The Final Utility of Speculation on the New York Stock Exchange and the Chicago Board of Trade

by Thomas A. Lee

February, 1912

Submitted to the Department of Economics of the University of Kansas in partial fulfillment of the requirements for the Degree of Master of Arts

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OUTLINE.

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Critical Comment.

Some of the books and articles in the bibliography were written from a prejudiced point of view, notably "The Wall Street Point of View" and "Gold Bricks of Speculation" by Henry Clews and John Hill, Jr., respectively, on one side, and "The Compendium of the World's Food Production and Consumption" by C.W.Davis on the other. The testimony before the Committee of Agriculture of the House of Representatives, contained in "Dealings in Options and Futures" was of course biased, but nevertheless very instructive and interesting. On the other hand, some were written in a scientific way and were of much value. Too much credit cannot be given to the "Report of the Commissioner of Corporations on Cotton Exchanges". It is an exhaustive, clean cut, treatment of a difficult subject. The Report of the Industrial Commission was also authoritative and instructive. "Speculation on the Stock and Produce Exchanges of the United States" by H.C. Emery is probably the best article written in English on this problem. In one place, however, Mr.Emery seemed to base his conclusions upon rather slender material. "The Report of Gov. Hughes' Committee on Speculation" is one of the most important contributions to this subject, and it is also one of the latest publications. "A Treatise on the Law of Stock Brokers and Stock Exchanges" by J.R.Dos Passos is the most thorough legal treatise on this subject and it is generally considered the leading authority. The series of booklets by Thomas Gibson are both

interesting and instructive. Being written by a practical man of affairs they have the "earthy earthy" flavor lacking in most of the articles etc. The two articles by Eliot Norton are much to be commended, as explanatory of the whole subject. The "Art of Wall Street Investing" by John Moody is a well balanced book, full of commonsense and practical advice. The leaflet by Horace Write on "The Stock Exchange and the Money Market" is interesting as an expression of opinion by the chairman of Gov. Hughes' Committee on Speculation, but contains little not to be found in the Report of that Committee. Most of the other articles and books, however, are of little value for a paper of this kind.

The Final Utility of Speculation on the New York Stock Exchange and the Chicago Board of Trade.

One is indeed treading on dangerous ground when he ventures to speak of that complexity of complexities, "Speculation." It is not often, indeed, that two persons discussing this topic, agree on a definition of, or on a point of view from which to consider, this great accompaniment of modern business conditions. All know of its vague presence but few see the outlines of this institution, which affects many of us directly or indirectly, e.g., the price which we pay for our cotton garments or for the bread which we eat is influenced more or less by speculation - Some people refuse to believe that Speculation is anything but gambling; some, that there is even a modicum of good in it. There are, of course, a few who think that "whatever is, is right." Unfortunately, Speculation is looked at most frequently from the moral standpoint, and a distressing picture of the widowed mother and her only son caught in the tentacles of that hideous octopus, Speculation, is presented to us.

The object of this paper is to arrive at some conclusion whether speculation is beneficial or not, whether stringent restrictive measures to stamp out its existence should or should not be taken. As Speculation is primarily an economic institution, its economic advantages and disadvantages will be briefly considered; its legality or illegality, morality or immorality, will be touched upon, as they must be, in order

to determine whether it is "all worth while or not." Speculation is a vast subject; two of its main subdivisions are, Speculation in securities on the stock exchanges, and speculation in commodities in the produce exchanges. These two subdivisions are so closely united that it seems best to treat them together rather than only one of them. Accordingly both will be considered in this paper. To narrow the subject still farther, the New York Stock Exchange and the Chicago Board of Trade have been singled out for especial study. Each of them is the leading exchange of its kind in the United States, and some will be found who say, in the whole world. Then, more particularly defined, the issue is, do the advantages engendered of these two institutions so far outweigh the accompanying disadvantages, that it is proper to say that the New York Stock Exchange and the Chicago Board of Trade are of real benefit to the country at large?

In order to determine this, it is of course necessary to consider these advantages and disadvantages. As the subject is somewhat technical, some space has been devoted to an explanation of terms and methods of business before taking up the question before us.

S P E C U L A T I O N .

INTRODUCTION.

History.

It is a well known fact that all men are not equally clever, able, and shrewd. And since this is so, is it not reasonable to suppose that men possessing great ability and knowledge have always been and always will be, willing to take great risks for the sake of great gains? At any rate whether they always have been or always will be willing to do so, we hear of speculation in very early times. We read that Joseph "cornered" the grain crop of Egypt, although it usually is not stated in such bald and modern language. Aristotle relates that the philosopher Thales "cornered" the olive presses of Miletus. It is interesting to note that Thales did this, although he was a comparatively poor man, by securing option on the use of the olive presses at the end of one season for the following season.[1] There are a few lines[2] in Horace which have been taken by some scholars[3] to refer to speculation by the money changers.

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1. Aristotle, Politics, I,11,§ 8, Jowett's Translation,p.21, London,1885.
2. Horace, book 2, satire 3,li.18-19 - "Postquam omnis res-".
3. Jeanneret, Jules Félix, Le jeu, le Pari, et les Marchés de Bourse, part 2,p.107.

Livey[1] speaks of le Collegium mercatorum, which existed at Rome at a very early date, founded 259 B.C. Some of the most ancient Bourses known are those of Anvers (1531), of Lyon (before 1549), Toulouse (1549, London (1556), Hambourg (1558), Rouen (1566), Amsterdam (1608), Copenhagen (1642), Paris (1724), Vienna (1771).[2] May 17,1792 is the date of the organization which has become the New York Stock Exchange. Six of the Exchanges were established within 35 years after the formation of the first one at Anvers, rather tending to show that speculation had grown to considerable proportions in different communities at about the same time. In 1400 Yarmouth was the center of a large speculative business in herring, as well as a large actual trade in herring. Early in the 17th century speculation took the form of time transactions in the products of whale fisheries. Still later the famous tulip speculation of 1634-37 took place. This speculation is said to have aroused a tremendous interest all over Holland. The speculation which took place in England about 1711 was, it is probable, the greatest speculation of modern times. To secure stock at whatever price in whatever concern was thought to be an infallible method of accumulating riches. We are told by an observer of the times that the carriages of fine ladies crowded the "Alley", and that dandies vied with chamber maids in the mad craze after rainbow gold. The following prospectus shows

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1. Tite Live, II,27 -
2. There is some dispute as to some of the dates given - See I Dos Passos 8- I have adopted those given by Jenneret part 2,109.

to what limits the fewer ran. Money was asked to finance "A company for carrying on an undertaking of great advantage, but nobody to know what it is." Each subscriber of a £2 deposit was to receive £100 per annum. It is said that 1000 shares were taken in six hours, and the deposits paid. Many of the schemes hoisted on the innocent public today are very thin, but we have had none quite so bald as this project of two hundred years ago. When this great "South Sea Bubble" burst it involved hundreds in ruin. Even the Bank of England stood in a precarious situation for a short time as it unwisely tried to bolster up the market. But the pressure became so strong that the bank repudiated its contract and, in consequence lived through the great panic which ensued.

There are many speculations in the United States which have attracted much attention. Among them of course are the Vanderbilt squeezes in Harlem and New Haven, Daniel Drew's apparently inexhaustible supply of convertible bonds of Erie, Black Friday, Hutchinson's successful corner in wheat on the Chicago Board of Trade, Pardridge's wheat operations, Leiter's unsuccessful attempt at a corner in wheat, Sully's attempted corner in cotton, and Patten's recent operations on Chicago Board of Trade and in cotton. Many others such as the great fight over the Great Northern R.R. by James J.Hill and E.H. Harriman could be cited, and the annals of our exchanges are full of the rapid rise and still more rapid fall of great

operators and speculators. Jerome, Little, Gould, Baring, Rothschild, Cooke, and many others have had their ascents and most of them have had corresponding descents. It is interesting to note that one of the American houses which was second only to Jay, Cooke & Co. many years ago still remains under the same management, apparently solid and safe as the Bank of England. Speculation, however, has become of great importance only since the modern conditions of trade, industry, and business have been so vitalized, or roughly speaking, only during the last fifty to seventy-five years.

Definition.

Definition proper.

And now what is this thing, "Speculation", of which we have been speaking? What do we mean by speculation? As has been stated before, only that speculation which takes place in the pits of the produce exchange and on the floors of the stock exchange will be considered. Now speculation, so narrowed, has many different meanings for many different people. A great many writers on economic subjects use the word in different senses. To some it means gambling pure and simple; to others it means a precarious method of making a living. It brings to some a bitter memory of former losses, caused, so think the victims, by the dishonesty rampant upon the street. Returning to the different definitions of the word as used by writers on subjects in the

field of Economics, at the risk of seeming pedantic a number of definitions will be given. Among them is one used by Mr.Hadley: "Speculative buisness is that which involves large risks for the chance of large gains."[1] This differs from ordinary investment, as, here, safety of the principal is not the one essential demanded, but chance of large return, even at the risk of losing the amount of capital

In a somewhat narrower sense, speculation "consists in buying and selling commodities, or securities, or other property in hope of profit from anticipated changes of value."[2] Here the speculator hopes to profit because the value of some article which he has dealt in, may change, and will in the speculator's opinion. It is not producing wealth, but taking advantage of fluctuations in the value of articles already produced.

One well-known student of Wall Street investment says that a man speculates when the desire for a profit is so strong that the safety of the principal becomes of less importance than the thought of large gain. This involves the same idea as the definition first quoted, illustrating once more the difference between investment and speculation. The following is a conservative definition: "Speculation consists in the forcasting changes of value, and buying or selling in order to take advantage of them; it may be wholly legitimate, pure gambling,

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1. Railroad Transportation, p.48.
2. Speculation on Stock or Produce Exchanges of the U.S. H.C. Emery, Col.Univ. Studies,VIII,p.96.

or something partaking of the qualities of both."[1] This definition will bear thought. There is in it no hint of production of wealth. The gain to the speculator consists in taking advantage of changes in value, due to outside factors, as demand and supply etc. In order to forecast changes of value one should know something of conditions, both present and future, which are liable to cause fluctuations in value of the article in which one intends to speculate. It will be noticed that the speculator, in order"to take advantage of them" buys and sells. That is one thing in speculation which it is important to remember, that the speculator buys and sells. As a matter of fact all buying and selling for the sake of gain, tends to be speculative, and whether it is or is not largely depends on the care which is taken for the safety of the amount risked. Perhaps the moralist might not be inclined to accept this definition or idea of what speculation is, but when we say speculation in the course of this paper, the idea meant to be expressed is one of risking the safety of capital in purchases and sales on the stock and in the produce exchanges of the United States for the sake of gains.

Contrasted with gambling

And now let us look at the latter half of this definition. We all know of cases in which some man with a large amount of capital and great ability, has been able to forecast the future condition of the market

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1. Report of Gov.Hughes' Committee on Speculation in Securities and Commodities, p.3.

and has bought or sold accordingly. Perhaps some summer you forsaw a very severe winter and made an advantageous contract for the future delivery of coal at a favorable price. That was legitimate business no doubt. Now I ask you to distinguish between your own coal buying and the large operations of a speculator in the wheat pit, who forsaw conditions correctly better than anyone else including the crop forcasters of the United States Department of Agriculture? One transaction was on a larger scale than the other, that is true. One bought coal of a coal dealer, and the other bought wheat in the wheat pit of other speculators. But what difference in principle is there between the two? It is hard to see. And yet no doubt some of the very men who called the larger transaction gambling, had perhaps bought their coal etc, in this way. Now is this gambling? It is so denominated by many people and it is not hard to find public expressions of that idea. But is it not legitimate business? If it cannot be distinguished from the coal buying case, the average citizen would no doubt call it "good business." Even if it can be distinguished, most people would, I believe, say that this was as legitimate as modern conditions permit. Certainly they do not publicly blame the commission man or merchant who stocks up in advance of most of his competitors.

And, on the other hand, we all know of cases of, say, a broken down old man who spends all his few available cents in

the bucket shop bet on some sure thing, that a friend who has a friend who is a clerk in the employ of Patten has whispered in his ear with the foolish injunction to tell no one else. One extreme offsets the other. But when the sentimentalists view this extreme, pity, indignation etc. replace the weighing of economic evil and good, and sentimentality hurriedly cries "Down with speculation which renders such a condition possible." Without doubt the last is very near to, if not pure gambling. We have all seen both cases, and in one perhaps we have envied the "lucky devil", and in the other, pitied the "poor fool".

Now there is another or middle class rather, of speculative activities which partakes both of the nature of legitimate business and of gambling. This is the most difficult class with which to deal, without doubt. What are we going to say about the majority of the dealings on the floors of the exchanges? Is it gambling for one of the several aeroplane factories of Paris to book orders for two years ahead, as has been done? As a matter of fact speculation enters into almost all business transactions involving future conditions, and few transactions do not involve future considerations. A landowner leases, that is, sells an estate out of his land for a long term of years, say 99. Is he a gambler? The matter can hardly be better put than has been already done. "It may be acknowledged that every producer for a future market - that is practically every producer - is, to some extent, a speculator.

He anticipates what will be wanted, at what prices, and in what quantities, and sets to work to provide a supply in accordance with those anticipations."[1]

Now is this middle class of speculation gambling, or is it not? That is one great criticism of speculation. Now let us see what happens in a gambling transaction. A bets B that "Bear" will win the derby. Both A and B put up their money, to be won by one or the other upon the determination of some fortuitous event. It is true that neither one produces any wealth. Now we will suppose that A buys of B on the New York Stock Exchange, one-hundred shares of Union Pacific at $200 per share. What has happened here? A has become the owner of certain property. He is subject to all the duties of a property owner. He must pay taxes on that stock (at least in some states). If an assessment is declared A must dig into his pocket. But he has also the privileges of a property owner. If a dividend is declared, A receives his share. A can take these shares to the bank and use them as collateral and borrow money on them. In other words he has acquired certain property thinking that the price will change in such a way as to benefit him. Now this certainly seems to be quite different from our little gambling transaction. Moreover when the "Bear" did win the Derby A won exactly what B lost. But when A bought Union Pacific of B for $200, which B bought for $175, A did not make money out of B's loss, and neither did A make money out of C's

1. Prof. Flux, Economic Principles, p.158.

loss when A sold Union Pacific to C for $225. Perhaps many will object that the Union Pacific sale is not a typical transaction. But it is exactly typical of what occurs on the floor of the New York Stock Exchange every day, except that the fluctuations have been largely exaggerated. Some one will ask about the "wind" transactions in the wheat pit, If they are not pure gambling. Suppose A buys 10,000 bushels of wheat from B to be delivered in May at $1.00. B has bought that wheat from some farmer in North Dakota, and paid for it 90¢ say. Now if that is the only transaction which A makes, B is bound absolutely to deliver that wheat to A. But suppose that B sees a good chance to sell his real wheat to C for 95¢. He does so and makes a profit. Now when May comes along, A sees an opportunity to make one cent a bushel by selling this wheat which he has bought of B to be delivered in May. Now it just happens that A sells to B at $1.01, 10,000 bushels of wheat to be delivered in May. B is bound to deliver 10,000 bushels to A at $1.00, and A is bound to deliver 10,000 bushels to B at $1.01. Now these transactions cancel each other. It would be an economic waste for each man to hand over to the other exactly the same amount of exactly the same thing. A has made 1¢ per bushel. B has made 4¢ per bushel, less the cost of carrying the wheat. This is commonly characterized as buying and selling "wind" wheat, and takes place every hour, and sometimes every minute in the pit. But is this gambling? It

hardly seems so. A and B have both profited by the change in the market price of something which each owned. If A and B went to the trouble and expense of delivering the actual product, there would be no such cry of "Gambling". But it is certainly reasonable to suppose that if X and Y, two of these reformers who cry "Gambling" were in such a situation that X owed Y $1000, and that Y owed X $1100, that Y would merely pay X $100, and not go to the trouble of paying X $1100 and demanding and receiving $1000 in return.

There are several distinctions made by writers between gambling and speculating. One suggests that there is a fixed sum lost and won in gambling and an uncertain one in speculating. Some writers lay great stress on the knowledge of what will occur in the future or the lack thereof,[1] and others remark upon the different odds in gambling and speculating, saying that in gambling all chances are equalized as much as possible, whereas this is not so in speculation.

Other so-called distinctions might be pointed out. We have already seen one decided difference, that is, that speculation subjects the speculator to the duties and rights of a property owner, while gambling does not. But there may be another distinction of value. Not many people would deny that

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1. "Dans le jeu proprement dit le résultat dépend entierement ou presque entierement du hasard. A la Bourse c'est une science de calcul, une connaissance des regles économiques et une étude souvent longue qui décident le spéculateur à opérer sur tels ou tels titre ou sur telle ou telle marchandise." Jeanneret, Jules Félix. Le Jeu le Pari, et les Marchés de Bourse, part II,p.105.

gambling is pernicious from every standpoint, moral and economic, and that it should be stamped out, as it performs no good which can overweigh the admitted bad. But is that so in respect to speculation? If speculation performs economic good, and if this economic good overweighs its admitted moral and economic evils, then one can say that speculation is productive of good, that it has utility. If this is so, and the object of this paper is to ascertain whether this is so, then clearly there is a line of demarcation between gambling and speculating.

The Stock and Produce Exchanges.

Organization and Internal Regulation.

Stock and Produce Exchanges are primarily markets, that is to say, places for buying and selling. That is exactly what the Exchanges are; the buying and selling is done by members of organizations under certain rules. Much of the hue and cry against exchanges seems to be because of the organization of the markets into exchanges. As there has been need of many places for buying and selling in the United States, so there are many stock and produce exchanges. In fact there are two stock exchanges, seven produce exchanges, and a security market without fixed membership called the "Curb", in New York City alone. Since the New York Stock Exchange is, by far, the most important in the United States, a slight description of its organization, methods of procedure etc. may well be given here.

Practically all of the stock exchanges are modelled upon the New York Stock Exchange, and any description of speculation on the stock exchanges will be confined to that going on, on the floor of the New York Stock Exchange.

