

HOW A STATE COTTON WAREHOUSE SYSTEM HELPS COTTON FARMERS

An Outline of the Workings of South Carolina's New Cotton Warehousing Law—An Example of What Concentrated Effort May Accomplish

By Hon. Jas. L. McLaurin, Commissioner, Columbia, S. C.

IN RESPONSE to your request for an article on cotton marketing, I beg to say that it seems to me that the only scientific attempt which has been made is the State Warehouse System of South Carolina. Of course it is hardly out of the experimental stage as yet, but it has provided for the two things essential for marketing cotton: (1) cheap storage, and (2) cheap money.

It is manifest that if we are to market a 12-months' supply of cotton within three months that the price is bound to decline when the current demand fails to absorb the offerings, until cotton reaches the investment basis, which is generally below the cost of production. As the crop is made on credit, unless money can be borrowed upon cotton it would not be possible to hold it, even if we had warehouses. The charges for storage in this state are as high as 35 cents a bale a month, and very rarely under 25 cents. Now, to borrow money at 8 per cent discount and then pay such high storage rates makes the expense of holding the crop so great that a farmer is inclined to turn it loose.

Storing Cotton for Seven and One-half Cents Per Bale Per Month

UNDER the State Warehouse system a neighborhood can build an iron corrugated warehouse, with a dirt floor and logs to put the cotton on, and the state will take it over and issue its warehouse receipts for the cotton, and all the expenses, including insurance, will not cost the farmer more than seven and one-half cents per month to store a bale of cotton.

I have succeeded in establishing the character of the State Warehouse receipt in the money centers of this country, particularly in New York City, where I have made arrangements with certain banks and trust companies for them to advance money on South Carolina State Warehouse receipts. The guaranty of the state as to the weight, title and grade completely cures the defects in the private or corporate owned warehouse receipt, and the state receipts will come more and more in favor and command lower rates of interest. The New York State Bank Law has been recently amended so as to permit acceptances, and several of the large state banks and trust companies in New York City are making a specialty of this form of paper. This has never been done to any extent in this country, but in the money centers of Europe acceptances are used very largely in commercial transactions. The accepting bank is paid a small commission, which can be well afforded because of the low rate of interest at which a draft is sold.

It is to be remembered, in this connection, that the state banks aggregate in capital and surplus 62 per cent of the entire banking power of the country, and that the proportion is greater in New York than in any other state.

The Bankers' Business to Help

THE matter of marketing the cotton is largely a question of finance and proper banking methods. The prosperity of the cotton states depends upon an intelligent use of the credits arising from cotton. We need to learn that the correct idea of a bank is not so much as a mere place to borrow money, but that its highest function is to conserve the credits of

the country and use them to the best advantage of the entire public.

All that I have attempted to do with the State Warehouse System is to transform our cotton into a basis of credit. I had no difficulty while in New York borrowing money on straight loans at 5 per cent, and in amounts as large as \$100,000 could have secured it on acceptances at 3½ per cent. This will enable a bank in South Carolina to get the money in large amounts on State Warehouse receipts, and distribute it to the individual borrowers. I have made arrangements for some of the banks, which are getting money at 4 per cent, and they are charging the farmers who furnish the warehouse receipts 6 per cent. This is a big improvement on 8 per cent at discount, with the farmer also in most cases being required to keep 20 per cent on deposit.

I will say, in this connection, that there are efforts being made in Georgia, Alabama and Oklahoma to pass State Warehouse Acts modeled after the South Carolina plan. The Act in Georgia will be introduced in July, when the Legislature meets, by Senator J. O. Adams, an able lawyer of Gainesville, Ga. He is being assisted by the Georgia State Chamber of Commerce.

I believe that the State Warehouse System is a scientific solution of the cotton problem. It is in its infancy, but can be developed to handle the cotton in each of the Southern states on the same plan that we are pursuing here, enabling us to market our crop gradually.

All legitimate interests in cotton desire to stabilize its value. Hedge selling by mills to protect purchases of cotton is now a necessity because of wide fluctuations in the price of the raw material. This expense is now borne by the cotton planter, because it is the visible cotton that bears the burden of all the paper cotton traded in on the exchanges.

More and Better Farmers' Organizations Needed

THE farmers need organization and sadly lack, at present, means to secure unity of action among the several states. Those who are interested in buying cheap cotton act as a unit, while we farmers are a disorganized mass with no concert of action. The South Carolina State Warehouse System shows what can be accomplished by concentrated effort. When we began to take over warehouses we found the insurance rates so high as to be almost prohibitive. The difference between a warehouse in the country and a fourth-class town was so great that it was impossible to store cotton except in the towns. The rate in the country was \$3.50 a hundred, and on a house of the same construction in a town where there was no water protection, it was \$1.75. We have had a considerable battle, but have won out, and are now getting a rate of \$1.58 a hundred on cotton stored in the country, and with no distinction made between a country warehouse and a warehouse in a fourth-class town.

The intention of the system is to provide for direct sales from the state warehouse to the cotton manufacturers, but, owing to the war, I have not deemed it advisable to attempt this as yet. However, there is no practical reason why it cannot be done, and I shall probably take steps in that direction before long.

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