cent. In 1933 a substantial portion of the standing crop was ploughed in. Later on, the Bankhead Cotton Act made the restriction of acreage compulsory. Allotment of the acreage to be planted was made between different cotton growing districts. The authorised acreage was then further sub-divided between individual farmers. The farmers were to be compensated by benefit payments on a rental basis. The revenue required for the purpose was obtained by a 'processing tax' of 4.2 cents per pound of cotton, going into domestic consumption.

In spite of the many sided criticism of the scheme, and the declaration of the processing tax as unconstitutional by the Supreme Court, the success of the A. A. A. was remarkable. Farm prices increased on an average by 65 per cent. between 1932 and 1935. The net cash income of the farmers which had fallen to \$1,473 millions in 1932, rose to \$3,575 millions in 1935.

Over and above the A. A. A., the Government of the U. S. A. have tried to help the agricultural community by organising Farm Credit Administration and Farm Mortgage Corporations. The American experiment illustrates how far-reaching can the State aid be in the marketing of agricultural commodities.

REGULATING THE MARKET IN THE INTERIOR

In the earlier part of the chapter we saw how well-organised co-operative marketing can remedy the many evils of the traditional marketing. Regulation of the markets in the interior is another step towards the improvement of

agricultural marketing. It is in these interior markets that the cultivator sells his cotton, hence we must see that there are no encumbrances in these markets that would hamper the realization of maximum prices by him. From our description of the interior markets, their unorganized nature becomes apparent. The various malpractices that have crept into the process of marketing, themselves present a strong case for the regulation of the whole process. The need for inspiring confidence as to fair play in the hearts of the cultivator can scarcely be exaggerated. As long as the farmer is not confident of getting a fair return for the improved variety he may grow, the prospects of improving the quality of cotton are not bright. Suspicion and distrust are not the atmosphere in which business can grow, and agriculture prosper. Besides, the regulation that is contemplated hereafter, is in no way going to put any restrictions on the freedom of business. It is a scheme for regulating the market and not for restricting it. It is intended essentially for removing obstacles, not for imposing any fetters from above. Yet somehow there is a consensus of opinion in the trade against any sort of regulation. Perhaps its political prejudices prevent it from appreciating with an unbiassed mind any reform desired to be introduced by the Government.¹

The chief concern of any organization of this sort should be firstly, to provide a suitable place for the purpose of a market and to forbid transactions at any other place. It should appoint a committee on which the interests of both the cultivators and the merchants would be adequately represented. It should try to simplify the method of transaction and keep—or make it compulsory for the merchants to

¹ It will not be unjust to attribute such an attitude to purely political causes. Lately in India, there has been so much of official interference with the liberties of the people that they cannot conceive of Government in terms other than those of an exploiting intriguer. The people of India almost instinctively resent any idea of official interference, before examining the merits of the issue dispassionately.

keep—a regular record of each transaction. It should also maintain an easy and impartial machinery for settling all possible disputes between the cultivator and the merchant. Along with these, it will be the care of the committee to license brokers and weighmen, enforce the use of standard weights, inspect from time to time the weights and scales, and report the prevalence of mal-practices such as indiscriminate mixing and profuse watering of cotton.

The markets in Berar were the first to be regulated by the Berar Cotton and Grain Markets Law of 1897. Under the provisions of the law, markets and bazaars may be notified and committees may be appointed to manage them. Rules may be made to regulate the constitution and the powers of the Managing Committee; the levy, the collection and disposal of fees; the conditions under which licences are to be issued to the brokers, weighmen and measurers; the place of weighment and measuring; the scales, weights and measures to be used and their inspection, verification and correction and so on.

The Berar Law excludes the whole of the cultivating class from being represented on the committee by laying down that 'no person is eligible for the appointment to the Committee who has not resided within the limits or within five miles from the limits of the town in which the market is situated, for at least three months prior to the date on which the list of persons eligible for the appointment to the committee is prepared'. The provision defeats the whole purpose of the legislation, for, the local merchants who get a majority on the committee are usually unwilling to take any energetic steps against the members of their own class for redressing the grievances of the farmer.

A similar Act called the 'Bombay Cotton Markets Act' was passed in 1927 for the Bombay Presidency. It tried to remedy the defects in the Berar Act by providing that 'the committee shall consist of not less than twelve and not more than sixteen members, of whom not less than half shall be

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persons elected by growers of cotton of such area as the local Government might prescribe...'. With three other members appointed by the local Government, the Local Board and the Municipality respectively, the cultivators get a clear majority on the committee, leaving the merchants in a minority. This can hardly be justified. If the Berar Law erred on the one extreme, the Bombay Act errs on the other. The interests of the merchants are as vital as those of the farmers. Without the one, the other will be swept away. The majority of the cultivators on the Committee provides one more argument to the cotton merchants to agitate against the formation of the Committee and the establishment of a regulated market; and with the whole class of effective purchasers discontented, we can hardly expect the business to run smoothly. However strong a farmers' organization may be, it cannot and should not hope to dictate terms to the whole class of purchasers. After all it is only with harmonious relations and goodwill between the two classes, that trade can flourish and agriculture prosper. We would, therefore, very much like to see Clause 5 of the Cotton Markets Act amended as follows.

"The market Committee shall be constituted as prescribed and shall consist of thirteen or fifteen members; of these one shall be a member nominated by the local Government, one shall be elected by the District Local Board..... one by the Municipality.....of the remaining, half shall be persons elected by the traders in the cotton market....."

This will give equal strength to both the parties, and with three impartial members at the top, we can hope that the balance will be held impartially.

Another drawback in the system is that under the Berar Cotton Market Rules, qualifications of an Adatiya for getting the required licence are not prescribed. In order to avoid all chances of mal-practices creeping in, it is desirable that all those who desire to work in the market should possess some status or should provide some security.

The defects in the Berar Law alluded to above are sought to be remedied by a Notification dated the 20th January, 1931, by the Government of the Central Provinces. After the publication of the Rules, the market committee is to consist of not less than eight or more than twelve members. It provides for the nomination of a member by a registered cotton sale society, if any, within the market area, as well as nominations by the District Council, the Municipality and the Village Panchayat. Of the remainder, half the number will consist of the representatives of the cotton grower and the other half of the local cotton trade.

Rule 62 lays down that 'no person shall practise as a broker without a licence from the Committee'. Only those people who execute an agreement with the Committee agreeing to conform to the market rules and to pay the prescribed fee are registered as cotton traders. No person who is not registered as a cotton trader is permitted to buy or sell cotton within the market yard. Similar conditions are laid down for Adatias or agents acting for their constituents.

The Committee further restricts the number of licensed brokers according to the needs of the market. It also lays down the fee that may be demanded by a licensed broker for his service. Further the Committee makes it compulsory for licensed brokers and Adatias to maintain registers and accounts in a form prescribed by the Committee.

The rules further enforce the use of standard weights—28 lbs. = 1 maund—and the maintenance of a set of authorised weights available to the public for comparison. Weights, scales and chains which are not 'examined and found correct' by the Committee are not allowed to be used. The rules also provide for the inspection of weights and scales at any time and without notice. All weighments are to be done only by licensed weighmen.

The rules prohibit the taking or retaining of any trade allowance not specially authorised, or any unpaid-for sample or deductions for charity.

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The Committee has to appoint a sub-committee for disputes, consisting of one representative of the cotton growers, one of the cotton traders and one of the Municipality or the Local Board. All disputes are to be referred to this sub-committee.

Prices are to be settled in open markets and not by any secret signs. Every purchaser has to sign an agreement in a prescribed form before removing the purchased cotton from the market yard. In the same form it is provided that if the purchaser refuses to take the cotton at the price agreed upon, the matter shall be referred to the dispute committee.

The Committee has to maintain a proper account of each individual cart-load. No cart is allowed to go out of the yard without the presentation of a pass at the gate. The pass which is printed in duplicate, specifies the names of the buyer and the seller and the rate at which the load is purchased. The buyer has to sign both the copies.

The official closing price on the East India Cotton Association and the New York futures are published each morning by the Committee. A calculation showing the parity price for cotton in the local market is also published. The latter to our mind is unreliable, for such a calculation involves minute detail with peculiarities for every cotton firm. Certain Committees publish also the cross-rate in these days of fluctuating dollar-sterling rate.

Yet, however careful we may be in drafting a piece of legislation, its success will depend wholly on the way and the spirit in which it is worked. We completely agree with the Royal Commission on Agriculture when they say that "the theory of management is considerably better than the practice in most markets of Berar."¹

The Bombay Cotton Markets Act is in effect only at Dhulia—West Khandesh—where the cotton market is

¹ Agricultural Commission Report, p. 390.

regulated by a Market Committee.¹ The prices are however still settled under cover of a cloth. A supervisor is appointed to settle the disputes, over and above the dispute committee. This has, to a certain extent, checked the unscrupulous practice of bidding high in the market, to effect large purchases, with the intention of cutting off the price at the time of weighment. Yet it must be frankly admitted that a salaried supervisor is no match for the shrewd cotton merchant; and with all the machinery for settling disputes, if a merchant wants to exploit the farmers, he is still in a position to dictate the price to him. With the present financial position of the farmer, his inability to withhold sales, and the absence of any provision for licensed warehouses and well organised sale societies, a single reform like the regulation of interior markets will have only a partial success. In rural economics, as in broader spheres of social and political activities, success can only be achieved by an all-round reform. No piecemeal legislation can carry us nearer to the millennium.

¹ In 1934 the Amalner Cotton Market (Khandesh) became subject to the regulation. The plan is to bring many more under regulation as early as possible.

CHAPTER V

FINANCE FOR PRODUCTION AND TRADE OF COTTON

In the preceding three chapters we studied the movements of cotton from a farm to the exchange and the various problems connected with such movements. In this chapter we propose to study the financial aspect of all those complicated but interesting processes in the marketing of cotton. But a detached study of the financing of the movement of any one commodity like cotton will be inadequate and unrealistic. We shall have, therefore, to examine the more general problems of rural finance, and of the financing of the internal trade with special reference to cotton.

It is, however, difficult to say where the question of rural finance ends and that of the internal trade begins. Generally speaking, the former may be taken as pertaining to agriculture, while the latter as pertaining to commerce. Even then, the exact place of marketing is difficult to determine. At present much of the marketing is in the hands of businessmen, a non-agricultural class, and as such becomes an item of trade finance. But under a better system, marketing will have to be considered a function of the agriculturists themselves or of their association if any, and as such, its financing will form a part of agricultural finance.

FINANCE FOR THE COTTON CULTIVATOR

Let us first look into the question of rural finance with special reference to a typical cotton grower. The two factors which impair the very foundation of rural finance are the uncertainty of yield from land—dependent as it is on the vagaries of the monsoon¹—and the fluctuations in the price

¹ Of the total cultivated land in India, only 16% has irrigation facilities.

of the agricultural produce, especially of a commercial crop like cotton, whose price is governed by world factors. In addition, there are troubles peculiar to India. They are (1) insufficient security in land due to a faulty tenancy system, (2) sub-division and fragmentation of land, (3) wide-spread indebtedness and (4) illiteracy.¹

But the one factor that frustrates the efforts of experts and the Government at putting the rural credit organizations on a sound footing is that agriculture in India is at present a losing concern.² Whether it be due to the primitive methods of cultivation, or to the absence of a sound marketing system, or to the heavy incidence of rent, revenue and interest charges, or to the chronic depression of a declining capitalist economy, as long as the cultivator cannot manage to get a certain net income after twelve months of hard labour on a farm, no credit organization however well devised, can manage its function. As it happens to-day, instead of oiling the wheels of the industry, the credit organizations themselves get enmeshed in the insolvency of the industry they seek to serve. It is no task of financing agencies to make industries solvent, their only function is to set rails for their movement. Rural credit organizations are on the verge of a breakdown, having to shoulder the impossible task of keeping a losing concern in top gear.

The financial strength of a cultivator has a vital bearing on the question of marketing and even the trade in general. It is therefore, necessary to analyse the financial position of the cultivator as it stands to-day. Let us take a typical cotton cultivator for our study. What is an average holding of a cotton cultivator, what is the cost of its cultivation, how much is the yield per acre, what is his average income at

¹ See enclosure XII, Report of the Central Banking Enquiry Committee. Vol. I, page 689. The Great Depression adds to these, the growing concentration of ownership in land into the hands of a non-agricultural class and absentee land-owners, adding thereby the burden of rent on the cultivator.

² Report of the Central Banking Enquiry Committee, Memorandum by Dr. A. Friederick on "Financing the Current Needs of Agriculture", p. 689.

the prevailing price of cotton, what percentage of farmers require loans on credit, who are his chief lenders, what rate of interest has he to pay? These and many other similar questions need to be examined before a critical analysis of the financial system can be attempted.

There are very few detailed village surveys from which we can gather the required information. The Indian Central Cotton Committee has collected and published some information about the economic position of the cotton cultivator; but it is inadequate. Besides, it is very difficult to know the position of a cotton cultivator as distinct from other cultivators. In fact, in many parts of India there is nothing like a cotton cultivator, meaning a farmer who sows nothing else but cotton. Generally the farmers grow a mixed crop, one main crop with a subsidiary crop like Juar or Tur. But there are certainly tracts in which cotton is the chief crop grown, and if we examine the position of farmers in those tracts with whatever data are available, we shall get a fairly good idea about the position. Conditions vary from province to province. We shall however, content ourselves by examining a few typical villages from predominantly cotton growing areas like Berar, Central Provinces, and Gujarat.¹

The cost of cultivating 16 acres of cotton in a village Loni in Amraoti District was stated as follows.

	Rs.	As.	Ps.
1. Clearing the field of cotton stalks at Re. 1-4-0 per tiffan	5	0	0
2. Sowing (hire for 2 pairs of bullock)	12	0	0
2 Labourers for 4 days at 10 as. a day	2	8	0
3. Cotton seed 6 mds.	12	0	0
Tur seed 1 Kudo	2	8	0
4. Two weedings	50	0	0
5. Davaran	9	0	0
6. Picking at 6 annas a md.	52	8	0

¹ In all the three cases examined here, the figures are of pre-depression years (1929-1930).

	Rs.	As.	Ps.
7. Tur cutting	5	0	0
Labour	1	0	0
Thrashing	3	0	0
Watching	9	0	0
Total :	163	8	0

or Rs. 10 per acre.

Feed of bullock, cotton seed, implements

etc. 26 0 0

Total : Rs. 163+26=189 0 0

i.e. Rs. 11-12-0 exclusive of land revenue and depreciation on bullocks. Those who depend on hired labour for all operations require Rs. 7 per acre in addition. The cultivators state the average yield per acre of Kapas to be 260 lbs., the official figure for this district being 320 lbs. At a price of Rs. 7 for a Khandi of 784 lbs. which is a fair average for the year,¹ the gross return on one acre will be Rs. 23 and the net return will be Rs. 11-4-0 per acre.

Taking the average holding to be 30 acres, the average cultivator will get Rs. 337-8-0 annually.

The family budget of a cultivator in that village gives a figure of Rs. 325 for the maintenance and clothing of a family.²

Gujarat:—In two villages, Uchhrel and Wadhvania in Bardoli Taluka, the cost of cultivating one acre of land for cotton comes to Rs. 25.³

	Rs.	As.	Ps.
Digging the stalks	0	12	0
One ploughing before the rains	1	8	0
Manuring once in 3 years	5	0	0
Seeds—16 lbs	0	12	0
Sowing	1	0	0
Weeding	4	8	0

¹ The one prevailing on 2nd Dec. 1931 at Amraoti which is a mean for 5 months prices.

² C. P. Banking Report—Vol. II—p. 33.

³ Mehta J. M. 'A study of Rural Economy of Gujarat' 1930, p. 97.

	Rs.	As.	Pi.
Interculture	3	8	0
Ploughing with a light plough in September	1	8	0
Two harvestings	2	0	0
Picking cotton	3	12	0
Carting to ginning factory	0	12	0
	25	0	0

The author estimates that the cultivator will get Rs. 50 per acre when the price for kapas is Rs. 360. With the price of kapas at Rs. 200 the cultivator will hardly get more than Rs. 32 per acre. Taking 20 acres as the average size of a holding, the cotton cultivator's net annual income comes to Rs. 140.

In a village of Atgam in Bilsar Taluka, the cost of cultivating one acre comes to Rs. 26-10-0, with hired labour, and to Rs. 6-13-0 with the cultivator's own labour.¹

Expenditure

	With hired labour	With cultivator's own labour
i. Labour cost		
(animals and men)		
a. Removing stubbles and cleaning the ground	3 12 0	
b. Two ploughings	5 0 0	2 0 0
c. Sowing the seed	1 9 0	0 8 0
d. Weeding	5 0 0	
e. Interculturing and harrowing	3 12 0	
f. Harvesting	4 8 0	2 0 0
g. Carting	0 12 0	
Total:	24 5 0	4 8 0

¹ Mukhtyar G. C., 'Life and Labour in a South Gujarat village', 1930, p. 99.

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	With hired labour			With cultivator's own labour		
2. Cost of seeds	0	15	0	0	15	0
3. Land Revenue	1	6	0	1	6	0
Grand Total :	26	10	0	6	13	0

Another index of the farmer's financial position particularly at the beginning of the marketing season is provided by the time of sales of cotton. If a cotton cultivator is financially hard pressed, he will have to sell his crop as soon as it is ready. If not, he can afford to wait. The Indian Central Cotton Committee have collected some valuable information on this point. The percentages of early and late sales in the areas investigated by them are given in the following table :—

Amount of early and late sales. (1927—28)¹

Areas investigated.	Early sales. lbs.	P. C.	Late sales. lbs.	P. C.
Khandesh arat	192,046	11	1,606,186	89
Middle Gujarat	1,925,000	60	1,257,215	40
Sind	1,442,880	48	1,566,777	52
Sind (subsequently corrected)	—	66	—	34
The Punjab	477,892	20	1,911,568	80
Madras	87,704	12	651,939	88
Percentage	—	37	—	63

From this the I. C. C. C. conclude that "the popular conception, that the cultivators are unable to hold their crop for any length of time, by reason of their borrowings and the pressure exerted on them by lenders is erroneous".²

¹ Adapted from Table X in the General Report of the Central Cotton Committee on "Eight Investigations into Marketing and Finance etc."

² Ibid. p. 31.

This absence of pressure from the lenders, however, cannot be construed as a conclusive proof of the financial strength and independence of the farmer. At best, it shows a spirit of accommodation on the part of the money-lender, at worst, his unwillingness to press for payments in view of the accumulating interest. If the money-lender is not particular about getting back his money too soon, the farmer himself is in no hurry to sell his produce, since he always hopes for a rise in prices and does not have to spend much on storage. Anyway these investigations are really useful as they remove our fears about the alleged compulsory early sales of crops by the farmer, and their disastrous effects on commodity prices.¹

A more reliable and direct way of ascertaining the financial strength of cultivators is to find out the percentage of farmers who have to borrow money and of those who do not have to. Here again we depend upon the figures arrived at by the I. C. C. C.²

	Borrowers.	Non-borrowers.
Berar (1925-26)	64%	36%
North Gujarat (1925-26)	71%	29%
Khandesh (1925-26)	78%	22%
Khandesh (1927-28)	71%	29%
Middle Gujarat (1927-28)	82.4%	17.6%
Sind (1927-28)	94%	6%
The Punjab (1927-28)	51.4%	48.6%
Madras (1927-28)	70%	30%
Total :	70%	30%

¹ Even the conclusion regarding the absence of pressure is not strictly justified. The statistics do not tell us whether the reported sales were made by the farmers themselves or some of them were made by petty village dealers. It may be that the late sales, especially in markets were by small dealers. In that case the conclusion will not be correct.

Secondly in recent years, the farmers in Khandesh, Berar, and C. P. sow a mixed crop of cotton and ground-nuts. Ground-nuts are an early maturing crop. The farmers by selling them early, considerably ease their financial stringency.

² General Report of the I. C. C. C. p. 8.

Some further details are also available from the same source.

BORROWING PER HEAD AND PER ACRE¹

Areas investigated	Borrowing per head.		Borrowing per acre.	
	Of total No. of cultivators	Of total No. of borrowers	Of total area of holding	Under cotton
	Rs.	Rs.	Rs.	Rs.
Berar	370	582	11.2	20.5
North Gujarat	248	345	—	—
Khandesh	208	266	9	—
Khandesh	131	184	5.7	13
Middle Gujarat	201	244	9.8	19
Sind	763	809	61	134
The Punjab	322	628	14	76
Madras	448	639	12.4	33.7

THE SOURCES OF CREDIT

We next come to the question of the cultivator's sources for the supply of credit. The money-lender is his mainstay. The co-operative societies, though they supply a very small portion of his credit requirements will also claim our attention, inasmuch as great hope rests on them for the ultimate solution of the problem of rural finance. Amongst his other sources are middlemen and gin-owners.

The Money-lender:—The money lending business in India has been a target of constant and often carping criticism. Reformers from early days saw in him a canker that ate away the vitals of the village economy. The usurious rates of interest charged by him and the many unscrupulous practices associated with his business became proverbial and won for him the odium of a Shylock. The various

¹ Adapted from Table VII of the General Report of the Indian Central Cotton Committee. Since these figures were collected there has been a series of five depression years, during which no cultivator could have paid interest on debts. On the basis of 12 per cent. interest, therefore, the burden of debts has increased at least by 60 per cent.

Banking Enquiry Committees have given a long list of questionable practices connected with the money-lending business.¹ They vary from a demand of interest in advance to criminal manipulation of false accounts and taking sale deeds for mortgages.

Consequently many laws have been passed to control his activities.² The Dekkan Agriculturists' Relief Act, 1879, and the Usurious Loans Act, 1918, empower law courts to re-open and examine all loan transactions and forbid attachment of land and agricultural implements indispensable to the work of cultivation. The Punjab Regulation of Accounts Act, 1930, requires of the creditors maintenance of regular accounts.

While assessing the blame we ought not to overlook the fact that there is to-day no alternative source of finance which the cultivator can approach. Under the circumstances the money-lender has remained the most un-failing and therefore useful source of credit to the cultivator. The failure of the state to evolve an impersonal, co-operative or state-managed machinery for providing credit facilities suited to the conditions of agricultural economy in India, is, more than anything else, responsible for the existence and growth of the irresponsible money-lending business. All state efforts to provide such a machinery have ended in a miserable failure, leaving a legacy of distrust for all state-sponsored schemes: and the condition of the industry which has never been far from the verge of bankruptcy is greatly responsible for it. It is highly risky to finance agriculture and the money-lenders' rate of interest combines in it the premium for insurance against this risk and the return on capital investment. It will, therefore, be unfair to indict the money-lender by ignoring deliberately or otherwise the bankrupt condition of the industry that he finances.

¹ See the Majority Report of the Central Banking Enquiry Committee, p. 77.

² The Bombay Provincial Banking Enquiry Committee gives a full account of legislation on the subject, pp. 179 to 188.

At worst, the money-lender no doubt is a blood sucker, but at best he is a creature of objective conditions beyond his control, and a courageous and tactful one at that. The depression has not spared him, and he is paying the price of his courage or unscrupulousness, whichever was the case. The financier of a bankrupt industry is himself getting bankrupt. Yet he is valiantly sticking to his profession, and the Indian Government should remember that by so doing he is warding off the blows that would have otherwise fallen on its own back. The farmer to-day pays the land revenue by incurring debts which he is not, and is not likely to be in the near future, in a position to repay. The Indian sowkar, let us say even urged by his insatiable greed, is allowing the bankrupt to borrow and thus takes on his own shoulders the risk and the incidence of the incapacity of the farmer to pay the taxes, which would have otherwise fallen on the shoulders of the government.

The Middleman:—One extra source of finance to the producer of commercial crops is the middleman. In order to secure business, these middlemen advance money to their constituents, just before the harvest time. In return, the farmer is supposed to sell his crop through the lender, though there is no contract or legal obligation to this effect. The credit is given essentially on a personal basis. The borrowing farmer is a person whom the middleman has known for years. He knows him and his family, his assets and the average crop that he will bring to the market.

There are several types amongst these middlemen who advance money to the cultivator. A middleman is either a dalal (commission agent), or a cotton merchant, or a gin-owner who may or may not be a cotton merchant.

Dalals and adatiyas advance money with a view to securing commission business and as such their dealings are not open to much objection. Their resources are small, advance limited and motive obvious. Often on the other hand, the competition between the dalals is so keen, that farmers

dictate their terms to the dalals by threatening in their usual shrewd way to turn to some other dalal, in case they are not given a particular sum. The gin-owner who is not himself a cotton merchant—as in Khandesh and the Central Provinces—is in the same category. The system of gin-owners advancing money to their constituents exists only in a few districts. Invariably in such places the competition between the gin-owners is keen, large sums are advanced to the farmers before the crop is marketed in anticipation of their bringing their cotton for ginning to the factory that advances the money, and many a ginner has come to grief by such reckless advances, especially when late rains or droughts cause a crop failure.¹

To the gin-owners, who are also cotton merchants, as in Gujarat, we cannot give a certificate of harmlessness with equal confidence. Their share in financing the cotton cultivator in Gujarat is considerable.² The farmers enter into a contract with the gin-owners or their agents at harvest time to deliver all their cotton at the factory of the gin-owner at a certain price, and on the basis of this they borrow, in advance, a sum of money from the contractor. When cotton arrives in the ginning factory, the weighing is made, and the balance of money, if any, is taken away by the farmer. As the system combines the financier and the businessman in one person, it is looked upon with suspicion and is not free from abuse.

The Co-operative Societies:—Though the co-operative movement was started in 1904, no substantial progress was made by it till 1912, when a new Act was passed. To-day there are more than 78,000 credit societies in British India. The Royal Commission on Agriculture, reporting in 1928, has

¹ These statements are based on actual instances. But specific names cannot be given for obvious reasons.

² "The whole of Kapas crop is financed by the factory owners". Khan Bahadur P. R. Vakharia; Evidence before the Bombay Provincial Banking Enquiry Committee, Vol. III. p. 323.

given¹ the proportion of members of agricultural societies to families in rural areas, in different provinces. Amongst the major provinces, in the Punjab the proportion of members of credit societies only is 10.2; in Bombay 8.8; in Madras 7.9; Bengal 3.8 and in the United Provinces 1.8. From these figures it is evident that the co-operative credit has not yet fully penetrated amongst the agriculturists. Some of the Provincial Banking Enquiry Committees tried to ascertain the proportion of finance provided by the co-operative societies. The Bombay Committee reports that out of Rs. 32 crores needed by the agriculturists, only Rs. 220 lakhs are said to have been provided by the co-operative organizations. For Madras, the conclusion is drawn from the figures of only one district, Tanjore. Out of three and a half crores required for cultivating one crop of paddy in the district, rupees seventeen and a half lakhs are said to have been advanced by the co-operative societies. The Punjab Committee definitely states that the co-operative societies supply only a fraction of the 52 to 56 crores of rupees required as current finance by the agriculturists.²

We do not propose to examine in detail the working of co-operative organizations, as it is known to all who have even an elementary knowledge of Indian economics. Neither do we see the propriety of dilating upon the defects and merits of the system, in a work of this sort. We will content ourselves by showing two viewpoints, the optimistic and charitable view of the Royal Commission on Agriculture and the critical one of the Managing Governor of the Imperial Bank of India. The Royal Commission holds that "the knowledge of the Co-operative system is now wide spread; thrift is being encouraged. Where the co-operative movement is strongly established, there has been a general lowering of the rate of interest charged by the money-lenders, the hold of the money-lenders has been

¹ See paragraph 379 of the Report.

² The Central Banking Enquiry Committee report, p. 139.

loosened, with the result that a marked change has been brought about in the outlook of the people".¹ On the other hand, in the opinion of Mr. MacDonald, the Managing Governor of the Imperial Bank "the movement as a whole cannot be considered to be conducted in a satisfactory manner.....overdues are highly excessive—audit is defective—control is difficult—the credit of the movement is chiefly based on the responsibility of Government and that responsibility has never, so far as he knew, been clearly defined".² There is much truth in what Mr. MacDonald has said. But the fact remains that without a strong co-operative movement the solution of the problem of rural credit is difficult. We mentioned at the outset the difficulties that are inherent in financing agriculture; and also tried to gauge the financial position of an average cotton cultivator, and gave the sources of his finance.

In spite of the conclusions of the Central Cotton Committee to the contrary, it is difficult to believe, for reasons already adduced, that the cotton cultivator is not handicapped in the disposal of his crop for want of finance. With commodity prices at a rock bottom level, with vain efforts of the co-operative societies to subdue the money-lender, and with no visible wave of reform having metamorphosed the latter, it is difficult to cry out that 'all's well' with the Rural Finance.

If left to itself the rate of agricultural borrowing is bound to be high, based as it will be on the uncertain yield of the crop and the meagre assets of the farmer. Personal credit is always dearer than credit based on a tangible security. Thirdly, if a credit agency consists of a regular class of people, all of whom are dependent for their living on the income from interest, few are the chances of the credit being cheap.