May 17,1792 a number of brokers met, formed an organization, and agreed as follows: "We, the Subscribers, Brokers for the purchase and sale of Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock at a less rate than 1/4 of 1% commission on the specie value, and that we will give a preference to each other in our negotiations."[1] This was signed by twenty-five brokers who met under a tree opposite to number 60 Wall Street. Such was that which has become the powerful and influential New York Stock Exchange. In 1817 there was a reorganization, and by 1820 the Stock Exchange was firmly started. From meeting in top floors of one building after another, the Stock Exchange has come to meet in its own well-known building on Broad Street.

From twenty-five members it has grown to its present size of 1100, about seven hundred of whom are active. The only way in which it is possible to obtain a seat now, is upon the sale of a member's seat. Seats are sold for rather high prices $80,000 being the sum which a seat brought a few years ago. The Exchange itself does no business, and is an unincorporated,

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1. History of the New York Stock Exchange, p.2.

voluntary association with almost unlimited powers over its members. It is interesting to note that although incorporation has been urged upon both the New York and the London Stock Exchanges, both are still unincorporated. The legal title to all the personal property vests in all the members, but the real estate is owned by a corporation created for that sole purpose in 1863. The Stock Exchange owns all the stock of this corporation.

The Constitution states that the objects of the association "shall be to furnish exchange rooms and other facilities for the convenient transaction of their business by its members; and to promote and inculcate just and ethical principles of trade and business."[1] It has been said that all three of these objects have been successfully attained. At the present time many of the members of the Stock Exchange are not only agents of speculators but are speculators themselves, differing thus from the members of the London Stock Exchange, who act on the Exchange only for others. A number of rich men are members for the sole purpose of taking advabtage of the smaller rates of commission on transactions between members. The rules of the Stock Exchange are the growth of many years, and represent the combined experience of hundreds of traders as the most satisfactory methods of buying and selling on the floor. There

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1. As quoted in Conway, Investment, Speculation, p.15. (As the Secretary of the Stock Exchange informed me that the supply of the Constitution was "too limited to furnish one to all who might be interested therein", I was unable to escertain the article and section. It is given as Art.I in II Das Pass os 1075, Appendix, practically the same as in Conway.)

are several officers, including a president, treasurer, secretary and chairman. The latter presides over the Exchange and maintains order. The governing power of the Exchange is in the hands of the Governing Committee of forty, or forty-two, including the president and treasurer, who are members ex officio. At each annual election ten members of this committee are elected and also the president and treasurer. The Governing Committee elects the secretary and a vice president. It also elects and dissolves twelve standing committees out of its own membership, which perform all the business necessary to be transacted during the year. Among the most prominent committees are those on Admission, Arbitration, Arrangement, Listing, Law etc. It is thus readily seen that the Governing Committee exerts almost absolute power over the members of the Stock Exchange.

A candidate for admission must receive a two-thirds vote of the Committee on Admission. If refused, he may appear six times for election in the course of one year, and if all six applications be refused he may then appeal to the Governing Committee whose decision is final. If a member has been suspended or expelled he must apply to the Admission Committee for reinstatement. The initiation fee has grown from $25 in 1823 to $20,000. There is a transfer fee of $1,000. The rates of commission are 1/8 of 1% of the par value of purchases and sales for all principals not members of the Exchange. Rates for members are 1/32 of 1% of the par value. And in cases where one

member merely buys or sells for another and discloses that other as the principal, the rates are 1/50 of 1% of the par value. Members who do business at lower rates are liable to be suspended for the first offense and expelled for the second offense. Any member who fails to fulfill his contract or is insolvent is suspended, but may be reinstated if he settles his obligations within one year. The Arbitration Committee, subject to the Governing Committee, settles differences between members. It is a fact creditable to the institution and to the honesty of its members, that there are few disputes to settle.

Most of the produce exchanges are incorporated, and usually for more general purposes than the New York Stock Exchange. The Chicago Board of Trade and the New York Cotton Exchange are the two most important produce exchanges. The Chicago Board of Trade was organized in April,1848 with nineteen members. It was reorganized in 1850 and 1859. Its members deal in flour, wheat, corn, oats, rye, barley, manufactured hog products, flax seed, timothy seed, clover seed, Hungarian seed, millet seed, hay, straw, mill feeds, cooperage, and beef products. But it is most noted for operations in wheat and corn. Its objects are as follows: "To maintain a Commercial Exchange; to promote uniformity in the customs and usages of merchants; to inculcate principles of justice and equity in trade; to facilitate the speedy adjustment of business disputes; to acquire and to disseminate valuable commercial and economic information;

and generally to secure to its members the benefits of co-operation in the furtherance of their legitimate pursuits."[1] Upon admission to the Board of Trade, members sign the following agreement: "We, the undersigned, members of the Board of Trade of the City of Chicago, do, by our respective signatures and by virtue of our membership in said corporation, hereby mutually agree and covenant with each other, and with the said corporation, that we will in our actions and dealings with each other, and with the said corporation, be in all respects governed by and respect the rules, regulations, and by-laws of the said corporation as they now exist, or as they may be hereafter modified, altered, or amended."[2]

The Board of Trade had absolute power to discipline its members. Some expelled members have appealed to the courts, but the latter have generally refused to disturb the ruling of the Board of Trade.[3] The initiation fee has advanced from $5.00 to $10,000. Memberships are now transferred at a price of about $3,500. The number of members is now about 1,800. The Board transacts no business of its own, but maintains a large Exchange in which its members conduct their buying and selling. Since about 1901 the Chicago Board of Trade has been

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1. John Hill, Gold Bricks of Speculation, p.346.
2. Ibidem, p.348.
3. 8 American Digest, Decennial Edition, p.1628, 1906.
   Board of Trade v. Nelson, 44 N.E.743, 162 Ill.431, 53 Am. St. State Rep.312.
   Board of Trade v. Riordan, 94 Ill.App.298.
   Green v. Board of Trade, 174 Ill.585.

exceptionally well disciplined and expulsions and suspensions have been fearlessly administered, until to-day it is probable that no other exchange in the United States can boast of a more strict observance of its rules. The Arbitration committees of these Exchanges are very powerful. Usually their internal regulation does not differ widely from that of the New York Stock Exchange.

Size of its transactions

It is hard to conceive of the enormous business which is transacted upon the New York Stock Exchange alone. Indeed it may almost be said that speculation directs industry and trade; The exchanges occupy positions in modern industry equal in importance to those of the bank and the factory. Out of about $107,000,000,000 total wealth in the United States, over $35,000,000,000 is represented by negotiable securities. The New York Stock Exchange is probably one of the most important financial institutions in the world. The following quotation gives one an idea of the vast amount of business transacted. "In the past decade the average annual sales of shares have been 196,500,000 in number at prices involving an average annual turnover of nearly $15,500,000,000; bond transactions averaged about $800,000,000.[1]" It is difficult to understand how powerful this one exchange is. It is the money center of the United States with channels leading into it from all parts of this country, although it is

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1. Report of Gov. Hughes' Committee, p.5.

commonly supposed that its exits are far less in number and convenience. Other figures could be quoted,[1] but the fact that the shares of practically all of the companies in the United States that have any wide standing are quoted and dealt in on the New York Stock Exchange, if their stock has not been stored away as an investment (as has happened to a number of stocks, highly speculative when first issued,) speaks for itself. Stocks and bonds are divided into two classes, listed and unlisted. Admission to the list does not guarantee the character of the security, but it does create a presumption in favor of its soundness. To be on the list, the Listing Committee insists on certain requirements to prevent frauds. But it is not difficult for a powerful speculator to get a security listed. Securities not listed may be bought or sold upon the Exchange, but they are looked upon as being more speculative or risky than those listed.

The produce exchanges do a very large business. Speculation in them is mostly confined to wheat, corn, coffee, cotton and other articles for which there is an international or even world market. Oil speculations have been famous. Millions of bushels are bought and sold in the wheat pit. Reported sales of futures in wheat in the New York Produce Exchange show an annual average for five years of 480,000,000 bushels.

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1. June 6,1910 the gross amount of negotiable securities admitted to the N.Y.Stock Exchange was $25,314,429,058. During the year 1909, sales amounted to $20,000,000,000. The Stock Exchange and Money Market, 89, White.

In 1907 sales of futures amounted to 610,000,000 bushels. As the annual average wheat receipts in New York for five years (1904-1909) were only 21,000,000 bushels the great volume of the future transactions is more readily comprehended. It must be remembered that every one of these purchases and sales is a contract enforceable at law. As the entire wheat crop of the United States amounted to 634,087,000 bushels in 1907,[1] we see how immense the future transactions are. No record of futures is kept on the Chicago Board of Trade. It has been suggested by some, that the reason therefor is the great discrepancy between spot and future sales. However that may be testimony before the Agricultural Committee of the House of Representatives, 1892, relating to the Hatch Anti Option and Futures Bill, placed the amount as between five and eight times as much as futures sales in the New York Produce Exchange. Chicago has certainly had a wonderful growth as a market. Its total grain receipts (including flour reduced to bushels of wheat) in 1901 were said to be 291,252,936 bushels, and its total grain shipments (also including flour),226,561,477 bushels.

The New Orleans Cotton Exchange is the great market for spot cotton, but the New York Cotton Exchange and the Liverpool Cotton Exchange divide honors as being centers of futures transactions in cotton. Futures sales in New York have grown from 3,000,000 bales in 1871 to 56,469,000 bales in 1896 when the

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1. The Financial Review, Annual, 1911,p.49.

entire cotton crop of the United States for those two years was 4,352,317 bales and 7,161,094 bales respectively.[1] Thus in 1896 the actual cotton crop was sold nearly eight times in the New York Cotton Exchange alone.

Of course the largest amount of this business is speculative. There are a few firms on the New York Stock Exchange who do only an investment business, but they are very few. By far the great majority of the transactions are speculative, and this is true to so great an extent that the figures quoted are taken as indicating the amount of speculation.

Methods of trading

Now it may be a good plan to explain some of the methods of trading. There are several ways in which sales are made.

1st, cash sales. The securities are paid for and delivered on the day sold.

2d, regular way. The securities are paid for and delivered before 12:15 p.m. of the day after the sale.

3d, at three days. The securities are paid for and delivered on the third day following the making of the contract.

4th, at buyer's or seller's options. The transaction is to be closed at such time as the parties may stipulate, usually from four to sixty days after the contract is made.

About ninety-five per cent of the sales are regular way. When a broker receives an order to sell 100 shares of Erie

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1. Report of Commission on Corporation, Part IV,V,p.273.

regular way, he makes a memorandum of the order, and when he goes upon the floor offers to sell 100 Erie. Another broker who has been commissioned to buy 100 Erie hears his bid and takes the offer. A nod, raising of the fingers etc, is all the assent that is given many times. Each broker makes a memorandum on his pad of the transaction: "Sold 100 Erie to B @ 78", would be a typical memorandum. At the end of each day each broker sends a memorandum of each transaction to the other party to the purchase or sale, in order to guard against mistakes. It is remarkable that so few mistakes occur in the midst of such apparent confusion. The smallest unit of trade permitted is 100 shares. On the produce exchanges the unit is 5,000 bushels. There is however a small volume of trade in wheat and flax seed in 1,000 bushel lots. The next day before 12:15 p.m. A delivers 100 shares of Erie to B and receives his check for $7,800. A then settles with his principal, and gives him a check for $7,800 less the amount of the commission. B of course delivers the stock to his principal after receiving his commission on the purchase price. That transaction is absolutely completed. Few persons would deny that this is a legitimate business transaction.

Short sale.

Now let us say that Jones thinks the price of Erie is entirely too high and that it must soon break. Consequently he tells A to sell 100 shares of Erie at 78, we will say. A asks if Jones has any Erie and Jones says, "no."

A will probably ask Jones to deposit $780 as a margin to secure him against loss. Jones does so and A sells the 100 Erie to B at 78. Now we will suppose that Jones is right, and that Erie goes down to 76. A, having been instructed to buy if Erie declines two points, does so, and when the time for delivery comes, A delivers to B the 100 Erie which he bought for 76, and thus fulfills his contract. Jones of course profits by $200 less his commission. That is a short sale, or a sale of securities by one having no such securities to sell. Now let us suppose that Jones was wrong and that the stock goes to 80, and that he has no chance to buy this stock at 78 or below. A then probably goes to C, who loans stock, and borrows 100 Erie to be returned in ten days. In order to borrow this stock A must deposit its market value with C. C pays A interest usually. Unless demand for Erie is very great, A will not have to pay C for the use of the stock. C profits by the use of the money. So A delivers C's stock to B the next day and has fulfilled his contract. Perhaps during the next ten days Erie remains above 80, so that on the 9th day A buys 100 Erie at 81 and returns to C 100 Erie on the 10th day and receives back the market price of Erie plus the interest. When A settles with Jones, he returns Jones the margin $780 less the commission and less $300 loss. A keeps the interest. This is a short sale terminating either in favor of or against Jones. Short sales of grain are very similar except that delivery is usually in the

future and A must buy that"lot" dealt in instead of borrowing it. It may be remarked that many merchants make it a common practice to sell for future delivery commodities which they have not yet manufactured or bought.

Futures.

Now we will consider a sale for future delivery. Jones being a grain speculator, thinks that wheat is entirely too high at present and so sells through A 10,000 bushels for May delivery at $1.05. B has contracted to receive 10,000 bushels of wheat of A in May and to pay $105 for it. Now as a matter of fact, one of the big bulls in the market is trying to bolster it up and the price is too high. Consequently before May arrives, wheat declines, and A buys 10,000 bushels at $1.03 and delivers to B in May, having notified him the day before he intends to deliver. This is called seller's option, that is the seller has the option of delivering at any day throughout the month of May that he pleases. This was a typical sale for future delivery. Nearly every producer sells for future delivery. In the cotton business, the cotton is often sold from the farmer to the spinner in England long before it is picked.

Margin.

Buying on margin is putting up only a certain percentage of the cost price and buying the rest on credit. 10% is a common margin. Jones must keep that deposit at 10% of the market price, consequently if Jones has only $5,000 and deposits it as security with A and orders A to sell 50,000

bushels short at $1.00, and if wheat climbs to $1.11, A buys to protect himself at or before $1.10 and Jones is wiped out, as he cannot keep up his margin. As a matter of fact buying on margin is just the same in principle as buying real estate and paying only 10% down and engaging to pay the rest in the future.

Pyramiding.

Let us suppose that Jones orders A to buy 50,000 bushels of wheat at $1.00 and deposits $5,000 with A as security. Wheat goes to $1.05. Jones is jubilant and orders A to buy more wheat using his 5¢ a bushel paper profit ($2500) as margin to buy 25,000 more bushels. This is called pyramiding, and is a rather dangerous practice, for should wheat decline six points, Jones is liable to be sold out as he is not keeping his margins up.

Corners.

Let us suppose that Jones thinks that Erie is entirely too high and orders A to sell short at 150.

A does so, but when he tries to find any Erie to deliver, A is in trouble. The price of Erie is climbing steadily and there is none which can be borrowed. In such a case if A cannot find or buy any Erie to deliver, there is a corner and A is caught. Since the bulls have cornered the stock they can put the price up as high as they please, and in one of the biggest operations on the Stock Exchange in recent years, the bulls put the settling price at $1,000. But as a matter of fact, the bulls who have bought so much, have to <u>sell</u> it at <u>higher</u> prices before they can make a profit on their corner.

And there is very great danger that the market will break and leave the bulls with a large supply of stock for which they paid dearly. There are not many successful corners. Vanderbilt secured two successful corners. Hutchinson manipulated a successful corner in wheat.

Differences. When it is impossible to secure stock to deliver because there is none to get, there must be a settlement by way of differences. That is to say, A pays B the difference between what B makes the settling price, and the price that A sold the stock at. On some exchanges sometimes the Governing Committee decides that a corner exists and fixes the settling price, but I do not think that this has ever happened on the New York Stock Exchange. There are many sales of stock, however, in which both parties agree to settle by paying differences, and to waive delivery. There are undoubtedly a large number of such transactions. A typical case would occur if A sold short at $1.05 for future delivery to B, and if B waived delivery and merely asked for the difference between the selling price, $1.05,,and whatever the price rose to at the time for delivery, say $1.10. This settlement by way of differences in the typical case just supposed, brings great discredit upon the exchanges, and gives rise to the criticism of gambling. Now as to settlement of a May purchase of wheat, say, there is very strong testimony that the only possible way to avoid receiving the actual wheat or warehouse receipt

(which is the same thing), is to sell the wheat at the current market on or before the day it is tendered, and to deliver the wheat to the party to whom it was sold at the current market, when delivered to the buyer of the May future.

Now when A buys 5,000 bushels of May wheat of B in January he can if he desires have the actual wheat delivered to him. But perhaps this is unnecessary and useless. If A receives an order to sell 5,000 bushels of May wheat in January and does so sell it, it may happen that B is the purchaser. If so A and B have bought of and sold to each other one lot of May wheat. It would be useless to require actual delivery. A might say to B, "Deliver me 5,000 bushels of May wheat so that I can deliver it to you." And B might answer, "You deliver to me first." That would be useless, so A pays B $50 which represents the difference of 1¢ between their buying and selling prices. This is exactly the same thing that is done by banks owing each other different sums of money. It is the economical way of business. Then these two contracts for May wheat would be settled long before May, as we have seen that actual delivery was useless.

Now it might very readily happen that A buys 5,000 bushels of May wheat in January from B, and that B has bought 5,000 bushels of May wheat from C. Now before May comes C receives an order to buy 5,000 bushels of May wheat and does so, from A. Now here we are again when each of the three parties has bought

of and sold to each of the others. So actual delivery would again be foolish. This can be extended indefinitely. When such a situation occurs, the contracts are settled immediately if both parties are willing to do so. Either party can demand the actual wheat, however, at the proper time.

