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**Commodity Exchange
and
Futures Trading**

Commodity Exchanges

A N D

Futures Trading

PRINCIPLES AND OPERATING METHODS

Julius B. Baer

OF THE NEW YORK BAR

and

Olin Glenn Saxon

PROFESSOR OF ECONOMICS
YALE UNIVERSITY

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Preface

The publication of this book with its comprehensive descriptions of the development, functions, and operating methods of Commodity Exchanges is most timely. Since the organization of the first Commodity Exchange shortly after the Civil War, these Exchanges have been the scapegoats of producers, consumers, and politicians. They have been held responsible both for inflation and for deflation. At the peak of every inflationary spiral, the Exchanges and speculative operations thereon are blamed for high prices. At the bottom of every deflationary period, they are charged with the responsibility for low prices.

Congressional Committees have from time to time held extensive investigations and public hearings with respect to these Exchanges. Recent activities in this field (in 1947 and 1948) have centered mainly around the grain Exchanges because of prevailing high prices of wheat, corn, and other cereals on both domestic and foreign markets. Yet, when one examines the facts objectively, it appears that only in the United States today do free markets, responsive to economic forces, prevail in grains and most other staple commodities. Since early in World War II there has been no free market for wheat in Canada where the Dominion Government has been the exclusive buyer at fixed prices of all wheat for export, selling it to the British Government on long term contracts at prices determined by the two governments. Likewise, the Argentine Government has become the exclusive buyer and seller of all wheat and many other products for export. In 1947, as a consequence, the Argentine Government was selling wheat at the equivalent of \$4 to \$5 per bushel and Canada, on a long-term five year contract, was exporting wheat to England at \$1.80 per bushel, while the United States, the only free market, was shipping wheat to Europe at prices ranging from \$2.40 to \$3.20 per bushel. In other words, the Argentine farmer is forced to sell at *low*, arbitrary prices wheat which his government sells abroad at exorbitant profits, possible only in a starving world. Meanwhile in Canada, where

the government, with the wheat exchanges suspended, sold its farmers' wheat crops short over a five year period at fixed prices, the farmer receives prices 50 to 60% below those prevailing on the free markets in the United States. In fact, Canada is engaged in the most gigantic commodity speculation in history and has caused losses of billions of dollars to its farmers.

In the United States, on the other hand, the grain Exchanges, operating freely, have maintained the only undominated markets for cereals in the entire world during and since World War II. While prices have risen sharply as a consequence of extraordinary war demand, drastically disrupted production and transportation facilities, and short post-war crops in Europe, they have not been arbitrarily fixed by government. On the contrary, prices have been established solely through the interaction of economic forces, the prevailing supply and demand on uncontrolled markets where merchants, producers, converters, consumers, and speculators have been free to sell or buy at will under federal regulation to prevent abuses and unfair practices. The results have been free prices, fair to both producer and consumer in light of all existing circumstances.

In a world in which private trading is rapidly being replaced by State trading in all basic international staples, it is not too much to say that free commodity markets, properly regulated by government to prevent abuses, are the symbols of free societies. With many nations of the world now accepting State Socialism in some form, it is highly important that the people of the United States realize that State Socialism, whether Communist, Fascist, or Socialist, means the destruction of free markets and their replacement by governmental buying and selling monopolies—i.e., exclusive State trading such as is now being practiced not only in Communist countries, but also in England and various South American and European nations.

Commodity Exchanges not only are vital to a free economy, but they serve a much more important function than do Stock Exchanges. The latter are vital to the economic stability of a free society because they give liquidity to the billions of dollars of stocks and bonds that represent the capital investments of the American people in the nation's productive and distributive machinery upon which depend the general welfare, prosperity, and living standards of all the people. The Commodity Exchanges, however, not only provide constant liquidity for the basic staple commodities traded upon these Exchanges, but they also perform other vital economic functions which are not served by Stock Exchanges.

Both the state and federal governments are vitally interested in the regulation of Commodity Exchanges to prevent unfair trade practices and other potential abuses contrary to the public interest.

This book is not a trade manual or hand-book of technical terms; nor

is it an extensive analytical or theoretical treatise on the economic functions of the Commodity Exchange. Rather its primary purpose is to supply a simple, clear analysis of the economic functions, the methods of operation, the trading practices, and the regulation of these Exchanges by the Exchanges themselves and by the federal government. The objective of the authors has been to produce a book which will be useful to students in college courses on Marketing and, at the same time, meet the needs of the ever-growing users of the Exchanges—the producers, merchants, brokers, dealers, commission agents, converters, farm cooperatives, and traders, who are availing themselves of the Exchange facilities more extensively from year to year.

The authors are greatly indebted to Mr. George P. Woodruff, a member of the New Jersey Bar, who collaborated with Mr. Baer in the authorship of "Commodity Exchanges," first published in 1929 by Harper & Brothers, with several subsequent editions.

The authors owe a personal debt to John C. Gardner, President, New York Coffee & Sugar Exchange and Vice President, Lowry & Co.; J. A. Higgons, Jr., Former Executive Vice President, National Association of Commodity Exchanges and Allied Trades, Inc.; C. E. Hunting, Vice President, F. H. Peavey & Company; Jerome Lewine, former President, Commodity Exchange, Inc., Partner of H. Hentz & Co.; Evan S. Linstrom, Bache & Co.; H. E. Luedicke, Commodity Editor of *The Journal of Commerce*, New York City; J. O. McClintock, Executive Vice President, Board of Trade of the City of Chicago; Donald Marks, Esq., Partner of Baer & Marks, attorneys for Commodity Exchange, Inc.; Gustave I. Tolson, former President, New York Cotton Exchange, Partner of Geo. H. McFadden & Bro., and Richard F. Uhlmann, President, Board of Trade of the City of Chicago and President, Uhlmann Grain Co., for their review of all or part of the manuscript, and their many helpful suggestions.

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JULIUS B. BAER
OLIN GLENN SAXON

July 20, 1948

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The literature of Commodity Exchanges is not extensive. In preparation of this bibliography, the authors have included those books and official publications which they have found of especial value either for their clear and analytical expositions of different phases of the work of the exchanges or for the valuable statistical data contained therein.

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