¹ Report p. 447. The Commission no doubt admits that the working of the Societies is defective.

² Central Banking Enquiry Committee Report, Vol. III, p. 929.

CO-OPERATIVE SOCIETIES VS. THE MONEY-LENDERS

The Royal Commission on Agriculture and the Banking Enquiry Committees devoted no small amount of time in trying to find out an ideal system of financing agriculture. Their main recommendation was agricultural co-operation. It must, however, be admitted that in spite of all our efforts, the co-operative credit societies have as yet touched only a fringe of the problem of rural finance. As Mr. Ramdas Pantalar pointed out,¹ "only 7 per cent. of the population are in the co-operative movement; the other 93 per cent. are still under the money-lenders". Various are the causes that are adduced to explain the failure of the co-operative movement. The money-lender is thought to be the biggest block in the progress of co-operation. He must either be eliminated or absorbed. To the "bourgeois" economists the futility of attempting to eliminate him is becoming patent every day. At the same time he cannot be easily absorbed. Mr. Subedar has suggested an ingenious scheme for the assimilation of the private banker into some kind of official scheme for providing long-term credit.² It combines in one the money of the Mahajans, credit of the Government and the system of organised banking. The scope of the present enquiry does not permit of a detailed examination of the whole scheme. It may, however be observed that though the scheme may be economically sound, Mr. Subedar is over-estimating the response from private bankers. Examples are known of people not accepting proposals that are *prima facie* in their benefit, through sheer distrust and conservatism. Admitting that the Mahajan gets 13½ per cent. interest according to the scheme and that his income will be reduced 'only to the extent to which his risks and costs are reduced,' even Mr. Subedar will agree that with the

¹ "Discussion with Foreign Experts", Central Banking Enquiry Committee, Vol. IV, p. 1028.

² For detail see the Minority Report of the Central Banking Enquiry Committee, pp. 59 to 75.

kind of public zeal that we possess in India, it is chimerical to hope for an early realisation of his scheme.

If the middleman can be neither eliminated nor absorbed, he must be controlled, for, with all his services his operations are not altogether free from harm to the agriculturists. But even in our attempt to control him we have failed. The Dekkan Agriculturists' Relief Act has done more harm than good to the cultivator. The many legal disabilities that the Act imposes upon the class of lenders has resulted in diminution of the agriculturists' credit. As the Arthur Commission of 1912 pointed out, even in all fair deals we have to "allow for the judgment of a court which will presume dishonesty on both sides".¹ The results are in no way surprising. The money-lender remains the sole source of supply of capital to the agriculturist. If we choke that channel and open no new one, the result will naturally be a shortage of capital. Our co-operative societies were unable to cover up the shortage, and the poor cultivator suffered. Capital cannot be created out of nothing; we have to depend in our present economic system upon the investing public, which, however, cannot be attracted by the comparatively lower rates of interest.

Under such circumstances, all that we should expect of the co-operative credit movement is that it occupies a position only of a strong rival and not of a sole agent. At best it can aspire to be a corrective rather than a millennium. The only way to keep the money-lender in control is to compete with him. But before a fair competition between the two begins, a fair field should be left open to them. As it is, the money-lender already has a strong hold over the cultivator, because of the latter's previous debts, whereby he coerces the cultivator to resort to no rival credit agency. Free the cultivator by mortgage banks or any other debt redemption scheme from the tentacles of his previous debt; then and

¹ Quoted in the Bombay Provincial Banking Report, p. 179.

then alone will his choice between the co-operatives and the money-lender be free.

The question arises as to what sort of a co-operative organisation will be required to successfully compete with the money-lender? Obviously the kind of organization now existing would be of no avail. To-day the farmer is left in the lurch at the most critical juncture. The farmer's real trouble begins when his crop is ready. He is confused in the intricacies of marketing. If you befriend him at that psychological moment, grade his product, pool it, warehouse it, and give him a fair advance on his deposit of crop, he will never leave or betray you. In short, if you perfect the marketing and lessen the risk involved in it, you will make the agricultural paper more marketable; and cheap credit will be the result.

The failure of co-operative credit is also due to its inability to meet the long-term requirements of the ryot, and the failure of the whole credit system is due to the neglect to improve, and since the depression, to revive agriculture and its marketing. "To remedy the existing evils by credit alone, may alleviate the misery of the ryot as an opiate relieves pain," remarks Mr. A. P. MacDougall in his memorandum submitted to the Central Banking Enquiry Committee, and as a remedy suggests a co-ordinated effort by co-operation, education authorities, research departments and marketing organizations.¹

FINANCING OF THE INTERNAL COTTON TRADE

In the first part of the chapter some aspects of agricultural finance were examined by us; in this we propose to discuss the methods of financing the internal trade in cotton. Trade and finance are vitally connected with one another and often the one shapes the other.² But whereas the methods of

¹ Majority Report, Central Banking Committee. Enclosure XIII. p. 792.

² Lala Harkishen Lal: My own experience is that the banking system of any country is entirely dependent on the system of commerce prevalent

inland trade in India have not changed very much in spite of a great increase in its magnitude, the banking system seeking to finance it, has been imported from a country where the trade methods are highly organized. Obviously the old traditional trade methods and the modern banking system ill-suit one another, and in spite of a long contact of fifty years, they have not become assimilated. It is a problem in Indian economics to adjust the one with the other, either by changing the traditional trade methods or by modifying the western banking system, whichever would promote India's interest. Both in their original form, if linked together, are bound to create friction.

Our economists have often suggested a co-ordination of the indigenous banking system with the western one. The malady is not due so much to the absence of such co-ordination, as to a complete discord between the banking system and the trade methods. No doubt, a co-ordination between the two systems is absolutely essential. But if we remember that the main function of banking is to facilitate trade, we feel confident that no change which ignores this relationship will bring a solution. As long as the trade methods are faulty, neither indigenous nor foreign banking systems or their combination will achieve the end.¹ We have begun at the wrong end, at any rate, such is the fear of a student of marketing.

It can be said that India has erred in giving a greater importance to its foreign trade compared with its inland trade. In the majority of the European countries such an attitude may be justifiable in view of their peculiar economic conditions. For a purely industrial country foreign trade is a key to prosperity. In India the conditions are different. We are yet primarily an agricultural country and even for

in the country. "Discussion with Foreign Experts". Central Banking Enquiry Committee, Vol. IV. p. 33.

¹ Dr. Joidels: I should think the primitive methods now in use are more due to the trade conditions than any defect in banking. "Discussion with Foreign Experts", *ibid.* p. 34.

our industrial products we have a very big home market. As such, movements of goods from the interior to a manufacturing centre and vice versa are of no small economic value to us. Our internal trade is at least eleven¹ times as large as the foreign trade in magnitude. Taking Rs. 568 crores (1929-30) to be the value of our pre-depression foreign trade, the volume of internal trade comes somewhere near Rs. 6248 crores. When we realize this magnitude, the importance of the problem of financing the internal trade dawns upon us.

Further, in other countries the method of financing internal trade differs but little in principle from the method of financing the foreign trade: the banking systems are the same for both, but in India they are fundamentally different. Our internal trade is mostly financed by a system of indigenous banking, the peculiarities of which need to be understood thoroughly.

Coming to the immediate problems of cotton finance, we notice that whereas the financial needs of a cotton cultivator are fairly uniform, those of a cotton trader vary considerably according to the nature of the business he conducts. There are many types of cotton traders varying from the itinerant trader of a village to the exporter in the central market. Hence the extent of accommodation each of them needs varies. We shall have to consider each type separately. The principal types of cotton merchants are the itinerant trader, the local upcountry merchant, the big Bombay merchant with his agent in the interior, the spinner and the foreign exporter.

The Itinerant Trader:—The business of the itinerant trader, as explained before, is to collect small quantities of kapas from farmers of a few villages. When a sufficient quantity of kapas is gathered he brings it to a neighbouring market. Usually he has his own resources. But sometimes a dalal or an adatiya or a gin-owner gives him some advance

¹ Central Banking Enquiry Committee Report, p. 207.

money on his agreeing to sell the kapas through him or gin it in his factory as the case may be. With the growth of co-operative sale societies this class of itinerant trader can profitably be eliminated. The farmers can bring the kapas straight to the societies.

The Upcountry Merchant:—Next comes the local up-country merchant. With the spread of branches of the big Bombay Merchants and shippers in the interior, his business is dwindling considerably. But he is sticking to his profession and makes a frantic effort to live on it, often by pure speculative business. The large scale business is more economical and keeps the price higher, beyond the reach of a small trader, driving him to resort to speculation. But the small trader is too conservative to leave his business. Besides such occupational adjustments are not so easy to accomplish.

But what are his financial needs and who supplies them? Generally speaking he has to make payments for his purchases in the market on the very day or within one or two days. Only in very exceptional circumstances these payments are delayed over fifteen days.¹ Some merchants have their own resources; others resort to big indigenous bankers or sowkars. Those who borrow from the sowkar, do so at the commencement of the cotton season at a rate varying from 12 to 36 per cent.² If they sell the cotton locally the repayment is quick and simple. If they get the cotton ginned and pressed and then send the full pressed bales to Bombay, they have to draw a hundi up to say 70 per cent. of the value of their cotton on their Bombay adatiya or mukadam. We shall deal with these mukadams or jathawalas, as they are called, later.

The Bombay Merchants:—These are really the big cotton merchants; most of them have their offices at Sewri, the

¹ From the evidence before the Bombay Provincial Banking Enquiry Committee.

² Report of the Central Banking Enquiry Committee, p. 55. The rates have since then come down.

head-quarters of spot cotton trade in Bombay ; and some have their own jathas.¹ Their own resources are large enough. They send their representatives to upcountry markets where they purchase cotton according to their needs. They are also the people who trade on the ring (i.e. in the speculative transactions known as Futures), sometimes for hedging, sometimes for speculation. Some sell their cotton to the spinners and some export it to Japan and other countries. Those who have jathas, deposit their stocks with the banks, and draw 70 to 80 per cent. of the value of their stock. Those who have no jatha arrangements, arrange with jathawalas for similar facilities.

THE INDIGENOUS BANKER

Having discussed the nature² of the financial needs of persons engaged in the cotton trade and the sources of their supply, we propose to study how these various financing agencies function. The most important agency that finances the internal trade is the indigenous banker, and we ought to study his methods of business. Banking, organized after the western³ system, has made but little headway in financing the internal trade, and it is difficult to imagine how and when, at this rate, the joint-stock banker will occupy a good position in the business. The two mainstays of the indigenous banker to-day, on which he rests and thrives, are the great risk in the present day commercial finance and the intimate knowledge of his clients.⁴ Here exactly the joint-stock banker is at a disadvantage.

The penetration into the interior markets by big foreign firms no doubt diminishes the scope of the indigenous banker; for these firms finance their business only through organized banks. And these officewalas, as they are called,

¹ A jatha literally is a place where a commodity is stored. It incidentally becomes a place for financial accommodation.

² See the Report of the Bombay Provincial Banking Enquiry Committee, Vol. III, p. 382. Evidence by Findlay Shirras.

have captured quite a large portion of business in the up-country markets, though since 1934, when Japan boycotted Indian cotton, they have lost substantial ground to the Indian dealers who have started their own shipping business.

There are two distinct types of indigenous bankers. The one does nothing beyond the banking business, but the other combines the banking business with some other profession, e.g. cotton business—which may be either primary or secondary. These types do admit of further sub-divisions, e.g. in the first type there are some who give only long term loans, while others do the hundi business also. The long-term loans are for the full season and are generally repaid at the end of the Hindu year. Such loans are mostly on personal credit. But the type of banker who is more actively connected with the trade is the one who finances the trade from day to day by purchasing and selling hundis. The exact amount of capital employed for the purpose is not known. Even the various Banking Enquiry Committees were unable to arrive at a figure. Yet from the volume of the evidence they received, it can be said that the bulk of the trade is financed by them.¹

The simple but efficacious methods of the indigenous banker in transacting his business suit the habits and temper of our semi-educated merchants and their business practice. No elaborate formalities are to be gone through for getting a loan. He is readily accessible at all times and is generally prepared to accommodate the needy merchant even at some risk to himself.²

The instrument with which the indigenous banker works is the Hundi. The merchant who wants to pay for the purchase

¹ On a conservative estimate their share in the business is computed at 70 to 80 per cent. of the total. Report of the Bombay Banking Enquiry Committee.

² "No audit is required and no balance-sheet is to be published, no elaborate staff is necessary, no attractive counter, no imposing edifice. Except recently in Bombay, Ahmedabad and Karachi the doors of the indigenous banker are open till mid-night." The Bombay Provincial Banking Enquiry Committee Report, p. 196.

of cotton, draws a hundi on his financier or an agent or a consignee of his goods, and sells it in the market. Some indigenous banker buys the hundi by paying him cash, and presents or sends it to the drawee. Merchants purchase hundis when they want to send money to Bombay or any such central market. In such cases the indigenous banker accepts the money locally and himself draws a hundi on his Bombay agent, who pays the money to the merchant or his creditor in Bombay when the hundi is presented to him. Thus, the indigenous banker does the business both of lending and of transmitting money; the hundi does the double work of a bill of exchange and a draft.

A hundi can be drawn for any duration. But Mudati hundis, i.e. for 60 or 90 days, are going out of vogue. Only the Darshani hundis—sight bills—are popular.

The difference between a hundi and a bill of exchange is that the former may not have a genuine business transaction at the back of it, but the latter is usually supposed to have one. There is nothing on the face of a hundi to suggest whether it is drawn in lieu of a commercial transaction or whether it is simply an instrument of remittance or an overdraft. This ambiguity considerably reduces its utility as a negotiable instrument.

The rate of discount depends on the condition of the money market. During the busy season it is slightly above

the Imperial Bank's rate.¹ Various reasons are given for this. It is said that in the central market they deal with better bills of larger amounts. But in, what may be called, the Bazaar, the bills are small. Apart from the size of the bill, the financial standing of men dealing in the central market is much stronger than that of the people who do their business in the Bazaar. But in the slack season, the rate (of discount) is sometimes negative, that is, if you cash a hundi with a sowkar instead of charging a discount he gives you a small premium. This happens because in the slack season the up-country merchants do not require money for local payments; hence there are fewer drawers (sellers) of hundis compared with buyers who desire to remit money to Bombay. This creates a premium on remittance business. The indigenous remittance system works with remarkable sensitiveness to the laws of demand and supply.

JOINT STOCK BANKS AND INTERNAL TRADE

The joint-stock banks occupy only a secondary position in the financing of internal trade. Amongst these the Imperial Bank of India obviously takes the first place. There is, however, such a diversity of opinion regarding the services

HUNDI RATES

1st April 1929 to 1st March 1930	Call money rate Bombay per cent	Imperial Bank Hundi rate per cent	Bazaar Bill rate Bombay per cent
April	6½	8	11
May	3½	7	8½
June	3½	6	6½
July	1½	5	5⅞
August	1½	5	5⅞
September	1½	5	6
October	3-3½	5	7⅞
November	2½	7	8½
December	4½	7	9⅞
January	5	7	9⅞
February	6½	7	9½
March	4½	7	9⅞

¹ Majority Report. The Indian Central Banking Enquiry Committee, page 400.

rendered by the Imperial Bank in financing agriculture and trade that it is difficult to arrive at any decisive opinion as to the extent of its usefulness. The recent enquiries by the various Provincial Banking Committees and the Central Committee have left the controversy more indecisive than ever before. While wishing to keep out of the controversy, we intend to see how far the Imperial Bank has helped the financing of the cotton trade.

It must be said at the very outset that as far as agriculture is concerned the Imperial Bank renders no direct assistance.¹ All its financing in that sphere is indirect, either through co-operative banks or big indigenous bankers. The Bank used to help the co-operative banks by cash credit and over-draft arrangements and by allowing remittances for co-operative purposes at par. Recently, however, there has been a considerable change in its policy. The cash credit allowed to the Bombay Provincial Co-operative Bank has been altogether stopped. The Imperial Bank is even unwilling to give them accommodation against the pronotes of A and B class societies. The Bank also refuses to advance against Government paper to the Bombay Provincial Co-operative Bank because the Co-operative Bank's debentures provide for a floating charge on the general assets of the Bank.²

The free remittance allowed to the co-operative banks is also withheld even if the banks certify that it is for genuinely co-operative purposes. This is because the co-operative banks have recently begun accepting hundis and the Imperial Bank considers it "irregular for the co-operative banks subsidised by the tax-payer to compete with the ordinary banking business of the commercial banks which have no such advantage."³

¹ *ibid.* p. 191.

² The Managing Governor of the Imperial Bank has given an explanation of the Bank's attitude in his evidence before the Central Banking Enquiry Committee. Report, Vol. III, p. 894.

³ The C. B. E. C. Report, Vol. I, p. 145.

The Imperial Bank finances the trade by discounting hundis of "approved"¹ parties and sometimes by giving clean over-drafts up to a limit fixed by the Bank. But this facility is not available to the trade in general; besides, the Bank refuses to lay down any definite tests by which a person can claim his inclusion on the list of approved parties. Even in the case of joint-stock banks, the Imperial Bank claims the privilege of selecting its own customers. It may refuse to re-discount their bills without giving any reason for it. There is a general complaint that the Bank is very conservative in its estimate of people's 'worth', under the pretext of doing safe and sound business. It is said that the joint-stock banks do not generally re-discount their bills with the Imperial Bank; because it is interpreted by the public as derogatory to their credit, and secondly, because it is much simpler and more economical for them to borrow on Government securities, as they can repay the same as soon as they have surplus funds, and thus save the interest.

In many places the Bank has shown its readiness to give loans to the merchants on the hypothecation of their goods. In the case of cotton, in certain districts it gives the advance only on full pressed bales and not on kapas or dokras. But in some districts it is willing to advance on kapas also.² Generally speaking few cotton merchants in the mofussil avail themselves of this opportunity, because hypothecation of goods with banks is supposed to lower their credit in the eyes of the mercantile community.

The Bank, however, plays an important role in the Bombay market, especially in relation to jathawalas and the clearing house of the East India Cotton Association.³

¹ The Bank's definition of the "approved" bills is bills approved by them. When asked by the C. B. E. C. whether it was possible to lay down any test for the guidance of other banks as to what constituted an approved bill in their opinion, the Managing Governor of the Bank replied in the negative. Vol. III, p. 662.

² Khan Bahadur Vakbaria's evidence before the B. P. B. C. Report, Vol. III, p. 329.

³ See Chapter VIII.

One of the experts on the Banking Enquiry Committee testified that even in the Western countries, the commercial banking system becomes slower, the nearer it approaches the agriculturist. In India the joint-stock banks do a good business in big cities, but their business in the mofussil is negligible. Due to various reasons, branch banking has not developed much in this country. But wherever there are branches of the joint-stock bank, they do the ordinary hundi business, perhaps on terms more liberal than those of the Imperial Bank. The actual amount of the hundi business is not known.

While summing up the discussion on the financing of internal trade and offering a general criticism, we want to reiterate the point that the imperfections in the present system are mainly due to the defective system of marketing, and the failure to co-relate it with the requirements of the Western banking system. The one feature that emerges from our study is that much of the trade is financed from personal resources and on personal security. Students of finance will understand that this is not the most economical way of financing. Whatever money a businessman has or procures on his personal credit gets locked up in one or two transactions. If, instead, a commercial paper is created every time a genuine economic exchange takes place, the financing would be more secure and hence cheaper. In the latter case you tap the money market; in the former you do not. If you use your own resources, you tap only the capital and not the credit. Such a practice limits the scope of business inasmuch as a merchant's enterprises will be limited by his own resources.¹ Such curtailment is unnecessary as well as undesirable. It restricts the demand by restricting the turnover. One need not lock up one's resources in one's purchases. If a commercial paper is created for each purchase, it will be easily negotiable, realising your

¹ Discussions with Foreign Experts, Central Banking Enquiry Committee Report, Vol. IV, p. 34.

resources for further business, provided there is an efficient banking system. As it is, the money market does not get the opportunity, that it ought to, to finance trade. This is exactly what we mean when we sigh over the absence of a bill market in India. How can there be bills in the market, when everyone finances his own trade? In order that there should be sufficient bills, providing opportunity for investment seeking capital, the business methods need to be changed. What bills there are—hundis—are not real bills of exchange. A hundi does not guarantee a genuine transaction at its back, which fact lowers its value as a security.

Another significant fact that affects commercial finance is the growing disappearance of mudati hundis. It indicates a decline in the capacity of the merchant community to inspire sufficient confidence in the financing agencies. The provision of 60 to 70 days duration in a bill of exchange has a positive economic purpose to serve. It covers the element of time, inherent in modern trade, transport and marketing. If an instrument, e.g. a darshani hundi, meant for financing the trade does not provide for this economic phenomenon, it has its efficacy considerably reduced.¹ It is bound to create friction and economic discord. Further, the negotiability of a sight bill is almost nil; it is, therefore, not an ideal credit instrument.

Something more needs to be said. We should not only have genuine commercial bills, we must also have sound ones. And how can we do that? The soundness of a bill depends on the faith that it can inspire in the investing public. If we can get a third party, licensed, 'honest, impartial and efficient', to certify that behind the bills are goods of a guaranteed quality and quantity, properly warehoused and honestly insured, the security of the bills

¹ Mr. Lamond: The currency is from the release of the goods at the godown to the arrival at the station of the consuming market.

Dr. Trip: The currency is so short that it is not a proper instrument for discounting business.

Discussion with Foreign Experts. *ibid.* p. 448.

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Discussion with Foreign Experts. *ibid.* p. 443.

will be immensely enhanced. They will be invested with the negotiability of a currency note. But this brings us to the problem of warehousing.

WAREHOUSING

The advantages of warehousing are many. It cheapens the credit by making lending more intelligent and safe. The warehouse warrant represents a definite quality of cotton, in a definite quantity, carefully stored, insured and inspected. The rate of interest is thus bound to be reduced with the greater safety in lending. Lending on ungraded cotton necessitates a higher margin. By warehousing their produce, the depositors get a higher percentage of the value of their produce. By making his resources liquid, the warehousing system invests the possessor of a commodity with a waiting capacity, so very essential for 'orderly marketing'.

The system further secures, at one stroke, cheap insurance, careful storing, cheap financial accommodation and easy transferability of goods. It saves the trouble and the economic loss involved in constant re-sampling and re-weighing every time the bales are sold. Everyone connected with the trade knows how enormous is the cost and waste of re-weighing and re-sampling. In short, warehousing greatly systematises the whole marketing and financing of any commodity.

Let us now look to some of the practical difficulties in the way. The cotton season lasts from three to six months. Evidently, therefore, for the remaining six months the warehouses would lie idle. Unless a comparatively heavy charge is demanded for warehousing services, the management may not be able to meet the costly establishment expenses which are inevitable. People are reluctant to pay even a reasonable charge, because at present they store their kapas gratis, in the compounds of the ginning factories. As for the other advantages of warehousing, they dawn upon them but slowly. An average merchant has not much faith in theoretical argument. He is often cynical towards any big scheme.

There are, however, certain centres in the cotton growing areas, where the cotton season runs for 7 to 8 months, and even in the slack season storing arrangements are required for those who want to carry over their stock for the next year. The dilapidated godowns in which they store their bales at present do not give good protection against rain or fire.

When the Central Banking Enquiry Committee were discussing the question and its advantages to the farmer, they forgot that by the time the produce comes for warehousing—(a step before transportation according to them)—the farmer has already sold off the produce to a businessman. Few farmers have the capacity to carry their cotton to that stage of marketing when it is pressed into bales. Most of them sell off the kapas before it is ginned, and the remaining few sell off the ginned cotton before it is pressed into bales. They have neither a sufficient quantity of cotton nor the waiting capacity for getting their produce ginned and pressed. The system of warehousing will help the farmers only when co-operative marketing, grading, pooling, and co-operative ginning are established. Till then whatever advantages the system will confer, will go to the mercantile community and not the farmers.

Of cotton there are three distinct forms. Kapas, loose lint contained in dokras or half-pressed bales, and full-pressed bales. At what stage warehousing is to be made available is the question. In America it is provided only in the last stage, but in that arrangement, as pointed out just now, the farmers in India will not get its benefit. Can we make it available at an earlier stage in India? The difficulty with kapas is that it is owned in numerous small lots which makes its warehousing almost impossible. Besides it is difficult to grade kapas before it is ginned. Only when the co-operative societies pool the kapas in areas where a fairly uniform quality is grown, the warehousing of kapas may become possible. But it will not be useful, for the kapas will have to be removed for ginning and pressing. For similar reasons, the

warehousing of dokras or half-pressed bales can only be temporary.

It is again said that many ginneries are now constructing good godowns, and the Imperial Bank is generally willing to advance loans on the deposit of the produce.¹ Why should we then unnecessarily elaborate and complicate the process of warehousing? But the answer to this is that the present system lacks the accuracy and strength of the warehouse warrants, and the trouble and cost of re-sampling and re-weighing are in no way eliminated.

¹ Evidence of Khan Bahadur Phiroshah Vakharia before the Bombay Provincial Banking Enquiry Committee.

CHAPTER VI

EVOLUTION OF THE COTTON TRADE TECHNIQUE

International trade in its modern form and in some appreciable magnitude developed only after the Industrial Revolution. As long as the barriers of Nature were not overcome, every country was required to be economically self-sufficient. If at all any trade existed between two countries, its nature was fundamentally different from the nature of the present international trade. The trade before the Industrial Revolution was only in the surplus, whereas our modern theory of foreign trade based on the comparative costs of production and industrial efficiency, assumes huge movements of raw material from one country and of the finished produce from another.

THE INDUSTRIAL REVOLUTION AND AFTER

The mechanical inventions which earned for the epoch the name of Industrial Revolution, were chiefly with regard to the manufacturing of cotton. It was in fact a revolution in the cotton industry.¹ John Kay's "Fly Shuttle", Hargreaves' Spinning "Jenny", Arkwright's "Water Frame", Crompton's "Mule" and Cartwright's weaving machine known as "Iron Men", were all in connection with the infant cotton industry of England, struggling furiously with wool. The use of the machine for the production of cotton goods accentuated the demand for raw cotton in different parts of the world to such a degree that it necessitated a revolutionary change in the marketing of cotton. It greatly increased the distance between cotton producing and cotton

¹ "And the cotton plant of the Orient is historically responsible for an important share in the Revolution." J. Scherer, "Cotton as a World Power," p. 53.

consuming centres, giving rise to new economic problems. Fortunately the corresponding inventions in transport could cope with the increased demand. Economic structures of nations changed. Those countries which had abundant motive power for the production of cheap machine-made goods attracted large quantities of raw material.

Another effect of the application of machinery was to make cotton goods so cheap that they displaced all other fibres that had the quality to satisfy man's need for clothing and the like. The use of cotton became so universal that at that time its production and manufacture showed immense potentialities of development.

The technical requirements of the machine process necessitated great care in the purchase of cotton. Existing methods of purchasing became hopelessly ill-suited, because a close inspection of each parcel of cotton became essential.

As a matter of fact, all important developments in transport and communication services have necessitated drastic changes in trade methods. The doctrine will be amply illustrated as we proceed to trace the growth of the cotton trade.

OLD COTTON TRADE METHODS

Before steam power was applied to the transportation service, cotton was carried from one country to another in sailing vessels. The trade between any two countries at that time was blind, as it were, because the price which a particular shipment of cotton would fetch by the time it reached its destination could not be ascertained. From early times Manchester and Liverpool represented the demand side and South America the supply side of the cotton market. The spinning mills or big cotton firms in Manchester or Liverpool used to send their representatives to the U. S. A. for the purchase of the raw material. It took nearly a month for cotton to reach Manchester or any port on the Continent,

during which time unexpected changes in the price of cotton occurred.

But as long as the news affecting the price of a commodity reached a place simultaneously with the goods, there was no element of risk in the international trade, at least as far as the supply side was concerned. As for the demand it may be asserted with a fair degree of accuracy that it is more stable, and therefore, plays a lesser part in short-time fluctuations of prices. The first trouble came with the starting of a steamer service for carrying news. It is very interesting to note that most of the complications in the trade technique have arisen out of discrepancies between the speed of the transport service, and the speed of the communication service, due to modern inventions. In 1840 commenced the first steamer service—the Cunard Line—between England and America. News regarding the price of cotton travelled much faster than a cotton consignment, which yet moved sluggishly in a sailing vessel. So, by the time a consignment of cotton reached its destination, some entirely new factors arose effecting changes in the prices for better or for worse. The result was that the southern merchant whose cotton was on the sea was exposed to a tremendous risk; for, during the voyage the price of cotton might go down considerably involving him in a heavy loss. Some scheme had to be evolved in order to overcome the risk if the trade were to continue. It was soon found out. If actual bales of cotton could not be sent in steamships, samples taken out from each bale could be sent in them (i.e. with the speed of the market news), and cotton could be offered on the New York and Liverpool markets “to arrive Liverpool” or any such destination. The samples reached Liverpool simultaneously with the latest market news. If on the basis of these samples transactions could be made for cotton “to arrive”—after a month or two, the delay in the arrival of the actual consignment would be of no consequence, and the risk would be automatically eliminated; for, the sales take place in a

market, the price determining factors of which would not be essentially different from those which determined the price in the market in which the commodity was purchased. Cotton from America could be sold in the Liverpool market, governed by more or less the same price determining forces which governed the American market at the time it was purchased or shipped. News of subsequent changes in the American market would not be available in the Liverpool market, as the news service was no faster than the transport service. Herein lay the safety of the business.