Now having shown when actual deliveries are not made, that is when each party has bought of and sold to each of the other parties, and when all the parties agree to waive actual delivery, next we will take up actual delivery. For there must be actual delivery unless the delivery is unnecessary as we have seen above. Delivery is usually made in lots of 5,000 bushels by warehouse receipts. As a general rule contracts, in which delivery is unnecessary, have usually been settled in advance, and so when time for delivery arrives, all the remaining contracts must be settled by delivery. These warehouse receipts are negotiable and pass from hand to hand. The sellers at 8:30 a.m. on the first business day of the month for delivery, hand to the buyers notices to pay for the grain and receive the receipts. Now A who has bought of B may either send B a check and obtain the receipt, or if A has sold grain to X, A can endorse the notice to X , who in turn can do likewise. So this notice passes through the hands of numerous different parties until it comes into the hands of some one who desires actual wheat. This last person pays for the wheat and obtains the receipt. All the intermediate parties settle by receiving or

paying the differences between the contract prices.

Now we saw that when A and B each had bought of the other, that the loser paid the difference in the prices to the other. Exactly the same thing occurs whether there are two parties or twenty. The parties having losses pay them, and the parties having profits collect them. Mr. John Hill[1] has explained this method of settlement by a hypothetical transaction which is reproduced here.

A has sold 5000 bu. of May wheat to B @ 81¢
B has sold 5000 bu. of May wheat to C @ 79¢
C has sold 5000 bu. of May wheat to D @ 82¢
D has sold 5000 bu. of May wheat to E @ 78¢
E has sold 5000 bu. of May wheat to A @ 83¢

Each party has sold to one party and bought of another party, so that delivery is unnecessary as we saw above. Now if all the parties agree to settle the contracts, and they usually will do so, the losers must pay their losses, the winners must collect their profits. For the sake of convenience a "settlement price" is named. Mr.Hill took 80¢ as the settlement price, but any other figure would have done just as well. Now A sold to B at 81¢, consequently he collects a profit of 1¢ from B. But A has bought of E at 83¢. Accordingly A pays 3¢ loss to E. B bought at 81¢ and so pays to A 1¢, and sold at 79¢ to C, so pays 1¢ to C. C bought of B at 79¢ and so collects 1¢ of B. And C sold to D at 82¢, so collects 2¢, and having sold to E at 78¢, pays E 2¢. E having bought of D at

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1. John Hill, Gold Bricks of Speculation,p.389.

78¢, collects 2¢ from D, and having sold to A at 83¢ collects 3¢ from A. So that each one of the parties settles with those persons with whom he contracted, exactly as though there were only two parties to the transaction. It will be noticed that the losses exactly equal the gains. This is the way in which the settlement by differences takes place. As has been said, it occurs only when delivery is unnecessary, because each of the persons has bought of and has sold to another one; and only when, delivery being unnecessary, all parties agree to so settle. Any one could demand wheat and get it.

Now, we will suppose that delivery is necessary, and that notice of delivery has passed through five hands. A delivery price is fixed exactly as the settlement price was, and the party receiving the commodity, that is the buyer pays for it at the delivery price. If the delivery price be 80¢, and if he contracted to buy at 81¢, he pays 1¢ to the person with whom he contracted, as in the settlement by differences. On the other hand, if the price at which he contracted to buy was 78¢, he collects 2¢ from the seller. And so it goes, proceeding throughout the entire chain. The final receiver of the notice who desires actual grain, returns the notice to the office of the man who sent it out, with a check for the proper amount and is given the receipts. This notice is received back again by him who sent it out within an hour after deliveries close, that is to say by 10:15 a.m. of the same day. When one sees what

a tremendous amount of work and expense this machinery saves, it seems as though it were quite justified, although these settlements by way of differences, and delivery by warehouse receipts have attracted more unfavorable attentiom, probably, than any other feature of the exchanges.

Clearing house.

The members of the Board of Trade of Chicago use a clearing house system corresponding to that used by the banks. A member may have to collect 2¢ a bushel from twenty men, and may have to pay 1¢ to thirty men, resulting, either from the settlement of contracts where delivery was unnecessary and the members willing to settle, or from delivery by notice. This member sends a statement to the Board of Trade Clearing House of the various amounts owed by him or to be collected by him, and the names of the parties. If A owes $1000 and desired to collect $500, A sends $500 to the Clearing House. Thus by paying out one check A can settle fifty accounts. These methods of settling differences, delivery by notice, and payment to the clearing house are frequently arraigned as being accommodations for gambling on a large scale. But it must be remembered how much time and money they save. Of course it would be possible for actual delivery of wheat to take place in each case, but the system used has been found by long experience to be the most economical one possible. The clearing house system used by the exchanges has been commended both in England and in America by Commissions appointed to

investigate Stock Exchanges. Governor Hughes' Committee in New York recommended no change in regard to this institution of the Exchange,[1], and the Royal Commission appointed June 9, 1877 "to inquire into the origin, objects, present constitution, customs, and usages of the London Stock Exchange, and the mode of transacting business in and in connection with that institution, and whether such existing rules, customs, and modes of conducting business were in accordance with law and with the requirements of public policy"etc, reported that the rules governing the clearing house were the result of long practice and appeared to answer the purpose exceedingly well.[2]

Manipulation of prices.

A matter which is much complained of is manipulation of prices. Governor Hughes' Commission found that manipulation of prices was resorted to in order to make a market for new securities, and in order to make a profit on fluctuations planned in advance. They reported that the former was unobjectionable when not accompanied by matched orders, as it is necessary to bring the stock before the public in some way. But they severely condemned the latter. Such manipulation may take place without a doubt where the amount of stock is small and where most of it is owned by the manipulators. But such a stock or security is hardly a safe one in which to speculate. It is hard to see how manipulation of

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1. Gov. Hughes' Committee, p.10.
2. Duguid, Story of Stock Exchange, p.264.

securities owned by many persons, as Pennsylvania Railroad stock is, or manipulation of wheat, corn etc, could affect the prices very much. Indeed it seems more probable that manipulation merely takes advantage of fluctuations in the market instead of making fluctuations. Those who work against the market go to the wall, and perhaps manipulators are less wise than they are given credit for being. Conspicuous examples are Sully of cotton fame, and Leiter the great wheat operator. However, it is undoubtedly true that there have been gross manipulations of stocks, and that they give a bad name to the exchanges.

Wash sales and Matched Orders.

If manipulation is caused by "wash sales" it then becomes a more serious matter. Wash sales are fictitious sales. They are forbidden by all exchanges and are not enforceable at law. Brokers detected while reporting any fictitious sales so that they will appear on the tape,are expelled. This is such a great punishment to the brokers that they seldom run the risk of it. Such fictitious sales are strongly to be condemned. Matched orders, however, are real sales and enforceable at law. If some speculator gives orders to A to sell Erie, and to B to buy Erie, they are matched orders. They cause the security dealt in to show greater activity than usual. They are condemned by many. They are really a species of advertisement. Certainly they are not open to such severe condemnation as wash sales are, for

the latter are only fictitious transactions. They should, however, not be encouraged by officials of exchanges. If some one who has secured a large amount of Erie desires to unload on the public at high prices, he usually, for his own protection, gives orders to buy if the market drops. This seems as unobjectionable as any of the regular stock exchange transactions.

Puts and Calls.

There is an option or privilege sold, sometimes, which is called a put. The following is a typical 'put'.

New York, Feb.1, 1911.

For value received, the Bearer may deliver me 100 shares of the preferred stock of the Chicago and North Western Railroad Company at 80% any time in 30 days from date. The undersigned is entitled to all the dividends or extra dividends declared during the time.

Witness, G.A.Morse. Signed, George Benton.

That is a privilege or option to deliver or put that stock if the price becomes favorable. We will suppose that A paid $100 for that privilege when Chicago and North Western was at 82. If the stock drops to 79 within the time limit, A will buy 100 shares and deliver them to the seller of the put, who will have to pay to A 80 for them. If on the other hand, Chic. & N.W. continues at 80 or above, the buyer A will simply not deliver the stock and put down the $100 as lost. The most that A can lose is $100, whereas he may gain a great deal. However, it

is usually only the seller of options who makes money. The late Russell Sage sold a great many puts and calls.

The following is a typical call.

New York, Feb.1,1911.

For value received the Bearer may Call on me for 100 shares of the preferred stock of the Chicago and North Western Railroad Company at 91%, any time in 30 days from date. The bearer is entitled to all dividends or extra dividends declared during the time.

Witness, G.A.Morse. Signed, George Benton.

We will suppose that A bought this call for $100 when Chicago and North Western was at 82. Now if the price goes up to 92 or above A will call on Benton for the stock, and the latter will have to buy at a loss. If the stock doesn't go to 91, A will have lost $100. So the buyer cannot lose more than he pays for the privilege. It will be seen that a call is the exact opposite of a put. Now a spread or straddle is a combination of the two. That is, the signer sells the privilege of receiving or of delivering the stock. Of course a spread or straddle is more expensive than a put or call.

These privileges are dealt in on the London Stock Exchange; but are against the rules of almost, if not all, the stock and produce exchanges of the United States.

Section 12, Article IV Bids and Offers, Part II, Rules for the Transaction or Conduct of Business; Constitution of the New

York Stock Exchange reads as follows:

"No offer to buy or sell privileges to receive or to deliver securities shall be made publicly at the exchange under penalty of $25 for each offense."

This flatly forbids such transactions. The New Orleans Cotton Exchange does not recognize them. They are prohibited by the Chicago Board of Trade. But they have been largely dealt in after the Exchange closes in the Board of Trade building. The testimony of almost all of the members of the exchanges, during hearings before the Agriculture Committee of the House of Representatives in 1892, and before the Judiciary Committee of the Senate in considering the Hatch and Washburn "Anti Option and Futures Bills". H.R. 2699 and Senate 685, 52d Congress, was to the effect that dealing in such options and privileges (puts, calls, and spreads) was gambling, and that it was the earnest desire of the exchange officials to stamp out such transactions. No opposition was offered by any one to sections of the bills under consideration forbidding them.

Alternative Contracts.

If A sells 10,000 bushels of number 1 northern wheat, and is called upon for the actual wheat by the buyer, the rules of the exchange permit him to substitute any other wheat higher in grade, if he cannot secure that which he contracted to sell. Of course the buyer must must pay the difference in value. The same practice prevails on the cotton exchange, except that cotton of a lower grade is substituted instead of a higher. This is usually called an an alternative contract.

Hedging.

Much business done on the grain exchanges and other exchanges is that which is called hedging. If a merchant buys 10,000 bushels of ear corn which will not do to shell for several months he usually sells a corresponding amount for future delivery, say May. That is commonly called a speculative transaction, but it is exactly the reverse. For now this merchant is secure in carrying this grain and knows exactly what his profit is. If he kept the grain in his cribs, expecting to sell it the next May, that would decidedly be a speculative transaction. Or suppose A is a miller who has contracted to supply flour in the future. Now he buys wheat for future delivery and thus can rest secure, not fearing a scarcity in grain in the future. Expert testimony in the consideration of the Anti Option and Futures bills was to the effect that there was not a single miller in the country who had not sold a bushel for future delivery, for every bushel in his elevator, or who had not bought for future delivery to fulfill contracts for future delivery of flour. This practice is also exceedingly current in the cotton trade as cotton is subject to severe fluctuations.

Bucket shops.

It may be well to explain a bucket shop arrangement, for it is not a sale. It is generally pretended that orders to buy 100 bushels of grain etc, are executed by the bucket shop keeper. But such is not the fact. No order ever given is executed. All settlements are made by

payment of losses or profits. The bucket shop is the other party to the bet which is made as to the course which the price will take. Price quotations are absolutely essential to the existence of these bucket shops, and if they are cut off the shops cannot survive. These transactions are not to be confused, as they frequently are, with dealings on the stock and produce exchanges. Many exchanges, including the Chicago Board of Trade, New Orleans Cotton Exchange, Milwaukee Chamber of Commerce, New York Cotton and Produce Exchanges, have adopted rules prohibiting their members from, in any way, recognizing bucket shop keepers in an exchange transaction, and the member who handles orders on the exchange for the keeper of a bucket shop, or who in any way lends assistance to him, is subject to expulsion. The bucket shop keeper measures his profits exactly by the losses of his patrons. He charges 25¢ commission for dealings in stock on $10 bets. Jones orders the keeper to buy 10 shares of American Sugar, and deposits $10. Sugar is at $110. If sugar declines to $109.25, Jones loses his $10. In other words, Jones wages even money that sugar will advance $1.25 per share before it declines 75¢.

Bucket shops have increased rapidly in the last twenty-five years. They are sure money-makers, and the men who keep them frequently defy efforts made to compell them to conform to the law. A few years ago Minnesota was overrun with them. Many states make it a crime to operate a bucket shop, including

Illinois, Wisconsin, Missouri, New York, and Massachusetts. In New York the keeping of one is a felony, under the recent statute of September 1,1908. These statutes, however, seem to make little or no difference to the bucket shop keepers, as they are rarely prosecuted by public officers. A pleasing exception to the rule is in Illinois where Mr.C.S.Deneen and Mr.A.C.Barnes secured many convictions in 1897.

The Christie Street Commission Company of Kansas City, Missouri, is said to have traded in 157,000,000 bushels of grain in a year. But this vast amount of business was not in any way beneficial to any one, except the company. The sale and purchase of 157,000,000 bushels of grain in the wheat pit, would have largely influenced prices, and so have helped to fix the market. But this gambling transaction had absolutely no effect upon the market, for not a single order was ever executed. The quotations from the market were simply used to settle the bets of the patrons and the keeper. It is to be sincerely hoped that bucket shop bets will not be confused with speculation on the stock and produce exchanges. If one should give an order to a broker to buy 10,000 bushels of grain, the contract would read approximately as follows:

New York, Feb.1,1911.

In consideration of $1 in hand paid, receipt of which is hereby acknowledged, Harris, Gates & Co. have this day sold to (or bought from) G.A.Morse 10,000 bushels of wheat, New York

inspected, at 90¢ per bushel, deliverable at seller's (or buyer's) option, May 30,1911.

This contract is made in view of and in all respects subject to, the By-Laws and Rules established by the New York Produce Exchange, in force at this date.

As we have seen, this contract would be executed and would perform its share in determining the price of wheat. But an order to a bucket shop would never be executed, and all the orders handed in to such shops have no influence upon the market. If the price, as reported to the bucket shop, is higher or lower the bucket shop loses or wins, according to the twrms of the bet. In a bull season, when the patrons of bucket shops are drawing money from the shop-keeper, one frequently reads that "So and So has closed its doors, thereby virtually winning whichever way the price goes.

Although dealing with a bucket shop keeper is in fact only gambling, it is only fair to state that some of the marked hostility of the exchanges to the bucket shop, is no doubt due to the fact that the latter secures patronage, some of which would otherwise go to the exchanges.

EVILS OF SPECULATION.

Having examined into the workings of speculation we will now consider its evils and benefits, looking at the gloomy side first. Undoubtedly there are some evils coincident to speculation, and our problem will be to ascertain how great they are, to what extent speculation performs useful functions, and to balance the two in order to see if, after all, speculation is really worth while. If we find that the good more than makes up for the bad, then, to what extent the evils may be curtailed.

Moral.

Demoralizes the public.

Let us begin with that evil of which we hear most. It is very easy to find magazine articles, addresses etc. which deplore the "tremendous speculative fever" which is abroad in this country. It is said that some people spend all their surplus earnings seeking to get something for nothing. Now in many cases, no doubt, gambling in bucket shops is meant, but certainly after eliminating that portion, there is some truth in the criticism. It seems to be a fact that speculation on the stock and produce exchanges tempts some men more than they appear able to resist, and that men in responsible positions fall a prey to this "fever of speculation". Many defalcating bank cashiers lay their downfall to speculation on the exchange. There is probably no doubt that men, and women too, spend far more than they can afford in speculation,

and that it has a decidedly bad moral effect upon them. One has only to visit one of the larger brokers' firms, and to see there the number of "hopefuls", who seem to make it their business to watch the blackboard, to realize that speculation on the exchanges has an evil effect upon some of its participants. Many of them are well named,"lambs". They live in a state of chronic expectancy, with small and few realizations. But on the other hand, many men blame speculation when they themselves are at fault. It is probably true that speculation has hurt the characters of this class of men, and that it leads to worse. This criticism appears to be well taken. The attitude of those whom President Lincoln called "the common people" is decidedly antagonistic to speculation, and the reason for this widespread hostility, which must be respected as there is generally a sound reason for strong public feeling, seems to be founded on this moral evil. It is probably true that speculation does induce a foregoing of habits of industry and thrift, with a consequent bad effect upon character and morality. This is a heavy price to pay for any good that speculation may do.

Defalcation not prosecuted.

It is also said that business morality is lowered because, sometimes, a defalcator or speculator with other people's money, is not prosecuted for fear that the prosecution would lead to a decided lowering of values, as the defalcation would have to be dis-

closed. The argument is that this encourages such defalcations, and that this leads to lower business morals. If speculation does lead to such results, and there seem to be instances known, it is to be regretted.

Senators speculate.

Another criticism is that Representatives and Senators in the United States Congress use their distinguished positions to make money on the exchanges by knowledge of legislation that will be enacted. However, this practice has never been generally established, although there are probably isolated cases. Such acts, it is needless to say, merit the severest punishment, and condemnation of the public. But, although it is an evil attendant upon speculation, it is hard to see how speculation causes it.

In so far as speculation resembles gambling more than other businesses do, it is to be deplored. It is easier to make and to lose money faster than in most other lines of business, and this offers an opportunity to those who desire to gamble, which probably is the motive of some who operate upon the exchanges. There is no doubt that speculation on the exchanges presents more chances to make and to lose money rapidly than any other business, due to the nature of speculation. Many people honestly believe that the mass of stock exchange transactions are bets, or only pure gambling. We have already gone over that, and if it can be shown that even those transactions which are entered into to take advantage of the opportu-

nities offered to quickly make and lose money, are productive of good, then there will certainly be seen to be some distinction between such speculation and gambling. It is commonly supposed that demoralization of the public is one of the evils of speculation. To my mind it is probably the worst evil, and one which certainly should not be minimized. One of the most prominent writers on this subject, and one who thoroughly believes that speculation accomplishes much good, says that it is at fearful cost.[1]

Dishonest Methods of Trading.

