

UNIVERSAL
LIBRARY

OU_154713

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. *382 E 46C*

Accession No. *20138*

Author *Ellinger, B*

Title *Credit and International trade*

This book should be returned on or before the date last marked below,

**CREDIT AND
INTERNATIONAL TRADE**

By the Same Author

THIS MONEY BUSINESS

Price 6s.

P. S. KING AND SON, LTD., LONDON

State of Louisiana
Parish of Orleans
City of New Orleans

Be it known that on this 6th day
of May one thousand eight hundred
and forty.

Before me, Pierre Chas Cuvillier
notary public for the aforesaid Parish
and City

Came and appeared:
At 6? Jean Stourly of lawful age
residing in the Parish of Jefferson
in this State who declared that for and
in consideration of the full and
sum of one thousand Dollars Cash
paid to him in hand by Francois
Lamarque of the Parish of St James in
this State he does by these presents
grant bargain and convey unto said
Francois Lamarque the following
slaves to wit:-

Sam a negro aged 20 years
Eva a quatonian aged 18 years
said slaves free from all vices and
maladies prescribed by law.

This done and passed in my office
on the day month and year aforesaid
in presence of the undersigned Competent
witnesses.

(Signature)
Notary

Jean Droust
Lamarque



P. Chas Cuvillier
Notary

A SLAVE CONTRACT

**CREDIT AND
INTERNATIONAL TRADE.
HOW THEY WORK IN PRACTICE**

BY

BARNARD ELLINGER, C.B.E.

WITH AN INTRODUCTION

BY

SIR CHARLES ADDIS, K.C.M.G.

**MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON**

1934

COPYRIGHT

**PRINTED IN GREAT BRITAIN
BY R. & R. CLARK, LIMITED, EDINBURGH**

PREFACE

THIS book is concerned with the world's international trade in commodities and describes how these commodities are carried round the earth on an endless belt of credit.

About one-half of our imports are received from countries to which same countries we send a corresponding value of exports. We pay for the remainder of our imports in two ways; partly by sending exports to countries from which we have not received a corresponding value of imports, and partly by our invisible exports, that is, services which we render to the rest of the world or which have been rendered in the past. Balances which remain owing between nations are, in the last resort under gold standard conditions, regulated by the transference of gold; explanations of these operations are only referred to incidentally but can be found fully described in any text-book on money.

In order to give life to the transactions, names have been given to all the people who produce and handle the various commodities described. All the names (with the exception of the New Orleans Federal Compress & Warehouse Company and those of the United States Government institutions for giving credit to the farmers) are fictitious, but the transactions themselves are typical of actual business transactions which are taking place every day.

This book is a practical not a theoretical book,

describing business transactions as actually handled by business men. For the sake of students, examples of actual credit instruments which are used in daily practice are shown in Part II of Chapters I, II, IV, V. Explanations which are given of these credit instruments are from the business standpoint, and not from the legal or banking point of view. Lawyers and bankers have their text-books which deal with credit instruments, but the intention here is to fill the void in the education of the student of economics who is taught what business men do and why they do it, but is often at a loss to know *how* they do it. Any reader who is not interested in the actual credit instruments should omit Part II of these chapters, which can be done without any loss of sequence in the remainder of the book.

It is one of the aims of the book to bring home to the reader the fact that international trade is carried on between individuals and not between nations. Other aims are to show the complexities of production and distribution, the use of credit in helping in the producing and moving of commodities, and the dislocations which can be caused in the world's economy by changes in the habits of people or in the wants which they desire to satisfy. The transactions which have been selected are illustrative of trade in the multiplicity of commodities which are produced and distributed throughout the world, and the credit instruments shown in the book are a selection of the very many different types of credit instruments which are used in achieving this end.

I must express my gratitude to Sir Charles Addis, K.C.M.G., for writing the Introduction to this book. It will be noted that there is no bibliography; I have, however, during the making of the book, received comment, criticism, and information from so many friends in the academic, industrial, commercial, and financial world, that their names may be considered to form a human bibliography, and to all of them I must tender my sincere thanks. Among the large number I must particularly mention in the academic world Professor Henry Clay; also Professor G. W. Daniels, Messrs. T. S. Ashton, H. Campion, E. W. Mead, all of the University of Manchester; and Principal Henry L. Marsden, and Mr. G. A. Taylor of the Municipal High School of Commerce, Manchester, and also Miss Dorothy Smith; in the cotton world Colonel John J. Shute, M.P., and Sir John Reynolds, Bart., of Messrs. Reynolds & Gibson, Liverpool; Messrs. G. H. McFadden & Bro., Jenks Gwynne & Co., H. Hentz & Co., all of New York; and Mr. S. Skinner of Manchester; in the produce world Mr. G. Darling of the Co-operative Wholesale Society, Ltd., Mr. Robert Graham, a director of the Manchester Chamber of Commerce, Mr. P. F. H. Howlett of the English & Scottish Joint Co-operative Wholesale Society, Ltd., Mr. H. T. Karsten, Mr. E. Kraunsoc, Danish Consul in Manchester, and Mr. R. Schlee; in the banking world Mr. T. Y. Lee, Co-manager of the Bank of China, London, and Mr. W. Ewart Shepherd; in the shipping world Dr. L. Isserlis of the Chamber of Shipping of the United

Kingdom, and Messrs. R. S. Dalglish, Ltd., W. L. Runciman, and W. A. Souter & Co., Ltd.; and last but by no means least, my thanks are due to my indefatigable and long-suffering secretary, Miss Astra Kamberian, whose candid criticism was always helpful and constructive. The responsibility, however, for everything in the book rests solely with myself.