The trans-Atlantic cable that was laid in 1886 again created a new discrepancy, and the method of selling "to arrive" no longer served the purpose. News began to pour in every hour of the day while the samples took fifteen days to arrive. By the time the samples came, entirely new conditions would be controlling the market. It is at this stage that trading on grades came to be evolved. Names or terms expressive of different qualities became familiar and came to be increasingly used while entering into bargains. Samples were no longer necessary. Words became as good as samples for acquainting the buyers with the quality of cotton for sale.

As the trade grew, certain standards about the quality of cotton came to be widely recognised and transactions took place on the basis of those standards. The cotton that was shipped or sold in advance was supposed to be up to a certain standard, the approximate quality of which could be expressed by certain names with which the trade was familiar. As the people in the trade became familiar with the grades in use, the necessity no longer existed of sending samples by mail boat. Instead, the American exporter or his agent at Liverpool offered a particular grade of cotton to arrive. The purchaser understood what this meant. This offer could be made by cable as speedily as the market news travelled; and the risk factor automatically disappeared. The arrangement was not yet perfect. When the seller agreed

to deliver a particular grade for "to arrive" contracts he bound himself too rigidly. The buyer would in that case be justified in rejecting the cotton for the slightest variation in quality. This was too onerous for the seller. Sale by grade necessarily imposes rigid adherence to the terms of the contract. If it is not so, the very *raison d'être* of such sales is lost. The case of sales by samples is entirely different, because when samples are shown, no room is left for disagreement as to quality. In order that the contract on grades could be popular with sellers, it was necessary that the contract should be less rigid. So a further change was effected. The contract did not specify any particular grade. It simply stated that the cotton would be "basis middling, nothing below low middling". Neither the name of the vessel nor the date of its arrival were given. Instead, a period of two months was allowed to the seller to make good the contract, e.g., the contract was called October-November shipment. This meant that the price of the contract was to be fixed on the basis of a particular grade which was very common—middling in this case—but the seller was to be allowed the option of tendering grades both inferior or superior to the basic grade with adequate allowances both ways. The clause 'nothing below low middling' put a limit to the degree of inferiority of cotton tenderable against the above contract. This proviso abolished the risk of rejection of the cotton that arrived later, even for the slightest variation in its quality and the quality contracted for. It safeguarded the seller against the probability of his consignment of cotton being somewhat different from the grade he had promised to deliver. This gave a wide latitude to the sellers and the comprehensiveness of the contract created a broad and popular market. But how could the buyer accept such a loose contract? To understand this is to understand the function of the trade in futures. By this time these forward contracts had acquired an entirely different economic use, which we shall presently discuss.

The system of selling on a basis grade pre-supposes a well-defined code of grades. The grades were yet ill-defined and precision was given to them only when the Government in different countries undertook the function. Grading began to be done officially and a warrant was issued guaranteeing both the accuracy and honesty in the specification of grades. The confidence that was thus inspired facilitated the transfer of ownership without the transfer of goods, thus greatly increasing the velocity of the trade. Besides, these warrants served as a security for the banks to advance money and this expansion of credit gave a fresh stimulus to the cotton trade.

The superior economy of selling "on grade" over selling "on sample" is apparent. The latter is a slower method; for you cannot show a sample on a telegraph or a telephone as you can indicate the grade through them. The system of sale by grade eliminated the discrepancy which arose between the transport and the communication services after the laying of the trans-Atlantic cable, for, transactions in well-defined grades of cotton could be done as speedily as the news affecting the price could travel.

GRADES IN COTTON

The factors that determine grades in cotton are colour and cleanliness. Another essential consideration in determining the value of cotton is its staple—or the length and strength of the fibre. This factor is so important that it is considered independently over and above the grade of cotton. Basic contracts, therefore, specify apart from the grades, either the minimum staple or simply an average staple.

Before the promulgation of official standards different markets had different standards. Professional traders managed with some difficulty to adjust their sales and purchases in different markets, but such an intelligent adjustment was beyond the capacity of the producers. In 1910 the Congress passed a law authorising the Department of Agri-

culture to prepare official standards. The United States Cotton Futures Act which modified the standards, made the adoption of the Government grades compulsory.

The following were the Government Standards in the U. S. A. :—1. Middling Fair, 2. Strict Good Middling, 3. Good Middling, 4. Strict Middling, 5. Middling, 6. Strict Low Middling, 7. Low Middling, 8. Strict Good Ordinary, 9. Good Ordinary.

In Liverpool up to 1924, the grades in use for the American Cotton were :—Middling Fair, Barely Middling Fair, Fully Good Middling, Middling, Fully Low Middling, Low Middling, Fully Good Ordinary, Fully Ordinary, Ordinary.

When international trade in cotton developed, the need was felt for a uniform standard of grades between the different trading countries. Difficulties that would arise in the absence of a uniform standard are easy to imagine. In 1925, the U. S. Department of Agriculture formulated universal standards which were sanctioned by law. These standards are :—Middling Fair, Strict Good Middling, Good Middling, Strict Middling, Middling, Strict Low Middling, and so on. Liverpool had to adopt these after the passage of the United States Cotton Standard Act, which imposed heavy penalties on anyone buying, selling, offering, etc., on any standards other than those prescribed by the Government of the United States.¹

For the purpose of the basis of a futures contract, the grade that is universally accepted is Middling. The price for the futures is the price for the Middling, and prices for other grades are mentioned as so many points, "on", i.e. higher or "off" i.e. lower than Middling.

SPOTS AND FUTURES

In all organised commodity markets two distinct types of contracts are traded in. One is a contract for a "Specific" grade, entered into after a careful scrutiny of samples, to be

¹ Todd J. A., "The Cotton World", p. 54.

for futures contracts of this sort. It was, however, soon found that this futures contract though widely used for speculative purposes, if carefully regulated might be made to yield highly useful economic services.

The organised Exchanges, whose growth and usefulness we shall examine hereafter, have by constant effort successfully prevented the futures contract from being degraded into a mere instrument of gambling, and have made it yield services on which the stability of modern capitalist commerce is dependent.

The two tenets which helped to make the futures contract popular and useful are "Short" selling and selling "on basis". "Short" selling is a privilege to sell a commodity which is not in the immediate possession of the seller. If the actual possession of a commodity is made a condition precedent to selling, the frequency of sales will be considerably reduced. Though at first sight it seems preposterous to allow people to sell commodities which they do not possess at the time of contracting, a careful study of the price making factors will convince us that the privilege to sell short is both just and necessary. The function of an ideal market organization is to afford full and unrestricted facilities both to the bears—those who believe prices will go down—and the bulls—those who believe prices will go up—to effectively express their opinions as to the future turn in prices. In ordinary markets if we think that the prices are low, we are privileged to buy—to borrow and buy—as much as we like, and thus make the influence of our judgment felt in price-making. But if on the other hand, after reviewing market conditions we feel that a particular commodity is

Exchange	Total volume of futures trade	Fulfilled by delivery of wr. house receipts.	Per cent deliveries to total trade
New York	219,453,600 (bales)	896,700	0.41
New Orleans	124,359,900	249,600	0.26
Cotton Exchanges Combined	343,813,600	1,146,300	0.33

over-valued, our capacity to adjust matters according to our judgment is restricted to the liquidation of our actual holdings; beyond that we are helpless. If we want perfect price equilibrium, views as to upward as well as downward tendencies in prices must be afforded equal opportunity of expression. Ordinary markets by recognising our right to buy as much as we desire, afford opportunity to forestall only the upward tendency of prices, but the organised produce markets, through the medium of the futures contract, by recognising our right to sell as much as we desire—to sell short—facilitate those who think the prices would go down to make their judgment effective, and thus, by giving equal opportunities to both the bears and bulls, help the attainment of a better immediate price equilibrium.

MEANING AND UTILITY OF HEDGING

One of the most interesting scientific advances in modern trade economics is the application of the theory of insurance to trade. After the growth of international trade, demand and supply for commodities became very erratic and gave to the markets a complexity that greatly puzzled both the producer and the manufacturer. Functional specialization is an inevitable concomitant of division of labour. The manufacturer and the producer soon found themselves incompetent to assume the risks inherent in all modern commerce. The trade, however, did not take long to evolve a scheme by which the manufacturer, and to some extent the producer could pass on this risk to the expert risk takers in the trade. They gave to this scheme a suggestive technical name of "hedging".

We know that there are two sorts of contracts in a commodity market, one for spots and the other for futures. Neither the primary producer nor the manufacturer can escape from the spot business. The producer has to sell the commodity in the market and the manufacturer has to buy it as his raw material. In these spot transactions there is an

obvious risk of fluctuations in price. In the process of marketing, middlemen—merchants—have to buy cotton from the producers and then sell it to spinners as and when required. If in the meantime, the price of cotton goes down, instead of getting their legitimate return for their labour in creating time and place utilities, the merchants are involved in serious losses. Unless there is some sort of protection to these middlemen, against the loss from decline in price, few would be willing to perform these marketing services; and those who would, would demand a heavy price. On the other hand, if they sell short to the spinners and the price goes up, then again they incur a loss. Similarly spinners buy cotton and if prices go down afterwards, their cost of production will be higher than that of their competitors, who could take advantage of the lower rates. As it is, one can easily see that there is a large element of speculative risk even in spot transactions. These risks¹ in spot operations, thanks to the technique of the futures market, can be hedged or off-set by entering into transactions of an opposite nature—i.e. buying if we have sold and selling if we have bought—in the futures market. In commodity markets, there is a regular class of speculators who are prepared to accept these transactions. This is called hedging.² If we buy and sell a commodity simultaneously, we do not stand to gain or lose from a mere change in prices. Yet the price structure of the two markets is such that one may get one's legitimate profit for the marketing services.

The technique of the futures market is so ingeniously devised that it enables us to neutralise the effect of price fluctuation by a transaction opposite to the one entered into in the spot market, without frustrating the purpose of the

¹ The risk of decline in price after a long purchase and of rise in price after a short sale.

² "Hedging may be defined as the practice of buying and selling futures to off-set an equal and opposite position in the cash market and thus avoid the risk of uncertain changes in price." G. W. Hoffman, *Annals of the American Academy*, May 1931.

original transaction of purchase or sale—in the spot market.¹ It is a most wonderful process of neutralisation unknown to the realms of Chemistry.

A few illustrations will show how hedging affords protection to the various parties engaged in the trade.

Utility to the farmer. If at any time before the crop is ready, the farmer thinks that the price of cotton is sufficiently high to compensate him for the cost of production and leave a decent profit, he can secure that price by selling the equivalent of his crop in a futures market and tendering it on the hedge when the time comes for delivering actual cotton under the contract. He will get the desired price even if the price at the time of tendering has gone down considerably. It is true that the unit of contract in the futures market is too big for an average cultivator—much more so in the case of cultivators in India. If his crop does not turn out to be equal to the quantity sold in the futures market, he will be involved in difficulty. He has to take this precaution before selling futures. In case the amount grown by himself is not sufficient, he can either co-operate with his neighbours for assembling sufficient cotton for the purpose of hedging, or he can buy back a portion of his hedge in proper time.

Utility to the spinner. The one outstanding feature of modern economic society is selling and purchasing in advance of actual supply and demand. The spinner may be required to sell his yarn at a time when no raw cotton is available. Yet he has to quote a price for the future delivery of yarn, and that he can do only after estimating his cost of production. The raw material is responsible for nearly 40 per cent. of the cost in cotton manufactures. Unless, therefore, he can be sure of the cost of raw material—price of cotton—he dare not give a quotation. Supposing he gives a quotation relying on the current price of cotton and then the price of cotton goes

¹ This is essential, otherwise what is the use of buying and selling simultaneously?

high, when he goes to buy actual cotton some days later, he may be put to a serious loss. Even supposing that cotton is available when the spinner sells yarn in advance, still he cannot purchase it immediately, because it is unprofitable to store cotton a long time before it is required for spinning. In order, therefore, to avoid the contingency of cotton prices going higher than the one on which he bases his quotations for the price of yarn for future delivery, and also to avoid stocking cotton, he buys futures equal to the requisite quantity of cotton while making a contract for the selling of yarn. This will protect him from the rise in price later, for, whatever he will lose on his spot purchase he will gain on his futures, which he will sell simultaneously at a correspondingly higher price. Just to illustrate, let us suppose at the time of giving the yarn quotation the price of cotton is 140, the spinner can buy a futures, say at 143. Now supposing when he goes to purchase the actual cotton the price has gone up to say 160, he would lose 20 on spot, but on the other hand he will gain 20 by selling the futures at say 163 which was bought for 143. But for this futures transaction, he would have lost 20 per unit of contract.

Another position can also be imagined. The spinner, on finding that spot cotton is cheap as well as of a kind that will satisfy his needs, may purchase it even though he has no corresponding sale of yarn against it. In such a case, if the price of cotton afterwards goes further down, his competitors would get cheaper cotton, and would oust him from the market by selling yarn at a cheaper rate. Here too, he can protect himself by selling a hedge in the futures market. When he gets an order for the sale of yarn, he can buy in his hedge. So whatever he loses by being compelled to sell yarn cheaper than what his comparatively dear purchase of cotton could permit, he will gain by purchasing his hedge at a price lower than the one at which he sold it.

An illustration will make this clear. Suppose the spinner buys raw cotton at Rs. 160 he can sell a convenient hedge

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against it at Rs. 163. Now, if the spot price goes down to Rs. 140 when he sells his yarn, he will lose Rs. 20 on his spot transaction but he will, at the same time, buy in his hedge possibly at Rs. 143, and will make a profit of Rs. 20 (163—143) on his transaction. His position is in no way different from the spinner who could buy raw cotton when it was at Rs. 140. It is thus that hedging protects the spinner from either a rise or a fall in the price of raw cotton.

Utility to the Importer and the Exporter. Much in the same way, hedging protects the importer and the exporter of raw cotton. Spinners in a manufacturing country ask the importers of raw cotton to enter into a contract for the supply of raw cotton at some future date. The importers effect similar forward contracts with the exporters from a country producing raw cotton. All these three classes of people—the spinner, the importer and the exporter—will have to hedge these transactions in the futures market. Take the example of the exporter. When he enters into a contract with the importer of a manufacturing country for supplying him so many bales of raw cotton at a particular price, say at Rs. 160, he simultaneously buys a hedge in the futures market at Rs. 163. Now when the exporter goes in a spot market to purchase the promised cotton, the price may have advanced to Rs. 190. Yet he does not lose anything. Had he not hedged, he would have lost Rs. 30 per unit. But now that he has, he will be able to sell his hedge along with his purchase of raw cotton at a higher price, may be at Rs. 193, gaining Rs. 30 per unit.

Let us take one more example, that of a middleman. When the marketing of cotton begins, he purchases from the producer all sorts of cotton. While doing so, he takes upon himself a great risk, for, if the prices go down after he has purchased cotton, he will have to suffer heavy losses. In order to avoid that, he sells hedges along with his purchases

of raw cotton. Having done that he can remain indifferent towards the movement of prices. 2

HEDGING NOT A PERFECT PROTECTION

Having seen the meaning and application of the theory of hedging we proceed to grapple with the detail. Hitherto, we have assumed for the sake of simplicity that the movements of spot and futures prices are parallel, or in other words the difference between them, like the distance between two stars, is always constant. But in fact it is not so; and the extent to which this difference is apt to change, hedging will not afford a perfect protection. Let us take an illustration. A spinner purchases in advance actual cotton at Rs. 160. He sells a hedge against it for Rs. 161. By the time he gets an order for yarn, the price for cotton goes down to Rs. 140, so he will lose Rs. 20 on his spot transaction. Now suppose at this time the price for futures is Rs. 143; while buying his hedge, he will have to pay Rs. 143 and will gain Rs. 18 only. This will involve him in a net loss of Rs. 2 per unit of the contract. In this case the difference between the spot and the futures prices did not remain constant; the premium for futures over spot widened from Re. 1 to Rs. 3.

THE BASIS

The term "basis" is used in the cotton trade to express more than one conception. When applied to a grade of cotton the term signifies the standard grade which is used in a futures contract. But in its most technical sense, basis means the difference between the price of a futures contract and the spot price of the basis grade used in that futures contract; e.g. if the price of the April-May Broach Vaida is Rs. 201, and the price of M. G. Fully Good Broach cotton in the spot market is Rs. 203, the basis is Rs. 2. Premiums (of spot price) over and discounts under the price of a futures contract are called "ons" and "offs" respec-

tively. The "ons" and "offs" are expressed in "points". In the New York market a point means one-hundredth of a cent. But in the Bombay market the "ons" and "offs" are in rupees. The terms "buying basis" and "selling basis" are used to indicate the points "on" and "off" the futures contract at which the buyer will buy and the seller will sell spot cotton. In this section we have used the term "basis" in its technical sense to mean the difference between the spot and futures prices of the basis grade. In the previous section we saw that this difference was not constant: in this section, we propose to analyse the causes of the changes in the basis, and its effect in various trade positions.

This change in the spot-futures difference may be due to two causes. Firstly, either the spot contract or the futures contract might appreciate or depreciate compared with the other, due to certain causes which we will consider hereafter. Secondly, as we know, in a futures contract a wide range of grades above and below middling is tenderable, and it may just happen that a particular grade might appreciate or depreciate in relation to the basis grade—middling—, even though the latter remains unchanged in its relation to the spot. That is to say, the difference between middling spot and middling futures may be the same, but if strict middling becomes rare, the spread between strict middling spot and the basis of the futures contract—middling—will widen. The result of this for the merchant, in any way interested in that grade, would be the same. The spot-futures relation as far as he is concerned, has changed, involving him in loss or gain. Supposing he has sold fully-good Navsari when it was Rs. 40 "on" Broach. But if, when he goes to make his actual purchases, fully-good Navsari has gone up to Rs. 50 "on" due to the shortage of that grade, he will be involved in a loss, even if the prices of Broach for spots and futures have maintained their difference.

THE CONSTANTS AND VARIABLES OF THE BASIS

The question arises why there should be any difference in the spot and the futures value of the same quality of cotton, the middling or the basis grade. Or, in other words, why should the basis arise at all? A spot contract for 100 bales of middling requires all the hundred bales of cotton to be of more or less uniform quality. This uniformity is essential for the purpose of spinning. Cotton purchased from farms contains a variety of grades; and it is only after a long process of assembling, sorting and elimination, requiring expenditure of energy, skill and money that a merchant is able to offer 100 bales of middling on a spot market. The contract for the futures, on the other hand, is a broad bottomed one and a number of grades, within a set limit, are deliverable against it. Obviously, therefore, a futures contract for 100 bales of middling is cheaper than a spot contract of a similar nature.

Had this been the only factor responsible for the existence of the basis, the difference between the two prices would have been a constant, determinable by certain mathematical calculations. But there are several other variable factors that give to the basis the element of uncertainty. It must also be remembered that it is not so much the basis as its very uncertain character that is the matter of concern to the hedger.

Whatever be the intrinsic value of any grade, much depends upon its demand and supply. If a particular grade becomes comparatively scarce, its price is bound to rise in relation to that of middling. In the normal course, as a season advances the supply of higher grades becomes less and less and that of lower ones comparatively becomes more and more. There is thus a tendency for higher grades to advance in premiums over the middling and for the lower grades to advance in discounts.

Secondly if the whole crop turns out good or bad beyond

the expectations of men in the trade, they do not stand to gain or lose much if they have hedged all their transactions. A rise or a fall in prices of cotton is, as we have seen, a matter of indifference to those who hedge their transactions. But if a particular grade sold by them in advance gets damaged, they will be involved in a serious loss; because that grade will no longer be available at a premium (or discount) calculated at the time of making those advance sales.

Coming to the demand side, in times of industrial prosperity, the manufacturers are indifferent to premiums, and as a result, higher grades command higher premiums, and the lower grades higher discounts—the mills do not take the trouble of cleaning them. On the contrary in slack times, the premiums of higher grades and discounts of lower ones would be much reduced, because spinners insist on maximum economy. If by employing some extra labour, they can clean up the lower grades, and thus get a somewhat cheaper cotton, the lower grades would be in a better demand.

Sometimes over-speculation disturbs the price of the futures contract. If speculators take a certain view of the market, there is no knowing to what extent they will go. Under such circumstances the price of futures will go completely off the price of spots. The crisis comes when a particular growth e.g. Oomras—gets oversold, and the merchants who are 'long'¹ insist on the delivery of the cotton. This artificial shortage due to over commitments raises the prices temporarily to dangerous levels. Such a situation is known as a "Corner" in commercial parlance.

The commercial class is expending all its ingenuity for avoiding the risk due to fluctuations in the basis.

Below we summarise a few situations that can arise by a change in the basis.

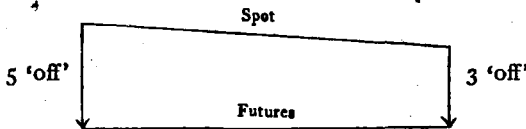
¹ Those who have bought the cotton in advance, for a future delivery.

- A. When spot prices are at a premium over futures prices,
 1. and if the basis widens,

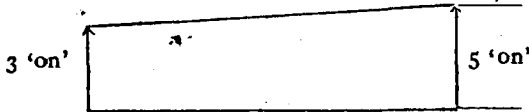


(i) those who have bought the futures would lose (bought futures at 3 "off", sold them at 5 "off"), (ii) and those who have sold futures—short—would gain.

2. and if the basis narrows, the reverse situation will take place, i.e. those who have bought futures will gain and those who have sold will lose.

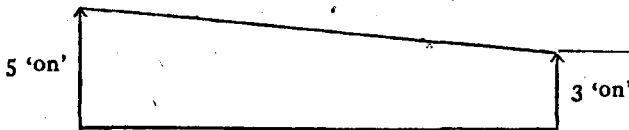


- B. When the futures are at a premium over the spots;
 1. and if the basis widens,



(i) those who have bought the futures gain—bought them when at 3 "on", sold them when at 5 "on"—(ii) those who have sold lose.

2. And if the basis narrows,



those who have bought would lose and those who have sold would gain.

THE SYSTEM OF CALL

The imperfection of hedging as a trade insurance is sought to be remedied by the introduction of what is known as a "Call" system. The Call system stands to-day at the top of a series of scientific advances in trade methods, beginning from the selling of cotton "to arrive".

The Buyers' Call:—By this method the spinner or any other consumer of raw cotton enters into a contract with a merchant to purchase for a future delivery a specific type of cotton at certain points 'on' or 'off' the price of a particular hedge contract, on the day on which he 'calls'. Supposing in an early Gujarat season a manufacturer finds it difficult to sell the cloth, but is sure that he will in the near future need F. G. Navsari which is fast being sold off. If he resolves to purchase and store F. G. Navsari, the cost of the raw material will be determined, and a later unfavourable turn in prices may prove that to be too high. He can avoid that contingency by entering into a Call contract. He enters into a contract with N. R. & Co., to purchase that cotton at Rs. 40 'on' Broach April-May. Say on the 10th April when the price of Broach is Rs. 203, he "calls" the cotton. The contract price will then be settled at Rs. 243.

The method is simple enough, but how is it an improvement on the hedge system? What a spinner wants is an assurance of a supply at a future date of a particular kind of cotton. Yet he cannot afford to bind himself down to a price before he gets an order for yarn, for which that cotton is needed; because if the price goes down after he makes his purchase his cost of production will be comparatively high.

In the above illustration the manufacturer was assured, some three months before, of a supply of Fully-good Navsari. But the price was not fixed. Only the extra margin of Rs. 40 for the superior quality was fixed.¹ On the 10th of April he might have received an order for yarn and while

¹ To this extent he is exposed to risk of shrinkage in basis.

quoting the price of yarn he could calculate the cost of raw material at the prevailing price—Rs. 243 per candy.

But one wonders how N. R. & Co. agree to allow the purchaser such unfettered choice to fix the day of call! Do they not thereby expose themselves to a great risk? Not at all. Two situations are possible with N. R. & Co. Either they have Fully-good Navsari in stock when they enter into the contract with the manufacturer or they have not. In case they have already a stock of F. G. Navsari purchased (even) say at Rs. 260; they must have sold Broach as a hedge against it, say at Rs. 222; i.e., when F.G. Navsari was at 38 'on'. In that case they will not accept anything less than 38 'on' while selling cotton on Call. They sold to the manufacturer at 40 'on', calculating their profit and cost of carrying. Technically speaking their basis is fixed. So not only there is no fear of prices going down—because they have hedged—there is also no fear of loss from shrinkage in basis, because that also is fixed.¹ Therefore, even though the price of Broach had gone down to 203 when the manufacturer 'called,' they did not lose anything as the following page from their account book would show.

Feb. 10	Purchased F. G. Navsari at Rs. 260.	Sold Broach A/M at Rs. 222.
June 10	Sold F. G. Navsari at Rs. 243.	Bought Broach at Rs. 203.

They lose Rs. 17 on spot and make Rs. 19 on futures, on the whole gaining Rs. 2.

It will be observed that in this case the buyer of Call does not hedge himself. Yet he has nothing to fear from price fluctuations, for the simple reason that he is not com-

¹ In case N. R. & Co. have to purchase the cotton, they may or may not be able to purchase it at the premium fixed at the time of the sale of their Call contract. In other words, they are not protected against the loss due to change in basis.

mitted to any price.¹ Yet before he gets order for the sale of yarn he is assured of a supply of the exact sort of cotton he wants. It must, however, be admitted that he has no protection against fluctuations in the basis, e.g. if Navsari becomes cheaper *in terms of Broach*, or technically speaking, if the basis becomes narrow—say 38 in this case—he will be paying Rs. 243 when the real price of Navsari would be on that day Rs. 241 only (203 plus 38).

If the spinner has sold yarn at some price before entering into Call cotton, he will know his basis. Suppose he has based his quotation on Rs. 243 as the price of cotton when Broach was at Rs. 203, his basis is fixed at 40. So he has nothing to fear from narrowing of the Basis; because while striking a Call contract he will be careful to quote nothing more than 40 as his buying basis. But the Call contract in that case does not protect him from fluctuation in price—which is a greater evil—because by the time he calls the price, the price may have advanced to Rs. 250 for Broach. He can, however, hedge against that, but then paying commission on Call business as well as on the 'hedge' would be too costly. If a spinner can sell yarn short, and purchase cotton on Call and then buys a hedge, he will get complete protection. The only hitch will be that he will have to pay commission twice, which may make the whole business unremunerative.

Business is also done on "Sellers' Call". In such contracts the seller has the option of declaring the day, the futures price of which is to form the basis of the contract price. He is not, therefore, required to hedge. He calls on the day on which he thinks the futures prices are satisfactory.

¹ The seller of 'call' on the other hand has to hedge, and he has protection not only against fluctuations in price but also against the narrowing of basis, because his basis is fixed, at 40 in this case.

RELATION BETWEEN SPECULATION
AND FUTURES TRADING

The word 'speculation' when used in popular parlance suggests something reprehensible. The economist, however who knows the economic utility of organised speculation will not see anything objectionable in it. He knows that speculation is inherent in all normal economic activities of men. A farmer who holds on his crop after harvesting it, is speculating just as much as the so-called professional speculator who is 'short' or 'long' in a market. Secondly, it is erroneous to consider bargains, the fulfilment of which is postponed to some future date, as speculative in the strict economic sense. The condition of deferred fulfilment is not enough to constitute speculation, because innumerable human activities are subject to this condition.¹ The essence of speculation is the action on one's view or judgment as to a situation in a market at some future date. In his endeavour to make money on the strength of his judgment, the speculator performs certain very useful economic services. Dealings in futures contract are in this sense speculative transactions. But as we saw before, they fulfil certain valuable economic functions. They serve as an insurance against commercial hazards. The participants in a futures market are inspired by either of the two motives; to protect their interest in spots or to make a speculative gain by their judgment of a future favourable turn in the price. It is not possible to measure the proportion of these two motives in the volume of futures trade that takes place on the organised exchanges of the world. This will lead some to contend that only that part of futures trading which seeks to insure the risk in spot transactions should be permitted, while the other, which is purely speculative should be disallowed. On a closer

¹ "Such bargains are regularly made every day in all departments of human activity and call for no special consideration, merely because, from the nature of the case, they are incapable of instant fulfilment.