Manipulation.

Another evil much complained of is manipulation of prices. We have already seen what manipulation is, so that there is no need to go very deeply into it. Of course its motive is to make a profit by inducing the public to act in a certain way. As far as manipulation is accomplished by personal buying and selling there does not seem to be much objection to it, and there is probably less than is generally supposed, as it requires great skill and a large supply of capital.

However, if the manipulation takes the form of dishonest spreading of false news, influencing financial editors of papers, wash sales (a man sells to himself etc.), influencing directors against the best policy for the company etc., then it is certainly an evil and is to be strongly condemned. There has been undoubtedly such manipulation on the exchanges. There

1. H.C.Emery, Ten Years of Regulation of Stock Exchange in Gy. p.3.

is no answer to such criticism. They are evils unmixed with good.

Corners.

Of all the words peculiar to the exchange vernacular, "corner" is probably both the most common and the least understood. People think of Leiter, Sully, Patten, Hutchinson, Pardridge etc, but how few stop to recall the many who fail. It is submitted that corners do not cause as much harm as they are debited with. They require immense capital, much nerve, time, patience, and proper conditions. Although "conditions" is named last, it is believed to be the most important requisite. People forget that for every bushel or share bought, usually at high prices, there must be a corresponding bushel or share sold, usually when the price is going down. When corners do succeed they seldom do much harm outside of the speculators themselves. Of course some of the latter gain and more lose. But any corner in restraint of trade, manipulated in such a way as to hurt the consumer for the benefit of the operator, is objectionable for the sound, economical reasons, and it is believed, would not be enforced by the courts, on the ground of public policy.

Floating schemes.

Another evil, somewhat related to manipulation, is that of fraud in floating new enterprises. The promoters hire full page advertisements in the large newspapers and magazines. The advertisements contain promises, alluring enough, but unfortunately not founded on fact. Many

prospectuses contain promises of very large dividends in four years at the very latest, and a short time ago one swindle was run to ground which pledged 10% a month on all capital invested. It is quite true that the most honest prospectuses sometimes err, and that not all honest expectations are fulfilled. But there are frauds issued every year, the promoters of which should be severely punished. The recent so-called Blue Sky Law of Kansas and its rigorous enforcement are to be credited in saving people of that state money which might otherwise have been lost in such schemes. The work of the United States Postal Department probably acts as a deterrent to such swindlers also. It is of course true that the exchanges are not to blame for all of these frauds.

Miscellaneous.

Some particularly dishonest methods are those used in the spreading of false intelligence. The financial columns of some newspapers are probably openly bought, and the editors of others may be influenced one way or another, perhaps by "rewards for past services". It is interesting to note that some of the very newspapers which so strongly condemn speculation sometimes run full page advertisements of new schemes said to pay very highly. Occasionally there is a fraud in listing some stocks with which a wealthy or influential operator desires to play upon the Exchange. Such practises as these are discreditable and bring much blame upon the Exchanges. Of course they are evils.

It should be noteced that all the evils so far considered can be classified under two heads, demoralization of the public, and dishonest methods. That is to say, many of these evils are those of form and method, and not inherent in speculation itself, and, as defects of form, could in many cases be remedied by more strict internal regulation.

Economic.

Diverts capital from business.

It is said that speculation diverts money from legitimate business or investments, which, instead of being placed where it will produce a steady, if somewhat small, income, is spent in risky stock deals. The argument is that the speculator needs money and can afford to offer a high rate of interest. Now the banks of course are looking for the highest rates of interest that they can get in loans on safe security. Accordingly, the banks loan to speculators instead of loaning to business men, Thus a shortage of money is created in business circles. That is the argument. Now water will run down hill, and capital will seek the highest returns. As for security, the banks demand deposit of collateral with a safe margin, and so think themselves safe. Now those who desire bankers to go against their interests by not loaning money at the highest rate safely offered, are doing something somewhat similar to the "machine breakers" in England, who at the introduction of machinery into the factories, were thrown out of employment, and who tried to

retard progress by breaking the machines which worked them a personal harm although they greatly benefitted the world in general. Now whether this criticism is true or not, and whether it is an evil, if true, about which there may be a difference of opinion, the tremendous amount of wealth in incorporated securities should be remembered. About one-third of the total wealth in the United States is in the form of securities. It takes a large amount of money to deal in or handle, such a large number of shares. Then too, legitimate business which is extolled so highly, is quite risky. Indeed it has been calculated that between 75 and 90% of all business men fail. One answer to this criticism is, that speculation flourishes at extremely low rates[1] of interest, and not at the high rates which "divert capital from business." When interest is high and credit is not good, the public deserts the exchanges. It seems that there is at least some doubt as to the validity of this criticism.

Waste.

Another evil complained of is the waste of capital. Upon this point Governor Hughes' Committee reports as follows:

"A real distinction exists between speculation which is carried on by persons of means and experience, and based on an intelligent forecast, and that which is carried on by persons without these qualifications. The former is closely connected

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1. H. White, The Stock Exchange and the Money Market, p.87.

with regular business. While not unaccompanied by waste and loss, this speculation accomplishes an amount of good which offsets much of its cost. The latter does but a small amount of good and an almost incalculable amount of evil. In its nature it is in the same class with gambling upon the race track or at the roulette table, but is practised on a vastly larger scale. Its ramifications extend to all parts of the country. It involves a practical certainty of loss to those who engage in it. A continuous stream of wealth, taken from the actual capital of innumerable persons of relatively small means, swells the income of Brokers and operators dependent on this class of business, and insofar as it is consumed like most income, it represents a waste of capital. The total amount of this waste is rudely indicated by the obvious cost of the vast mechanism of brokerage, and by manipulators' gains, of both of which it is a large constituent element. But for a continuous influx of new customers, replacing those whose losses force them out of the street, this costly mechanism of speculation could not be maintained on anything like its present scale."[1]

This is the conclusion of a body of men who made a careful investigation of speculation, and whose chairman was no less a person than Horace White. It is certain that its view is entitled to attention and to respect. Presumptuous as it may appear, I am not at all sure that I agree with the above statement. In the first place I do not believe that speculation

1. Governor Hughes' Committee, p.4.

carried on by inexperienced persons does but a small amount of good. It is true that it does a large amount of evil by demoralizing the public. Under the division entitled the "good of speculation" I propose to show that this speculation, even though conducted by persons of inexperience, does a considerable amount of good. In the second place, I am not sure that speculation is responsible for the amount of money lost or won by the public. These losses and winnings are caused by changes in economic value of the article speculated in. If A buys $10,000 worth of preferred stock of the Union Pacific Railroad, takes them home and puts them in a safety vault, and if, owing to economic reasons, they decrease much in value, A has lost much money, but is it due to speculation? If A had paid for only part of the price of the stock, and if values had so declined as to wipe out his margin, most people would unhesitatingly say that speculation caused A's loss, but did it? The point that I desire to make is, that this loss is not caused by speculation but by changes in value, whoch would cause loss whether speculators took advantage of those changes in value or not. I do think, however, that the taking advantage of these opportunities to make and to lose money by poor and inexperienced people increases the <u>amounts</u> of the winnings and losses. Another point that I desire to raise is, whether this "continuous stream of wealth" is wasted or not? If speculation is productive of good, and if this continuous stream goes to help

produce speculation, there is a question whether this is wasted or not. Any one, I think, would admit that there probably is waste to a certain degree in speculating on the exchanges, at least waste as the word is commonly used.

Cricis.

Another question of moment is that of the effect of speculation upon money crises. It is closely related to the question of diverting capital from ordinary business into speculation by high rates of interest. It is a question of so much moment and complexity, however, that it is impossible to consider it here.[1] Mr.Gibson, in his Cycles of Speculation, page 63, has pointed out that whenever loans are unduly expanded in comparison to deposits, and whenever the per centage of specie to loans is small, we may look for trouble in the financial world. An increase in loans and discounts without a corresponding increase in cash on deposit forecasts coming recession in business or liquidation. It is probably undoubted that high rates for call money, and the calling of loans at critical moments produce many sharp fluctuations. A little later an effort will be made to show that speculation reduces fluctuations in times of inflation and the accompanying following distress.

Now we come to the main argument used against speculation on the produce exchanges. The chief arguments directed against speculation on the stock exchanges outside of demonal-

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1. Mr. Thomas York of Harvard University is preparing a thesis for the degree of Doctor of Philosophy upon this subject.

ization of public and dishonest methods, seem to be diverting capital from ordinary business, and waste of capital. When the Hatch and Washburne Anti Options and Futures Bills were before the Committees of Agriculture in the House, and of the Judiciary in the Senate, the chief argument used was that speculation on produce exchanges decreased the price of agricultural products to the great detriment of the farmer, and consequently of the country at large. This was asserted time after time to the two committees, by farmers and others, including Mr.C. A.Pillsbury, one of the greatest millers in the world. Moreover this same assertion was made time after time to the Industrial Commission when it was investigating the Distribution of Farm Products. Also, it formed one of the burdens of complaint when the Commissioner of Corporations was investigating cotton exchanges in 1907 and 1908. Consequently this argument was given special attention by all these bodies. Indeed the Industrial Commission and the Commissioner of Corporations devoted no inconsiderable portion of their reports to this very subject.

Depresses prices to producer.

In the late 80's and early 90's the prices of agricultural products were quite low. Times were hard for the farmer, and he felt he wasn't getting sufficiently well paid for his work and products. Consequently he began to look about for some one to blame, and accordingly cast the blame upon the produce exchanges. It was said that

selling futures short lowered the price of farm products, and the proof was the price prevailing then. In 1890 Representative Butterworth of Ohio introduced a bill taxing dealers in options and futures 5¢ a pound on cotton and on all hog products and 20¢ a bushel on wheat, corn, oats, barley, and rye. This bill failed of consideration by the death of the 51st Congress. In January, 1892, 52d Congress, 1st session, bills of a similar nature were introduced by Mr. Hatch of Missouri, in the House, and by Senator Washburne of Minnesota, and by Senator Peffer of Kansas. The bills were numbered H.R.2699, S.685, and S. 1268 respectively. H.R.2699 imposed a license fee of $2,000 on dealers in options and futures, and the same taxes as the Butterworth bill contained. S.685 imposed a license fee of $1,000 and the same taxes. Senator Peffer's bill made such dealings felonies, punishable by imprisonment from two to ten years. These bills made no distinction between options or privileges, and futures, although we have seen that they are not the same. The bills were ostensibly for revenue, but really in order to exterminate dealings in options and futures. It is worthy of note that in the investigation which followed, C. A. Pillsbury of the Pillsbury Mills, advocated passing such a bill, and that it was openly charged by speakers that Senator Washburne was acting in the interest of a British syndicate which controlled a number of mills in Minneapolis, Senator Washburne's home town. It is also interesting to note that to-day

the Washburne-Crosby Cold Medal Flour is perhaps the most advertised flour on the market.

The New York Cotton Exchange, New Orleans Cotton Exchange, Board of Trade of Chicago, New York Produce Exchange, and many other exchanges issued memorials and protests against these bills and sent representatives to the hearings of the Committee of Agriculture.[1] The hearings were opened (and also closed) by Mr. C. Wood Davis of Kansas who proved, conclusively to his own satisfaction, that futures were the cause of the low price of farm products. He was followed by many others, some on one side and some on the other. Not one of the exchanges protested against prohibiting dealings in options or privileges, but all protested mightily against prohibiting futures. The testimony of Mr. Michael Cudahy is worthy of note. He said that it made no difference to him whether these bills were passed, but that as surely as they were, so surely would the farmers receive less for their hogs or the price of manufactured products would rise. The representatives of the exchanges indulged in a pleasing reductio ad absurdum by asking how long before the price of wheat would reach zero, if the effect of futures selling was to constantly lower the price. But the best answer to this criticism is a table showing the price of wheat, which is given here.

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1. Dealings in Options and Futures. Protests, Memorials etc.

Average farm price per bushel of wheat, December 1 of each year from 1866 to 1910. Year Book Department of Agriculture 1909, page 446.

Year	Cents	Year	Cents	Year	Cents
1866	152.7	1881	119.2	1896	72.6
1867	145.2	1882	88.4	1897	80.8
1868	108.5	1883	91.1	1898	58.2
1869	76.5	1884	64.5	1899	58.4
1870	94.4	1885	77.1	1900	61.9
1871	114.5	1886	68.7	1901	52.4
1872	111.4	1887	68.1	1902	63.0
1873	106.9	1888	92.6	1903	69.5
1874	86.3	1889	69.8	1904	92.4
1875	89.5	1890	83.8	1905	74.8
1876	96.3	1891	83.9	1906	66.7
1877	105.7	1892	62.4	1907	87.04
1878	77.6	1893	53.8	1908	92.8
1879	110.8	1894	49.1	1909	99.0
1880	95.1	1895	50.9		

It will be noticed that the price of wheat declined from $1.19 per bushel in 1881 to 49¢ in 1894, and that 92¢ in 1888 was the highest reached between 1883 and 1908. This was indeed a reduction from the high prices from 1875 to 1884 when dollar wheat was common. From 1894 to 1903 wheat hung very close to 60¢ with occasional fluctuations above and below. Since 1903 the price of wheat has steadily gone up, being 99¢ December 1 1909. This settles the argument made that the futures system constantly lowers prices of farm products.

But this does not answer the question, do futures have a <u>tendency</u> to lower prices of farm products? Now we will analyze a futures transaction and look at its elements. A sells

10,000 bushels of wheat short for May delivery. It is true that A sells and that sales tend to lower prices. But that one sale does not directly tend to lower spot prices because it is a sale for future delivery. But B buys that 10,000 bushels. So B's purchase offsets the tendency of A's sale to lower futures prices. Now in May or before, A must cover, so he buys spot wheat. That certainly tends to raise the price of spot wheat. But B sells A that wheat so the two tendencies once more counteract each other. Now what does all this tend to show? Simply that however extensive futures transactions may be, they do not distinctly tend to lower or to raise the price, but rather to offset and counteract each other. It is interesting to note what the Industrial Commission says as to this point.

"It is a mistake to represent speculation in futures as an organized attempt to suppress prices to producers.

"1st. Because every short seller must become a buyer before he carries out his contract.

"2d. Because, so far as spot prices are concerned, the short seller appears as a buyer and not as a seller, therefore, against his own will is instrumental in raising prices.

"3d. Because, as far as futures prices are concerned, the bull in speculative buying counteracts the effects of the speculative selling of the bear.

"4th. Because, the bull in his realizing operations when depressing prices, is counteracted by the opposite effect of the

covering movements of the bear, the two sides thus keeping the market price about where it would be kept in the long run, if, instead of bulls and bears, there would be ordinary legitimate buyers and sellers.

"5th. Because, as has been shown, futures sales are not made at a uniformly lower price than the corresponding spot price, but on the contrary are, on the average, a little above spot prices to meet the cost of storage, interest and other charges.

"6th. Because, as has been shown, neither the bears nor the bulls are uniformly on the winning side, but are about equally losers and winners, thus proving that one is about as important and influential a factor in the market as the other.

"7th. Because, evidence believed to be conclusive has been presented, showing that under speculation, prices prevailing at the time when producers dispose of the greater part of their products are greater in comparison to the rest of the year, than they were before the advent of modern speculation."[1]

This seems to bear out the conclusion reached, that futures have no marked tendency to influence prices of farm products either way.

Table 2.

Production of corn, wheat, and cotton, and prices from 1883 to 1900, copied from Report of Industrial Commission, XIX, p.140. [From the Crop Reports.]

1. Report of Industrial Commission, VI, p.223.

Year	Corn, bushels	Price	Wheat, bush.	Price bush.	Cotton, bale	Pr. per lb in cts in N.Y.
1883	1,551,000,000	42.4	421,000,000	91.1	5,701,000	10 5/8
1884	1,796,000,000	35.7	513,000,000	64.5	6,575,000	10 5/16
1885	1,936,000,000	32.8	359,000,000	77.1	5,682,000	9
1886	1,665,000,000	36.6	457,000,000	68.7	6,254,000	9 1/2
1887	1,456,000,000	44.4	456,000,000	68.1	7,020,000	9 13/16
1888	1,988,000,000	34.1	416,000,000	92.6	6,941,000	10
1889	2,113,000,000	28.3	491,000,000	69.8	7,473,000	10 11/16
1890	1,490,000,000	50.6	399,000,000	83.8	8,653,000	8 5/8
1891	2,060,000,000	40.6	612,000,000	83.9	9,035,000	7 1/4
1892	1,628,000,000	39.4	516,000,000	62.4	6,700,000	8
1893	1,619,000,000	36.5	396,000,000	53.8	7,493,000	7 1/4
1894	1,213,000,000	45.7	460,000,000	49.1	9,476,000	6
1895	2,151,000,000	25.3	467,000,000	50.9	7,161,000	7 3/4
1896	2,284,000,000	21.5	428,000,000	72.6	8,533,000	7 5/16
1897	1,903,000,000	26.3	530,000,000	80.8	10,898,000	5 13/16
1898	1,924,000,000	28.7	675,000,000	58.2	11,889,000	5 9/16
1899	2,078,000,000	30.3	547,000,000	58.4	9,143,000	8 3/4
1900	2,105,000,000	35.7	522,000,000	62.0	10,383,422	9

A glance over the tables of prices of wheat, corn, and cotton for years past certainly does <u>not</u> show any evidence of a marked tendency either way. The Industrial Commission has the following to say in its final report:

"It is certain that speculation in future prices does have a more or less intimate connection with actual values of farm products, but no evidence has been conclusive enough to show whether variations of actual values have been caused by speculative variations, or whether speculative changes have been the result of changes in actual market values. Of farm products it is probably correct to say that speculation does not govern prices except so far as the speculative prices enable the buyer or seller of actual goods to anticipate the probable course of prices at a future

time. If this be a fair statement of the weight of evidence, then the speculative market must be looked upon as a buyer's barometer, which more or less faithfully reflects the estimate of the market. It has not been denied that the producer constantly avails himself of this indicator of values in determining whether to withhold or to dispose of his crop."[1]

This seems to be strong testimony that the contention of the producers can not be sustained. At least no one has as yet succeeded in proving that assertion. Certainly the tables of prices show that futures have no marked tendency to lower prices.