B. E.

August 1934.

CONTENTS

PREFACE	PAGE vii
INTRODUCTION	xv

CHAPTER I

PRODUCTION AND MARKETING OF RAW COTTON .	1
--	---

CHAPTER II

THE EXPORT OF RAW COTTON FROM NEW ORLEANS TO LIVERPOOL	25
---	----

CHAPTER III

CHINESE PURCHASE OF LANCASHIRE COTTON GOODS .	55
---	----

CHAPTER IV

COTTON SPINNING, WEAVING, AND MERCHANTING .	67
---	----

CHAPTER V

EXPORT OF COTTON GOODS FROM MANCHESTER, AND MARKETING IN CHINA	83
---	----

CHAPTER VI

THE EXPORT OF TEA FROM CHINA TO MANCHURIA. HOW TEA IS GROWN	117
--	-----

CHAPTER VII

THE PRODUCTION OF SOYA BEANS IN MANCHURIA, AND EXPORT TO DENMARK	124
---	-----

CHAPTER VIII

SHIPMENT OF BUTTER FROM DENMARK TO ENGLAND, AND OF PIGS' BRISTLES FROM CHINA TO AMERICA	130
--	-----

xiv CREDIT AND INTERNATIONAL TRADE

No.		PAGE
28.	Bill of Exchange	97
29.	Request for Advance	99
30.	General Letter of Hypothecation	101
31.	Advice of Acceptance	105
32.	Bank's Acceptance	107
33.	Presentation for Acceptance	109
34.	Discount Note	110
35.	Application for Bill of Lading	111
36.	Trust Receipt	113
37.	Security for Overdrafts	115
38.	Delivery Order	116

INTRODUCTION

THIS is a book full of instruction. It is also highly entertaining. The student whose mind is bemused by the subtleties of abstract economics will find his ideas refreshed and clarified as he follows this plain and simple narrative of the fortunes of a bundle of cotton, from the field where it was grown by a negro "cropper" in Mississippi, to its appointed goal as a shirt on the back of Mr. Wu in an inland town in China. The author is the possessor of an agreeable and lively style and he brings out very clearly the way in which credit enters into every stage of the long journey.

We may dismiss the "cropper" as a direct user of credit since his field is tilled on the half-and-half system, that is to say, he supplies the labour and receives in exchange one-half of the cotton he is able to produce. But he presents the sole exception in a continuous chain of credit operations. For the land on which he works is mortgaged to the bank who provided the purchase money, and the owner has to obtain credit to buy the seed which he supplies to the "cropper". Then the local merchant, who buys the cotton from the owner, pays for it by a bill on the merchant in New Orleans, who in turn draws on the firm in Liverpool to whom he exports it. Credit is required to transport the cotton across the Atlantic, and to spin, weave, and bleach it when it reaches the other side,

before it is ready to be exported to China in the form of cloth.

Up to this point the combined operations would appear to have been effected by nothing more than a series of book entries, in which credit is given to one after the other of the various factors of production, without any commodity having actually changed hands except, of course, the cotton itself. Here the author intervenes to show, not without a touch of humour, how the cotton not only changes hands repeatedly but is transmuted in the course of its long itinerary by the magic wand of credit into a whole series of commodities, so that Mr. Fu, the middleman at the Treaty port in China, is enabled to pay for the cotton cloth which is sold to Mr. Wu by shipping tea and sharks' fins and birds' nests to Manchuria and pigs' bristles to England. To pay for the tea and sharks' fins and birds' nests, Manchuria ships soya beans to Denmark. England settles her American account by shipping the pigs' bristles received from China to the United States, and Denmark pays for the soya beans received from Manchuria by shipping butter to England.

The circle is now complete. What appeared at first sight to be a mere series of book entries is now seen to be resolved, through the medium of credit, into a series of actual exchanges, in which the claims of each country concerned are satisfied by receiving the commodities of other countries in exchange for its own. So far as England is concerned, the net result is that she receives Danish

butter in exchange for her labour in manufacturing the cotton goods.

The book is not intended, as the author reminds us, to be an exposition of the theory of Credit and International Trade. His more modest purpose is a description of how credit actually enters into commercial transactions of which he happens to possess first-hand knowledge. Nevertheless, despite his modest self-abnegation, we may be permitted to doubt whether his masterly handling of the complicated details of credit and international trade, and the presentation of his subject in so simple and attractive a manner, could have been achieved without a good deal more than a passing acquaintance with its theoretical implications.