Smith, 'Organised Produce Markets', p. 41.

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observation, however, we find that both the elements are essential for the proper functioning of the market. Hedging transactions, in themselves, are not sufficient to constitute a wide and a reliable market. Besides, it may often happen that at any one time there may not be in the market exactly as many sellers of hedge as there may be buyers, or vice versa. The need for hedging either way arises out of certain concrete operations in agricultural, commercial or industrial fields. This need does not distribute itself equally into the camps of purchasers and sellers with mathematical accuracy. Any such mal-distribution, but for the professional speculators, would upset the prices and would throw the futures market out of gear. As it is, there are in the futures market the 'bulls' and the 'bears' who are ready to absorb the slightest jerk either way that the prices may experience. In other words, there are enough professional speculators in the market not only for neutralising the discrepancy that may arise due to the excess of buyers or sellers of hedge, but also for creating a wider market by speculative demand and speculative supply. And it is well said that the success or otherwise of any market can be judged by the volume of business that takes place in it. The greater the volume, the higher is the degree of faithfulness with which it depicts the expert cumulative judgment of its participants.

GROWTH OF EXCHANGES

When such revolutionary developments in trade methods were taking place, it was but natural that the organisation of the trade should also develop side by side. The convenience of all engaged in the trade demanded that all prospective buyers and sellers should meet at some fixed place and at a fixed time. It became also essential to draw up a common code of behaviour for the sake of promptness and accuracy. A uniformity of procedure, though not indispensable, helps greatly to facilitate the work and avoid misunderstandings. It was soon realised that the highly complicated system of

futures trading, in the absence of a centralised organisation, would prove as chaotic as dangerous. The system, as we saw, is highly susceptible to degeneration into pure gambling in price differences. The Exchanges have, however, with a discriminating control over it, endeavoured to keep it within the bonds of legitimate business, at the same time preserving its great usefulness to trade and industry.

Organisations like Exchanges are the outcome not so much of the growth in the volume of trade as of the change in its technique. A faulty organisation of the Exchange is bound to have serious repercussions on trade, industry and agriculture. But as this effect spreads rather imperceptibly the attention of the public—even of the thinking sections of it—is never pointedly drawn towards it. We intend, in the following few pages to trace the evolution of the Exchange and to lay down the economic functions which it ought to perform, so that we may be better equipped to pronounce a right judgment on the merits of the one in Bombay. Let us see how the New York Exchange came into existence.

THE NEW YORK COTTON EXCHANGE¹

When trade grows and gets scattered, it becomes increasingly difficult for brokers to hunt after buyers and sellers. Under such circumstances, before long there springs up a trading centre almost spontaneously. As the volume of cotton business in New York grew, the New York brokers began to congregate. There were already by this time a Stock Exchange and a Gold Board. In view of this, it was suggested that a cotton Exchange should also be formed. There was some opposition to the idea, but finally 'the New York Cotton Exchange' was organised and trading began from September 7, 1870.²

But it took some years of experiment and trial before the nebulous idea of business co-operation and street-corner

¹ Hubbard, "Cotton and the Cotton Market" p. 207.

² *Ibid.*, p. 207.

meetings developed into the present highly organised trading on the Exchange. From time to time with the changing economic conditions, additions and changes were made in the technique of trade. The business activities in the modern world are so organically interconnected, that every important change in the theory and practice of banking and credit or innovation in the methods of communication and transport, necessitates a change in the system of organised marketing. In order to record and study all the factors that affect the marketing of a particular commodity and to suggest acclimatization or destruction of the forces they give rise to, it is imperative to have a central organisation. The peculiar shape that such an organization should take would depend upon the nature of the problem they are required to face. These trade associations have been almost unavoidable features of modern trade and commerce. Belonging as they do to the realm of commerce, they are mainly concerned with the distribution of goods.

The economic significance of such trade associations and their contribution to orderly marketing need to be understood thoroughly inasmuch as to this day their right place in the marketing of goods is not appreciated. The nature and functions of these bodies are as yet not understood; and consequently they are often ignorantly criticised.

TRADE ASSOCIATIONS

Trade associations are organised by people engaged in a similar trade or industry for devising a code of action for the furtherance and better conduct of their trade or industry.¹ The associations as such do not engage themselves in any business activity of their own; they simply facilitate it for their members. These associations should not again be con-

¹ "A Trade Association is an organisation of producers or distributors of a commodity or a service.....for the purpose of promoting the business of their branch of industry and improving their service to the public through the compilation and distribution of information."

"Trade Association etc." p. 7. National Industry Conference Board.

fused with mergers and combines which are formed with the object of regulating either production or prices or both. They also differ from organisations such as Chambers of Commerce which are less homogeneous, membership in them being not restricted to the participants in the same trade.

Exchanges are a type of trade association. A misconception exists in the minds of many that they strive to create a monopoly by suppressing competition. There may have been a few instances of such attempts at monopoly but their aim is to regulate competitive conditions rather than to suppress them.¹ Free competition which was in the beginning of the industrial era the hall-mark of economic progress, needed, with the growing complexity of industrial process, some sort of conscious co-ordination. Independent individualism of the *laissez faire* epoch had to be replaced either by voluntary co-operation or by some sort of benign government regulation. Although it cannot be emphatically said that in the absence of control from some such associations, conditions in any trade would be anarchic, yet such associations wherever they exist have amply justified their existence. A safeguard, however, is needed. Under the pretext of regulation and co-ordination, sometimes an intricate machinery is evolved, and the freedom of the members and the rest is severely curtailed by a coercive management of a close corporation. So before we give our approval to any association, we shall have to carefully ascertain whether the association in question is democratically constituted or not.

A brief review of the aims and objects of one or two famous Exchanges—as stated in their Articles of Association—will be useful in further understanding the economic utility of the Exchanges.

¹“Normally, the primary objective of co-operative efforts in these directions is to promote trade.....by facilitating those obstacles to economic efficiency and industrial stability which spring from pursuit of unco-ordinated competitive enterprise, by establishing business relationship conducive to intelligent and orderly competition.”

Ibid, p. 97.

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The objects of the Chicago Board of Trade, as stated by it at the time of its foundation, were "to maintain a commercial Exchange; to promote uniformity in the customs and usages of the merchants; to inculcate principles of justice and equity in trade; to facilitate a speedy adjustment of business disputes; to acquire and to disseminate valuable commercial and economic information, and generally to secure to its members the benefit of co-operation in the furtherance of their legitimate pursuits".

The aims and objects of the East India Cotton Association, Ltd., as given in their Memorandum of Association cover six pages. The important objects among them are:—

1. To provide and maintain suitable buildings or rooms for Cotton Exchange in the City of Bombay and elsewhere in India;
2. To provide forms of contracts compulsory or permissive and regulate the making, carrying out and enforcement or cancellation of contracts;
3. To adjust by arbitration, or otherwise, controversies between persons engaged in the cotton trade;
4. To establish just and equitable principles in the said trade;
5. To fix or adopt standards for the classification of cotton;
6. To acquire and disseminate useful information connected with the cotton interests throughout all markets;
7. To control, promote and regulate the cotton trade in the Presidency of Bombay and elsewhere in India, improve its stability and augment the facilities with which it may be conducted;
8. To establish and maintain a Clearing House;
9. To prescribe the principle of framing of contracts with a view to eliminate the temptation and possibility of speculative transactions;
10. To make from time to time Bye-laws for the control and regulation of membership of the Association and of

cotton dealings in the Presidency of Bombay, whether under Bombay Act XIV of 1922 or any Statutory modification thereof or substitution thereof or otherwise.

ECONOMIC SERVICES OF THE EXCHANGE

With the aid of the above review we can now summarise the economic services rendered by Exchanges and by the trading in futures.

Apart from hedging or insurance service rendered by the futures markets, organisations of Exchanges supply producers, distributors, creditors and consumers with a continuous market. Produce Exchanges render unique services in this respect. Nature produces crops seasonally; the demand for them on the other hand, is continuous. By a highly developed technique of speculation on the produce Exchanges, the marketing process is spread over a full period of twelve months. The existence of a ready market for the product gives it a quality of liquidity that makes it practically synonymous with money.¹ Imagine the whole cotton crop pouring into the market in November, with none but the ultimate consumer to buy. The bottom to which the price would sink as a result would ruin the whole community of cotton growers. Thanks to the speculator and the middleman and their organisations—the Exchange—the whole cotton crop is absorbed by them without much damage to the price, and is supplied to the manufacturer as and when he needs it. Go to a produce Exchange at any time of the year, and you will be able to purchase or sell any amount of the produce at the prevailing rate. This is no small achievement. Advanced students of economics would readily understand what this means for the stability in prices:

The fact that on any one day the price of cotton all over the world is usually very near the parity is itself an eloquent

¹ "This continuity enables the traders to hedge their purchases and sales in spots at any moment and it is this continuous facility for hedging that keeps the margin of business in spots within narrow limits."

Hoffman, *Op. cit.* p. 420.

testimony of the utility of produce Exchanges. It means that if inventions in Physics threatened to upset the world commerce by the overwhelming rapidity of the news service, the commercial genius was not slow to evolve an organisation of trade which could hold the equilibrium of prices. The communication of news takes place much quicker than the transportation of goods, with the result that the comparatively slower flow of the supply cannot counteract the rise or disappearance of the demand with equal rapidity. If the news is favourable to the purchaser a demand is created which it would not be possible to satisfy instantaneously but for the futures market and an Exchange which give to a courageous businessman a privilege and an opportunity to sell short, i.e., to sell even though he is not in possession of actual commodity. By a well defined code of grades, merchants are now able to communicate their desire to buy or sell with the same rapidity as that of the communication of news.

The situation that would otherwise arise is not difficult to imagine. With every fresh news, prices would go up and down every hour, with uncontrollable mercurial swiftness. Still more dangerous would be the range in the rise and fall which would be very great. As it is, the two systems help to concentrate and effectively co-relate the world demand and world supply at a few important centres. They make for a better harmony by remedying an excess of supply or demand with a rapidity which would have been otherwise impossible, and protect the consumer from a shortage of supply and the producer from local gluts. The produce markets have in fact, become oversensitive, so there are actually more short time fluctuations than there would be otherwise; but in the long run, over the season, the prices are nearer to "normal" prices.

The Exchange further serves as a clearing house of all information relevant to the formation of prices. The markets for commodities have become so wide that the expenses of collecting all relevant information individually would be

beyond the means of an average businessman. And ignorance is a bad soil for genuine competitive rivalry to thrive.¹ Further with this information at hand speculators can "discount the future" and thus avoid precipitous changes in prices.

Exchanges besides helping the buyers and sellers to give articulate expression to their judgment about the market, also register the result of their tussle, for the enlightenment of the general public. Price quotations of the Exchanges are not made *ex nihilo*; they reflect the combined judgment of the expert speculator the world over, on which the general public, the business community consisting of traders, manufacturers, and investors may well rely. The accuracy with which they reflect the collective feeling (general will) of the traders is as yet only a pious aspiration of the political institutions of modern democracies.

Imagine the state of affairs in the absence of the Exchange. A, not knowing the price at which B sold to C, and B not knowing the price at which C sold to Z, and neither A, B, C nor Z knowing the crop condition in America. What the modern press has done for the general public, the Exchanges do for the trading public. They secure and spread all pertinent information at marvellously small costs;—the information which but for them, would have been a tyrannical monopoly of the rich few.

EXCHANGES EASE FINANCING

One further advantage may be noted. When the collaterals against which the bankers lend are commodities that are dealt on the Exchange, they are apt to be more liberal in giving credit, because they have a continuous and ready

¹ "We cannot reach sound judgments and pursue wise policies on the basis of intuition. Under such conditions, particularly when producers and dealers are scattered over a wide territory.....it is often difficult to avoid industrial chaos. Only knowledge based on ascertained facts provides a sure foundation for the adequate regulation of business affairs in the complex economic organism."

"Trade Associations; Their Economic Significance." Op. Cit. p. 114.

market throughout the year, wherein they can sell them at a moment's notice. Commodities that are readily saleable are always considered to be better collaterals by bankers for obvious reasons. And this is no small gain to the trade, taking into consideration the large volume of credit that is required for marketing staple commodities. Prompt and ample finance makes marketing cheaper and easier.

Further, when banks are assured that the cotton against which they are asked to advance is properly hedged, they have little hesitation left for advancing loans on very small margins. In centres like Liverpool, banks lend with a margin of 10 per cent. against hedged positions, while they demand more than 30 per cent. from persons who do not hedge. Margins to the extent of 50 per cent. are demanded by bankers on produce for which there is no hedging facility. The Federal Farm Board in the U. S. A. gives as much as 90 per cent. of the value of the collateral to the co-operative cotton marketing associations, when the collateral is hedged; but not more than 75 per cent. is given on unhedged commodities. In the absence of hedging, credit would be restricted, and the increased cost would fall on the producer and ultimately on the consumer.

INTERNAL ORGANISATION OF THE EXCHANGE

Having seen the utility of the Exchange we proceed to examine one of its most important functions. One of the most difficult tasks of an Exchange is to find out a system by which allowances can be made for the tenders on a hedge contract of grades above and below the basis grade. The price fixed in the contract is the price for middling or the basis grade, but when grades other than the basis grade are tendered, how should their value be decided? If a large volume of spot business is done in the market, there will be no trouble in this respect. Spot transactions in almost all the grades take place daily in such markets and the prices at which they will be valued therein would also, after

adjustments with the price of middling,¹ serve as prices for those grades if tendered on a hedge contract. For example, if on a day previous to the day of tender, the price of Fully Good Navsari (spots) were Rs. 40 higher than Fully Good Broach (basis for the Broach hedge contract), a premium of Rs. 40 on the price of Broach Vaida would be allowed for the delivery of Fully Good Navsari. Similar adjustments are made for other grades. This system of determining price allowances is known as the system of commercial difference.

But in markets, where no big spot business is done, how are the differences in various grades to be ascertained? All the grades of cotton are not traded in every day, even in the biggest spot markets. The rates committee, however, will have to fix some price for all the grades, and while trying to do so the committee will step outside the realm of facts and enter upon that of judgment. This sows the seeds of dispute, discontent and misunderstanding, and exposes the committee to all sorts of just and unjust accusations. A slight error in fixing the price for any grade may give rise to any amount of complications. In order to avoid this daily turmoil of fixing differences, the idea of fixing them once or twice a year for the whole season was evolved. This system, it was thought, would at least create some stability.²

New York was faced with the same difficulty. Up to 1888, the system of commercial differences was employed by the New York Cotton Exchange. But with the development of markets in the interior, the spot business of New York gradually began to dwindle, with the result that manipulation by operators on prices of different grades in New York became easy, upsetting the system of commercial differences. In order to remedy this, the Exchange adopted a new method. A committee known as the Revision Committee was appointed to fix differences between the price of various

¹ This is necessary because the Futures and Spot prices of Basis Grade may be different.

² Hubbard. *Op. cit.* p. 334.

grades. Up to September 1897, the committee used to meet nine times a year to fix differences, but after that till September 1907 the committee met only twice. As the difference settled at a meeting held good till the next meeting, there were frequent disparities between different grades at the time of delivery. This is the periodic or fixed difference system.

This disparity tends to depress the price for the futures contract as a whole, with all its ramifications on the price in the spot market. The seller invariably tenders on the contract those grades which are officially overvalued. The buyer in order to protect himself against the contingency discounts the loss in the price he pays for the futures.

In 1906 the Revision Committee of the New York Cotton Exchange fixed the price of low middling at 50 'off'. This was such a gross over-valuation that the whole system came to be disreputed. The 1906 American crop was severely damaged by a huge hurricane and rain storms; there was such an over supply of low grades that low middling ought to have been marked 75 to 100 'off'. Even the adherents of 'fixed difference' system admitted that 'the committee made an egregious blunder'.¹ The action of the Committee was severely criticised and the trade strongly believed that the whole trouble was due to the fixed difference system. After great agitation a modified form of 'commercial differences' was incorporated into the Cotton Futures Act.

The Average System:—Section 6 of the United States Cotton Futures Act lays down that the difference shall be determined by actual commercial differences established by the sale of spot cotton in the same market, provided that it is a bonafide spot market, and in case there is no bonafide market, the differences shall be determined by the average of actual commercial differences in the spot market of not less than five places designated for the pur-

¹ The present system of fixing differences is governed by the U. S. Cotton Futures Act.

pose by the Secretary of Agriculture. Each such spot market has to maintain a quotation committee and the chief of the Bureau of Agricultural Economics has to approve its organisation and personnel. All such committees have access to the official cotton standards of the United States, and the samples on the basis of which transactions take place in their markets. All spot transactions and their prices are to be reported to the committee.

We have surveyed the American system in some detail, because it will be useful to us while discussing the system that exists in India.

Spinning Differences :—Some suggest that the differences in grades should be fixed not arbitrarily but on the intrinsic differences in their spinning values, which it is easy to determine in a well equipped laboratory. The values of different grades can be reduced to percentages as compared to the middling, and these percentages could be figured as points 'on' or 'off' for a certain price of the basis grade.¹ These points are not to be changed with the change in the price of the basis. Only when there is a radical change in the price of the basis which throws differences completely out of tune, should a fresh adjustment be made.

If in any particular year there is an excess of low middling and if its fixed relation with middling becomes over-valued, it would be profitable to deliver low middling against futures. But instead of widening the discount on low middling as is done at present, under this system the price of the futures contract itself is to be brought down. As a result, in low grade years the price of futures would be depressed as compared to the spots. But the champions of this system do not admit that this should in any way affect the farmers as the majority in the trade and the farmers believe.

The advantage of the system is that instead of leaving the work of determining the basis to a committee, the work is left to the judgment of the whole trade. The difference would

¹ Hubbard, *Op. cit.* p. 361.

be fixed and yet the grades would maintain their commercial value. So no question of disparity between the actual values of the different grades and the official values would arise; at the same time this would not necessitate frequent interference with the basis.

There would, however, be one difficulty. The spinner requires only high-grade cotton. He would not be prepared to accept the low grades even at their intrinsic value.¹ So the differences in grade values according to waste percentages would not satisfy him.

The premium on the high grades will have to be weighted, and discounts for low grades will have to be accordingly adjusted.

Whatever be the merits of the spinning difference, the system has not the support of the trade. Perhaps the trade delights in the uncertainty of the basis, for that alone gives it an opportunity to exercise its skill and ingenuity. After all, a businessman does not like his trade to be reduced to a mere mathematical exercise. But for this uncertainty, Mathematicians would become the best cotton merchants.

¹ Hubbard, *Op. cit.* p. 364.

CHAPTER VII

GROWTH OF THE COTTON MARKET IN INDIA

Sooner or later in the history of commerce of every country growing cotton and trading in it, a period arrives when traces of futures trade in cotton become visible. Much according to the doctrines of the classical economists, the birth of this institution is spontaneous. It is spontaneous in the sense that its growth is not consciously planned. All the same, the institution survives and develops because it fulfills an economic necessity of the class which makes use of it. It serves as insurance against risks involved in the normal trade.

In India too, by 1875 such trading in futures, in however crude a form, assumed proportions that needed some organization. (The first body to control the cotton trade in Bombay was the Bombay Cotton Trade Association, established in 1875. It was purely a European body and till 1892 no Indian served either on its Board of Directors or on its various committees. In 1892 an association known as the Bombay Cotton Exchange was formed by some leading merchants of Bombay. After this, various associations came into existence, some based on racial differences, some on difference of community and some for safeguarding the various small interests in the trade.) The purpose of their formation can be discerned from the very name they bear.

By 1917, we had the following seven associations:—

- (1) The Cotton Brokers' Association.
- (2) The Cotton Muccadums' Association.
- (3) The Marwadi Chamber of Commerce.
- (4) The Japanese Shippers' Association.
- (5) The Gujarati Shroff Mahajan.

(6) The Bombay Millowners' Association.

(7) The Bombay Cotton Trade Association.

But none of these associations claimed to control the entire cotton trade. In that respect there was a rivalry only between the Cotton Trade Association and the Bombay Cotton Exchange. From 1892 to 1917 these two rival bodies controlled the entire cotton trade.

A short description of the manner in which speculative transactions in cotton used to take place during those days would prove interesting, and would facilitate the understanding of the trade methods that exist today. The trade was not in the strict sense of the word the trade in futures, as it lacked some of its fundamental characteristics. The contracts traded in were all for a specific grade, and contained no provision for the delivery of grades other than the one contracted for. The natural result of this was that any enterprising merchant could easily corner a particular grade by buying more than the seasonal supply of that grade. The price of the cornered grade, thus frequently rose to high levels, making it impossible for those who had sold the futures to fulfil the contract without ruining themselves.

Secondly, there was no system of periodical settlements. Accounts were settled only when the contracts matured. Sometimes the duration of a contract was twelve months, prices in the meanwhile rose and fell by a hundred rupees, but no settlement of accounts was necessary till the maturity of the contract. A contract maturing in March 1917 for example, could be entered in, full twelve months before, say in April 1916. In the meanwhile, the price might fluctuate by a hundred rupees but no payment of difference could be enforced before the due month. This state of affairs enabled daring merchants to accumulate heavy risks and losses with impunity, for no one had the right to demand any payment till the last day of the contract. Those involved in a loss, speculated yet more and more with hopes of making it up. Heavy and irresponsible speculation vitiated the Bombay

cotton market to such an extent that conditions soon became intolerable. Corners, backed by huge funds became the regular feature of the market, causing great chaos and confusion. The credit of Bombay's cotton market was seriously damaged in Liverpool and other foreign markets.

In 1917 a huge corner convulsed the whole cotton trade. In the 'Broach' corner the prices reached such an artificial height that some sections of the trade approached the Government to fix a price for settlements. A Committee which was appointed at the time to enquire into the high price of cloth also urged that steps should be taken to better regulate the trade in raw cotton. Government however, refused to interfere to the extent of fixing prices. But those were extraordinary times; the great world war was raging, and the Government was in great need of a regular supply of raw cotton. So in June 1918 it issued Ordinance Rules under the Defence of India Act appointing a Cotton Contracts Control Committee to control the cotton trade in general, with powers to establish, if need be, a clearing house.

The members of the Committee were :—

1. The Chairman of the Chamber of Commerce.
2. The Chairman of the Cotton Trade Association.
3. One European Member of a Shipping Firm.
4. Mr. Osborne Marshall.
5. Sir (then Mr.) Purshotamdas Thakurdas, Chairman of the Bombay Cotton Exchange.
6. Mr. Ramnarain Hurnandrai, Chairman of the Marwadi Chamber of Commerce.
7. Mr. C. N. Wadia, the Bombay Millowners' Association.
8. Mr. Shivnarain Nemani, Chairman of the Cotton Brokers' Association.

During the War period no one liked to protest too much against Government interference in the trade. There was, no doubt, a section in the trade which was averse to any

kind of official interference, and another which considered any change in the traditional methods as commercial heresy. The commercial circles, on the whole, expressed their satisfaction with the clearing house and the management of the Contracts Committee. In November 1918 the Bombay Government introduced a bill in the Council for the control of dealings in cotton in the Presidency of Bombay by a Cotton Contracts Board.

The Bill followed the Rules under the Defence of India Act. In one respect it was wider. It was proposed that the Board should have the power to regulate not only forward but also ready contracts. In the original draft of the Bill, the Control Committee was to consist of an official Chairman and eight nominated members. There was a strong protest against this official nomination and the composition of the Board was changed in the Select Committee. The Board was to consist of twelve members, out of which two were to be elected by the Bombay Millowners' Association and three by the members of the Clearing House. The remaining seven were to be nominated by the Government. The third reading of the Bill was passed by the Council in December 1918, and the Cotton Contracts Act of 1919 came into force.

The Cotton Contracts Board controlled the cotton trade for nearly three years, but as that too was designed to be only a war measure, its repeal was moved in the Bombay Council in October 1921—Bill XI of 1921—and was passed. The Board was to cease functioning from 15th November 1921. But a difficulty soon arose. Certain contracts were entered into before 15th November which provided for the delivery of cotton after that date. The repealing bill had made no provision for continuing the machinery of the Board for enforcing fortnightly settlements after that date. As the Act stood repealed, anyone could refuse to pay his dues on periodical settlements. Much confusion would have thus resulted had the bill received the sanction of the Government. Representations were made to the Government

to withhold the sanction. The Bill was sent back to the Council for reconsideration. A new repealing Bill was introduced in February 1922 and was passed. The repeal was to come into force from 1st June 1922, but provision was made for the purpose of settling all disputes with regard to the contracts entered into before 1st June.

While the Cotton Contracts Board was functioning, the Governor-General-in-Council appointed a Committee under the Presidentship of Mr. J. Mackenna to enquire into the possibilities of extending the growth of long stapled cotton in India. It separately submitted to the Government a special chapter describing conditions existing in the Bombay Cotton Market in 1918, and recommended that one central association should take the place of the seven distinct bodies which at that time controlled the cotton trade in Bombay, and that the association should establish a proper basis of classes of cotton for futures contract.¹

The Government of India, thereupon directed the Cotton Contracts Board to get into touch with all the different sections of the trade and to form a single association, representative of the various interests in the trade. They were successful in evolving one such association and named it the East India Cotton Association.

On 30th April 1922 the Cotton Contracts Board was abolished, as it was meant to be only a temporary body. The newly started East India Cotton Association, Ltd., took up its work, but as there was no sanction behind this Association, the whole trade could not be brought within a uniform procedure under its auspices. The only way to get over this difficulty was to get a statutory recognition for the new body.

By this time there were two distinct sections in the trade, the one desiring Government control of the trade and the other insisting on non-intervention. The Government introduced a bill in the Bombay Legislative Council in July

¹ Report of the Indian Cotton Committee 1919, p. 210.

1922—Bill XIII of 1922—to give a statutory recognition to the East India Cotton Association. It was contended on behalf of the Government that though they had no intention of interfering with the cotton trade, they had to do so because the trade unanimously desired the Government to interfere.¹ It was also said that the East India Cotton Association, Ltd. was not an official body like the Cotton Contracts Board, and that the President and the Board of Directors were to be elected by the trade itself. So the word Government control was to a certain extent misleading. The control, if at all, was to be negative inasmuch as the Act disallowed any other organization to regulate the cotton trade, and made all transactions other than those entered under the bye-laws of the said Association unenforceable by a court of law.

The bill, however, was stoutly resisted. The majority of elected members was against it. The Act was to be in force only for three years, with a provision for extending the period by a Government Notification. The third reading of the bill was passed by a narrow majority of nine.

During the years that followed, opposition to the East India Cotton Association, which had now got the statutory authority to control all cotton trade, grew. The duration of the Act was thrice extended. This created considerable dissatisfaction amongst—if we may say so—the rank and file of cotton merchants. The discontent found expression in the establishment of a rival association, the Mahajan Association. The Cotton Contracts Act had not made contracts entered outside the East India Cotton Association illegal; such contracts were only unenforceable through a court of law. Taking advantage of this loophole, this new association was started and soon became popular with small traders.

Other commercial bodies like the Shroff Mahajan of Bombay and the Marwadi Chamber of Commerce also

¹ "I may state here Mr. President that it is the policy of Government to interfere in trade as little as possible and they were most anxious to repeal the Cotton Control Act which was a war measure as soon as possible." Bombay Legislative Council Debates.

strongly protested against 'the intervention of the Government in trade'. Besides, in the working of the Act it was found that the powers of the Board of Directors of the E. I. C. A. were vague and wide, and were often used with a certain degree of high-handedness. The criticism, at last, caught Government's attention, and when the third extension of the duration of the Act was due to expire, the Government thought it necessary, 'in view of criticisms that had been made of certain detail of the Act as administered, to appoint a committee to make recommendations for the amendment of the Act'.¹ They simultaneously extended the operations of the Bombay Cotton Contracts Act to August 31st, 1931. The Committee was presided over by Mr. Wiles, and many leading businessmen including Sir Purshotamdas Thakurdas served as members.

The terms of reference of the Committee were as follows :—

1. To examine the working of the Cotton Contracts Act of 1922, with particular reference to the East India Cotton Association therein approved;
2. To consider whether any addition to the present activities of the Association should be embodied in the constitution;
3. To consider whether any of the bye-laws made by the Board and sanctioned by the Governor-in-Council have acted to the detriment of the trade or any section of the trade; and to make recommendations.

The report of the Committee was unanimous except on the question of the Association's constitution. There was also a minute of dissent on some points by Sir Ness Wadia.

The Committee was unanimously of the opinion that the control of forward trading ought to be in the hands of an association representing all interests involved, and that it would be unsafe to permit more than one association to regulate the speculative transactions. It recommended that all transactions, not in accordance with the bye-laws of the

¹ The Government of Bombay, Press Note, 17th April, 1930.