It must be admitted, however, that the Committee on Agriculture in the House apparently concluded otherwise, for that Committee reported a substitute bill having the same general effect as the original bill.[2] It is rather amusing to note, however, that Mr. Hatch cited numerous quotations from daily newspapers of the pernicious effects of futures, apparently finding in them, his best proof.

The Commissioner of Corporations came to about the same conclusions as the Industrial Commission, as to the alleged tendency of the future system to depress cotton prices. He reports as follows:

"It is true that transactions in future contracts on either

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1. Report of Industrial Commission, XIX,p.136.
2. 3045, 52d Congress, 1st sess.,House of Reps. Report #969.

the New York or the New Orleans cotton exchange in any year ordinarily represent a volume of cotton vastly greater than the total crop. .....The greater volume of transactions is due, in part, of course, to the fact that contracts repeatedly change hands during the period from the time that they are entered into to the date of maturity. ..... It by no means follows, however, that these large sales of futures necessarily depress prices. That this is not the case can easily be shown by comparing the total transactions in futures on the New York Cotton exchange for a series of years with the average yearly prices of middling cotton, the price movements for that grade being fairly representative of those of the crop as a whole. Such a comparison for the period from 1871 to 1897 is presented in table 33." Reproduced in Table 3. "Taking those years for the remainder of the period, which show extreme changes in the ratio of future sales to the crop, it will be seen that the first phenomenal increase in the ration occurred in 1879 when the total sales of futures were 501% of the actual crop, or, to use a common expression, the crop was "dealt in five times over" on the New York Cotton Exchange. In this year of exceptional activity the average price of middling fell to 10.83 cents as compared with 11.28 cents in the preceding year. In the season of 1878-79, however, for the first time in the history of the cotton trade, the crop exceeded 5,000,000,bales. In the next year, 1880, future sales were 591% of a materially increased crop,

Table 3.

Comparison of average spot prices of middling cotton with volume of future sales, New York market, and with cotton crop, 1871-1897.

Year ending Aug.31.	Fut.sales New York.	Average spot price.	Cotton crop.	Relation of future sales to crop.
	Bales	cents	Bales	per cent.
1871	3,000,000	16.95	4,352,317	69
1872	4,933,700	20.48	2,974,351	166
1873	5,299,700	18.15	3,930,508	135
1874	6,187,700	17.00	4,170,388	148
1875	8,358,000	15.00	3,832,991	218
1876	7,233,650	13,00	4,632,313	156
1877	10,735,400	11.73	4,474,069	240
1878	12,973,300	11.28	4,773,685	270
1879	25,410,600	10.83	5,074,155	501
1880	34,006,600	12.02	5,755,359	591
1881	28,800,900	11.34	6,605,750	436
1882	33,077,400	12.16	5,456,048	606
1883	26,543,600	10.63	6,949,756	382
1884	24,632,100	10.64	5,713,200	431
1885	20,889,700	10.54	5,682,000	368
1886	23,270,600	9.44	6,575,691	354
1887	26,482,100	10.25	6,505,087	407
1888	25,763,900	10.27	7,046,833	366
1889	18,764,800	10.71	6,938,290	270
1890	22,138,200	11.53	7,472,511	296
1891	24,885,900	9.03	8,652,597	288
1892	34,187,200	7.64	9,035,379	378
1893	53,245,400	8.24	6,700,365	795
1894	37,888,400	7.67	7,493,000	506
1895	39,368,500	6.50	9,901,251	398
1896	56,469,000	8.16	7,161,094	789
1897	36,113,000	7.72	8,532,705	423

yet the price rose from an average of 10.83 cents to 12.02 cents. If the theory that a heavy volume of future trading depresses, has any merit, a decided decline instead of an advance of over a cent might therefore have been expected in 1880. In 1882 the crop was dealt in six times over on the New York Cotton Exchange, yet the price advanced from 11.34 cents to 12.16 cents. The explanation undoubtedly is to be found in the sharp reduction of the crop which fell from about 6,600,000 bales for the season of 1880-81 to 5,456,000 bales for the season of 1881-82. In 1893 the ratio of future sales was highest for any year shown in the table, the crop being traded in nearly eight times over. This great activity was accompanied by an advance of 0.6 cents in the average price of middling. However, the crop for the season of 1892-93 was short, falling 2,335,000 bales under that of the previous season. Thus it will be seen that pronounced activity in the future market has frequently been accompanied by an advance in the price of spot cotton instead of by a decline. Similarly an inactive future market has frequently been accompanied by a decline. It will be seen therefore that a heavy volume of future transactions has by no means usually been accompanied by a decline in the price of cotton. Indeed the table shows that an increase in the volume of future trading has frequently been accompanied by an advance in the price."[1]

All this testimony tends to show that the evil complained

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1. Report of Commissioner of Corporations, Part IV, p.272.

of does not exist. At least it certainly has not been firmly established. It is interesting to look at the matter from the other side. Many spinners complain that the tendency of the future system is to advance the price of cotton. The same answer to alleged tendency to lower the price to the producer, applies here as well. In the past ten years of fairly high prices, producers have forgotten to complain about the evils of the future system. Of course no producer thinks of attributing the cause of higher prices to the future system.

Even if producers could establish the criticism that future system led to lower prices of farm products, that would not necessarily be an evil. There are many more consumers than producers in the United States, notwithstanding the fact that this is a great agricultural nation. Roughly speaking, about 45% of the population is engaged in producing, and 100% is engaged in consuming. Anything that would tend to lower the price of the necessities of life to the consumer, would be looked upon by many as a blessing. So I repeat, the opponents of future system have not succeeded in showing that the future system has an evil effect upon the prices of farm products. Even admitting the assertion that the future system lowers prices of farm products, the conclusion does not follow that this is an evil.

BENEFITS OF SPECULATION.

Having considered the evils which it is claimed are caused by speculation, it becomes a more pleasant task to consider the good which it is claimed speculation accomplishes. First, the two principal arguments which the partisans of speculation on the stock exchanges advocate, will be considered, and then the two principal arguments put forth by the adherents of speculation on the produce exchanges.

Barometer of values.

One very frequently sees the statement that speculation on the stock market furnishes a barometer of values. Now we have seen that exchanges are only organized markets for buying and selling. Now when we desire to buy fish etc. what do we do? We go where fish are bought and sold, and ascertain the price; and if we buy fish, we buy it at the fish market, that is, at the place where trading in fish is most active. Now stock exchanges are places where negotiable securities are bought and sold, where there is a tremendous amount of buying and selling sometimes. Indeed on September 23, 1911 it was reported that stock of the United States Steel Corporation alone was dealt in to the great value of $550,000,000. Any one who wanted to sell United States Steel would have gone to the stock market and would there have had an opportunity to sell, whether he did sell or not. Now what was true of United States Steel that day is true of every stock every day, only to a less degree. If a

Expert advice free

farmer has hay to sell, what does he do? He takes it where they sell and buy hay, that is to the market, or perhaps he ships it to Kansas City, or some other large center, where there is a large market, and where he thinks he will have the best opportunity to sell it. And why the best opportunity to sell it there? Simply because there is a large market there, that is, there is much buying and selling of hay. The market is broad, and the more buying and selling there is, the more opportunity there is to sell his hay.

Now exactly the same principles apply in selling stock as apply in selling hay. In order to sell, go where there is the greatest demand. Consequently the person who has stocks to sell will sell it on the stock market; and the more people there are who buy and sell, the better will be his chance to sell his stock. That is the reason why I differed from Governor Hughes' Committee and said that speculative buying by inexperienced persons did good. It does good - it helps to provide a continuous open market, it makes the market more active, that is to say, a better place in which to buy and to sell, that is it provides a ready market. If you give a man equal opportunities to go to two markets, one of which has 100 buyers and sellers, and the other 1000, the odds are big that the man will go to the biggest market, for that provides more opportunity to buy and sell. That is said to be one reason why a town of 40,000 sixty or seventy miles from a city of 200,000, does not grow as rapidly in

proportion to its size as does the city. Consequently I say that if the buying and selling of these inexperienced people increases the market, and it most certainly does, that then this same buying and selling by inexperienced people, does good. This argument assumes that speculation is on the whole beneficial. Of course, if the conclusion that speculation is on the whole beneficial, is incorrect, my minor assertion that speculation by inexperienced persons does good, is not proven. And equally, of course, if that conclusion be correct, it necessarily follows that the minor assertion is true, as it cannot be doubted that this buying and selling broadens the market, and that a broad market is a better place in which to buy and to sell than a narrow one.

It may be asked why it is an advantage that the market should be broad. One reason is, as we shall see, that a broad speculation should impart greater steadiness to price movements. In order to hedge satisfactorily the market must be broad and active; and the greater amount of buying and selling there is, the broader and more active the market becomes. Now these inexperienced people contribute very largely to the volume of trading. Without their purely speculative transactions the future market would be narrow, and any considerable hedge, for example, would cause prices to fluctuate rapidly. Several times there have been efforts to establish future trading in cotton at Memphis (1906-07), Mobile, Savannah, and Galveston (1881 and 1904),

At all of these markets there are extensive hedging buying and selling. At all of these markets the movement fell through because there was no speculative business. In Galveston the trades were restricted to contracts of sales between members who wanted cotton for future delivery. The market without speculative buying and selling was very active but very narrow, and the reason assigned for the failure of these markets was because there was no speculative buying and selling. That is to say, the markets need the broadening influence of the speculative transactions of these inexperienced people.

Now every time that a sale is made upon the exchange, it is reported, and the price and number of shares go upon the tape of the ticker, and thence are telegraphed all over the United States, to London, Paris etc. That is to say, there is a continuous stream of quotations of values going out to the public, and these quotations are obtained through the clash and compromise of two distinct and opposing forces, buyers and sellers. As these men have antagonistic motives, and as some of them have bought and sold many times, they are no mere tyros, and the quotations sent out afford to everyone interested the sum total of expert opinion as to the relations of supply, demand, earning power, and all other facts which determine the value of the stocks dealt in. It is expert opinion free. All that one has to do in order to learn what the buyers and sellers of United States Rubber think as to its value is to look at the quotations of sales made in

that security. And thus a prospective buyer or seller has the great advantage of expert opinion free. So it is that the exchanges act as a barometer of values.

Finger on the Wall.

Perhaps some one will ask, what is the use of all this anyway? The answer is, this barometer directs capital to the best utility. That is to say, to the field of greatest returns; and the field of greatest returns is the field where it is most needed. A hungry man can afford to spend more for a loaf of bread than a well fed man, because the former needs it more. In other words the exchange is a gigantic hand upon the wall of modern times, pointing out to capitalists where the investment of their money is most needed. If it were not for such a barometer which reveals the true relations of supply and demand to a student of the exchange, much money might be spent in promoting a new railroad where none is needed etc.

All that has been said holds true of produce exchanges also, except that the market directs the distribution of <u>products</u> and <u>commodities</u> to the places where they are most needed, instead of <u>capital</u>. If wheat is 10¢ higher in Chicago than in St.Louis, then wheat is sent almost automatically to Chicago to satisfy the greater demand for it there. It is like water finding its level. Wheat goes where it is most expensive, that is where there is greatest demand for it. This seems to me to be a great service which speculation upon the stock and produce exchanges performs.

It is a means of forecasting prices. Under modern conditions it is necessary to make many contracts to deliver goods in advance of the time of delivery. Speculation in futures greatly facilitates fixing prices for such contracts. The future quotation means that the opinion of men who seek to know all facts likely to affect the future price, is that the future price will be what the quotation of futures now is. Without such quotations a cotton merchant, for example, would probably have great difficulty in naming his future price.

Equalizes money pressure.

It is said that speculation on the stock exchanges equalizes the pressure in money. By this is meant that if the United States needed gold, speculation would secure it. That is, that gold would come pouring into the United States by the sale of United States securities at a low figure abroad. The best example of this is France and the

A Mobility to Capital

$1,000,000,000 war indemnity demanded by Germany after the war of 1870. Few expected that France would be able to pay this tremendous indemnity in the short time granted. Now, France for years had bought securities, and particularly many foreign ones. By the sale of her foreign securities at a comparatively speaking, low rate, France obtained the tremendous sum demanded, and paid it within the short time specified. We see that in this case the barometer of values pointed to a large supply at a comparatively cheap figure, and money flowed in the direction pointed out.

Moreover, France paid this great indemnity without any convulsion. What else could she have sold to obtain this sum in such a short time? This case shows how easy it is to sell stocks. There seems to be no doubt that speculation makes capital mobile. It would be hard to find a way in which capital could be sent to the direction in which it is needed, as easily and economically as it is now.

Facilitates credit.

We have seen how easy it is to sell stocks. It is equally easy in ordinary times to borrow money on stocks. Collateral security is recognized everywhere. And why? Because there is a great market for these negotiable securities. We all know how hard it is to sell real estate, even at a loss, sometimes. But any time that one desires to sell stocks it can be done on the market. Keeping a market open for instantaneous use is one of the things which speculation does. We have all seen how speculation in real estate provides buyers. It does on exchanges too. But fortunately, it is held in check on the exchanges by short sellers. There are no short sellers in real estate speculations, and so inflation is not kept down and is followed by period of depression, so that the real estate market is open only part of the time. So it will probably not be disputed that speculation facilitates credit by providing a broad, ready market for collateral securities. A speculator helps to distribute investments among those who can afford to hold the securities perma-

nently, for the income they produce. Many of the most solid and stable stocks of to-day have, in days past, been speculative. Among these are Bell Telephone, New York Central etc.

It is said that the Jewish race became the money lenders of Europe because they early, through necessity, learned the need of putting their wealth into commodities which could be transferred from one to another, that is negotiable, and which could be sold readily. If that is so, it throws a passing light on the value of a continuous open market. It is a function of the stock market to provide stocks and bonds with negotiability. That is to say, one who has securities to sell, can sell them, and one who desires to buy securities can buy them when he desires to. This possibility is largely due to speculative buying and selling, for that brings many buyers and sellers together. This argument as to equalizing money pressure and thereby making it easy to buy and sell commodities and stocks, and to borrow money on them, giving mobility to capital, and tending towards the expansion of credit, seems to be a sound one It follows naturally in the wake of the barometer of value argument, but is not such an important one, to my mind.

Leaving these arguments claimed by the advocates of speculation on stock exchanges, we will consider the arguments of the advocates of speculation in produce exchanges. Now, here the test of utility is, does such speculation perform service to the producer or consumer? That is, does such speculation tend

to reduce the price paid by the consumer, or increase the price paid to the producer, or does it lower the difference between what is paid to the producer and by the consumer.

Acts as a Buffer.

In general It is frequently said that speculation relieves trade of the risks of fluctuation. What is meant is that the inevitable risk of economic changes in value of securities and commodities is shifted from producer and consumer to a special class of risk takers, known as speculators. Speculators are willing to buy or to sell at the market price, and so relieve producers of the necessity of holding their goods. This allows producers to use their capital in production, and relieves them of the necessity of reserving a portion as security against inevitable changes of value, due to different conditions of supply and demand etc. Now what are these risks? The risk of distribution is a great one in marketing agricultural commodities. And how does the speculator assume this risk? He buys the commodity when offered for sale and distributes it to the consumer. Or if there is a glut in the market and the consumer wants no more at present, the speculator assumes the risk of carrying over the commodity until it is needed These are the two great risks which the speculator in agricultural products assumes, the risk of change of value, and that of distribution. Thus we see that both producer and consumer are freed from these risks, and that they are assumed by this

particular class. The risk is localized. Now the British government evidently thinks that speculators perform this service acceptably, for even in India, which is subject to great famines, supplies are distributed by speculation. This shows rather well that practical experience has found that speculative distribution of supplies is more efficient than bureaucratic distribution would be. A strong contrast is shown in Russia where the government has assumed part of the risks of crop distribution. There, it was reported to the Industrial Commission, piles of wheat rot in one section while people starve in the next.[1] This seems to show that speculation distributes products properly. It would seem that speculation would point the way where the supplies were needed most, better than any way which has as yet been devised. The Industrial Commission came to that conclusion, as it made no recommendation relative to legislative action on this point, and as it said,"It cannot be shown that the producer is the victim of an uneconomical system of grain distribution."[2]

Some one may ask why the producer could not do this just as well as the speculator. When the speculator assumes this function of distributing surplus commodities over deficit times and places, he relieves the producer and also the consumer of much uncertainty. When the producer has produced his crop, he wants to be at liberty to go back and raise another crop. Not only

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1. Report of Industrial Commission, VI,p.29.
2. Ibidem.

is that true, but the consumer wants to be able to buy his flour every week in every month and not have to buy all of it at one or two periods of the year. Besides, as a general rule the producer must have money and wants it right away. He is enabled to sell his entire crop for cash as soon as he has harvested it. Not only this, but suppose there were no speculative buying or selling. That would mean that the entire crop would be cast upon the market at the same time, and that there would be a great glut, resulting in much lower prices. Then, several months later when the supply would be low, the price would go up much higher, and so both producer and consumer would have reason to complain. As it is now, speculators take care of the crop and carry it, and prices in the month of May are not very different from those of August and September. This is the service that the speculator in agricultural products performs. Thus it is seen that he is a sort of insurer against risks. It would seem then, that speculation in the produce exchanges acts as an insurance against wild fluctuations, and makes production more steady than it otherwise would be.

Hedging.