East India Cotton Association, should be made illegal and punishable at law, as the other alternative of making such contracts only unenforceable at law, would not prevent the formation of rival bodies. The Government accepted this drastic recommendation somewhat apologetically.

In the matter of the constitution, the Government were faced with the difficulty that the report was not unanimous. They therefore, decided to seek the lowest common denominator of agreement, and accepted the recommendations of the minority on the plea that "even the majority had considered them as a step forward towards what they held out as an ideal". In order to facilitate the framing of a more democratic constitution in the course of time, the Government suggested to limit the working of the proposed Act to 3 to 4 years.

On the recommendations of the Wiles Committee and the resolution of the Government thereof, 'a bill to provide for the Regulation and Control of Cotton Transactions in Bombay' was introduced in the Bombay Legislative Council on 29th July 1931. The bill was framed on the lines of the Cotton Contracts Act 1922, the principal changes being only with regard to:—

1. The regulation of "option" dealings.
2. The institution and maintenance of "certified go-downs".
3. The restriction of forward business to the agency of a member of the East India Cotton Association, and making all other forward contracts illegal.
4. The revision of the constitution of the Association in a manner suggested by the minority of the Wiles Committee.

The three main principles in the Bill which called for careful debate were:—

1. Whether there should be any regulation and control of the cotton trade?
2. Whether the control should be unitary, and
3. Whether that one body should be the East India

Cotton Association constituted and empowered as stated in the Bill?

The Bill was opposed on all the three principles. The last point, however, was very hotly debated. Serious and damaging¹ allegations were made against the working of the East India Cotton Association, and it was contended that the monopoly of control should not be given to such an association. The main agitation against the Bill came from the Mahajan Association whose business would have been paralysed by section 6(2) of the Bill, which made all forward transactions not conforming to the bye-laws of the E. I. C. A. illegal. In a series of "appeals" issued to the members of the Legislative Council, they pointed out that many of the bye-laws of E. I. C. A. were detrimental to the interest both of the trader and the cotton grower. A compulsory adherence to those bye-laws would destroy, they contended, the only safety valve that was provided by their Association which worked under a different set of bye-laws. In reply to this, it could be said that though the constitution provided by the Bill was far from democratic, Government had promised to allow the Select Committee to make requisite changes in it. The constitution could have been made fully democratic in the Select Committee; and the Mahajan Association by getting their members elected on the Board of Directors could have amended the bye-laws according to their wishes.

As a matter of fact, the opposition to the E. I. C. A. for its past actions, assuming they were often high-handed and unjustifiable, was not relevant to the occasion. Here was a new association, call it West India or East India Association with this constitution and with these powers. Should we have it or not was the question. If there was agreement on the

¹ Rao Bahadur Asavale:—

"By giving monopoly to the East India Cotton Association what will you achieve? You will add to the large number of suicides by prominent merchants which we have already witnessed." Vol. XXXI, p. 754. Bombay Legislative Council Debates.

first and the second points about the necessity of control and unitary control, and when the Government was willing to allow the House to change the constitution of the Association in the Select Committee, there was no consistency in opposing the Bill. An amendment was, however, moved to the effect that in clause 3 of Definitions the word 'Association' should mean the East India Cotton Association, Ltd., *or any other Association*. The amendment was carried by 44 against 41. The Minister in charge of the Bill took the vote as negating the whole Bill and withdrew it. Thus the Bill that would have improved the regulation of the cotton trade at least to some extent, was lost and the status quo was maintained. //

Nearly a year after—19th September 1932—Government introduced another Bill to provide—'for the better regulation and control of the transactions in cotton in Bombay'. This time it was political exigency rather than any economic consideration that urged the Government to introduce the Bill. The situation that the Act was designed to meet was of a temporary nature. Those were the days of the Civil Disobedience Movement launched by the Indian National Congress. Indian opinion was greatly stirred, and the commercial community showed its sympathy for the cause, by observing hartals on each Monday, and even actively assisted it by declaring a boycott of all European traders, who were believed to be against the political aspirations of the Indian people. The Government naturally could not tolerate such an open affront to its prestige. Vigorous attempts to counteract the Congress propaganda were made, but to no avail. Neither occasional cajolements, nor veiled threats helped the Government to restore order. The East India Cotton Association was warned more than once to set the matter right. Leading merchants were summoned to conferences in the Government Secretariat, the proceedings of which are supposed to be confidential. Every one pleaded helplessness. Some suggested that the Ordin-

ances should be ruthlessly employed, but the Government knew that that which was the cause could not be a remedy.

We do not desire to discuss the repercussions of this state of affairs on either the agriculturist or the cotton trade of Bombay. But the fact remains that the plight of the boycotted firms became very precarious, as their whole business was paralysed. They pestered the Government to restore order. The Government, in their turn, asked the E. I. C. A. to do the same. The result was that the Government which was hitherto a champion of a unitary control of the trade by none but the East India Cotton Association, now that that body pleaded impotence to resist Congress influence, was anxious to equip itself with legislative power to substitute, in case of emergency, a strong Board of Directors in the place of this weak body. Clause 9 of the original draft of the Bill reads as follows:—

“When the Governor in Council is of the opinion that it is necessary in order to secure free trading in the market and to prevent obstruction thereto and interference therewith, to supersede any Board of Directors, the Governor in Council may, by notification in the Bombay Government Gazette, declare such Board to be superseded, and may appoint in the place of such Board such persons as he thinks fit to constitute a Board of Control, and may appoint one of their members to be a Chairman.”

It is clear from the aims and objects of the Bill as published in the Gazette that the Government wanted extra powers to combat the obstructions caused by the Bombay Provincial Congress Committee in the cotton market.¹

Having seen the purpose of the Bill, we come to some of the provisions which aimed at fundamental changes. The

¹ “For a long time past, trading in the Bombay Cotton Market has been very irregular, and operations of many dealers have been persistently obstructed and interfered with And they considered it necessary that, in case the disorganisation of the market should continue or recur they should be empowered to interfere and to improve that regulation in such a way as to secure free trading in the market and minimise outside interference.” Bombay Legislative Council Debates. Vol. XXXV.

impression one gathers from the perusal of the draft Bill is that the Government at last gave up its erstwhile championship of unitary or single control. The impression becomes fast when one reads the speech of the Hon'ble the mover, Sir Gulam Hussain. "Another point is that", he said, "honourable members of this house were against giving monopoly to any association. In this Bill honourable members will see that the Government have taken to themselves the power to recognise any association or withdraw recognition from any recognised association. *There will be no monopoly given to any association*".¹

But subsequent debate proved that the Government still believed in unitary control; the bubble was pricked when a member asked the mover to reconcile clause 4(1) of the Bill² with the statement that "Government's policy is that there should be normally one body in control of cotton trade in Bombay".³ The mover had, at this stage, to make it quite clear that the Government was yet sticking to the principle of unitary control.

The President had at this juncture to intervene and remarked that clause 4, as it stood, did not make that meaning clear. The legal remembrancer, Mr. G. Davis who drafted the Bill, had to 'explain' that his instructions so far as he understood them, were that it should be open to Government, under certain circumstances, to recognise more associations than one.

We will leave the question at that. There is no doubt that the clause did create an impression that any well regulated association, willing to comply with the conditions laid down in the clause would get Government recognition as a matter of course. However, from the attitude of the Government during the debate on the Bill,⁴ it became clear that the

¹ Ibid, Vol. XXXV, p. 51.

² Clause 4 (1) states that a Cotton Association desirous of being recognised for the purpose shall make an application in writing etc.

³ Statement of objects and reasons.

⁴ The following amendment was opposed by the Government. "On the receipt of an application from a Cotton Association conforming to the

Government still persisted in its idea of single control, with the only difference that that single body need not necessarily be the East India Cotton Association. The result of this was that the principle of unitary control on which a much better bill a year before was wrecked, got indirectly the legislative sanction of the House.

As for the question of the effectiveness of the newly acquired extraordinary powers, time alone will decide. The East India Cotton Association still remains the sole body controlling and regulating all authorized trade in cotton. The imperfection of its organization and the harmfulness of some of its bye-laws, for whose investigation a Government inquiry under the Presidentship of Mr. Wiles was instituted, remain to this day unremedied, thanks to the half-hearted recommendations of the Wiles Committee and the defeat of the legislation embodying the same. It is because of the imperfections in the organization and working of the E. I. C. A., that a compulsory allegiance to it becomes oppressive. We must either democratise the E. I. C. A. and provide model bye-laws or end its monopoly control.

In November 1935, a Bill was introduced in the Bombay Legislative Council seeking to make transactions entered outside the rules and regulations of the E. I. C. A. punishable at law.¹ The Bill naturally sought to eliminate all rival organisations under whose auspices the cotton trade is conducted. The Bill was subsequently withdrawn with a view to facilitate some compromise between the East India Cotton Association and the Mahajan Association. The efforts do not seem to have borne any fruit. The East India Cotton Association is carrying on its campaign for unitary control of the cotton trade. Sir Purshotamdas Thakurdas in his presidential speech delivered at the Fifteenth Annual General Meeting (1936) of the Association pointed out that any radical reform of the hedge contracts presupposes a unitary provisions of sections 4, 5, 6, 7, the Governor in Council shall grant recognition to the Association which has so applied."

¹ Bombay Cotton Contracts Act, Amending Bill of 1935.

control of the cotton trade. "I put it to those who want a change in Hedge Contracts" he said, "whether they can, in reason ask for it without the Association securing unitary control in the Cotton Trade". The Fifteenth Annual Report of the Association declares that combined efforts are being made by the Bombay Millowners' Association, the Bombay Chamber of Commerce and the East India Cotton Association 'to pave the way to unitary control'!

THE WORKING OF THE EAST INDIA COTTON ASSOCIATION.

Having reviewed the course of legislation seeking to regulate the futures trade in cotton, we proceed to study the organization of the trade under the auspices of the East India Cotton Association.

Among the objects given in the Memorandum of Association with which the East India Cotton Association was established, the main ones are :—

"To provide and maintain suitable buildings or rooms for a cotton Exchange in the City of Bombay and elsewhere in India; to provide forms of contracts and regulate the making etc. of the contracts; to adjust by arbitration or otherwise controversies between persons engaged in the cotton trade; to establish just and equitable principles in the said trade; to maintain uniformity of control of the said trade, to fix or adopt standards of classification of cotton; to acquire, preserve and disseminate useful information connected with the cotton interest;.....and generally, to control, promote and regulate the cotton trade in the Presidency of Bombay and elsewhere in India, improve its stability and augment the facilities with which it may be conducted".

"To establish and maintain a clearing house....."

CONSTITUTION

There are four main types of memberships recognized by the Articles of Association. They are given below with their distinguishing features.

MARKETING OF RAW COTTON

Type	Qualification	Deposits Rs.	Annual subscription	Privilege
1. Original	1. Place of business in Bombay 2. Applies before 10th May 1922	10,000	200	all
2. Member (a) Non-British	Provided their respective countries give similar facilities to British Indian subjects	50,000	200	„
(b) British	Trade in cotton in Bombay for not less than 3 years	20,000	200	„
3. Associate Members	A. Member of cotton clearing house or Cotton Contracts Board	5,00	50	1. No vested interest. 2. Not entitled to trade in the "Ring"
	B. Any other	1,000		3. Not entitled to the use of clearing house. 4. Not entitled to (a) be present at a General Meeting (b) be Director (c) or vote
	C. Other than British	5,000	100	

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Type	Qualification	Deposits Rs.	Annual- subscription	Privilege
4. Special Associate Member	Member of the "Clearing House" or a "Broker"	5,000	200	1. Entitled to trade in the "Ring" use "clearing house" 2. Not entitled to (a) vote (b) to have vested interest (c) to be present at a General Meeting (d) or act as a Director.

All the members are classed into six electoral panels as follows:—

1. Millowners, 2. Exporters, 3. Importers, 4. Commission Agents and Merchants, 5. Jethawalas and 6. Brokers.

Every member must join¹ one (and only one) of the above mentioned panels. Each panel has further to select a Representative Committee of not more than 15 or less than 5 members of such panel. The several Representative Committees are to form the Representative Committee of the Association. Only the members of the above Committee are competent to be present and vote at a General Meeting.

Directors:—The Representative Committee of each panel has to elect from the members of such committee two Directors to represent the panel on the Board of Directors of the Association, 'one of whom shall be a European and one an Indian'. The twelve Directors so elected have a right to co-opt four more members from the Representative Committee of the Association.² In all, there should be not more

¹ Though the final discretion in the matter rests with the Directors.

² For further details see Articles of Association.

than 16 and not less than 10 members on the Directorate, exclusive of the President. The President is to be elected by the Board of Directors, and he may or may not be actually engaged in the cotton trade.

This queer compartmental system has its origin in the circumstances at the time of the inception of the Association. When Government relinquished the direct control of the trade, exercised through the Cotton Contracts Board, it apprehended that unless the new body was sufficiently representative of all the interests in the trade it would not command the allegiance of the whole trade and hence would be unable to regulate it. In order to make the new body fully representative, this compartmental system was devised, giving a special representation to each section. In fact the Cotton Control Board itself had a vestige of the compartments.¹ It may be pointed out that the Exchanges in the U. S. A. and England consist solely of brokers. From a theoretical point it is not at all necessary that all interests in the trade should be represented on the Exchange or its Directorate. The Exchange is not a legislative body in which it is really essential to have all the conflicting interests represented. The one aim of the Exchange is to facilitate the conduct of trade; and the problem of securing a procedure that will not be harmful to those engaged in the trade and to the community at large, will not be solved by allowing all the conflicting interests to have a say in the matter. Besides, no device is known by which every interest can be given a representation proportionate to its stake in the business. They create issues which it is their function to settle.² Brokers on the other hand, as a class, were once described by a member of the Bombay Legislative Council as 'colourless' people. They being unaffected and unconcerned by market fluctuations, are the people relied

¹ See p. 240.

² "They think sectionally or communally rather than as a body of merchants, all engaged in a great enterprise of national importance." Wiles Committee.

upon as the most impartial for the purposes of an Exchange, whose main function is that of price-making.

In India, however, it is suggested that the brokers are in a different position and are not strong enough to form an Exchange by themselves.

The Cotton Contracts Act Committee of 1930 which examined the problem, observe that on the whole, the system has worked well, but it is admittedly not an ideal arrangement and the complicated system of representation should no longer exist.¹ Their recommendations are of a nature of a compromise. While conscious that the system is not an ideal one, they could not boldly sweep away the vested interests. They proposed, therefore, (1) that both the buyers and the sellers should have a special representation, (2) that the Millowners' and Exporters' panels should form the buyers' section, and the panels of Importers, Commission Agents and Jethawalas should form the sellers' section, (3) that the Board of Directors should consist of 16 members out of which four were to represent the buyers and four the sellers. Six to be elected without reservation, and two to be nominated for the growers, (4) and that Representative Committees should be abolished.

Hereafter the Committee are divided. The majority consisting of Sir Purshotamdas and others suggest that the above-mentioned amalgamation of panels should be only for the first election, and thereafter the representatives of the buyers' and the sellers' sections should be elected by the General Body. The claim of a candidate to represent a particular section was to be examined by a Nominating Committee consisting of five members to be elected annually for the purpose. The majority further recommended that the special representations of the buyers and the sellers should be taken away after six annual elections and the whole constitution should be made completely democratic. The minority would not lay down any fixed period for the abolition of the

¹ Report of the Wiles Committee, p. 4.

special representation.¹ Neither would it trust the General Body to elect representatives for the buyers and the sellers. It had the apprehension that the numerical superiority of the brokers would make the voice of other interests ineffective, and would affect them and the whole trade, prejudicially. It therefore, insisted that the representatives of the buyers and the sellers should be elected by the amalgamated panels referred to above.

To us this appears to be a case of mistaken emphasis. The issue of special representation or its technique will not arise, if the wide powers at present enjoyed by the Directors are taken away. Our own view is that no Directorate of an Exchange need be given the wide bye-laws making powers as are enjoyed by the Directors of the East India Cotton Association. The rules and regulations vitally affecting the trade should be laid down by Government Legislation as far as possible. Once this power is taken away the very incentive to scramble for being on the Directorate would be destroyed. The representatives of different interests would have no occasion—nor the privilege—to make a regulation that would vitally affect them. If important decisions—in the sense of affecting the trade—are not to be made by the Board there remains no *raison d'être* for demanding special representation. But if the Board of Directors is to continue to enjoy wide powers, we are constrained to believe that some safeguards are needed to counter-balance the numerical superiority of the brokers. If special representation is to be given, we should see that those who are elected do represent their respective interests and have an effective voice in the conduct of business.

ORGANIZATION

The various functions of the Exchange are performed by a Standing Committee appointed every year for the purpose, by

¹ The E. I. C. A. has amended its bye-laws accepting the recommendation of the minority.

the Board of Directors. The Board appoints a Daily Rates Committee for fixing the market rates of different growths of cotton that are deliverable under Hedge or Delivery Contracts. But the "settlement rates" for the purpose of the fortnightly clearance are fixed and registered by the Board itself. The Board also fixes the rates for the last date of delivery (25th of the month) for any Vaidā. In case any one is dissatisfied with the rates so fixed, he can appeal to the Board against the decision of the Committee by paying an appeal fee of Rs. 50. There is, however, no provision for appeal against the decision of the Board itself which fixes and registers important rates.

Arbitration and Appeal:—All disputes as to quality, between the buyer and the seller are referred to an Arbitration Board consisting of one representative of each disputant.¹ When the two differ in their award they appoint an umpire, and subject to a right of appeal to the Appeal Committee his decision is final.

The 24 members of the Appeal Committee work alternately in batches of 12, and hear the appeal preferred against the award of the arbitrators. The Appeal Committee is not informed whether the appellant is a buyer or a seller. His name as well as the marks of the bales in question are withheld from the Committee.

Bye-law 38 F lays down that "if either party to a dispute submitted to arbitration refuses to abide and perform the decision of the arbitrators.....and the award is filed in the High Court he shall pay the costs between the attorney and client in connection with the filing and enforcement of the award unless the Court shall otherwise direct".

A non-member has to pay the arbitration or appeal fee in advance.

The Clearing House Committee consists of five persons

¹ A system of Blind Surveys is now being adopted. Disputes would now be referred to a Committee of Surveyors, to be selected by the Board of Directors from the trade every year. Relevant bye-laws are being amended to give effect to the scheme.

appointed by the Board. Though the Clearing House serves a very important purpose and has a big staff, the Clearing House Committee has not much work to do.

The Association keeps a highly paid Secretary and two assistant secretaries who look after the administrative work.

PHYSICAL EQUIPMENTS

Bombay has an excellent Cotton Exchange building at Sewri, not far from the textile mills area. A three storied magnificent structure, the building was built as late as 1924. It has all the equipments of a modern Cotton Exchange. At one end of the north wing on the ground floor is a telegraph office and a public phone room. On the two sides of the central passage on all the three floors, are rooms for the members of the Association. To the east, the rooms being better lighted are allotted to the purchasers, and those to the west are given to the sellers. In the midst of the three wings, there is a huge shed, and in the centre of the shed, is the 'Ring' for futures dealings. The Arbitration room is on the top floor and is furnished with chairs and tables. At the other end is a laboratory of the Central Cotton Committee for conducting spinning tests on the trade samples for the guidance of the cotton trade in general. In the vicinity of the Exchange building there are 178 large pucca warehouses—each, 111 ft. by 43 ft. and 30 ft. high—capable of accommodating 50,000 bales in all.

Spot Business:—Bombay has got a big spot market for cotton. The Bombay cotton mills purchase their cotton in the Bombay market, though recently bigger mills send their agents upcountry to purchase cotton. The Japanese firms who are the biggest purchasers of Indian cotton have their agencies all over the cotton area. Every year nearly

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30 lakhs of bales find their way to Bombay.¹ At present the spot market is open from 11 a.m. to 2 p.m. The sellers' rooms contain piles of samples covered by paper in bundles. Salesmen, brokers, sub-brokers and their employers, move briskly with one or two bundles of samples tucked under their arm, and show them to prospective purchasers on the opposite side. Purchasers intending to buy—as well as others—scrutinise the samples. If a price is agreed upon—which is quoted so much 'on' or 'off' the futures group to which the cotton belongs—and if the bales are in any of the warehouses in Bombay, the purchaser or his agent goes to the spot. Transactions in ready cotton may be verbal or in writing. Suitable forms are, however, provided by the Association, if the members care to use them.

A purchaser has a right to sample 5 per cent. of the bales offered for sale 'by bursting one hoop of 3 per cent. and two hoops of 2 per cent.' (bye-law 117). This is called Pucca Sampling. Once the pucca samples are drawn and approved and the bales are stamped, both the parties are bound by the terms agreed upon. Six hours notice by the buyer is necessary before he can demand weighment. In case the seller neglects or refuses to give delivery, according to the regulations, the buyer after giving 48 hours' notice, is free to buy similar cotton in the market at the cost of the buyer—subject, however, to certain conditions.² If the

¹ Receipts into Bombay from 1st September to 31st August in the years 1926-26 to 1935-36.

YEAR	TOTAL BALES*—392 lbs. net.
1926-26	3,334,650
1926-27	3,165,642
1927-28	3,423,767
1928-29	3,356,397
1929-30	3,480,214
1930-31	3,403,951
1931-32	2,094,692
1932-33	2,535,233
1933-34	2,516,435
1934-35	2,501,584
1935-36	3,170,039

* Include imports from Persia, America, Egypt and Africa.

² For details see bye-laws 115 to 127 A of the E. I. C. A.

buyer refuses or neglects to take delivery, the seller has to give similar notice and after its expiry can weigh over the cotton, charge the buyer for weighing, insurance etc., and ultimately re-sale the cotton on account of the buyer.

In case of a dispute about the quality, reference is to be made to the Arbitration Board mentioned above.¹ If after arbitration, the allowance sanctioned is up to half per cent the buyer has to accept it. If it is more than that, he has the option of rejecting the bales with proper notice. No bale weighing more than 450 lbs. or less than 340 lbs. is acceptable.

All the varieties of Indian cotton are to be found in the Bombay Market. It also serves as a market for cotton imported by the merchants. The Association has a special survey committee for African and Egyptian cottons.

¹ For provisions regarding arbitration see rules under Arbitration.

CHAPTER VIII

ORGANIZATION OF COTTON FUTURES TRADE IN BOMBAY

Bombay is the biggest centre in India for the organised futures trade in cotton.¹ The East India Cotton Association, under whose auspices futures business is conducted in Bombay, was established with a view "to take over, control, manage or regulate the cotton market in Bombay.....or in any part of India". The Cotton Contracts Act of 1922 which gave to that body statutory recognition, empowers its Board of Directors to "make bye-laws for the regulation and control of transactions in cotton". In the Association's Exchange building at Sewri, a "pit" is provided for conducting transactions in futures. The Sewri market, however, is so far removed from the active business locality in the city, that members of the Association found it inconvenient to maintain a close touch between the Marwadi Bazar in the city and the Sewri market. The Association could not secure a suitable place in the city proper, where the futures transactions could be conveniently carried on. They, therefore, made an arrangement with the Brokers' Association for the use of their 'ring' in the Marwadi Bazar.

The Association have now purchased a plot of land in the Bazar itself, at an aggregate cost of Rs. 7,75,000. They desire to build a "New Cotton Exchange" with all modern equipments considered essential for an organised market. The foundation stone of the building was laid on 12th February 1936. The New Exchange will contain a spacious trading hall, nearly 100 rooms for members' offices and about 103 telephone booths. By the end of 1937, the building is expected to be complete.

¹ Futures business is now done also at Karachi.

On every working day from 12 noon to 5 in the evening a regular affray goes on in the 'pit'. For an outsider it is difficult to believe that business amounting to lakhs is conducted amidst what seems to be a welter of noise and meaningless gestures. The traders have their own code of language and gesture peculiar to their ring. Every word and movement is interpreted and recorded with the accuracy of a machine. The sellers make known their bid by uttering only the last fractions of the price with the word 'Lyo', meaning take. They thrust their hand in a forward movement and indicate the number of units they want to sell by as many fingers. The buyers utter their price—only a fraction—and add the word 'Dyo', meaning give. By an inward movement of hand they indicate by fingers the number of units they will purchase. As soon as a buyer and a seller agree to the price, the transaction is made and recorded by both the parties on a slip of paper. Though all the buyers and the sellers shout their bids at the top of their voice, not a single offer, either way is missed by the trained eyes and ears of the ring traders. Transactions involving thousands of rupees are made without any elaborate procedure.

In the centre of each of the two opposite walls of the trading hall there is an iron bar with a bench below on the ground. The more active traders stand on the bench and clasp the bar with one hand to keep their stand against the violent response they attract. Every few minutes the traders inform their head offices by phone regarding the trend of the bazaar, and receive in turn further instructions.

HEDGE CONTRACTS

Futures contracts in one form or the other have been in existence in the city of Bombay for years.¹ Originally there were three contracts, Broach, Bengal and Dhollera related

¹ Vide Evidence of Sir Purshottamdas Thakurdas before the Tariff Board-Textile Industry, 1937.

to these varieties. These were very narrow contracts and included few qualities beyond what their names suggested. 'Broach' was for Broach alone and did not even include Navsari or Surat cottons. In 'Bengal', cotton only from the United Provinces could be tendered. 'Dhollera' was mainly for the long stapled cotton. Neither was there a clearing house for periodical settlements. The two rival bodies, the Bombay Cotton Trade Association and the Bombay Cotton Exchange controlled the trade.

With the establishment of the Cotton Contracts Board in 1918, there came the first effort at regulating futures contracts. The Board began with five contracts. The Mackenna Committee, was then in sessions, and in a special chapter which it submitted to the Government of India in May 1918, gives the following five principal varieties in which futures were traded.

1. Fully good, machine ginned Bengals for 25th January Delivery.
2. Fully good, machine ginned Khandesh for 25th January Delivery.
3. Fine, Khamgaon, Akola, Fine staple, Delivery 25th January.
4. Fine or good, machine ginned Broach, Delivery 25th April.
5. Good, machine ginned, Westerns, Delivery 25th May.

The contracts were then increased to seven.¹ Afterwards the 'Punjab-American' was incorporated in 'Broach'.

The Board consistently followed the policy of widening the contracts. The Broach contract, which was at that time very popular, was considerably widened by the addition of Dharwar, Punjab-American and at one time C. P. No. 1. The clearing house had also by this time (18th September 1918) come into existence.

The East India Cotton Association, Ltd., that was formed

¹ The seven were Bengal, Fully Good Oomra, Fully Good and Fine Broach, Southern, Punjab-American and Khandesh.

to take the place of the Cotton Contracts Board state in their Articles of Association—Article 95—as amended on 23rd July 1928, and confirmed on 8th August 1928, that there shall be five undermentioned hedge contracts.¹

1. Fully Good M. G. Bengal Contract, fair average staple of the season, including cotton from United Provinces, the Punjab, Sind and Rajputana; December, January, March, May and July being delivery months.

Basis—Fully Good, M. G. United Provinces.

2. Fully Good M. G. Broach Contract, fair average staple of the season, including cotton of the following descriptions, namely

Broach, Saw ginned Dharwar, Punjab-American, Surat, Navsari, Rajpipla, Dholleras, Kalagin, Cutch and Kadi-Viramgaum.

April-May and July-August being months for delivery.

Basis—Fully good, M. G. Broach.

3. Fine M. G. Oomra Contract, fair average staple of the season, including cotton from the Central Provinces and Berar.

Months for delivery being December, January, March, May, and July.

Basis—Fine, M.G. Berar.

4. Fully Good M.G. Oomra Contract, fair staple of the season, including cotton from Berar, the Central Provinces, Central India, Khandwa, Barhanpur, Khandesh and Kathiawar (Muttia).

Months for delivery—July and September.

Basis—Fully Good M. G. Berar.

5. Good M.G. Southern Contract.

The delivery months being May-June and August-September.

Basis—M.G. Westerns, Good.

The Article gives full detail about the various standards

¹ See Articles of Association for further details.

which can be tendered against each contract. The standard below which cotton tendered is to be rejected is also specified for each of the five contracts.

Out of these only the first three are traded in, the remaining two are practically idle.¹

In many ways the hedge contracts in the Bombay market are peculiar. Both on the New York and Liverpool Exchanges there is only a single hedge contract for any one main variety of cotton, with the exception only of the Egyptian cotton, which has two hedge contracts—one for Sakel and one for Uppers. Even for the whole of America's cotton crop there is only one hedge contract both in New York and Liverpool. In contrast to this, we in India have as many as five hedge contracts for Indian cotton.

Another peculiarity is that whereas on other exchanges, a hedge contract is open for all the twelve months of the year and delivery against it can be given during all these twelve months, no single hedge contract on the Bombay market is traded in continuously and for none of them there are more than 4 or 5 delivery months.

Both these features are subjects of hot controversy and as the subject of hedge contracts is a vital one, we shall examine them in greater detail.