That is to say, speculation acts as a buffer between the producer and the market. "Wall Street discounts everything" is a dell known saying. Some recent movements in stocks tend to prove the truth of this statement. Immediately after reciprocity was defeated in Canada, Sept.22, 1911, prices of wheat, corn etc. rose quickly several points,

showing that reciprocity was regarded as a measure which would reduce the price of wheat to the producer. About the same time it was suggested that Attorney General Wickersham was beginning legal steps toward the dissolution of the United States Steel Corporation. Immediately the common stock fell five points, and the preferred stock as much. The German market broke about Sept.9,1911 in anticipation of war with France over Morocco, and some stocks fell off 15 points. (On the following day, however, the market became much firmer). Now it is largely due to this very habit of discounting in advance that speculation tends to make production safer and more even. Hedging secures an easy rest to many who otherwise would be on an uneasy seat. Hedging transfers speculative risks from nonspeculators to the speculators. A merchant receives an order for 5,000 bales of middling cotton at 7¢ a pound from a spinner, desires to protect himself, and to make a profit. So he buys 5,000 bales for future delivery. Now this transfers the risk of speculative loss and also risk of speculative profit to the speculator who sells this cotton to the merchant. If the price of spot cotton,which the merchant will need with which to fulfill his contract with the spinner, advances, so will the 5,000 bales for future delivery advance in price. Consequently if he loses on the spot cotton furnished the spinner, he sells out his future at a corresponding profit; and if value of the future declines, so will the value of spot, and so he makes up for loss on future, when

sold, by the profit on spot cotton. Of course this hedging secures him and enables him to calculate exceedingly close profits, this being a benefit to the consumer, for otherwise the merchant would have to charge the spinner more to insure himself against rise in price of spot cotton, and the spinner would probably have to charge more in order to insure himself, and so the consumer would have to pay more. The principle of hedging is offsetting a loss by a gain. So long as price of spot and future cotton etc. move in harmony the risk is reduced to a minimum. Of course anything that disturbs the sympathy between the two price movements is dangerous and productive of evil. Anything that tends to impair this very important function of speculation in the produce exchanges is to be guarded against. This is a seemingly speculative transaction, and yet it really is just the reverse, As it reduces the risks to the hedger, by so much does it reduce the margin which he will have to make in order to make a profit. As for the speculators, they assume this risk as one of the reasons for their existence. This is a very common transaction; indeed it has been said that it is universal. It is a part of the business of merchants, spinners, elevator men, manufacturers of hog products, and those who make contracts for the future delivery of such products, to go short upon the Board of Trade, exchange etc. an amount corresponding to that purchased as raw material. Without this shifting of risks, the miller etc. would have to ask a greater

margin on his finished product, and this would raise the price to the consumer. It can readily be seen that this hedging narrows the margin of profit between the producer and consumer, and so is of great benefit.

Keeps Prices Steady.

In general The next argument made is that speculation in commodities keeps prices steady. That certainly sounds reasonable, for, if speculators did not carry the commodities, there would be a great amount thrown upon the market at once and prices would go down. Then, when the demand became greater than the supply, the price would go up and so fluctuation would be extreme. The tendency of the future system is to keep the prices nearly the same all the year round.

Professor Emery made a table comparing the average monthly prices of winter wheat in New York for four years before, and for four years after the advent of speculation (future system). This table is copied here. It seems to show that fluctuations have been less extreme since the advent of speculation in commodities, than before. In the month of July before speculation prices ranged from $1.04 to $2.07 1/2, a fluctuation of $1.03 1/2. For the corresponding month after speculation they ranged from 99 7/8 cents to 71 1/16 cents, or 28 13/16 cents. The largest fluctuation for the four years after the advent of speculation was 42 15/16 cents. The smallest before speculation was 47 cents. From the amount of fluctuations columns

Table 4.

Comparison of average monthly prices for winter wheat in New York for four years before and four years after the advent of speculation. Copied from H.C.Emery, in Report of the Industrial Commission, VI,p.195; Speculation on Stocks and Produce Exchanges of the United States,p.127, Columbia University Studies v.7.

Month	Year 1855-6	1856-7	1857-8	1858-9	Amount of fluctuation
July	$2.07 1/2	$1.55	$1.75	$1.04	$1.03 1/2
Aug.	1.80	1.57	1.55	1.15 1/2	.64 1/2
Sept.	1.85	1.55	1.40	1.18	.67
Oct.	1.93	1.56	1.17	1.11 1/2	.81 1/2
Nov.	2.08	1.55	1.19	1.18	.90
Dec.	2.05	1.57	1.17	1.18 1/4	.88
Jan.	1.95	1.57	1.12	1.25 1/2	.83
Feb.	1.83	1.55	1.17	1.36 1/2	.66
March	1.70	1.48	1.15	1.48	.55
April	1.64	1.45	1.17	1.43 3/4	.47
May	1.60	1.65	1.04	1.65	.61
June	1.45	1.70	1.02	1.55 1/4	.68
Amt.of fluct.	.63	.25	.73	.61	

Month	Year 1890	1891	1892	1893	Amount of fluctuation
Jan.	$ .86 1/8	$1.05 3/4	$1.02 3/8	$ .79 1/2	$ .26 1/4
Feb.	.85 1/4	1.10 11/16	1.04 5/8	.79 3/16	.31 1/2
Mch.	.87 3/4	1.13 5/8	1.01	.75 7/8	.37 3/4
Apr.	.93 3/16	1.19 5/16	.98 1/2	.76 3/8	.42 15/16
May	.98 3/4	1.13 7/8	.96 1/2	.77 3/8	.36 1/2
June	.94 1/8	1.07 13/16	.91 13/16	.72 1/16	.35 3/4
July	.93 3/16	.99 7/8	.86 3/16	.71 1/16	.28 13/16
Aug.	1.04	1.05 7/8	.82 1/8	.68	.37 7/8
Sept.	1.01 15/16	1.03 5/16	.78 3/4	.72 1/8	.31 3/16
Oct.	1.06 1/8	1.04 1/4	.77 13/16	.69 1/8	.37
Nov.	1.02 3/4	1.05 13/16	.75 7/8	.66 5/8	.39 3/16
Dec.	1.04 1/6	1.05 7/16	.76 1/2	.67 1/8	.38 5/16
Amt.of fluct.	.20 3/4	.19 7/16	.28 3/4	.12 9/16	

(which I took the liberty of adding to Mr.Emery's table, for the sake of convenience), the larger fluctuations before advent of speculation are readily seen.

After speculation the largest fluctuation from month to month during the year was 28 3/4 cents, whereas the smallest before speculation was 25 cents, and the largest 73 cents. So, compared from any point of view, fluctuations appear much wilder before speculation than after it. But as eight years is not a long time from which to draw general conclusions over a long period, a larger table is here copied from the report of the Industrial Commission, VI,p.193.

In Table 6, giving the averages from 1885 to 1900, the average of the entire fifteen years is given first. The second average is that of fourteen years excluding 1897-98, as that was a year of exceptionally high prices of wheat, owing to Mr. Leiter's operations in the wheat pit, and it was believed that excluding that year would lead to more true results. The fact that the average of twenty years is compared with that of fifteen years is not believed to be important. Comparing these two tables we see that the difference between the average of the month of February before speculation and the average of the month of Ausust, is 18 1/2 cents, which represents the wildest fluctuations. It is certainly reasonable to suppose that wheat would decline in August as that is a great marketing month. Turning to prices after speculation, and using the fifteen year

Table 5.

Average prices of wheat per bushel in New York on first day of each month. Compiled from report of Secretary of Treasury, 1863.

Year	Jan.	Feb.	Mar.	Apr.	May	June
1840	$1.06	$1.20	$1.075	$1.10	$1.04	$1.01
1841	1.035	1.01	1.025	.95	.975	1.075
1842	1.25	1.25	1.275	1.255	1.225	1.295
1843	.85	.875	.845	.925	1.025	1.05
1844	1.00	1.025	1.055	1.044	1.09	.965
1845	1.025	.975	1.00	1.0255	1.025	1.05
1846	1.31	1.25	1.20	1.215	1.075	.985
1847	1.025	1.525	1.585	1.425	1.50	1.925
1848	1.25	1.275	1.30	1.385	1.275	1.16
1849	1.225	1.275	1.345	1.225	1.245	1.235
1850	1.25	1.275	1.28	1.29	1.335	1.50
1851	1.2o	1.20	1.15	1.125	1.145	1.08
1852	1.09	1.125	1.14	1.10	1.095	1.12
1853	1.32	1.325	1.28	1.23	1.315	1.29
1854	2.04	2.425	1.975	1.99	2.25	2.45
1855	2.575	2.50	2.60	2.70	2.775	2.80
1856	2.145	2.125	2.015	1.95	1.775	1.44
1857	1.75	1.75	1.75	1.625		1.875
1858	1.375	1.375	1.40	1.375	1.325	1.225
1859	1.40	1.45	1.525	1.475		
Average	1.365	1.415	1.391	1.372	1.36	1.396

Year	July	Aug.	Sept.	Oct.	Nov.	Dec.
1840	$ .965	$1.06	$1.12	$1.005	$1.02	$1.005
1841	1.375	1.275	1.40	1.425	1.325	1.325
1842	1.275	1.125	1.02	.925	.85	.945
1843	1.19	.915	1.01	.945	.975	1.025
1844	.90	.95	.875	.87	1.00	.975
1845	1.00	.925	.95	.925	1.225	1.355
1846	.985	1.10	.825	1.10	1.075	1.075
1847	1.46	.90	1.15	1.10	1.31	1.26
1848	1.035	1.225		1.125	1.085	1.05
1849	1.275	1.025	1.265	1.21	1.205	1.22
1850	1.49	1.03	1.135	1.16	1.135	1.18
1851	1.085	1.085	1.00	1.005	.945	.99
1852	1.125	1.345	1.125	1.085	1.115	1.115
1853	1.29	2.375	1.405	1.54	1.645	1.775
1854	2.30		2.175	1.765	2.825	2.375
1855		1.525	2.005	2.04	2.21	2.20
1856	1.55		1.525	1.65	1.69	1.705
1857	1.925	1.825	1.685	1.30	1.475	1.475
1858	1.225	1.225	1.25	1.425	1.35	1.40
1859			1.40	1.35	1.45	1.45
Average	1.303	1.23	1.28	1.247	1.325	1.345

Table 6.

Price of #2 Spring Wheat in Chicago, per bushel in cents.

Compiled by Bureau of Economic Research, New York.

Year	Jan.	Feb.	March	April	May	June
1885						
1886	80.88	79.88	78.38	76.44	75.75	74.25
1887	78.69	75.31	76.	80.19	84.81	79.69
1888	77.	75.50	74.	76.38	85.19	82.38
1889	97.06	100.75	100.56	89.06	81.88	78.75
1890	76.31	75.38	78.38	83.75	94.88	88.62
1891	91.62	95.31	98.88	107.38	103.88	96.75
1892	87.50	87.94	83.44	81.19	82.88	82.88
1893	75.12	73.94	76.	79.25	72.25	65.06
1894	61.12	57.50	57.56	60.62	56.12	57.
1895	51.94	50.75	53.62	58.69	71.06	75.
1896	61.31	66.62	65.44	66.12	62.38	60.31
1897	77.	74.50	73.50	71.50	72.38	70.
1898	99.56	101.50	103.38	112.25	151.	97.50
1899	71.25	72.12	70.25	73.06	73.94	75.25
1900	62.70	65.34	63.88	63.96	62.25	76.90
Av'ge	76.60	77.49	76.88	78.66	82.09	77.36
Av'ge	74.96	75.77	74.99	76.29	77.12	75.89

Year	July	Aug.	Sept.	Oct.	Nov.	Dec.
1885	87.88	83.50	81.50	87.88	87.19	86.31
1886	72.12	76.88	74.62	72.19	74.75	77.44
1887	68.66	68.12	69.50	70.75	74.12	77.25
1888	82.31	87.75	77.50	110.19	108.75	101.75
1889	80.88	77.12	79.19	80.06	79.94	78.38
1890	89.50	98.43	100.12	99.81	94.56	90.44
1891	89.67	100.12	95.38	95.75	94.	91.44
1892	78.	77.06	73.12	72.	71.38	71.
1893	60.32	59.62	66.19	63.38	60.88	61.81
1894	54.38	53.94	52.75	51.39	53.69	54.88
1895	66.44	63.88	58.69	59.56	57.	56.75
1896	58.25	58.06	62.50	73.38	82.69	83.88
1897	73.50	88.	92.50	90.	94.25	96.
1898	76.88	70.25	65.38	66.12	67.	66.38
1899	72.	71.75	72.25	71.56	65.69	63.75
1900						
Av'rg	74.39	75.63	74.75	77.60	77.73	77.16
Av'rg	74.45	74.75	73.48	76.72	76.55	75.82

average, we find that the wildest fluctuation is 7.65 cents between the months of May and July, which are the highest and lowest prices respectively. This is less than one-half the fluctuation before speculation. Now using the fourteen year average we find that the wildest fluctuation was only 3.64 cents the highest and lowest months being May and September respectively. This is very much less fluctuation than before speculation, being, indeed, less than one-fifth the fluctuation before speculation. Whichever average we use, we see that there has been a marked increase of stability in prices since speculation. Now, without doubt, great perfection in methods of communication and transportation have had an important effect on fluctuations, but, equally without doubt, if speculation has not also had some effect on fluctuations, it is a very peculiar coincidence. No one would say that speculation was responsible for all the increased steadiness exhibited in prices of wheat, but it is fair to say that some of this increased steadiness in price is due to the advent of speculation.

Now having examined the fluctuations in wheat, let us examine the fluctuations in corn and see if we find the same result. Wheat is largely exported and its price is more or less determined by the world market, whereas we use almost all of the corn grown in the United States, and its price is therefore more nearly regulated by production in the United States. Now the figures which I have been able to secure in the Report of the

Table 7.

From the Year Book of Department of Agriculture, 1909, p.435.

Chicago Cash Price of #2 Corn per bushel in cents.

	December.			May of following year.			
Year	Low	High	Margin	Low	High	Margin	Average Margin
1866	53	62	9	64	79	15	12
1867	61	65	4	61	71	10	7
1868	38	58	20	44	51	7	13 1/2
1869	56	67	11	73	85	12	11 1/2
1870	41	59	18	46	52	6	12
1871	36	39	3	38	43	5	4
1872	27	28	1	34	39	5	3
1873	40	49	9	49	59	10	9 1/2
1874	64	76	12	53	67	14	13
1875	40	47	7	41	45	4	5 1/2
1876	40	43	3	43	56	13	8
1877	41	49	8	35	41	6	7
1878	30	32	2	33	36	3	2 1/2
1879	39	43 1/4	4 1/4	32 3/8	36 1/8	3 3/4	4
1880	35 5/8	42	6 3/8	41 1/2	45	3 1/2	4 7/16
1881	58 1/2	63 1/2	5	69	76 7/8	7 7/8	6 7/16
1882	49 1/4	61	11 3/4	53 1/4	56 3/4	3 1/2	7 5/8
1883	54 1/4	63 1/8	8 7/8	52 1/2	57	4 1/2	6 11/16
1884	34 1/2	40 1/4	5 3/4	44 3/4	49	4 1/4	5
1885	36	42 3/4	6 3/4	34 1/4	36 3/4	2 1/4	4 1/2
1886	35 3/4	38	2 1/4	36 7/8	39 3/8	2 1/2	2 3/8
1887	47	51 1/8	4 1/8	54	60	6	5 1/16
1888	33 1/2	35 7/8	2 3/8	33 1/8	35 3/8	2 1/4	2 5/16
1889	29 1/4	35	5 3/4	32 3/4	35	2 1/4	4
1890	47 3/4	53	5 1/4	55	69 1/2	14 1/2	9 7/8
1891	39 3/8	59	19 5/8	40 3/4	100	59 1/4	39 7/16
1892	40	42 7/8	2 7/8	39 1/2	44 1/2	5	3 15/16
1893	34 1/4	36 1/2	2 1/4	36 3/4	38 1/2	1 3/4	2
1894	44 3/4	47 1/2	2 1/4	47 3/4	55 1/2	7 3/4	5
1895	25	26 3/4	1 3/4	27 1/2	29 1/2	2 [illegible]	1 7/8
1896	22 1/2	23 3/4	1 1/4	23	25 1/2	2 1/2	1 7/8
1897	25	27 1/2	2 1/2	32 3/8	37	4 5/8	3 9/16
1898	33 1/8	38	4 7/8	32 1/2	34 3/8	1 7/8	3 3/8
1899	30	31 1/2	1 1/2	36	40 1/2	4 1/2	3
1900	35 1/4	40 1/2	5 1/4	42 5/8	58 1/2	15 3/4	10 1/2
1901	62 1/2	67 1/2	5	59 1/8	64 3/4	5 5/8	5 5/16
1902	43 3/4	57 1/4	13 1/4	44	46	2	7 7/8
1903	41	43 3/4	2 3/4	47 1/4	50	2 3/4	2 3/4
1904	43 1/2	49	5 1/2	48	64 1/2	16 1/2	11
1905	42	50 1/4	8 1/4	47 1/2	50	2 1/2	5 3/8
1906	40	46	6	49 1/2	56	6 1/2	6 1/4
1907	57 1/2	61 1/2	4	67 3/4	82	14 1/4	9 1/8
1908	56 3/4	62 1/4	5 1/2	72 1/4	76	3 3/4	4 7/8
1909	62 1/2	66	3 1/2				3 1/2

Department of Agriculture range only from 1866 and do not give us the long view previous to the Civil War which was obtained in the wheat figures. However, I shall give these figures, although I do not think that there is much of value on this point to be deduced from them. There was some little trading in futures in 1860, but it did not become general until later. It was not until 1879 that it became of any great importance compared to the cotton crop. We shall compare the average of the first four years and of the first ten years with that of the last four years and of the last ten years, and that from 1880 to 1909. I took the liberty of adding the several margin columns in order to be in a better position to compare fluctuations. It is readily seen that fluctuations have decreased somewhat since 1866. The average of the first four years is 11, and the average of the first ten years is 9.1. Now the average of the last four years is 6 3/16, and the average of the last ten years is 6 121/160. The average of the period from 1880 to 1910 is 6 61/96. These figures seem to show that fluctuations in the price of corn have also grown smaller since the speculation became prominent. But less value can be given to these figures because they do not extend sufficiently far before the advent of speculation to give us a true average for that period. But they seem to indicate a trend similar to that which the wheat price figures indicated, smaller fluctuations. It is interesting to note that the figures for the last four, ten, and thirty years show nearly the same.