¹ Statement of cotton bales tendered against each Hedge Contract. (1925-26—1935-36)

Year	F. G. M. G. Bengals	F. G. M. G. Broach	Fine M. G. Oomras	F. G. M. G. Oomras	Good M. G. Southern
1925-26	29,100	28,800	68,100		2,000
1926-27	25,300	29,000	167,600		
1927-28	21,100	17,400	28,000		
1928-29	61,500	41,400	51,000		
1929-30	111,600	81,300	122,000		
1930-31	34,900	71,700	63,700	nil	nil
1931-32	28,800	35,400	20,800		
1932-33	26,200	62,600	40,100		
1933-34	53,500	10,400	62,000		
1934-35	77,200	69,100	56,700		
1935-36	26,550	263,800	10,050		

Bombay Cotton Annual, No. 16.

The standards of cotton that fall under each of the three active hedge contracts are given below:—

1. Fully good M. G. Bengal contract.

M. G. U. P.	} Superfine, Fine, Fully Good, Good to fully Good, Good.
M. G. Sind	
M. G. Punjab	
M. G. Rajputana	

Cotton below the "Good to Fully Good" standard is not tenderable.

2. Fully Good M. G. Broach Contract.

M. G. Broach	} Superfine, Fine, Fully Good, Good, Fully Good Fair to Good.
Saw Ginned Dharwar	
M. G. Punjab-American	
M. G. Navsari	
M. G. Rajpipla	
M. G. Dholleras.	
M. G. Kalagin	
M. G. Cutch	
M. G. Kadi-Viramgaum	

Cotton below the "Good" standard is not tenderable.

3. Fine M. G. Oomra Contract.

M. G. Berar	} Extra superfine, Superfine, Fine, Fully Good to Fine.
M. G., C. P. No. 1	
M. G., C. P. No. 2	

Cotton below the "Fully Good to Fine" standard is not tenderable.

At the very outset it may be pointed out that on no other question pertaining to the cotton market in Bombay is difference of opinion so sharp as on the question of hedge contracts. From the time of the establishment of the Cotton Contracts Board, the Bombay Millowners on the one hand and the cotton merchants on the other, are sharply divided on the question into two distinct schools. The Bombay Millowners—through the Bombay Millowners' Association—have always pressed for a single hedge contract for any one big variety of cotton, like the

one that obtains in Liverpool and New York. They maintain that the division of the Indian crop into five different contracts, leaves each one so narrow that they can easily be cornered. If there is a single hedge contract for all the groups of Indian cotton, failure of any one of them will not affect the price of the hedge contract. As it is, a shortage in any one group causes such a jump in its price that it becomes useless as a hedge. A few examples are given to illustrate this.

On December 29th, 1924 Broach was Rs. 456, Oomras Rs. 438 and Liverpool 13.28. On January 23rd, 1925, when Liverpool went down to 12.85 and Broach came down to Rs. 454, Oomras went up to Rs. 465. This is a case of a regular squeeze, for as soon as the delivery period was over the prices came down.¹

Here is another instance. On May 27th, 1921 Broach was Rs. 327, Oomras Rs. 283 and Liverpool 8.49. On August 12th, Broach came down to Rs. 320 and Oomra went up to Rs. 326½, Liverpool advancing only to 8.60. Broach, which was Rs. 44 higher on May 27th, was actually cheaper by Rs. 6½ on August 12th.²

The contention of the millowners is that had there been a single contract such corners would not have been possible.

The cotton merchants and their representative the East India Cotton Association, Ltd., maintain, on the other hand, that the range of variation—in quality as well as in their money value—between the different varieties of Indian cotton is so large that their inclusion in a single contract will have an adverse effect on its price. The difference between the value of the lowest Bengal and the best Navsari or Cambodia may be anything between Rs. 200 to Rs. 300 per candy. Of course with Broach quoted between Rs. 200

¹ In this year (1924-25) late rains had damaged the Oomra crop, making the leaf black. Black leaf was not tenderable against hedge. The tenderable quality was very small, hence the appreciation in price. The rule was modified immediately.

² It was the Oomar Sobani Corner.

and Rs. 225 for the last two or three years, the difference will be less.

The buyer of a hedge in that case does not know, if it comes to taking the delivery, whether he will get Muttia (Kathiawar), or Cambodia.¹ There will be two difficulties, firstly the cotton tendered may be quite useless for his purpose, and secondly, he cannot calculate with any approximation the amount of payment he will have to make, for the rate may vary from Rs. 150 to Rs. 300. The result will be that the buyer will not touch such a risky contract. He will be scared away. The price of such a contract is bound to fall down.

To this the millowners retort that the merchants mix up hedge contracts with delivery contracts. They say "a hedge ought to be a pure paper transaction".² Whoever buys a hedge need not accept the delivery of cotton. Millowners do not want their cotton through hedge delivery. They can always sell the hedge before the delivery period and make their position even.

The above argument displays both ignorance and selfishness. Purchases and sales of futures do not always balance each other. Everyone cannot square up his position. Someone has to give delivery, and someone else has to take it. Secondly, though the paying up of the price difference will obviate the difficulty of receiving unwanted cotton, the difficulty about the finance will remain. Thirdly, allowing a settlement of open contracts by payment of difference will violate one of the most fundamental tenets of organised speculation. Neither in Liverpool nor in New York are hedge contracts mere paper transactions.

As regards the possibility of corners, the merchants admit that if by a freak of nature a substantial portion of the crop

¹ "Suppose the contract was for delivery of vehicles. Would you like to make a contract in which you may be delivered a bullock-cart or a Victoria Ghari or perhaps a very fine motor-car?" B. F. Madan, Evidence before the Tariff Board. 1927.

² Ibid.

falling under any one of the contracts is destroyed or so damaged as to be undeliverable under that contract, the consequences would be serious. They also admit that if all the Indian crop is made deliverable under one hedge contract such a contingency would not arise. But they submit that, as pointed out before, such an omnibus contract will so scare away the buyers that its price will bear no relation with the price of spots, rendering it useless for the purpose of hedging. In view of these adverse effects the sacrifice they will have to give to avert a chance corner will be disproportionate.¹

The assertion that in Liverpool and New York there is a single hedge contract is only a half truth. No doubt at both the places there is only one contract for the American cotton. But there are three other contracts in Liverpool—Egyptian, Empire and East Indian.² If a single hedge contract is the ideal contract why have they, in Liverpool, kept four different contracts for four different styles of cotton? Neither is it true to say that for cotton of a particular country there is a single contract, for in Alexandria, there are two contracts for Egyptian cotton, one for Sakels and the other for Uppers.

It is an accepted theory of commodity markets that there should be a limit to the low grade that should be allowed to be tendered against a hedge contract.³ Both in Liverpool

¹ Q. Therefore, if one hedge is introduced there will be less chance for such a position.

A. Sir Purshottamdas Thakurdas—As if the only motive of having trading in cotton is to prevent such squeezes and none else. What about the value available to the cultivator?.....Why look at only one point? In answer to another question he said 'This Association is not only for the purpose of protecting millowners, but also to see that the ryot is able to market his crop in a manner that will assure him a fair return.'

Report of the Indian Tariff Board, 1927. (Cotton Textile Industry Enquiry.) Vol. III.

² In 1936 the Liverpool Cotton Association created a new futures contract for 'outside growths.'

³ "The Association had decided that in their view the tendering of outside growths of cotton which were not freely marketable.....might depreciate the Future contract." Mr. Bryce-Muir, President, Liverpool Cotton Association.

and New York the contracts have been actually narrowed. In Liverpool the lowest tenderable grade was raised from 'good ordinary' to 'low middling'. In New York the lowest tenderable grade is even higher. It is nothing below 'middling universal standard'.

In the face of these facts it is quite incorrect to quote Liverpool as the authority for mingling Bengals with Broach in one contract. As it is, there is considerable difficulty in fixing differences for various standards deliverable under Broach Contract.¹ With the inclusion of Oomras and Bengal in a single contract, the task would be almost impossible. Spot markets in the interior of India, which alone could supply a real basis for calculating such differences, are besides, hopelessly unregulated.

If with the present so-called narrow contracts the mill-owners, who use cotton, are so much afraid of being saddled with cotton,² what will be the plight of speculators, who have no use of actual cotton, with a single hedge contract system, and with all the probability of their getting anything from Cambodia to Bengal against hedge delivery? Narrow contracts are actually better for millowners if they want to buy a hedge against the sale of their yarn. But for the ruinous effect of a chance squeeze, the millowners ought to throw their whole weight for narrow contracts: and no one can seriously contend that the futures market in Bombay is more susceptible to squeezes and corners than either the Liverpool or the New York market.

Another question is that if out of the present five hedge contracts, one—Fully Good Oomras—is defunct and the other is scarcely traded in, can we not reduce the number to three? Though such a proposition appears to be reasonable,

¹ Under a futures contract a number of grades can be delivered. The price fixed is for a definite grade. If any grade other than the Basis grade is delivered, a premium or a discount is taken or given according to the quality.

² Report of the Indian Tariff Board, 1927. (Cotton Textile Industry Enquiry).

there are many difficulties in the way. Types of cotton that fall under the contracts sought to be eliminated will have to be included in any of the three groups, for if they are not included the speculative demand for them goes and the spot value of those types will fall, injuring the cultivator. If they are included, they will weaken the contracts under which they are incorporated. The facts that 'Fully Good Oomras' is not traded in and that the 'Southern's' is rarely traded in, show that they are not wanted on hedge delivery. Now if the former is included in 'Oomras Fine' and the latter in 'Broach', the 'Oomras Fine' and the 'Broach' would be dumping grounds for 'Fully Good' and 'Southern's' respectively. This will greatly weaken the contracts by making them chiefly sellers' contracts.¹

It is said that by devising an accurate system of fixing differences between various grades, the strength of the contract can be maintained. If a lower variety is tendered, the discounts will be high, if a better variety is tendered, the premiums are there. There is, therefore, no reason why the contracts should be weakened. This is true, but the adoption of wider contracts presupposes readiness and confidence on the part of the jobbers. If they are nervous as to their capacity to brave such wide contracts, those contracts will not have a sufficient market and would cease to be useful.² Such changes should come only gradually, without scaring away the speculator. From the time of the Cotton Contracts Board, much progress is made in the direction of widening the contract. But for the fear of corners, narrow contracts are theoretically much better as

¹ Report of the Indian Tariff Board, 1927, Vol. III, p. 215.

² "In trading in a hedge contract you want two classes of people or even three—buyers and sellers and in addition a strong jobbing section in the trade.....they (the jobbers) fear that if you broaden the contract too much they cannot stand up.....If you broaden your contract to such an extent as to make these people afraid of handling the contracts they will go and there would be no trading at all."

Sir Purshottamdas. Tariff Board Report, 1927. Vol. III, p. 219.

a means of trade insurance, as they can be more popular with investors and speculators of average means.

Another grievance of the millowners is that in the Bombay market they do not get a continuous hedge. There are certain months in the year in which the market affords no opportunity to sell a hedge. Hence they are left high and dry without protection. They give the example of the Broach Vaida. There are two sets of delivery months for Broach, April-May and July-August. This contract is most suitable to the millowners, as it consists of staple cotton that the Indian mills use. Now suppose a millowner has hedged in April-May, Broach. He has to liquidate his position in March in order to avoid actual delivery. The millowners contend that they are unable to hedge until June 1st.¹ What they want is that when a contract has nearly expired, another contract for the following year should be opened so that they could always get protection a year ahead. They want a hedge that will be available all the year round, without any breaks in its continuity. If the Broach contract expires in April-May, they would desire a new contract to come into being on 31st March or 1st April, for the next twelve months, so that before they are offered delivery they could transfer their hedge to the next year. In short, their complaint is that the technique of hedges is faulty, and that the absence of an arrangement for a continuous hedge reduces their utility as a trade insurance to nothing. If the hedges do not perform the one function for which they are devised, where is the *raison d'être* for their existence? Though the July-August contract is available at this time, the millowners think it to be 'too speculative to be used by mills as a hedge'. They say that even the East India Cotton Association has accepted this fact, by prohibiting trading in this position from time to time.²

¹ Evidence of Mr. C. N. Wadia Tariff Board Report, 1927, Vol. II, p. 336.

² Tariff Board Report on Cotton Industry, 1927, Vol. I, p. 129.

To this the East India Cotton Association reply that it was only in 1923-24 when there was a shortage of Broach crop and of other cotton tenderable against Broach, that trading in July-August contract was prohibited. There is nothing inherently defective in the July-August contract that should make it over speculative, and therefore useless for the mills to use as a hedge. Secondly, the statement that no new vaida opens till 1st June is inaccurate. Bye-law 47 of the Association empowers the Board to permit trading in 'new' crops from 1st April, so that the millowners can liquidate their position in April-May Broach by the end of March, and hedge again in the new crop on 1st April.

The following table shows what facilities for hedging exist in different months of the year, under the existing rules :—

January	April-May, Broach. March, Oomra. March, Bengal.
February	April-May, Broach. July-August, Broach. March, Oomra. March, Bengal. May, Oomra. May, Bengal.
March	April-May, Broach. July-August, Broach. May, Oomra. May, Bengal.
April	July-August, Broach. May, Oomra. May, Bengal.
May	July-August, Broach. New crop. April-May, Broach. " " December-January, Oomra. " " December-January, Bengai.

MARKETING OF RAW COTTON

June	July-August, Broach. New crop. April-May, Broach. " " December-January, Oomra. " " December-January, Bengal.
July	New crop. April-May, Broach. " " December-January, Oomra. " " December-January, Bengal. April-May, Broach. March, Oomra. March, Bengal.
August	
September	
October	
November	
December	

As the contracts in the new crop open in May, April is the only month for which protection through hedging is not obtainable. Unless, therefore, trading in the new crop is allowed from the 1st April, as provided in bye-law 47, there will be technically a break in the continuity in hedging, assuming that the July-August contract is not safe as a hedge.

Though at one time the millowners considered the July-August Broach too speculative, one would like to know whether they still hold that view. As for the May Oomra and the May Bengal contracts, it must be admitted that they are not good for the purpose of hedging, as the protection they give is only for April.

Thirdly, the millowners also complain that in the Bombay futures market there are very few delivery months.¹ In Liverpool or New York one can deliver cotton in any of the twelve months of the year. In Bombay the position is as follows:—

For Broach there are 4 delivery months (April, May, July, August).
 For Oomra there are 4 delivery months (December, January, March, May).

¹ Tariff Board Report on Cotton Industry, 1937.

For Bengal there are 4 delivery months (December, January, March, May).

In all, only five months of the year are delivery months. Now as far as the millowners are concerned, this is immaterial as long as they can buy and sell throughout the year. They do not depend for the supply of their raw material on a hedge contract. On the contrary they should be eager to avoid it, because under it they may receive qualities of cotton which may be of no use to them. Besides, the tenders against a hedge contract are not of a uniform quality. This is, however, a matter of which a seller may legitimately complain, as it reduces the occasions for him to deliver his goods. The millowners have no occasion to deliver cotton against a hedge contract, they may be required to receive it in case they fail to sell off the hedge before the delivery months. The restriction, as a matter of fact, is taken as favourable to them, and one does not know why they raise this point.

Further, even in Liverpool, though there is nothing to prevent one from trading in any month—i.e. for giving a delivery in any month—only a few months are actively traded in; and for the rest, the market is dead and you cannot get either a buyer or a seller. With the exception of October, the active months in Liverpool and the months permitted in Bombay are the same.

In reply to the millowners' argument the merchants say that the Bombay market is not broad enough to support deliveries throughout the year. There is not enough trade.¹ In Liverpool and in New York, traders from all over the world make a constant use of the futures market, and there is enough trade for all the twelve months. There is an additional difficulty in the Bombay market; all types of cotton are not available throughout the year. No sane

¹ Tariff Board Report, Evidence of Mr. Mackee, p. 22. This, to our mind, does not justify the present restriction. The trade knows the best how to distribute whatever trade there is all over the year. Why not allow the merchants the freedom to select their own months!

merchant will come forward to sell a hedge for delivery in some odd month, when the cotton for it will not be available in sufficient quantity; and if any one does it inadvertently he is sure to get into trouble. All the same, there is no need to prohibit trade in any month. The matter should be left to the good sense of the trade. If there are no buyers or sellers, the month will remain idle and that is not going to harm anyone.

Lastly it may be pointed out that the only people who can with justification allege anything against the present system of hedge contracts are the agriculturists. As it is; hardly more than two million bales in the crop of 5 to 6 millions are tenderable against the hedge contracts.¹ The Indian cotton cultivator chiefly grows short staple which theoretically cannot be made tenderable against a hedge contract, if the spinner is to make use of the hedging. And he is too important a component of the futures market to be allowed to withdraw without causing serious damage to it. On the other hand, the exclusion of the short staple cotton depresses the price of these cottons: such is the dilemma. In the very nature of the Indian cotton crop, therefore, an ideal hedge system is impossible. Sir Ness Wadia and Sir Joseph Kay differing from the rest of the Wiles Committee, state that 'we shall not be giving the grower a proper hedge contract unless all the main growths of cotton are made tenderable against one or the other of the contracts.'²

In view of such an acute controversy on the subject that is so vital both to agriculture and industry, we suggest that a committee, consisting of representatives of agriculture, trade and industry, with some experts, should be appointed as early as possible, to devise a scheme of hedge contracts

¹ According to an estimate, based on an average of the last five years (1931-32 to 1935-36), not more than 13 lakhs of bales from the total arrivals in Bombay are tenderable.

² Report of the Wiles Committee. p. 8.

that would yield the best of results for all the three conflicting interests.¹

THE CLEARING HOUSE

The East India Cotton Association maintains a clearing house for the purpose of "facilitating the transmission of documents and payments, settlements etc. between contracting parties".

The two principal functions of the cotton clearing house in Bombay are:—

1. To conduct periodical settlements of credit and debit accounts of the members arising out of fluctuations in the prices of open contracts.
2. To pass on delivery orders (tenders) issued by any member, against Forward Contracts for ascertaining the last buyers.

Settlements take place twice a month on days which are notified in the clearing house calendar. Prices for all positions for the purpose of a settlement are fixed by the Board of Directors nearly three days before the settlement day. The rates apply only to those contracts which are entered into before the day on which rates are fixed. All subsequent contracts are not settled until the next settlement. An exception is made in the case of hedge contracts, which if entered before 1 p. m. on the due date are included in that settlement.

As soon as the settlement rates are known, members having open contracts draw up the accounts of their dues and liabilities with every individual firm on a form—Form 1—² provided for that purpose. For contracts coming for settlement for the first time, differences are calculated between the contract price and the settlement price, and for contracts coming under subsequent settlements differences are cal-

¹ A scheme for revising the existing hedge contracts is being considered by the E. I. C. A.

² Specimens of the forms referred to here are given in the Appendix to the Chapter.

culated between the two settlement prices. (Bye-law 145.) These settlement accounts are exchanged between members, for checking and adjustment of discrepancies. The settlement accounts show the balance of bales, if any, carried forward from the last settlement, together with all new business entered into thereafter, with the contract prices.

Purchases from and sales to the same persons, of the same quality and description of cotton for the same delivery are considered as closed contracts after they appear in one settlement, and then they are omitted from subsequent settlements.

Members from whom money is due as a result of settlements hand over to their creditors—before 11.30 a. m.—on every settlement day vouchers with registered numbers—Form 2—showing their liability. Once the voucher is submitted it cannot be withdrawn without the written consent of the other party.

Balance sheets—Form 3—are then prepared and sent to the clearing house at the hour fixed by the Board together with vouchers—Form 2—for the sums claimed. After all the balance sheets are received by the clearing house, each one is given a running number and is distributed to clerks working in batches of two for the checking of each item on the debit side, with the help of the vouchers attached to the balance sheet. Thus the whole debit side is checked. If there is any difference between the amount of the voucher and the amount claimed in the balance sheet, a note to that effect is made on the same and enquiries are made. A fine of Re. 1 is levied for a false entry. Similar notes are made for items which have no vouchers and for mistakes in totalling.

All-correct balance sheets and vouchers are arranged according to their register number. (Balance sheets and vouchers are first separated in lots of hundreds, then in lots of ten, and then according to numbers.)

Then the credit side of the balance sheet is checked with the corresponding number of vouchers. Balance sheets

showing differences with the amount in the voucher, those with excess vouchers, i.e. vouchers issued by a member but not admitted in the balance sheet, and those in which certain items are entered but for which there is no corresponding voucher, are kept separate for enquiry.

The balance sheets are then separated into two parts, one for those showing a debit account and the other for those showing a credit account. These are then arranged alphabetically in smaller lots— A to C, D to I, J to M, N to R and so on, and a separate statement for each lot is prepared showing the name of the member, his register number, the amount to be paid to the bank or to be received from the clearing house.

Finally, a summary is made and grand totals both for the debit and credit balance sheets are prepared, and if they tally the settlement is said to have balanced.

Statements for faulty balance sheets are also included in the above, after adjustments are made in them according to details given hereafter.

The next day which is the 'Inward Payment Day', payments are made by members showing debit accounts, to the settlement account of the Association with the Imperial Bank of India.

Crossed and order cheques drawn on the Imperial Bank of India are prepared in the names of the members of the clearing house, and receipts are made out and pinned to the balance sheets to be signed and stamped by a representative of the members claiming a credit account.

The third day is the 'Outward Payment Day'. On that day, the Imperial Bank submits to the clearing house a statement of the money received from members, and the clearing house checks the same with its own statement and if they tally the outward payments are made.

In case a member fails to pay the full amount or a part of it, he is called upon to pay immediately—before 12 noon—

direct into the clearing house in cash, and the outward payment is made after that sum is paid. ✓

If the member fails to pay the amount before 12 noon, he is asked to appear before an emergency meeting of the Board called for the purpose. He is asked to explain his failure to meet the liability at maturity, and on his failure to satisfy the Board, is at once posted up as a defaulter under bye-law 11, and rates are fixed to close his outstanding contracts.

The balance sheet of a member posted under bye-law 11 is adjusted under bye-law 164. In order to balance the settlement, the members to whom the defaulting member has to pay are asked to pay the amount claimed by them. If any money is paid in favour of the defaulter, it is distributed pro rata amongst the members whose names are shown on the credit side of the balance sheet of the defaulter, that is, to the members who were called upon to pay the amount to balance the settlement.

If the defaulter is an intermediate party, his name is struck off, and parties before and after him are supposed to have contracted with each other. If he is the last buyer, the seller of cotton to him becomes the last buyer with all his responsibilities. If he is the first seller his immediate buyer steps into his position.

Suppose A claims in his balance sheet Rs. 559 from B, whereas the latter has issued a voucher for Rs. 558 only. The difference of Re. 1 is collected from A. If A's balance sheet shows a credit balance, the excess amount claimed by him is deducted from it, or the excess due to him is added to it. In case his is a debit balance, the excess claimed is added to, or excess due deducted from his debit.

If a member claims any amount without a voucher and if this amount is shown as due by the other party in his balance sheet, the claim is taken as correct, but the claimant is asked to produce a voucher in support of his claim for the purpose of record. If the opposite party does not admit the

claim, no notice of the claim is taken, unless the claimant has complained by submitting a memo or letter that the voucher in his favour is not passed; in which case the other party is at once asked to explain why the claim is not admitted. On his failing to give a satisfactory answer, the matter is referred to the Clearing House Committee, who investigate the bona fides of the claim and give an award or direct the parties to refer the matter to arbitration under bye-law 38.

If a voucher is issued in favour of a member, but he does not claim it, the amount is paid to the member though not claimed, on the authority of the voucher.

In settlement clearings vouchers are treated as authoritative documents.

Arrangements are made with the Imperial Bank of India to open a fresh account for each settlement clearing for receiving payments made to the credit of the clearing house "S" account on the settlement day and Inward Payment Day.

The Bank authorities are requested to forward a statement showing the amounts paid by members in the settlement account before 10.30 a. m. the next day. They also certify at the end of the Inward Payment, whether all cheques paid to the credit of the "S" account are cleared or not. In case a cheque is returned, the clearing house at once calls upon the drawer to pay cash direct into the clearing house. All cheques are required to be crossed and order, bearing the number of the settlement clearing.

Any balance remaining in the clearing house "S" account is transferred to the adjustment account and the "S" account is closed and squared so that the new "S" account may be free from confusion.

To avoid a cheque of a particular clearing being paid from the amount of the next clearing, all cheques issued are stamped on the reverse to the effect that cheques must be presented for encashment not later than one or two days previous to the next settlement. On the day preceding the

next settlement a letter is addressed to the Bank authorities requesting them to close the previous "S" account and to transfer the balance, if any, to the adjustment account.

DELIVERY ORDER

Another important work that the clearing house in Bombay performs is to pass delivery orders. Every hedge contract has a period of one month or two in which actual cotton can be delivered by any seller. The one characteristic of the hedge contracts is that they are bought and sold with great frequency and the work of determining the 'last' buyer becomes a difficult matter. The clearing house undertakes to do this work for the seller. A seller intending to deliver actual bales of cotton, notifies his intention to do so through the clearing house. The clearing house ascertains the last buyer from the reports of business submitted to it by all the members, and informs him that he has to weigh over the cotton. The question of survey or of failure to tender or to weigh over are matters of detail which can well be ascertained from the bye-laws of the Association.

TEJI-MANDI OPTION TRANSACTIONS

Corresponding to the "Call" and "Put" business on some of the foreign cotton Exchanges, we have in the Bombay market Teji and Mandi transactions. For many years this business was done unofficially, that is, not under the auspices of the East India Cotton Association. By 1930 the business assumed such huge proportions, and its repercussions on the futures transactions became so pronounced that it was thought essential either to legally prohibit the same altogether or to so regulate it as to bring its working in consonance with the hedge contracts. The Wiles Committee appointed in 1930 *inter alia* examined this question. With the exception of a strong minute of dissent by Sir Ness Wadia, the Committee recommended that the East India Cotton Association should recognise these dealings and

frame bye-laws providing for the compulsory payment of cash premia and the regular payment of differences through the clearing house. The East India Cotton Association accepted the recommendation, and have now amended their bye-laws so as to bring the option business within their jurisdiction.

Let us understand the exact nature of these transactions. These transactions do not constitute outright sales or purchases of cotton. Instead they are mere rights to buy and rights to sell cotton, on a fixed future date at the same price as the one prevailing on the day on which the transaction is made. A Teji transaction is the right to buy. Suppose the price of Broach July-August contract is Rs. 200 on a particular day. If on this date I think that the price of this contract is likely to advance, but still am unwilling to incur the risk of outright purchase, I may merely buy to-day a right to buy at a specified future date Broach July-August at nothing more than Rs. 200. This presupposes that there are in the market merchants willing to offer us such a valuable right. Yes, there are merchants who offer (sell) on payment of a small consideration, such a choice to buy on a specified future date at the price prevailing on the day of the contract. As for the factors on which the amount of consideration depends and the reasoning on which the merchants agree to give us such a blank cheque, we shall examine them later. The Mandi option is a right to sell at the prevailing price certain units of a futures contract on a specified date. But when I am not sure whether the price would go up or down, but feel pretty confident that there will occur some violent changes in prices either way, I may buy both Teji and Mandi options, i.e. both the option to buy and the option to sell at the day's price on a specified future date. It may be noted that there is no compulsion on me either to buy or sell on the specified date. If the price movements have not been favourable to me, i.e. the price does not advance (or falls) after I buy a right to buy or does

not decline (or rises) after I buy a right to sell or remains stationary after I buy both the rights to buy and sell, I may not at all exercise my rights. My only loss in that case, will be the consideration (known as Teji-Mandi premiums) I gave to purchase these rights. It is because of this choice in the exercise of rights that these transactions are called "options".

And it is exactly because of this limited likely loss that these transactions are so popular. In straight direct purchases and sales, the possibilities of unlimited loss deter merchants from engaging in a large business. With that wonderful ingenuity that the trade has always displayed in devising safeguards against excessive losses, these Teji-Mandi transactions were discovered which would limit your losses and yet permit you to exercise your judgement as to the trend of prices. But at the same time by thus simplifying this highly specialised and risky function of trade, they have brought it within the scope of laymen, especially the jobless ones furiously searching for a subsistence, who are thus exposed to new temptations. While limiting your losses to your original investment for purchasing the right, it leaves open an unlimited scope for profit. If the prices advance from Rs. 200 to Rs. 250 after I apply Teji, as the purchase of Teji option is called, the seller of the option will have to offer me cotton at the contract price, i.e., at Rs. 200, and I make a clear profit of Rs. 40 ($250-200=50$; $50-10$ consideration = 40) per candy. Similarly if the prices decline after I apply Mandi, I will have the right to sell to the seller of the right, cotton at the contract price i.e. at Rs. 200.