Table 8.

Record of monthly spot price movements in New Orleans market, compiled by Henry G.Hester, secretary of New Orleans Cotton Exchange. Commissioner of Corporations,1909,Part IV,p.295.

Extreme fluctuations in price of middling cotton at New Orleans, monthly, September, 1827 to August 1909. cents per lb

Crop Year	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mch.	Apr.	May	June	July	Aug.
1827												
28	.50	.50	.50	1.00	.75	.50	1.50	1.25	1.00	.50	1.00	.50
'29	.50		.75	.75	.50	.75	.50	.75	.50	.25	.25	
'30			.50	.50	1.00	.50	.50	.50	.75	.75	.75	
0-31			.75	.75	.50	.25	1.00	.75	.50	1.00	.25	.25
1-2	.25	.50	.75	1.00	.75	.50	.50	.25	.50	1.75	.75	1.25
2-3	.25	1.00	1.25	.75	.50	.25	1.75	1.00	1.25	.75	.50	
3-4		1.00	3.50	1.50	.75	1.50	1.00	1.00	.50	1.00	.50	.50
4-5	.50	2.00	2.50	2.00	1.50	1.50	.50	1.00	1.00	1.00	2.50	1.00
5-6		.50	.50	1.50	1.50	1.50	1.00	2.00	1.50	1.50	.50	.50
6-7		2.00	2.00	1.00	1.50	1.00	3.00	2.00				
7-8		.50	1.00	1.00	.50	1.50	.50	.50	.75	.75	.75	.50
8-9	1.00	3.50	1.25	1.50	1.25	2.00	1.00	1.50	1.25	3.00	1.00	3.50
9-0	.50	.75	2.00	1.25	1.25	1.00	1.00	1.00	1.25	.75	.50	1.00
40-1	1.00	1.25	.50	.25	1.00	.50	.75	.75	.50	.75	.50	.25
1-2	.25	.50	.50	.75	.50	.50	.75	.75	.75	.50	1.25	1.00
2-3	1.50	1.25	.50	.75	.75	.50	.75	.75	.75	.50	.50	.50
3-4	1.75	.75	.63	1.87	.75	.88	1.13	1.25	.88	.63	.63	.75
4-5	.25	.62	.62	.75	.62	.50	1.13	.50	.50	.37	.12	.12
5-6	.50	.75	.50	.63	.37	.50	.63	.25	.62	.25	.63	.50
6-7	.25	.75	.38	1.25	1.88	2.25	1.25	.50	.50	.87	1.50	.25
7-8	.63	3.00	1.12	.38	.38	.38	.73	1.50	1.00	.50	550	.62
8-9	.50	.50	.37	.50	1.00	.50	.50	.50	1.25	.87	2.50	1.00
9-50	1.50	1.00	.50	.50	1.38	.62	.88	1.00	.75	.75	1.00	.62
50-1	.75	1.13	.38	.87	1.25	2.38	1.75	1.87	1.38	.75	1.25	1.00
1-2	1.12	1.50	1.00	.75	.88	.88	.62	.50	1.50	.75	.50	.50
2-3	.50	.50	.75	1.12	1.00	.50	.62	1.00	.75	.25	.75	.50
3-4	.75	1.75	1.00	.50	.37	.75	1.00	1.50	1.00	.75	1.00	.50
4-5	.38	.62	.62	.75	.75	.25	.87	1.25	1.75	1.50	1.00	.62
5-6	.37	1.13	1.25	.88	.75	.75	.50	1.50	.62	.87	.50	.25
6-7	.75	1.25	.63	.63	.62	.62	.75	.50	.50	.50	.75	.50
7-8	1.25	5.00	2.25	2.75	1.75	1.50	.75	.75	.50	.75	.50	.25
8-9	.50	.88	.63	.50	.25	.50	1.12	.63	1.25	.75	.50	.25
9-60	.75	.62	.50	.37	.62	.50	.75	.50	.50	1.00	.50	.75
60-1	.25	1.37	1.50	2.25	1.25	.62	2.00	1.00	.50	1.35	1.00	1.00
1-2												
2-3												

Year	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mch.	Apr.	May	June	July	Aug.
2-4	7.50	8.25	3.00	3.00	9.00	4.00	7.0	16.0	7.0	55.0	23.0	18.0
4-5	29.00	5.0	16.0	10.0	29.0	7.00	15.0	6.0	4.0	10.0	6.0	4.00
5-6	1.0	12.00	6.00	4.00	4.00	4.00	7.00	2.00	5.00	5.00	2.00	1.00
6-7	4.00	5.00	4.50	3.00	1.50	1.50	2.00	5.00	4.00	1.50	2.50	1.50
7-8	5.00	1.50	4.00	1.00	3.50	6.00	3.75	6.00	4.00	2.00	2.50	2.00
8-9	5.25	2.75	1.00	1.50	3.50	1.75	.75	.50	.50	3.50	.50	
9-70	5.50	1.00	2.37	.63	1.75	1.75	1.25	.75	1.00	3.00	2.00	.25
70-1	2.75	2.00	1.12	.88	.88	.75	.87	.37	1.88	4.37	.75	
1-2	1.75	1.75	1.00	1.25	2.50	.50	.75	.63	.62	1.25	2.25	1.00
2-3	3.25	.75	1.00	1.00	.62	.50	1.00	.75	.25	.50	.12	.25
3-4	2.50	2.87	2.25	1.13	1.00	.50	1.13	1.12	.62	.87	.25	.25
4-5	2.25	.62	.37	.37	.88	.87	.37	.50	.62	.50	1.13	.50
5-6	1.50	.75	.25	.13	.25	.13	1.00	.88	.62	.37	.13	.88
6-7	.50	.75	1.00	.75	.63	.50	.88	.62	.50	.63	.25	1.00
7-8	1.00	.63	.38	.38	.25	.13	.62	.25	.75	.25	.25	.38
8-9	.62	.87	.62	.87	.25	.38	.50	1.13	1.75	1.87	.87	1.00
9-80	1.50	1.00		.75	.62	.37	.50	.88	.50	.50	.50	.37
80-1	.87	.50	1.25	.37	.25	.25	.50	.38	.37	.25	.13	1.25
1-2	.38	.50	1.25	.25	.25	.38	.50		.13	.50	.38	.37
2-3	1.12	.87	.37	.31	.32	.31	.25	.50	.25	.32	.25	.12
3-4	.68	.50	.50	.31	.25	.19	.69	.62	.25	.38	.31	1.25
4-5	1.00	.50	.31	.44	.32	.19	.13	.50	.31	.50	.25	.25
5-6	.37	.38	.63	.25	.19	.50	.50	.25	.19		.19	.25
6-7	.50	.69	.12	.44	.18	.25	.93	.32	.25	.31	.94	.31
7-8	.32	.38	.25	.19	.13	.07	.50	.12		.37	.38	.50
8-9	.37	.50	.68	.12	.25	.25	.19	.69	.12	.13	.12	.13
9-90	.63	.62	.32	.06	1.06	.31	.31	.69	.32	.44	.19	.37
90-1	.50	.37	.13	.32	.37	.31	.12	.38	.07	.37	.19	.37
1-2	.50	.44	.50	.50	.38	.38	.25	.62	.19	.44	.19	.25
2-3	.50	.37	.50	.38	.44	.44	.69	.75	.38	.57	.31	.82
3-4	.88	.50	2.19	.43	.44	.38	.18	.31	.25	.25	.25	.19
4-5	.81	.56	.31	.25	.19	.19	.82	.63	.81	.37	.25	1.13
5-6	1.19	.88	.62	.44	.19	.50	.43	.12	.37	.57	.31	1.19
6-7	.50	.50	.57	.69	.12	.50	.25	.62	.25	.25	.18	.63
7-8	1.00	.63	.31	.13	.19	.44	.31	.25	.37	.12	.25	.31
8-9	.50	.19	.25	.25	.56	.25	.37	.12	.19	.25	.18	.19
1900	.75	.19	.31	.31	.50	1.12	.44	.37	.69	1.00	.37	.87
0-1	1.75	1.57	.56	.56	.38	.25	1.12	.31	.44	.69	.31	.94
1-2	.69	.87	.88	.68	.19	.38	.38	1.19	.62	.37	.43	.32
2-3	.44	.38	.19	.44	.44	1.00	.32	.44	1.50	1.94	1.00	.75
3-4	2.63	1.12	.37	2.13	2.94	3.19	1.62	1.43	1.25	1.69	.63	1.13
4-5	1.19	.69	1.31	2.06	.37	.75	.50	.31	1.31	1.56	1.38	.32
5-6	.44	.94	.87	.75	.56	.32	.75	.31	.44	.32	.50	1.44
6-7	.25	1.69	.88	1.25	.31	.19	.43	.88	1.00	.50	.50	.81
7-8	2.06	1.32	1.75	.75	.87	.50	.88	.69	1.56	.50	1.00	1.25
8-9	.19	.25	.75	.25	.75	.19	.25	.87	.81	.62	1.13	.37

Now the Commissioner of Corporations[1] made a particular study of the fluctuations in cotton for a long period of years, and the figures copied here represent the longest period yet given. His tables of fluctuations by cents from month to month from 1827-28 to 1908-09 are given first. Then in order to conveniently observe the results he brought together in a table, also copied here, the number of times thoroughout the year that the price fluctuated 2¢ or over, and 1¢ to 2¢, 20% of its value and 10-20% of its value, comparing thirty-three years from 1828 to 1860, and thirty-three years from 1877 to 1909 inclusive. The comparison shows that in the thirty-three years before speculation, fluctuations of 2¢ or more occurred twenty-two times, or in twenty-two different months, whereas in the thirty-three years after speculation, such a fluctuation occurred only eight times. Fluctuations of 1¢ to 2¢ occurred 115 times before, to 52 times after speculation. The percentages show about the same relation, there being a fluctuation of 20% or more 20 months in the thirty-three years before speculation, and only 5 after speculation; there was a fluctuation of 10% to 20% 118 times before, to 56 times after speculation. As the report then proceeded to point out, this certainly seems to show what we should expect from the theory of the problem, that is, that fluctuations should become less after the advent

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1. Report of Commissioner of Corporations, 1908, Parts IV, V, p. 299.

of speculation than they were before. These figures are in accordance with our wheat and corn figures, and the evidence is rather clear that fluctuations have decreased since the advent of speculation. These three commodities, wheat, corn, and cotton, are three of the most important commodities speculated in, and they are three of the most speculative ones. Upon examining this table closely, and by decades (table 10), one notes how much fluctuations increased from 1901 to 1910. This was not the case with the corn figures, as we noticed. The Commissioner of Corporations lays the blame to the adoption of the fixed difference system in October, 1897, by the New York Cotton Exchange[1] mostly, and partly to excessive speculation, a conspicuous illustration of which was the "Sully campaign" in 1903 to 1904.

There is no doubt that fluctuations have become less wild in prices of corn, wheat, and cotton, since 1870. And if they have in these three commodities it is probable that they have, likewise, become less violent in the prices of other commodities dealt in on the exchanges. Now whether the praise for this should go to speculation, is another question. Undoubtedly the telegraph, cable, and railroad services have had something to do with this, how much we can only guess; and that is not worth while. On the other hand, it seems fair to give part of the credit to speculation. It needs no argument to show what

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1. Report of Commissioner of Corporations, 1909, Part IV, p.306.

Table 9.

Commissioner of Corporations, 1909, Part IV, p.299.

Comparison of frequency of monthly fluctuations of stated amounts in price of middling cotton at New Orleans, 1828-1860, and 1877-1909.

Crop year ended Aug.31.	Fluctuations of 2¢ or +	1¢ to 2¢	20%	10% to 20%	Crop year ended Aug.31.	Fluctuations of 2¢ or +	1¢ to 2¢	20%	10% to 20%
1828	0	5	0	3	1877	0	2	0	0
1829	0	0	0	0	1878	0	I	0	0
1830	0	1	0	1	1879	0	4	0	3
1831	0	2	0	2	1880	0	3	0	2
1832	0	3	0	3	1881	0	3	0	3
1833	0	4	0	3	1882	0	0	0	0
1834	1	5	1	3	1883	0	1	0	1
1835	4	6	0	5	1884	0	1	0	0
1836	1	6	0	4	1885	0	1	0	0
1837	4	3	2	3	1886	0	0	0	0
1838	0	3	0	3	1887	0	0	0	0
1839	4	8	3	6	1888	0	0	0	0
1840	1	7	1	7	1889	0	0	0	1
1841	0	3	0	3	1890	0	2	0	0
1842	0	2	0	5	1891	0	0	0	0
1843	0	2	1	6	1892	0	0	0	1
1844	0	4	2	6	1893	1	0	1	1
1845	0	1	1	5	1894	0	0	0	7
1846	0	0	0	1	1895	0	1	0	3
1847	1	4	1	4	1896	0	2	0	0
1848	1	3	2	4	1897	0	0	0	2
1849	1	3	1	4	1898	0	1	0	1
1850	0	5	0	3	1899	0	0	0	3
1851	1	7	1	6	1900	0	2	0	4
1852	0	4	1	6	1901	0	3	0	2
1853	0	3	0	3	1902	0	1	0	3
1854	0	6	0	6	1903	0	4	0	6
1855	0	4	0	5	1904	5	6	3	5
1856	0	3	0	4	1905	1	4	1	1
1857	0	1	0	1	1906	0	1	0	3
1858	3	3	3	2	1907	0	4	0	4
1859	0	2	0	1	1908	1	4	0	0
1860	0	1	0	0	1909	0	1	0	0
33 yrs	22	115	20	118	33 yrs	8	52	5	56

Table 10.

Commissioner of Corporations, 1909, p.301. Cotton.

Before speculation.

Decade.	Fluctuations of			
	2¢ or +	1-2¢	20% or +	10-20%
	Months	Months	Months	Months
1831-40	15	48	7	39
1841-50	3	27	8	41
1851-60	4	34	5	34
After speculation.				
1881-90	0	8	0	5
1891-1900	1	6	1	18
1901-10	7	28	4	28

a great benefit this is to all parties concerned. It means that it takes less capital to insure against these risks, and more capital can be used in production, with the added consequence of decreasing the final cost to the consumer, and of narrowing the margin between producer and consumer.

One influence to steady prices is the greater breadth of the market since speculation became prominent. That is, as has been pointed out before, the greater number of purchases and sales there are, the less likely the chances are for strong advances or declines. If there were few buyers and sellers, each transaction would affect the market more, that is the price would fluctuate more. The old saying that Wall Street discounts everything, has much truth in it. Everyone on the market is

constantly looking out for facts which will affect future prices. And as soon as they become known to anyone, he immediately acts on the knowledge, and so when the events do occur, the market is prepared, the effect has been largely discounted, and speculators are hunting for more facts which will affect the market. This tendency to gather news and act on it, breaks the suddenness of those events which cause wild fluctuations, and so this tends to steady prices. There is no doubt but that, since speculation, local differences in prices have largely been done away with, with the exception, of course, of the transportation charge which will remain, although it has been lessened from time to time. This is partly due, no doubt, to far better means of communication and of transportation. It is reasonable to suppose that there will be less difference between prices at different times as well as at different places, although of course the factor of demand and supply enters into the question more in the former than in the latter.

Panics.

The tendency of speculation to steady the market, is especially noticeable in time of panic. Then it is, that the short seller comes to the front. While bulls are pushing the price higher and higher, the bear is selling short all the time. If the bull did not have this opposition all the time, he would not reach his limit so soon. This is shown in real estate booms, when prices attain sometimes heights that are foolish. If, perchance, the short sellers break the price,

and they usually do, then down comes the price as former buyers now try to unload before it becomes too late. And here comes the short seller once more and sustains prices by buying in order to cover up. This constant striving to prevent prices from ascending too high, and then sustaining by buying, tends to bring both ends of the market together, that is to steady prices. In 1898 when Leiter sent wheat so high in an effort to corner it, it was the short seller who prevented it from going higher, and sent it back between 50 and 60 cents in one month, and over 20¢ more the next month. It was the much blamed shorts who broke James R.Keene's corner in wheat. The constant opposition of these forces tends all the time to bring the market to a level. Each acts as a brake on the other. In times of great expansion or inflation and the following depression, the opposition and its effects are seen more clearly, but this same competition goes on all the time, in panics, expansion, and ordinary times, if there is such a time. When the stock market was at its highest a few years ago, the professionals, and it is to be hoped, a few of the public, were constantly selling; else where would the public have got the tremendous number of shares with which it loaded up? When the price breaks and great dullness exists in the market and the public never take a look at the quotations, then is the time when the professional buys in order to unload upon the public when that body begins to buy again; that is when prices go up. All this can have only one effect, that is to tend to equalize prices, or to steady them.

Reduces margins.

It is claimed that one result of speculation in commodities, is to reduce the margin between the cost price and the selling price, that is to say between producer and consumer. Now if this is so, then speculation does much good. A reduction of one cent or a fraction thereof means much to the world when it is considered how many times that fraction of a cent or cent is multiplied by the public's transactions. Now there is some evidence of that fact in the change which has taken place in market quotations. Anyone looking over the tables given on the price of wheat, corn, cotton, must have noticed that at first only flat cents were quoted, and that later on sixteenths of a cent were quoted. This is true of wheat, corn and cotton. Where cotton was quoted in fourths and eighths of a cent before 1860 it is now quoted in sixteenths of a cent. Wheat was quoted in fourths, and is now quoted in sixteenths of a cent, and the tables show the transactions very well. Now what does this mean? That the middleman has had such fierce competition that he has been forced to take smaller profits per bushel or bale etc. This is lowering the margin between the producer and the consumer. It is the competition that reduces the profits of middlemen to a minimum. As they deal more and more they come to know the risks better, and to shave profits closer; and it is speculation which makes this competition, for without speculation the market would be narrow.

Now the Industrial Commission found that between 1885 and

1900 commercial expenses involved in concentrating grain at Chicago, not including cost of transportation, but including elevator charges at both ends and commission for selling at Chicago on consignment, decreased from a range of 3 1/2 cents to 10 3/4 cents a bushel in 1885, to 2 1/4 cents to 3 3/4 cents per bushel in 1900.[1] This is real service to the community. I have no corn figures on the subject, but the testimony before the Commissioner of Corporations tends to show the same result. The testimony was to the effect that whereas $2.50 a bale more or less was a common commission in the days before the war, now a great deal of cotton is handled at 50 cents a bale, and much at less than that figure.[2] This is a great reduction. Of course it is not all due to the influence of speculation, but probably some of this large decline is attributable to speculation; at least if not, it is another of those peculiar coincidences. In such reductions, however, much credit must be given to improved methods of communication and transportation.

Undoubtedly, however, speculation is responsible for some lessening of the margin, due to shifting risks by hedging. As we have seen, without this buffer between market risks and the producer, the latter would have to charge a larger margin in order to be safe. As we have gone over this before, it is only necessary to state that this benefit, the transferring of risk

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1. Report of Industrial Commission, Vol.XIX,p.176.
2. Commissioner of Corporations, 1909, Part IV,p.286.

by the producer to speculator, and the consequent narrowing of margin between producer and consumer, is due to speculation and to speculation alone.

CONCLUSIONS.

We have glanced at speculation from very early times, and have found traces of it in the time of Joseph of the Old Testament, and those traces have led us down to the modern period. Speculation has particularly increased, of course, in its modern form in the last half century, due to greatly improved facilities, telephone, telegraph, cable, means of transportation etc. Electric wires and transportation have brought close together, in point of time, markets that are far distant in point of space. As we have seen, speculation seems to be inborn in man, and it is probable that it will continue in the future as it has in the past. We saw that speculation was forecasting coming events, and buying and selling in order to take advantage of them. Then we compared gambling and speculation which are not differentiated in the minds of many persons, and came to the conclusion that there was a distinction, and that there would be a broad distinction if speculation were beneficial on the whole, as gambling is certainly not. We then glanced at the stock and produce exchanges in order to see the immensity of their transactions, and their internal organization and management.

We saw that they do an enormous business annually, and that about one-third of the total wealth of the United States is in the form of securities. This alone is enough to make one pause before condemning speculation too hastily. We reviewed the methods of trading and the ways of conducting and settling the enormous number of contracts made on the exchange.

Then we examined the most important arguments, both for and against, speculation on the stock and produce exchanges. We found that the so-called evils of such speculation seem to divide themselves easily into three classes, first, moral arguments; second, evils of methods and customs of trade; third, arguments against the econimic utility of speculation. It seems that the first class of evils is great and that, considered from the view-point of affecting public morals, there is much to be condemned in speculation, and that, if speculation does good along economic lines, it does so at a tremendous moral cost.. The second class, that is, arguments as to improper methods of doing business, seem to be well founded in some instances, as the spreading of false intelligence, fraud in listing stocks, wash sales, prospectuses etc., but exaggerated in others, as corners and manipulations. The third class of argumnnts we considered at more length, and reached the conclusion that diverting money said to be needed in ordinary business, was not such a bad thing perhaps, as it is represented to be. (It is interesting to note that in a recent interview Mr. Samuel Untermeyer, the well-

known corporation lawyer of New York, recommends the curtailing of the loaning power of national banks on collateral, as security.[1] His argument, however, is directed against the evil of combination of wealth in the banks in New York.) We saw that there is some waste involved in speculation, but that this is not such a great evil as it is commonly represented to be, for the reason that it helps to do good. However, there is strong authority on the other side, that is that there is much waste, as we have seen. Next we merely noted the point of the relation between speculation and financial crises, without coming to any conclusions. We then investigated the popular argument that speculation depresses producers' prices, and came to the conclusion that it has not been proven, and that both statistics and other testimony point the other way; that is, that speculation does not, in the long run, tend to lower or to raise the price paid to producers.

That is to say, we found that there is a serious disadvantage in speculation because of public demoralization, and that some methods used are dishonest, but that arguments as to economic evils which speculation is said to produce, do not seem to be very well proven.

Now considering the arguments for speculation, we saw that it acts as a barometer of values, that is, points the way to financial investment, to buying and selling. It is said that speculation equalizes money pressure, and it seems probable

1. New York World, September 8,1911.

that it does so, and that is a dehefit. We saw that it facilitates credit and affords a ready market at all times for articles and stocks subject to speculation. Then we considered the claim made that speculation on the produce exchanges acts as a buffer between producer and market, or shifts certain risks to the speculator. We found this claim a good one and that speculation, by so doing, accomplishes much good. Then we considered the argument that speculation tends to steady prices, and found that the fair preponderance of the evidence is in favor of the argument, and that speculation keeps prices steady, and lowers the margin between producer's price and cost to the consumer.

With this very brief review of the arguments for and against speculation, the difficult task of weighing them and passing judgment as to the ultimate utility of speculation must next be performed. The first class of arguments used against speculation, that is to say, public demoralization, cannot be minimized. It is a serious and powerful argument against speculation. Now, I believe that the second class of arguments, that is to say, arguments against methods employed, may be much minimized, for, although this is the most numerous class, still it is precisely the class which can be most easily remedied or controlled. In my opinion the arguments of the third class (against speculation) are not very strong or very well established. Now the arguments of the good which speculation does along economic

lines, seem to me to be on the whole fairly well proven. Consequently in the final analysis we are confronted with public demoralization on the one hand and economic welfare on the other. It is hard to choose between these two, and a choice either way can be severely criticised. My belief, however, is that speculation on the produce exchanges is for the best interests of the community and world at large. As to speculation on the stock markets, that is a more evenly balanced question, for I do not believe that so much economic good is done there as by speculation in produce exchanges. My final decision is considerably influenced by the fact that the abolition of speculation on the stock markets would not, by any means, reduce to a minimum the public demoralization which is, most unfortunately, a natural consequence of such speculation, but would only transfer it to speculation in commodities or to the bucket shops. Therefore, taking into consideration the practical difficulties in the way of devising a means by which to abolish speculation on the stock exchanges, without hindering investments, and in the way of enforcing that means, it is my belief that speculation on stock markets should be retained as well as speculation in commodities.

Recommendations.

But, although I think that such speculation should be retained, I think that certain changes which would tend to reduce the present disadvantages of speculation, particularly of

speculative methods, should be made. To do so, it is perhaps necessary to dip briefly into the legal status of speculation, and to consider the experience of those countries which have attempted to control speculation by legislation.

Legal Status.

Common law.

In considering briefly the Law upon this subject, it must be remembered that the Constitution[1] leaves the State to regulate all internal affairs, and accordingly that there may be as many different ststutes upon the subject as there are states. Considering the Common Law rule, however, which prevails in most of the states, we find that contracts for future delivery are enforceable and legal.[2] But if it is the agreement that there shall be no delivery of the article contracted for, and no payment, but a settlement by a payment in money of the difference between the contract price and the market price at the time of delivery, this is a wager and not enforceable at law.[3]

So long as either party, however, can demand performance by the other, according to the contract, that is delivery by one

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1. Art.I,secs.8-10, and Amendment, Art.X.
2. 14 Emerican & English Encyclopedia of Law,p.607 and cases cited in note 1. See Williston on Sales,sec.664 and cases in note 10. There are statutes against futures in Cal.,Ga., Mass.,Mo.,Miss.,N.Y. See 14 Am.& Eng.Ency.of Law, p.607, note 2, and cases cited.
3. Harvey v Merrill,150 Mass.1,22 N.E. 49, 5 L.R.A. 200, 15 Am. Stat. Rep.159. Numerous decisions to this effect are collected in 14 Am.& Eng.Ency.of Law, 2d ed.,pp.609-11, especially 610 note 1.

for payment, or payment by one on delivery, then that contract is legal and enforceable,[1] even though neither party thinks it probable that it will be so carried out. But if this agreement is only to pay by differences, then it is bad. At Common Law in England, wages were not per se void.[2] There is now a statute in England governing this subject and making gambling contracts null and void.[3] However, in the majority of the United States, gambling contracts have been illegal at Common Law;[4] or if not, by statute.[5]

Buying and selling on margin is legal[6] in absence of statute.[7] Short selling is legal in most states[8] unless there is a statute against it.[9] In short the legal situation is, that a contract for present or future delivery of any article whether owned or possessed or not by the seller at the time of the contract of sale, whether paid for on margin or not, is legal and enforceable.

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1. 14 Am.& Eng.Ency.of Law,611, note 2 and cases there cited. Wald's Pollock on Contracts,3d ed. by Williston,p.409,note 63 and cases cited.
2. Dewey, Contracts,p.11 and cases cited. 14 Am.& Eng.Ency.of Law,586,note 1, 587,note 1 and cases cited. Wald's Pollock on Contracts,3d ed. by Williston,p.406,note 6 and cases cited. Clark on Contracts,276,note 86 and cases cited.
3. 8-9 Vict.c 109,§ 18.
4. 14 Am.& Eng.Ency.of Law,589,notes 3,4, and cases cited. Dewey on Contracts for Future Delivery,p.11 and cases cited.
5. Clark on Contracts,277. See I Dos Passos,476-515; Dewey, 14; 14 Am.& Eng.Ency.of Law,592.
6. Dewey on Contracts,108,notes 1-2,and cases cited; Williston on Sales,sec.664,note 6 and cases cited; Wald's Pollock,by Williston,408,note 63; Am.& Eng.Ency.of Law,608,n.1,cases cit.
7. Williston on Sales,sec.664,note 7 and cases cited.
8. Ibidem. See p.125,note 1 & authorities there collected.
9. Ibidem, note 10 and cases cited; I Dos Passos,476-515 for a collection of such statutes.

Legislation.

Now considering shortly some former legislation on this subject and the effects, we find that the town of Yarmouth in 1400 prohibited speculation in herring. Yarmouth was the center of the herring trade at that time, and also the center of a large speculative trade. As speculative trading was stopped, it is said that unfortunately the real trade decreased and went to other towns.[1]

Sir John Barnard's Act in 1734, shortly after the South Sea Bubble, was"to prevent the infamous practice of stock jobbing."[2] It, however, was never enforced and was repealed later.[3] It tried to prevent the making of contracts (between persons not actually possessed of such stock), for the sale or purchase of stock at a future period without the execution of the contract by an actual transfer of the stock. However, statute[4] in England now makes all wagering contracts null and void.

In the United States, the Gold Act[5] of March 3,1863 was soon repealed,[6] having accomplished no good. Congress it will be remembered, tried to stop trading in gold, so as to lower the price, but contrary to expectations, gold rose from 220 to 285. It soon declined after the repealing act, however. There

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1. Thomas Gibson's Special Market Letters,1908,p.108.
2. 7 Geo.II, c.8,(1734).
3. 23-24 Vict. c.28. See I Dos Passos,487.
4. 8-9 Vict. c.109,§18.
5. 12 United States Stat.719.
6. 13 United States Stat.,503.

have been many statutes passed on this subject by the different states.[1]

The recent experience of Germany is profitable to us. In 1896 Germany passed an act strictly regulating speculation in stocks and grain. Exchange dealings for future delivery in grain and flour were forbidden; exchange dealings for the account in mining and industrial stocks were forbidden; and every person who wished to engage in an exchange transaction for future delivery must register or else his contract would be void. This act did not accomplish its purposes, and lead to further and unwished-for evils. Respectable people refused to sign the "Gambling Register" as it was called, and took the risk of the transactions being void. Speculation went on, but by cruder methods, and it suffered from the legal uncertainty of the business. The German Government Report attached to the amendatory bill of 1907 says: "The dangers of speculation have been increased, the power of the market to resist one-sided movements has been weakened, possibilities of misusing inside information have been enlarged."[2] The results of the act have been said to be:

1. Increase of inflations and fluctuations.

2. Demoralization of the money market through greater fluctuations in the demand for funds by which to carry speculative cash accounts.

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1. I Dos Passos, 476-515.
2. H.C.Emery, Ten Years' Regulation of Stock Exchanges in Germany, p.15.

3. The business of the great banks increased at the expense of the smaller ones.

4. Speculative influence over industrial undertakings thereby increased.

5. Drove business to foreign exchanges and weakened the Berlin money market.

"Foreign brokers, seeing a new field of activity opened to them in Germany, flocked to Berlin and established agencies for the purchase and sale of stocks in London, Paris, Amsterdam, and New York. Seventy such offices were opened in Berlin within one year after the law was passed, and did a flourishing business. German capital was thus transferred to foreign markets."[1]

It is interesting to note that it is said, public demoralization increased, for men hitherto honest, welched on their transactions, having such a fine opportunity to do so. Men bought and sold the same thing and pocketed their winnings, and welched on their losses.

It is said that in 1896 Hamburg did twice the business of London in coffee. It is said that now, since the act, London does more than Hamburg does.[2]

April 9,1908, Germany repealed the stringent provisions of the law of 1896. Grain futures are still forbidden, but the

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1. Governor Hughes' Committee, p.22.
2. Gibson's Special Market Letters, 1908, p.109.

other restrictions have been removed. The Stock Exchange Register was abolished.[1]

The Paris Bourse is very strictly regulated and controlled by the government, and its field is not so broad as that of our exchanges.

We should be able to gather a warning lesson from Germany's expensive experience in legislation against speculation. It shows that the subject is a very difficult one and not to be so easily determined as the producers in 1892 seemed to think. In my opinion, regulation upon such a subject is difficult, and in view of the game legislators play while passing tariff regulation etc, likely to be harmful. "The history of these acts seems to prove conclusively that they have not been effective in preventing illegal speculation in stocks and produce. It is perhaps better to allow the evil to correct itself, as it surely does, than to bring the administration of justice into contempt by filling the books with useless laws, which are at all times openly violated and laughed at and which seem hardly more effective to prevent the practises at which they are aimed than legislation directed against laws of nature."[2] Therefore, if it is possible to do so, it would seem best for the exchanges themselves to guard against adverse legislation by a gradual raising of standards, and by strict enforcement of such rules

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1. The description of this law and its effects etc, is taken from Emery, Ten Years' Regulation, and Report of Gov.Hughes' Committee.
2. I Dos Passos, 514.

as they at present have. The Chicago Board of Trade is a fine example of what can be done along tnis line. About 1899 conditions were rather scandalous, and officers and members were implicated in dishonest transactions. The better element arose and cleared the exchange of former plagues, and weeded out the rascals. This policy of reform not only proved gratifying morally, but also financially, for the price of membership rose from $800 to $4350 within two years, enriching the members considerably. It restored a certain amount of public faith which had been lost.

Internal Regulation.

In general. The Governing Committee of the New York Stock Exchange has great powers. It has the power to raise the standards and tighten the discipline. Having been in the business for such a long time, that body certainly must know of present abuses which could be largely reduced by care and action on its part. There should be more care taken as to the honesty and solvency of the members of the exchanges. It is true that punishment after insolvency or dishonesty is discovered, is severe, but it is a case of locking the barn doors after the horse has been stolen. Prevention of these evils of insolvency and dishonesty is what is needed, not punishment for them.

Dishonesty.

Dishonesty includes wash sales, tampering with the list, rehypothecatinn of securities belonging to a customer without that customer's consent for more than the unpaid balance of purchase price etc. These things should be prevented from within if possible, and expulsion should be the only punishment. This is severe punishment to a broker, but its severity should be a preventive and safeguard..

List.

Certain measures should be taken to prevent the listing of frauds. Especially should the Listing Committee require more publicity of facts as to a security which is about to be or has already been listed.

Margins.

It would be desirable in my opinion, if a margin of 20% should be accepted as the lowest instead of 10 or less as at present. This would tend to prevent people of small means from losing on account of small fluctuations, as frequently happens at present. I consider this proposed rule as quite important.

Pyramiding.

Many persons, including Governor Hughes' Committee, have urged that the use of paper profits should be prohibited. This would mean that when a speculator desired to pyramid, he would have to sell out and get his cash, and then buy in once more. It is true that this would be inconvenient, but it probably would not attain the object desired, and so is not recommended.

Puts and Calls.

The rule against the sale of puts, calls etc, or privileges, at present on the books of many exchanges, should be firmly enforced, and enforced not only on the floor of the exchange as at present during business hours, but anywhere on the property of the exchange at any time. And this should be made a rule of every exchange.

Corners.

The adoption of such a rule as to corners which Governor Hughes' Committee advocates would tend to lessen the occurrence of corners. The rule suggested is that the governors shall have power to decide when a corner exists, and to fix a settlement price, so as to relieve innocent persons from the injury or ruin which may result therefrom.[1]

Bucket shops.

Any member in any way acting for or on behalf of a keeper of a bucket shop, knowingly, should be expelled. Some exchanges have this rule already. It should be strictly enforced on every exchange.

Notices.

One of the most important things to be considered, is the adoption of rules to protect clients of the brokers. A full statement in writing of what the broker has done on behalf of his customer, should be furnished to every customer on the day of each transaction. Also, no member of a firm should be permitted to fill an order for any transaction with any person connected with that firm, and of course not to sell for himself what his customer orders him to

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1. Governor Hughes' Committee, p.8.

buy and vice versa. It is only fair to state that many exchanges have these or similar rules already, but unfortunately, they are not enforced as strictly as they should be.

Strict enforcement of present rules and provision for as many more as are needed to protect the public from the dishonesty of members, expulsion for all infractions of such rules, and constant guarding by the governing bodies of the exchanges to keep the standards of their exchanges on a high level, is needed in this country far more than legislation, likely to have the same or similar effects as those which Germany has experienced.