Does not the seller of these options expose himself to a tremendous risk in agreeing to offer such preposterous privileges? No. No one in business is out for charity. The duration of these privileges is limited and the consideration varies with duration; the longer the period the higher the charge. If the desired movements in prices do not take place within the specified duration, the seller of options pockets

his commission. He begins to lose when the price goes beyond the Teji point—Rs. 210 in our illustration—or goes below the Mandi point (Rs. 190). But even if the prices cross these Teji and Mandi points, he has ways and means of limiting his losses. As soon as the price begins to go above Rs. 210, he will buy in the open market as many units of contracts as he has sold the Teji option for. By doing so, for every further rise, whatever he loses to the option buyer, he gains on his futures business. Similarly if he has sold a Mandi option, as soon as the price goes below Rs. 190, he will sell in the open market, thus protecting himself from a further fall in prices. In actual practice, however, it is not so simple as is made out on paper, and the business of selling option rights is recognised in the market as the job only of a few experts. We do not wish to tire out the reader by trying to unravel all the complications of this business.

A very pertinent question may be asked. Has the buyer of these options got to wait till the specified day on which the Teji-Mandi is settled? If it were so, much of its attraction would disappear, for the prices may rise and fall during the option period, but may resume the status quo on the day of settlement. If the buyer of the options were not permitted to take advantage of these fluctuations, his privileges may prove nugatory. As it is, any time in between the date of contract and the date of settlement, a Teji option buyer if he thinks that the prices have advanced sufficiently, may sell a futures contract in the open market, equal to his option purchase. On the date of settlement he can exercise his right to buy at Rs. 200 and thus realise the difference between Rs. 200 and the sale price. Similarly, a Mandi option buyer, any time he thinks the prices have gone down sufficiently low, may buy a futures contract and then on the settlement day exercise his right to sell.

The East India Cotton Association has since 1933 officially recognised this business. Besides two major Teji-Mandi Settlements, 30th March for the options on Broach April-May

contract, and June 30th for those on Broach July-August, it allows options of a monthly duration. On the 16th of every month the business is thrown open and the price prevailing on the 21st of the subsequent month is taken as the settlement price. On the date of settlement the buyers and sellers must make their position even, i.e. either exercise the option or forego it. If you decide to exercise the right, since that date your transaction loses the quality of option and becomes an open business governed by the rules and regulations of the hedge business. The Teji-Mandi transactions are subject to clearing house settlements like the ordinary hedge business, with this exception that up to the option due date, settlement rates, to the extent they are below the basic contract rate, are disregarded in a Teji option and the reverse in the Mandi option. //

THE UNAUTHORISED COTTON TRADE IN BOMBAY

Though the transactions conducted under the auspices of the East India Cotton Association are the only authorised transactions in cotton, a large volume of business, which is quite legal, but not recognised by law, is conducted outside its jurisdiction. At present the one rival organisation which is attracting a very large cotton business is the Mahajan Association. It claims our attention by the sheer volume and velocity of business conducted under its auspices.

The Cotton Contracts Act of 1922, gave the sole power of regulating the cotton trade to the East India Cotton Association. It seems that even at the time of passing the bill there was a strong opposition,¹ to the grant of this exclusive privilege of controlling the cotton trade to a single association, with wide powers given to its Board of Directors.

A solid section of the trade was against the grant of what it called a monopoly control. The first three years of

¹ The second reading of the Bill was carried by 33 against 30 votes, and the third reading by 38 against 29.

the Association's working could not enlist the allegiance of the dissatisfied section. There were two other causes which added to its discontent. Many merchants firstly did not feel comfortable under the rather strict rules and regulations of the East India Cotton Association. Secondly, the unit of 100 bales (the unit is now reduced to 50 by an amendment in 1934) for the futures contract under the bye-laws was too big for an average trader in India and excluded him, for all practical purposes, from the futures business. Fortunately for the malcontents, the Act that gave to the E. I. C. A. a statutory recognition had not made trading outside its bye-laws illegal. The Act only made all transactions entered outside the rules and regulations of the E. I. C. A. unenforceable at a court of law. Taking advantage of this loophole they rallied together and formed an association (1925) calling it the Shree Mahajan Association.

The early history of this body is full of mishaps. Though trading outside the E. I. C. A. was not illegal, all trading in which giving or taking of delivery of actual cotton was not contemplated did come under the law against gambling.¹ The Association took some time to make a complete provision for giving and taking deliveries.² Soon after the Association was started, a large number of purely wagering transactions known as kutchā khandi began to be traded in. The Association commenced business on 22-7-1925 and on 21-1-1926 the Police raided its headquarters at Motishaw's Chawl and arrested 327 persons, under Section 4(a) of the Bombay Prevention of Gambling Act. We are not concerned with the details of the case; of the arrested members, proceedings were commenced only against one, and he was in the final appeal sentenced to pay a fine of Rs. 50. But Justice Mr. Baker in his Judgement observed that "since the date of the Resolution regarding carrying over contracts

¹ The Bombay Prevention of Gambling Act IV of 1897.

² The bye-laws for the delivery of actual cotton were completed on the 13th March 1926.

coming into force (23-1-1926), the operations of the Association would be *prima facie* legitimate".

At present (1935) there are 613 members of the Association. It accepts three classes of members: (1) Ordinary, (2) Honorary and (3) Associate. It requires Rs. 2501 as admission fee plus the annual fee from every ordinary member. The admission fee for associate members is Rs. 1001. The Board of Directors consists of 17 members elected every year by the general body, with power to co-opt 4 members. The Association appoints various standing committees to attend to the different functions of the Association. The Arbitration Committee consisting of eight members looks after arbitrations and appeal. The Defaulters Committee manages all questions arising out of a default by a member; the Quotation Committee declares the rates for clearing and settlement as well as for Teji Mandi, and the Survey Committee carries out the surveys of cotton delivered by the members.

The Mahajan Association's unit for the futures contract is 10 bales as against 50 of the East India Cotton Association. But in the ring of the Mahajan Association only the Broach contract is traded in, with the only difference that the variety known as Dholleras is not deliverable in the Mahajan contract. Tenders against futures can be made on every Saturday and Monday during the delivery months. The Association does not maintain a clearing house, and the settlements are made *inter se* by members themselves. Besides this futures business, a huge business in options is conducted at the Mahajan. The duration of the Mahajan's options is only of one week, and the settlement takes place every Friday.

The Mahajan Association received a rude shock when the Wiles Committee, appointed to report on the working of the East India Cotton Association recommended that contracts not entered under the rules of the E. I. C. A. be made illegal. Section 6 (2) of Bill XX of 1931, purporting

to give effect to this recommendation laid down that "any such contract—(not conforming to the rules of the E. I. C. A.).....shall be void and any person entering into such contract shall upon conviction be liable for each such offence to a fine not exceeding one thousand rupees". This made the functioning of the Mahajan Association impossible. The Association, however, rose to the occasion and carried a vigorous propaganda inside and outside the Council against the Bill. The Bill, to their great satisfaction was thrown out, though it is difficult to assert that the defeat was solely due to the propaganda of the Mahajan Association. The Association, thus got a fresh lease of life.¹ The Act of 1932 leaves the Association untouched; on the other hand it empowers the Government to withdraw its recognition even of the East India Cotton Association under certain circumstances.

In 1932 another Cotton exchange—the Indian Cotton Exchange—was organised under the control of Mr. W. T. Halai, for providing yet another organisation for carrying the cotton trade. Mr. Halai was the Managing Director of the Mahajan Association till 1931. It seems that even the Mahajan Association did not fulfil the aspirations of Mr. Halai, and the gentleman started a separate exchange incorporating in it his favourite schemes and ideas. Operators did not, however, come in any large number to take advantage of this new exchange. No trade of any consequence was ever conducted under its aegis. In a few months the exchange got involved into confusing litigation and was wound up.

THE ILLEGAL TRADE IN BOMBAY

Any true revelation about the extent of illegal trading—gambling—in cotton will stagger a layman. The

¹ Once again in 1935 a Bill was introduced in the Bombay Legislative Council seeking to give effective unitary control of the trade to the East India Cotton Association. The Bill was subsequently withdrawn. See Chap. VII.

evil influence has not spared even the beggars and the coolies of Bombay. If an agency is found which could record the confessions of the population on this question, it will reveal that no less than 75 per cent. of the adult population of the city of Bombay are indulging in gambling of one sort or another. In the American Futures the lower strata of the society find an excellent instrument for gambling.

Though no useful purpose will be served by trying to understand the many devices for gambling—though they are really ingenious—we mention some of them in brief.

Kutchra American. These transactions are based on New York futures. With every rise of an American point the seller gets 8 annas, and for every fall the buyer gets 8 annas. The buyers and sellers respectively of the above transactions of course lose.

The Ank and Farak Business. This is very popular with the gamblers. They place a bid on any one of the numbers from 1 to 10, by paying a rupee. When the New York quotation arrives, it is divided by 2 and the last figure is declared to be the Ank for the day, and the last two figures are declared as Farak, for example, if the quotation is 6.48, 4 of 324 ($\frac{648}{2} = 324$) is Ank and 24 is Farak. If we have placed our bid on correct numbers we get nine times the bid, and lose it if the figures turn out to be different.

It must be admitted that this sort of gambling has no relation with the cotton trade as such. It is the result of the terrific unemployment, which impels people to resort to any means of earning their bread.

In 1935 the Government of Bombay introduced a bill—Bill No. 43 of 1935—to amend the Bombay Prevention of Gambling Act and the City Police Act. In the statement of objects and reason it was made clear that Satta Gambling and Ank-Farak gambling had very much increased in Bombay City and the Presidency. The main objects of the Bill were to enable the police to take immediate and effective action against common gambling houses

and to stop the circulation of news-sheets, etc., which are published for facilitating this gambling.

The amendments also widened the definition of "gambling" to include the collection or soliciting of bets, receipts or distribution of winnings or prizes or any act which would aid or facilitate wagering or betting.

The Bill was passed in 1935. It remains to be seen how far these stringent measures will help to check the evil of gambling. To-day it appears to be a deep-seated malady, a possible off-shoot of widespread and chronic unemployment.

REGULATION OF COTTON TRADE

In India the question of the regulation of cotton trade has for years been a matter of controversy. From the time the Government of India constituted the Cotton Contracts Committee under the Defence of India Act, to this day, the question has been a matter of keen discussion.

Three or four fundamental issues are involved in the question. Should the cotton trade in general and the futures transactions in particular be controlled or not? One more question can be asked before we answer this. Should the futures transactions be at all permitted? Has it any economic utility? Answers to these questions pertain to theory, and are given in the affirmative in the previous chapter.¹ Coming to the original point, should they be regulated? Futures trade though useful, is a sort of speculative business and as such needs to be controlled in the interest of both the trading community and the agriculturists. Students of organised commodity markets tell us that a faulty technique of trade in futures might prove harmful to the agriculturists and dangerous to the traders, not to speak of the industrialists.

Laymen, glibly cherishing the ideas of freedom and liberty have naturally consistently opposed any mention of

¹ *Supra* p.

regulation and control.¹ They are, to say the least, innocent as to the issue involved. They need to be told that enlightened self-interest is often not enough safeguard against the activities of men becoming anti-social. True, the control must be in the interest of the society at large and must be democratically imposed.

Once we grant that control is necessary, the question arises, who should control and how should it be done? If we have really understood why a control over trading in futures is necessary, there is no scope for two opinions on the question. It is feared that if the speculative sector is not well controlled, it may assume a form that may prove detrimental to the traders as well as to the community at large. Speculation if unorganised, is a socially harmful activity. But it cannot be denied that in our free-price economy, futures dealings fulfill a great economic utility by providing hedges against price fluctuations. So, instead of abolishing them we ought to try to control them. If this is so, who else but the society or the state should provide this control? In India, however, all Government interference is viewed with suspicion; so a section of the people argue that if at all a control is necessary it should be a control of the trade itself. Why should the state interfere? But a moment's thought would convince us that such a procedure would be anything but desirable. We want to control the activities of speculators. It is but commonsense that some third impartial party should prescribe the manner of control. To leave the task of devising the control to the trade is to ask the 'under-trials' to formulate their own code of law for their trial. Communities have not become so perfect yet, and even if we have no reason to doubt their (merchants') integrity, where is the need for this preposterous method! What we want is not an experiment on their integrity. We want a control over the activities

¹ Rao Bahadur S. K. Bole:--(Bombay Legislative Council Debates.) "I am against any Government control. There is no control of jute in Calcutta. Why should there be control of cotton in Bombay."

of the traders in futures, so that they may not be harmful to the society. The best agency for this purpose is the state itself.

If the government is sufficiently democratic, the best result can be achieved only by state legislation. There is no intrinsic reason why the interest of the trade and the interest of the state should conflict, and the existence of any such antithesis will only provide a ground to suspect a flaw either in the trade or in the government. True, governed as India is, to-day, this antithesis might exist apart from the question of its theoretical justification.

So, we have to grant that transactions in cotton should be controlled by state legislation. In this connection the one serious mistake that has been invariably committed in India, is to confuse the control of the futures trade with the control of the organisation of the exchanges. The two are quite distinct. The organisation of the exchange is a comparatively simple matter and comes under the category of operations that need no 'social' control. Rules of the exchange, like the rules of traffic are devices to regulate activities simply for the sake of convenience and facility, and involve no economic principle. In the whole course of the Indian legislation on this question, this distinction was never properly appreciated, much less observed.¹ Let us analyse the Cotton Contracts Act, 1922. An Act of the Bombay Legislative Council has given a statutory recognition to an institution, empowering it to frame bye-laws for itself, ultimately to be sanctioned by the Governor-in-Council. Is this a control by the government, or the control by legislature or by the trade? The statutory recognition is given by the Legislative Council, but the nature of control—that is control itself—is to be devised by the trade, or to be more exact, by a particular association claiming to represent the

¹ Mr. Wiles (Council debate) "Even if we had a number of bodies following the same model bye-laws, it could still be impracticable to have uniform administration." We maintain such uniform administration is not necessary.

trade, and the Governor-in-Council is to give sanction to the bye-laws that define the nature of control. From this it will be clear that the control of the Council is merely formal. It rather resigns from the task by devolving power of supervision upon the Governor-in-Council. The real power of control goes to the association which is given the authority to frame bye-laws, the sanction of the Governor-in-Council being more or less formal. The legislation embodies the worst features of control by the trade and control by the government. It is something like a joint control of certain formidable sections of the trade and an irresponsible executive. As said before, it attempts a preposterous task of regulation of trade by the trade.

The public which wrongly desired that the control should be by the trade itself, more wrongly pointed out that it was by the Government. The Government which piously believed that the control should rest with the trade, handed it over much less piously to a particular association of cotton merchants.

A monopoly is given to a single association to regulate the trade in order to preserve the uniformity of procedure. We agree that uniformity of procedure is necessary for trading in futures. But the association recognised by the statute is given a monopoly to frame bye-laws not only for regulating futures trade but also for devising the organisation of the exchange.

Such rigidity in the organisation of the exchange is unnecessary and might prove tyrannical. It unnecessarily creates a compulsory double allegiance, one to the Government and the other to the association which is given a legal recognition. In America, though the Government has laid down standard rules for futures trading, there is no compulsory allegiance to any one association. If a merchant finds himself in a serious disagreement with the management of a body that gives facilities for trading, he can leave it with impunity and join or create another. No such alternative

is allowed to a cotton merchant in Bombay. He has to submit to the management of the East India Cotton Association, and in case of honest difference of opinion he has no alternative but to retire from the trade.

Besides, the giving of monopoly is not the only way, nor a good way to secure uniformity of procedure. Perhaps, it is positively harmful and fosters suspicion. Government can themselves make model bye-laws just as they do in the case of co-operative societies. The absence of unitary control does not necessarily mean dual control.¹ The nature of control should be determined once for all, beyond manipulation by an individual or an association. The only function that will then be left to the exchange, as in the U. S. A., will be to facilitate the observance of the said rules. As soon as this is done duality ceases to be obnoxious. The effect of the present legislation is that while it creates monopoly for the administration of the exchange, it leaves the trading rules to be determined or varied only by a particular institution. As pointed out before, the former is not at all necessary as it is not essential, while the latter is positively objectionable, being likely to be misunderstood if not abused. Perhaps, the possibility of a rival organisation will keep the working and the administration of the existing exchange impartial and efficient. Besides, the existence of a second exchange may be purely a matter of convenience and not of rivalry. If, however, the constitution of the exchange is sufficiently democratic and the working honest and efficient there may never arise a need for a second organisation. But a possibility of a chance superfluity is no argument for making a priori the formation of a competing rival illegal. While anxious to avoid super-

¹ Mr. Wiles:—"If in theory the principle of control is once accepted then the question naturally arises as to whether such control should be exercised by a number of bodies differently constituted and with different interests pulling one another in opposite directions, or whether it should be unitary and should be exercised by only one competent body."

Bombay Legislative Council Debates.

fluity we may create either autocracy or inefficiency or both; and it is obviously better to risk superfluity rather than either of these.

In America two acts of the Federal Legislature, the U. S. Cotton Futures Act, 1916, and the Grain Futures Act, control the futures transactions. Unlike India, the Legislature has laid down the rules which are to be followed by the trade. In America no particular exchange has a monopoly to regulate transactions. The exchanges are, on the other hand, allowed to frame their own exchange technique; Government does not interfere in that. There is no uniformity of procedure as regards the exchange organisation between the New York Cotton Exchange and the New Orleans Cotton Exchange. There is no such need. In India we have made one technique, that evolved by the East India Cotton Association, compulsory for all traders. The best method to follow is to lay down model bye-laws that should govern trading in futures, and leave the Exchange or Exchanges free to evolve their own method for facilitating the observance of those bye-laws.

THE EAST INDIA COTTON ASSOCIATION, LTD.
 Clearing House
 Settlement Statement.

FORM 1.

Bombay, 193 ..
 Messrs..... Settlement due..... 193 ..

This Statement shows:—The number of bales on Contracts with you for the Purchase and/or Sale of Cotton for Forward Delivery which we carried forward from last Settlement and the Purchases from and/or Sales to you which we made prior to today.

It is agreed that payment or receipt of the Cash balances specified below shall be accepted in fulfilment and termination of such Contracts for the Purchase and Sale of equal quantities of Cotton for delivery during identical periods as this Statement shows to be closed.

Date of contract or last settlement	Name of contract	No. of Bales in 100s		Price of Contract or settlement Prices	No. of Bales carried forward		PAYMENTS DUE			INTEREST											
		Bought from you	Sold to you		Bought from you	Sold to you	In our favour	In your favour	DUE DATE	Days	In our favour	In your favour									

(Signature).....

ORGANIZATION OF FUTURES TRADE

MARKETING OF RAW COTTON

FORM 2.

THE EAST INDIA COTTON ASSOCIATION, LTD.

Clearing House.

Settlement date.....193

Messrs.....

Please claim at the above Settlement :—

Rs.

(Amount in words).....

Signature.....

N. B. Members should also show the amount in words.

Registered Number.

FORM 3.

THE EAST INDIA COTTON ASSOCIATION, LTD.

Clearing House.

Bombay.....193

Balance Sheet of Messrs.

Due to us	Rs.	A.	P.	Due from us.	Rs.	A.	P.
Balance paid into Bank				Balance payable by Clearing House			
Total Rupees				Total Rupees			

Vouchers for all Claims appearing in the above column must accompany this statement in order to avoid delay in payment of Settlement.

Certified Correct for purposes of Settlement.

Signature.....

THE EAST INDIA COTTON ASSOCIATION LTD.

BENGALS

FORM 4.

Instruction Form

From.....to the Clearing House.

Please act for us in the disposal of Tenders against the following Contracts.
 for **BENGALS** Cotton.....Delivery: -

Signature.....

Date.....

(To be signed by a Principal)

The Clearing House is not responsible for errors.

CH/D/O. No.	Bought from.	Contract No.	Con- tract date	Delivery order rate	Settlement or purchase price	Sold to	Contract No.	Contract date	Del. order rate	Settlement or sale price	CH. D/O No
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ORGANIZATION OF FUTURES TRADE

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¹ Each Contract entered above is to be for 50 Bales and the price must invariably be written *in full* against each entry.

CHAPTER IX

COTTON PRICES

THE THEORY AND ITS APPLICATION TO PRICES IN THE BOMBAY MARKET

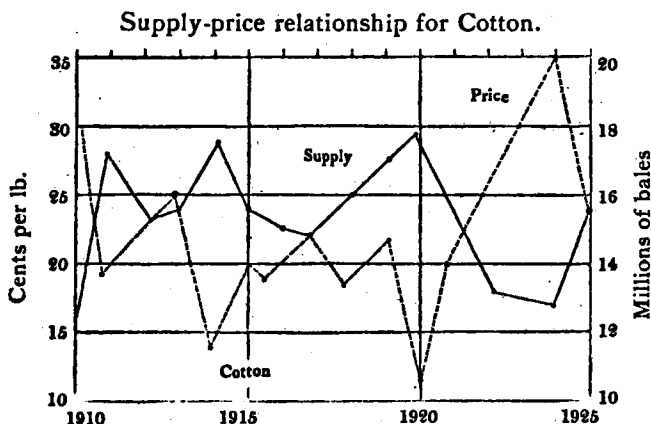
The question of prices is the one problem in the organised produce markets that has baffled the economist as much as the businessman. Whatever perfection the theory of prices may have reached, it is a fact that a good economist is rarely a good businessman. The difficulty in interpreting and explaining the movement of prices is due to the preponderant influence of subjective considerations in price-making. Instead of saying that demand and supply determine the price, it is more correct to say that it is what the people think to be the demand and the supply that goes to form the price. And it is better to preface the arguments that follow with a hint that this subjective factor is most pronounced in all speculative markets.

It is proposed to examine in the pages that follow some fundamental aspects of cotton prices in general and of the prices in the cotton market of Bombay in particular. In the problem of prices both the short and the long period phenomena have to be observed. In the field of applied economics greater importance no doubt, attaches to the short period changes in prices. The businessman is naturally interested more in the price changes within a particular season than in the changes in the price for a number of years.

The factors that determine the price of cotton are of course fundamentally the same as those that determine the price of any other commodity. We need, however, to remember two important facts. Firstly, the demand for cotton, i.e. for cloth, being mainly a demand for a necessity is fairly inelastic, in other words, the rise and fall in its

price do not affect its consumption to any great extent. Secondly, in its very nature the supply of agricultural produce is seasonal, its production is not continuous, hence unlike manufactured goods, its supply cannot be increased or decreased at will by human endeavours.

It may be noted that the investigations regarding changes in price over a long period show a definite relation between supply and price. The following chart enlarged from Hoffman's book will serve as an index.¹



The chart illustrates the opposite movements of the supply and the price curves. The bigger the supply, the smaller is the price and vice versa. But the movements though opposite are not equal. From this, Hoffman draws the conclusion that though supply is a very important price determinant one cannot from the available sources of information regarding the supply, determine the price precisely.²

¹ G. W. Hoffman, "Futures Trading On Organised Commodity Markets," p. 243.

Supply figures represent carry-over plus United States production, the price used is an average of spot prices at New Orleans during the month of December. Influence of the change in general level of prices is removed.

² *Ibid.* p. 245.

Seasonal Movement in Spot Prices. The businessman, however, is more interested in the changes in prices within a particular season. A closer study of prices within a month or even a day is possible, but at this stage we may neglect these short period changes, and try to ascertain whether we can point out a tendency in the movement of price within a given season. The Food Research Institute of California has compiled data covering a period of 21 years—(1900-1907, 1907-1914, 1921-28). It compares the prices of wheat, cotton, oats and corn at the beginning and at the end of each crop year. The results show a definite seasonal trend, viz., as a season advances the price for these commodities also rises.

Normally the prices for agricultural produce should rise with the advance of the season. Crops are harvested but once in a year, and they have to satisfy the demand that is continuous for all the twelve months. This carrying forward of commodities involves expenditure for storage, insurance and handling. These expenses must manifest themselves in increased prices as the season advances. Abnormal factors may, however, come into operation and take the prices astray, but if the seasonal features are compiled for a number of years the influence of these abnormal factors may well be eased out.

Hoffman¹ has also compiled averages of monthly cash prices for wheat, corn, oats and cotton for a period of 22 years (1900-14 and 1921-29). The results support the conclusions of the Food Research Institute. The figures for cotton are given below.

¹ *Op. cit.* p. 250.

COTTON PRICES

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Averages of monthly cash prices of cotton.

(Period:—1900—14 & 1921—29)

Month.	Middling white cotton New Orleans. (cents per bushel)
January	14·92
February	14·92
March	14·97
April	15·00
May	15·24
June	15·59
July	15·61 (highest)
August	14·83 (season begins)
September	14·57
October	14·32
November	14·61

Mr. Garside of the New York Cotton Exchange in his exceedingly pleasant book "Cotton goes to Market," gives us a valuable study, contributed by his colleague J. Roger Wallace, in the relationship between actual prices of cotton and supply and demand computed prices¹ over a period of 13 years. As its graphic representation shows, the relationship is indeed very close. The following table taken from the book will be of interest.

¹ A detailed description of how these are arrived at is given in an appendix to that Volume.

MARKETING OF RAW COTTON

Actual Prices Versus Supply and Demand computed Prices.

For Middling Seven-eighths Cotton.
At Ten Southern Markets.
(cents per pound.)

Season	Actual Season average Prices	Supply and demand computed Season Average Prices
1920-21	16.7	13
1921-22	18.1	17.7
1922-23	25.8	25.6
1923-24	30.1	29.9
1924-25	24.2	24.4
1925-26	19.7	19.1
1926-27	14.4	14.8
1927-28	19.7	18.8
1928-29	18.7	19.6
1929-30	15.8	16.1
1930-31	9.6	9.7
1931-32	5.9	5.1
1932-33	7.2	7.

Further Mr. Wallace has proved by the same method of statistical compilation that there is a close co-relation between the monthly averages of actual prices and supply and demand computed prices.

Both these studies prove that demand and supply are the basic factors on which the prices of cotton depend, and that they cannot for long, follow the whims and fancies of cotton merchants. The existence of such a close parity between actual prices and demand and supply prices will come as a surprise to not a few businessmen especially in India who entertain scant respect for an academic formulation of the theory of prices. Let us not, however, think that determination of supply and demand factors or their correct assessment is an easy affair. Demand factors especially, since the growing preponderance of politics in international affairs, are not easy to assess.

RELATION BETWEEN CASH AND FUTURES PRICES

The problem of utmost importance in the commodity exchange markets is not the movement of spot prices but the relation between the movement of spot and futures prices. It has been pointed out,¹ that for those who hedge their transaction an absolute change in the price of the commodity is a matter of indifference, since their gains and losses in the spot transactions are neutralised by the reverse transaction (hedging) in the futures market. But even the slightest change in the relation between spot and futures prices would involve the businessman in considerable losses. We have also explained, in our discussion on the "Basis",² why the prices for the spot and futures contracts move in sympathy, and how this normal relationship is broken down by certain peculiar factors. The very fact that even spot transactions are made in terms of the price of the futures contract, as so many points 'on' or 'off', shows the great importance that is attached to the futures prices. Yet it is erroneous to suppose that the futures determine the price for the spot business. The fact is that major movements in prices for both spot and futures are determined by the usual fundamental factors, with certain peculiar features preponderating. But as the market for futures is highly competitive and concentrated, the influence of the price determinants is felt by it more quickly and accurately than by the comparatively slow moving spot market. Hence the merchants deem it advisable to link the price of all their spot transactions to the price in the futures market.

That the prices for spot and futures contracts should move parallel is but natural. Except for the technical peculiarity of the futures contract, there is no reason why the price of middling (7/8" staple) should be different for a spot and a futures contract. Apart from that, the produce exchange

¹ Chapter VI, p. 148.

² Chapter VI, p. 163.

markets are so constituted that a futures contract is convertible into a spot contract at the will of either the buyer or the seller; the buyer has a right to demand tender of actual commodity against his purchase of a futures contract, and the seller has a similar right to sell. This convertibility or even its knowledge, suffices to make the prices of the two contracts move in a parallel line, much like the prices of two convertible bonds.

The prices of the middling spot and middling futures are, however, not the same. Here it will suffice to emphasise the fact that the success of hedging depends upon the parallel movement of spot and futures prices, and that the success of a futures market depends upon the extent to which it provides facilities for successful hedging.

PRICES IN THE BOMBAY MARKET

There being three working hedge contracts in the cotton exchange at Bombay, the Quotation Committee has to fix the price for all the three of them. The prices in India are immensely influenced by the American prices. The impatience with which the merchants in Bombay as well as in the mofussil await telegrams from America giving the New York Futures is fully indicative of the great influence that the American prices have on the Indian markets. It is only in exceptional cases, when there is a sizable shortage of the short staple cotton as in the season of 1931-32, that the prices of Indian cotton, especially those of Oomras, are somewhat higher than the American parity. The Cotton Annual published by the East India Cotton Association, gives the parity for every day of the year.

Cotton has a world market and it is but natural that the country producing more than half the cotton crop of the world should exercise a dominating influence on the prices of cotton in India and elsewhere. The prices of Indian cottons do and have to move in sympathy with the prices of American cotton. There is a definite though not fixed

relationship between the two. One is led to believe that the difference in the prices of Indian and American cotton could be arrived at by comparing their intrinsic value, and should thus be more or less constant. This is not so. Even if we determine the exact difference between the spinning value of the two varieties, factors like relative demand and relative supply keep the difference in their prices fluctuating. In other words, the parity between the Indian and the American cottons is not a fixed quantum.

Besides the factor of relative demand and supply, other factors which affect this parity are :—

1. Relative quality of each year's crop.
2. Cost of transport to the point of consumption.
3. Tariffs.
4. Restrictions of currency and exchange.
5. Extraordinary factors like corners and attempts at corners.

All these factors influence the parity from season to season and make its determination a difficult matter. Many of the above factors are not capable of being intelligently forecasted. They appear and disappear with a suddenness associated with the rise and fall of political parties and dictators.

The parity is also likely to be different at different price-levels. The difference between the two prices is bound to be more, when the prices are high, and less when the prices are low. To express the parity, therefore, as an absolute quantum would be hardly scientific. The proper way of expressing it would be in terms of percentage.

The Broach cotton in India approximates to the American Middling, and is generally taken as a basis for determining the parity. It may be roughly said that this cotton is 10 per cent. lower in intrinsic or spinning value than the American. The quotation of the Broach contract in the Bombay market and that of the Middling American on the American market offer us the basis for comparison. But before we compare

the two, the quotations, and the contracts need to be reduced to a common denominator. The price of the Broach contract is expressed as so many rupees for a candy of 784 lbs. The price of the American contract is in terms of so many cents per lb. The New York price is the gross price which includes the tare, conventionally expressed at 6 per cent. Besides these obvious differences of denomination, the technical variations regarding the range of deliverable grades and the delivery points have got to be appraised.

Taking the New York quotation to be 12 cents and the rupee-dollar cross rate 2.50, the price of New York will be Rs. 235 per candy and allowing for the 6 per cent. tare the price will be Rs. 249. If the price of the Broach cotton is Rs. 210, Broach cotton could be said to be lower by Rs. 39 or 16 per cent. than the cotton in New York.

✓ VERTICAL COMPARISON OF PRICES //

Lastly we shall compare the prices in an upcountry market with the prices that prevail in the Bombay market. More than once in the foregoing pages, reference is made to a strange, yet a very marked price phenomenon, viz., the prices in the mofussil not only compare favourably with, but are actually higher in parity than the prices in Bombay, that is to say, if we purchase kapas in an upcountry market, and market it to Bombay, our cost price will be higher than the price that the people in the Bombay market would offer us. In the ordinary course we would expect the price in an upcountry market to be less by the cost of transport and marketing from the price in Bombay. Strangely, however, this is not so. This paradox in prices needs to be stressed, because very often we hear responsible people glibly saying that the farmer in the upcountry does not realise an adequate price for his produce. The belief is only partly true. It is true, in so far as the defects and malpractices in the marketing of cotton and those in the futures market have a depressing effect on prices. In fact, it is the vrey object of

this enquiry to prove that if the marketing of cotton could be done with more care and efficiency, the lot of the cotton growers would be visibly improved. But the belief that the farmer does not receive an adequate price is untrue, in view of the fact that the farmer receives actually more than he is entitled to *on the basis of the price of cotton in Bombay*.

In order to prove this we have compared the prices of kapas and cotton (lint) in the Dhulia market (West Khandesh), with the prices of Broach and Oomra contracts in the Bombay market for the season 1931-32. The table at the end of this chapter shows that if a merchant purchases kapas in the Dhulia market, gins it, bales it and sends it to Bombay, his cost (purchase price plus cost of marketing), will be much higher than the prevailing price in the Bombay market (compare column 4 with column 8). Similarly, if a merchant at Dhulia purchases ginned cotton, bales it and sends it to Bombay, he will find that he has incurred more expenses than the Bombay purchaser would be willing to pay (compare column 6 with column 8).

It is rather difficult to find an explanation for this strange price phenomenon. But its meaning is fairly clear. The prices of kapas and lint in the upcountry markets remain at a level at which all straightforward trade becomes impossible, for not only is the merchant not compensated for the marketing services he performs, he has also to suffer a regular loss for all the trouble that he undertakes. Yet, when we see these merchants not only persisting in the trade, but putting in a regular scramble, we are at our wit's end. This economic phenomenon, however, provides a 'motif' for the various malpractices, such as mixing and watering. ¶

The only explanation which suggests itself to us is based, we admit, on a debatable inference. The population all over the world is increasing, while avenues in which men can be productively employed are becoming fewer and fewer, perhaps due to the rapid strides of scientific discoveries. We are

familiar with the one tangible result of this discrepancy between population and avenues of productive work—unemployment. But another equally disastrous effect passes unnoticed, as it is not as tangible as unemployment. Rather than remain unemployed, people begin to work on lower and lower margins in order to displace those who are making a profit. When they are faced with complete starvation, people will accept semi-starvation. The last stage in this frantic struggle for living is reached, when a productive work like trade is degraded to the level of mere speculation. that is to say, a man in order to get an opportunity to handle a commodity will pay more and more, till no margin is left to compensate him for his labour, and his only chance of getting something depends on a favourable turn in price. Rather than do nothing he takes this risk, sometimes he gains, often he loses but hope is eternal, and he prepares himself to be the dupe of every morrow that comes. A time comes when no greater incentive than a mere chance of profit suffices to induce a man to take to any economic activity. When people do business on the basis of a chance of profit, business on the basis of profit has to disappear. The former outbids the latter. But even this would be a business at par. The next stage soon arrives, when the more desperate ones, in order to outbid those 'chance takers at par', take a chance at a premium. In other words, they purchase a commodity in the mofussil at a higher price than what the parity with the central market could justify.

This perhaps, is the stage that is reached in the cotton market. The prices in the mofussil are invariably higher than the Bombay parity prices. There are evidently, people in the cotton trade who would like to take a chance at a premium. The repercussions of over-competition do not stop at making a branch of economic activity unremunerative, they degrade it till people take to it for nothing but luck.

Comparison between the Cotton prices at Dhulia (West Khandesh) and Bombay in Season 1931-32

1	2	3*	4*	5	6	7	8**
Date	Local Kapas rate per maund (168 lbs.)	Parity for one Boja (392 lbs.) of lint	Parity (of col. 2) at Bombay for one candy (782 lbs.)	Local rate for a Boja of lint	Parity (of col. 5) at Bombay for one candy	Bombay Broach quotation	Bombay Oomra quotation
Nov. 11	11-10 15- 1	70	172	69- 4	170	185	162
12	12- 0 14- 0	68	168	65- 4 69-14	166	187	164
13	12- 8 15- 4	71	174	73 75	180	191	169-8
16	12-12 15- 0	71	174	72- 6 75- 0	178	187-8	165
17	12-12 14- 2	70	172	68- 8	169	182-0	158-8
20	12- 4 14- 2	68	168	70- 0 73- 6	172	181	160-8
26	12- 8 14- 4	68	168	70- 0 75- 6	173	185	168-8
Dec. 1	13- 2 14-14	75	182	74- 0 76-12	181	189	174-0
2	13-14 15- 8	77	186	75-78	184	188	176
5	15- 0 16- 8	83	198	82-10	197	193	187-4
9	16-12 19- 8	95	222	93- 0 96- 0	220	205	206-4
12	15- 8 17- 8	87	206	84- 0 86- 0	202	193	187
16	17- 8 18- 8	92	216	90-92	214	189	192

* The method of calculation is given in a note on p. 251.

** The average quality of Dhulia cotton is generally valued at Rs. 4 to 6 'off' the Oomra quotation.

COTTON PRICES

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1 Date	2 Local Kapas rate per maund. (168 lbs.)	3* Parity for one Boja (392 lbs.) of lint	4* Parity (of col. 2) at Bombay for one candy (782 lbs.)	5 Local rate for a Boja of lint	6 Parity (of col. 5) at Bombay for one candy	7 Bombay Broach quotation	8** Bombay Oomra quotation
Dec. 19	17-8	103	238	100-0	234	202	210
	20-8			108-0			
23	18-0	92	216	91-0	215	197	200
	18-0			93-0			
26	18-0	92	216	93-0	220	197	198
	18-0			97-0			
81	12-0	95	222	92-0	219	202	207
	19-0			96-0			
1932							
Jan. 6.	9-0	94	220	91-0	216	198	204 Jan.
	18-0			93-0			193 March
11	11-0	99	232	95-0	228	205	211 Jan.
	19-8			103-0			199 March
14	9-0	97	228	92-0	224	212	224 Jan.
	19-8			99			214 March
18	8-4	95	222	90-0	218	212	228 Jan.
	18-4			99			209 March
Jan. 19	7-18	94	220	90-95	216	214	227-209
23	9-17/8	90	212	82-93	212	209	219-204
26	8-18	90	212	75-93	210	211	205
30	7-18	06	212	75-88	206	201	202

* The method of calculation is given in a note on p. 251.

** The average quality of Dhulia cotton is generally valued at Rs. 4 to 6 'off' the Oomra quotation.

Feb. 2	6/8-18/8	89	210	75-90	208	211	205
6	7-19	93	218	85-92	216	223	218
10	6-17/12	89	213	93-96	214	221	213
13	14-19	92	215	85-95	214	223	212
17	13-18/10	93	218	92-96	217	229	216
22	14-18/12	94	220	92-96	217	230	219
26	13-19/2	95	222	92-96	218	234	220
29	8/8-19	94	220	94-98	221	233	219
Mar. 3	15-19	96	223	92-98	221	230	219
5	14-18/8	94	220	90-96	220	228	217
8	14-18/4	94	220	90-96	220	225	215
10	14-17	92	214	85-90	210	214	204
14	13-17/10	90	206	86-90	210	212	202
17	14-16/10	91	208	86-89	208	211	203
21	14-16/8	91	208	85-91	208	207	198
24	14-16	89	204	80-83	198	194	186
26	14-16	89	204	81-84	197		
29	14-15/12	87	200	80-83	196	193	
31	14-15/4	86	198	82-85	198	196	
Apr. 2	12-14/8	79	191	78-82	192	187	
5	12-14/4	79	191	75-81	191	180-0	187-8
8	10-13/	72	176	60-66	165	176	183
11	11-13/2	73	180	70-73	180	183	190
13	11/8-14/8	75	183	73-75	181	185	193/8
16	11/-14/4	75	183	70-74	180	189	198
20	9-12	68	169	64-68	167	177	186

COTTON PRICES

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Date	2 Local Kapas rate per maund (168 lbs.)	3* Parity for one Boja (392 lbs.) of lint,	4* Parity (of col. 2) at Bombay for one candy (782 lbs.)	5 Local rate for a Boja of lint	6 Parity (of col. 5) at Bombay for one candy	7 Bombay Broach quotation	8** Bombay Oomra quotation
23	12-13/12	75	183	68-72	174	180	188
26	11-13/8	78	178	68-71	173	181	188
29	11-13/8	73	178	67-72	173	183	189
May 2	11-12/8	70	172	64-67	166	171	178
5	11-12	67	166	62-65	164	168	175
9	11-11/12	66	164	61-63	161	175/8	183
11	10-11	62	156	57-60	155	169	177
14	10-11/4	63	158	54-61	155	168	176
17	11-12/4	69	169	60-64	162	170	178
20	11-12	67	165	57-62	160	166	175
23	11-12/2	68	167	60-64	166	165/8	178
25	11/8-12/4	69	170	60-63	165	167/8	172
28	10/8-11/8	65	162	58-60	160	165	—
31	11-11/8	65	162	55-58	159	—	—
June 2	10-10/12	56	144	58-56	141	150	—
4	10/8-11/10	57	146	55-59	146	156	—
7	11-11/10	59	150	58-59	144	156/8	—
10	11-11/12	60	152	54-59	144	153	165
14	10/12-11	58	148	54-57	142	158	166/8
16	11-11/8	61	154	56-61	148	159	173
18	10/8-10/12	59	150	55-59	146	158/8	171/8

* The method of calculation is given in a note on p. 251.

** The average quality of Dhulia cotton is generally valued at 4 to 6 'off' the Oomra quotation.

EXPLANATION OF TABLE

Figures in columns 1, 2, 5, 7 and 8 are from the record maintained by the Cotton Market Committee of Dhulia. The same body maintains a record of the price of seed, which is used in these calculations. The method by which figures in column 3, 4 and 6 are arrived at, may be illustrated by the following example.

NOTE ON THE METHOD OF CALCULATING PARITY

On 11th November 1931, the price of one maund (168 lbs.) of Kapas in the Dhulia Market (column 1) was between Rs. 11—10—0 and Rs. 15—1—0. Let us take the rate of Rs. 12—12—0 for the average quality. If we take 33 as the ginning percentage (i. e. the percentage of lint in kapas), 7 maunds of kapas would be required to get one Boja (392 lbs.) of lint, ($7 \times 56 = 392$). The cost of a Boja of cotton (column 3) would be Rs. 70, as shown below.

	@ Rs. 12/12
Cost of 7 maunds ^(18 lbs) kapas required for one boja cotton	Rs. 89 4 0
Ginning charges @ Rs 3 per boja	3 0 0
Kapas brokerage @ 2 as. per cart of 7 maunds	0 2 0
Gunny charges @ 8 as. per boja	0 8 0
Kapas hamalage, assembling charges, picking etc. @ 6 as. per boja	0 6 0
Adat, Insurance, Interest etc.	0 12 0
	Rs. 94 0 0
Less proceeds of cotton seed sale @ Rs. 24 per candy (784 lbs.)	24 0 0
Cost of a Boja of lint	Rs. 70 0 0

The price of a candy (784 lbs.) of this cotton at Bombay (column 4) would be Rs. 172, taking Rs. 32 per candy as the cost of marketing the cotton from Dhulia to Bombay.

$$\begin{array}{r}
 272 \times 100 \\
 \hline
 33 \\
 \hline
 39200 \\
 \hline
 33.
 \end{array}
 \qquad
 \begin{array}{r}
 172 \\
 \hline
 186 \quad 32
 \end{array}$$

CHAPTER X

SUMMARY AND CONCLUSION

We are now in a position to put together the results of this investigation. To observe with the detached eye of a student the economic phenomena, during the movement of raw cotton from the farm to the exchange is itself an interesting pursuit. But it is also equally instructive. Cotton is a commodity whose marketing is a matter of considerable economic interest to India. Every year India exports nearly 3 million bales of raw cotton. From the time cotton is picked to the time it is purchased in some central market by a spinner or an exporter, it has to undergo various economic processes which take it nearer to the consumer. In this study, these stages small and big have been looked into and commented upon.

Primary Marketing. In an initial chapter we have reviewed the statistical data about the production, trade and consumption of cotton both in India and abroad to provide us with a background for a more critical study. We have then given a descriptive sketch of cotton marketing in India from the farm to the primary markets. The question of the middlemen and their usefulness or otherwise, in the scheme of marketing, and the question of ginning and pressing rates have been examined in this connection. No generalizations can be offered on these questions without being unduly facile. All that we can say is that unless the price economy that moulds all economic activity to-day is completely overhauled, great vigilance both by the public and the Government would be required to keep these private services and functions immune from evil.

Defects and Malpractices in Marketing. The most not-

able defects and malpractices in the marketing of cotton are summarised below :—

1. Faulty picking. 2. Absence of means of ascertaining the price that prevails in the Central market. 3. The secret biddings under cover of a piece of cloth. 4. Absence of grading and standardisation. 5. The mixing of an inferior variety of cotton with a better one. 6. Profuse watering of cotton. 7. The disputes or Vandhas between farmers and purchasers. 8. Lack of storage facilities. 9. Confusion in weights and measures.

We have given full consideration to each of the above items and tried to ascertain as far as possible the motives that give rise to these malpractices, for, no effective remedy for them can be found out unless such a diagnosis is made. Broadly speaking over-competition can be said to be at the root of most of the evil practices. Merchants resort to desperate devices to be able to supply a commodity to purchasers at the latter's price. When this becomes impossible by honest trade, they exercise their wits to effect gains through malpractices. But these merchants forget that once a malpractice becomes general, it loses its capacity to yield a profit, for all such gains gradually go to increase the price once again by sheer competition. And these malpractices are sure to become general because as soon as a single merchant begins to practise them, honest trade becomes unremunerative, for, the dishonest trader will always outbid honest traders.

Government Legislation. The existing legislation has not been successful in checking the evils. The Cotton Transport Act is an administrative failure. The Cotton Ginning and Pressing Factories Act which provides for the marking of all bales of cotton, enables us to trace all frauds to the place at which they were perpetrated. But as long as these frauds are not made penal, there is no possibility of their being checked. Government should not be afraid to adopt stronger measures if these evils are to be suppressed.

which are eminently fitted for dealing with the problems in agriculture, have somehow thought the question of marketing as beyond their purview. It will here prove illuminating to merely enumerate the various departments that are maintained by the U. S. Department of Agriculture.

1. Secretary of Agriculture.
2. Assistant Secretary.
3. Weather Bureau.
4. Bureau of Animal Industry.
5. Bureau of Dairy Industry.
6. Bureau of Plant Industry.
7. Forest Service.
8. Bureau of Chemistry and Soils.
9. Bureau of Entomology.
10. Bureau of Biological Survey.
11. Bureau of Public Roads.
12. Bureau of Agricultural Economics.
13. Bureau of Home Economics.
14. Federal Horticultural Board.
15. Grain Futures Administration.
16. Food, Drug and Insecticide Administration.
17. Office of Experiment Stations.
18. Office of Co-operative Extension Work.
19. Library.

Let us hope that the above list will provide the Departments of Agriculture in India with some idea of the subjects that ought to come within their 'purview'.

Cotton is somewhat fortunate in having a central organisation in the Indian Central Cotton Committee. During the 15 years of its existence, the Committee has attempted some valuable work. As for the schemes of botanical research which it is nourishing, we think that the task could well be delegated to the Agricultural Departments and the Institute of Agricultural Research, Delhi. In the field of marketing and finance of cultivator's cotton, the formation of special committees, the investigation of the intricate

problems like the problem of high ginning rates and prompting legislation like the Cotton Transport Act, and the Bombay Cotton Markets Act, are moves in the right direction. The Committee, however, has paid little or no attention to the futures market in cotton, which as we have pointed out, has an important bearing on the whole price structure of the commodity.

✓ *Futures Market.* In the second part we have studied the speculative market in cotton. The chapter on the evolution of the cotton trade technique initiates us into the intricate theory and practice of produce exchanges. With this equipment the examination of the cotton market in Bombay becomes more easy as well as scientific. The history of the growth of cotton trade and the course of legislation in that sphere enables us to study the organisation of the cotton market in its proper perspective. At present five problems loom large in the organisation of the cotton exchange. They are :—

1. Unitary vs. multiple control of the cotton market.
2. The Hedge Contracts.
3. The constitution of the controlling body.
4. The bye-laws that regulate the trade.
5. The legislation that controls the trade.

We have discussed at length the question of unitary control of the cotton trade. Our most considered opinion on this point is that the Government should lay down model bye-laws like those under the U. S. A. Cotton Futures Act, and let as many associations carry on the trade as they like. When a set of rigid bye-laws are imposed, duality ceases to be obnoxious, and remains merely as a superfluity which with the afflux of time is bound to disappear.

Hedge Contracts. The question of hedge contracts is full of complications. The divergence between the two schools of thought, the Bombay Millowners and the brokers of the East India Cotton Association is unbridgeable. A single hedge contract, however, seems to be an absurd proposi-

tion. On the other hand, the present five hedge contracts can be reconstructed and for that we have suggested an appointment of a special committee with experts on it. We now learn with satisfaction that such a committee is appointed by the East India Cotton Association, and its report is under consideration.

Control of Cotton Trade. The legislation that controls the cotton trade is really unsatisfactory. The Cotton Contracts Act of 1932 was drafted in a spirit of annoyance and distrust. As far as the regulation of the cotton trade is concerned, the Act cannot have even the pretension to have improved it in the slightest degree. It has not cared to re-group the hedge contracts, it leaves the same wide powers of making bye-laws to the Board of Directors. Its only achievement is to make the position of the East India Cotton Association, the only body authorised to regulate the cotton trade, unstable. Thus it displeases everyone and pleases none.

Besides, as long as the contracts entered into outside the bye-laws recognised by the Government, are not made illegal, the whole Act becomes meaningless. It has been asserted that actually more trade takes place under the auspices of the Mahajan Association, which does not conform to the rules sanctioned by the Government, than under the auspices of the East India Cotton Association. The Wiles Committee recommended an imposition of a penalty for any contract made in contravention of the bye-law of the recognised association, but the bill embodying this recommendation was defeated. In the bill that the Government introduced in 1932, the Government did not think it wise to incorporate that recommendation, for that would have increased the opposition to the bill from one more quarter—the Mahajan Association.

The fact remains that the unauthorised trade in Bombay has assumed a magnitude, which but for the high commercial morality of the businessmen, may be considered very

harmful to the stability of the trade. Illegal trade in cotton in the city of Bombay and elsewhere has also assumed alarming proportions. The efforts of the Government in making the provisions of the Prevention of Gambling Act more stringent are in the right direction.

Cotton Prices. Our comparison of prices in the central market and in the mofussil has yielded valuable results. A vertical analysis of cotton prices shows that the prices at the successive descending stages do not show the difference calculated on the basis of the cost of taking it to a higher stage. The price of 'kapas' is generally higher in parity in the mofussil, than the price of cotton in the central market. This shows that the competition in the upcountry market is very keen, and the trader lives more or less on speculation. The phenomenon is positively unhealthy and in the long run is sure to gradually undermine the whole class of small traders. During the years 1930 to 1935, not only did the rise in price, as expected by the speculators, not come, but the prices consistently went down, and the mercantile class became much weaker during these years of depression.

There are several agricultural products whose marketing needs to be investigated and studied, cotton is only one of them. There are enough problems in marketing such as those of grading, standardisation, etc.; all of them are vital to the economic interests of the country and need a special institution for their investigation. Trade in futures in an un-organised form is going on in commodities other than cotton. In the city of Bombay there are futures markets for seeds, grains, ground-nuts and linseed, iron hoops, hessian and many other commodities, but none of them is properly organised. If the marketing of all those commodities is investigated, the State will be in possession of data which will enable it to pass legislation for an intelligent regulation of the markets. Such regulations will inspire great confidence among purchasers both in India and abroad, which in its turn will have a salutary effect on

the prices received by the producers of these commodities. Let us hope that the marketing surveys now being carried on by the Government of India, will attempt this task in the right spirit.

APPENDIX

Questionnaire No. 1.

(addressed to merchants and farmers).

1. Name
2. Profession
3. Address

I. Local Marketing Practice.

4. Where do you buy your cotton?
(1) From adjoining villages (2) In local market.
5. Where do you sell your (a) Kapas, (a) Kapas and (b) Cotton? (1) Locally (2) in (b) Cotton bigger market.
6. Is your market regulated? If not, do you want it to be so regulated? Give reasons for your answer.
7. Where do the Kapas and Cotton carts assemble?
8. Do you employ Dalal or Adatiya (1) Kapas for buying (1) Kapas (2) Cotton? (2) Cotton
9. Do you employ Dalal or Adatiya (1) Kapas for selling (1) Kapas (2) Cotton? (2) Cotton
10. What types of cotton arrive in your market? Give approximate difference between best and worst types.
11. What weights are used in your Market for (1) Kapas (2) Cotton? (2) Cotton Give their relation with some standard weight.
12. Who pays for the weighing of (1) (1) Kapas Rs. As. P. Kapas (2) Cotton? (2) Cotton per

II. Defects in the Marketing System.

13. Are there frequent disputes at the time of weighing between purchaser and cultivator? Does the cultivator suffer any injustice from this?
14. To what extent cotton is watered in your market?

15. Are different types of cotton freely mixed? Does mixing of Kapas take place?
16. Are the rates of ginning and pressing excessive?
17. Are any storage facilities allowed to the cultivator for unsold cotton by the Ginners? If so, of what sort?
18. Is the number of middlemen or the cost of their services excessive?

III. Cost of Marketing.

- | 19. | Which of the following services are performed by (1) Dalal (2) Adatiya. | Effect transaction
Advance money
Weighing
Supervising ginning
" pressing
Making payment
Dispatching
Anything else | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------|---|---|-------|----------------|------------|--|-------------|--|----------------|--|-------------------|--|---------------------|--|---------|--|-------------|--|--------------|--|--------------------|--|-----------------------|--|----------------|--|--------------------|--|--------------|--|----------------------|--|-------------------|--|--------------|--|---------------|--|
| 20. | How much is paid for (1) Dalali (2) Adat? | 1. Dalali, Rs. As. P.
per 2. Adat | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 21. | For which of the following items, and how much, do you deduct from Bombay Price to arrive at Local Price? | <table border="0"> <thead> <tr> <th style="text-align: left;">Items</th> <th style="text-align: left;">Rs. As. P. per</th> </tr> </thead> <tbody> <tr><td>1. Cartage</td><td></td></tr> <tr><td>2. Pressing</td><td></td></tr> <tr><td>3. Pala mixing</td><td></td></tr> <tr><td>4. Zari arranging</td><td></td></tr> <tr><td>5. Cartage on bales</td><td></td></tr> <tr><td>6. Adat</td><td></td></tr> <tr><td>7. Discount</td><td></td></tr> <tr><td>8. Insurance</td><td></td></tr> <tr><td>9. Railway Freight</td><td></td></tr> <tr><td>10. Transit Insurance</td><td></td></tr> <tr><td>11. Bombay Tax</td><td></td></tr> <tr><td>12. Bombay Cartage</td><td></td></tr> <tr><td>13. Mukadami</td><td></td></tr> <tr><td>14. Sample allowance</td><td></td></tr> <tr><td>15. Jatha charges</td><td></td></tr> <tr><td>16. Interest</td><td></td></tr> <tr><td>17. Any other</td><td></td></tr> </tbody> </table> | Items | Rs. As. P. per | 1. Cartage | | 2. Pressing | | 3. Pala mixing | | 4. Zari arranging | | 5. Cartage on bales | | 6. Adat | | 7. Discount | | 8. Insurance | | 9. Railway Freight | | 10. Transit Insurance | | 11. Bombay Tax | | 12. Bombay Cartage | | 13. Mukadami | | 14. Sample allowance | | 15. Jatha charges | | 16. Interest | | 17. Any other | |
| Items | Rs. As. P. per | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Cartage | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Pressing | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Pala mixing | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Zari arranging | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. Cartage on bales | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Adat | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. Discount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. Insurance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. Railway Freight | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Transit Insurance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. Bombay Tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12. Bombay Cartage | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13. Mukadami | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 14. Sample allowance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15. Jatha charges | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16. Interest | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 17. Any other | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

IV. Financing of Cotton

22. Do you give advance to cultivator
(a) on crop (b) other-wise?
23. Do you give advance money to your customers? If so, on what basis and conditions?
24. Do you get money on your (a) Kapas (a) Kapas – From
(b) Cotton dokra (c) Bales? If so, (b) Cotton
(c) Bale
25. What financial help do you receive from the following. (1) Gin owners
(2) Local Shroff
(3) Imperial Bank
(4) Other Banks
(5) Bombay Adatiya
or Mukadam

V. General.

26. Is the local price higher in view of Bombay parity? If so, to what extent? What is the cause of it?
27. Do you hedge your purchases and sales?
Do you trade in futures market for purposes other than of hedging?
28. Give approximately the share in the total business of the following. (1) Local Merchant
(2) Agent of Indian owned Bombay firms or Mills
(3) Foreign Companies

Questionnaire No. 2.

(addressed to ginning and pressing factories).

1. Name
2. Place
3. Factory owned by
4. Are there frequent disputes between the purchaser and cultivator, at the time of weighing? Do you think the farmer suffers injustice from this?
5. What weights are used for weighing Kapas, Cotton and Seed? Kapas Cotton Seed
6. Are different types of cotton freely mixed? Does mixing of kapas take place?
7. To what extent cotton is watered at your place?
8. Do you allow the cultivator to keep his unsold cotton in your compound?
9. Do you keep a godown?
10. Do you also trade in Cotton?
11. Do you finance the cultivator or your customers? If so, on what basis and conditions?
12. How many (a) ginning (b) pressing factories are there in your town? Do you consider their number large in view of the capacity of your market? (a) Ginning factories (b) Pressing factories
13. Does your factory work at night?

14. Please fill in the following form.

YEAR	Was there a pool?	Was your factory working? If so, work done.	Rate of work pool working	rebate.	Average expenses per bale of boja.	Total amount of work done in the town.
1927-28						
1928-29						
1929-30						
1930-31						

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