The experienced man of business may read *Credit and International Trade* with profit and pleasure, but it is to the young banker or merchant who takes an intelligent interest in his business and wants to understand something of the reality veiled by the various documents he has to handle in the course of the daily business routine that I would especially commend this book as the best introduction I have seen to the economics of foreign trade and particularly of foreign banking.

C. S. ADDIS

August 15, 1934.

CHAPTER I

PRODUCTION AND MARKETING OF RAW COTTON

PART I

THE story begins with Hezekiah Godbehere, a negro tenant-farmer, or cropper as Americans call him, who lived in Mississippi and grew cotton; or rather it starts with his father Zachariah, who was born in 1844 and is still hale and hearty at the age of ninety. Zachariah was also interested in cotton in his youth. He was set to pick it at the age of nine, and worked for Mr. John B. Robinson senior, until he was twenty-one. In fact, he belonged to John B. Robinson, for he was a slave and only freed in 1865 when slavery was abolished in America on the termination of the Civil War.

We do not know how much was paid for Zachariah, but a selling contract dated 1840 (see frontispiece) affords an indication of the prices ruling (500 dollars per slave), about the time of Zachariah's birth.

We may go still further back; Zachariah's grandfather was born aboard a slaver about the year 1738. The vessel was sailing from the Gold Coast to Virginia and was not very successful as a commercial venture, for 65 out of the 123 negro slaves which she carried died on the voyage.

These slavers were owned by Liverpool merchants, some having an eighth share, others a

sixteenth or a thirty-second, but "BIG BUSINESS" was beginning to make itself felt, for, forty years later, ten shipping firms controlled half the trade and carried two-thirds of the slaves. It was a triangular trade, for the vessel loaded cotton from Virginia for Lancashire, where it was manufactured into cloth, sent to the Gold Coast and there exchanged for slaves, and the slaves were then carried to Virginia. The first record which we have of a slaver belonging to Liverpool merchants dates from the year 1700 and the vessel enjoyed the singularly appropriate name of *The Blessing*.

Daniel Defoe, writing in 1728, said: "The Trade carried on here," (that is, the West Coast of Africa), "whether by the *English* or other European Nations, consists in but three capital Articles viz. *Slaves*, *Teeth*, and *Gold*; a very gainful and advantageous Commerce, especially as it was once carried on, when these were all purchas'd at low Rates from the Savages; and even those low Rates paid in Trifles and Toys, such as Knives and Sissars, Kettles and Clouts, Glass Beads, and Cowries, Things of the smallest Value, and as we may say next to nothing; but even this Part of the Trade is abated in its Goodness, since by the Strife and Envy among the Traders, we have had the Folly to instruct the Savages in the Value of their own Goods, and inform them of the Cheapness of our own; endeavouring to supplant one another, by underselling and overbidding, by which we have taught the Negroes to supplant both, by holding up the Price of their own Productions and running down the Rates of what we carry them for Sale.

“Thus that gainful Commerce once superior to all the Trades in the World, which carried out the meanest of all Exportations and brought home the richest, is sinking daily into a Kind of Rubbish as to Trade; and we are sometimes said to buy even the Gold too dear.”

We are not concerned, however, with Hezekiah's great-grandfather, but rather with Hezekiah himself and how he grew and sold his cotton in the year 1934.

Hezekiah rented a farm of ten acres from John B. Robinson junior, on the half-and-half system. Robinson owned about 100 acres which he let in small lots to other negro croppers on the same system. The tenants supplied the labour and half the fertilizers, but Robinson supplied everything else: land, cabin, tools, work-stock, feed for work-stock, seed, and one-half of the fertilizers, and granted the tenant the privilege of getting wood for fuel. When the crop was grown the tenant received half and John B. Robinson half, but the tenant often sold his half to or through Robinson.

It was necessary before planting the new cotton to obtain seed, and John B. Robinson, who was short of money, borrowed from a Production Credit Association set up by the Department of Agriculture's Credit Corporation, pledging as security the cotton crop when grown, and the Department of Agriculture watched that only good seed was supplied to Robinson (Part II: Credit instruments Nos. 4 and 5). Formerly Robinson would have borrowed money from his local bank with which

to buy the seed, but after the American crisis, which began in 1929 and led to difficulties of many banks, the Government formed this Credit Corporation in order to help the farmers.

John B. Robinson did not only require to borrow money for his seed, but owing to the bad times, was also obliged to borrow in order to buy his farm implements, stock, and even to pay his taxes. He had borrowed on mortgage 4000 dollars on his farm on which he had to pay 6% interest, and for other money which he owed he had to pay as much as 8% interest. Times were so bad that he could not raise the interest, and the people who had lent him the money had threatened to seize his farm and sell it so as to recover the debts due to them. This state of affairs was fairly common among farmers in the United States between 1929 and 1933, in which latter year Congress passed the Emergency Farm Mortgage Act. As a result he was then able to borrow (from institutions set up by the Government) enough money to pay off his mortgage and settle his other debts (Credit instruments 1, 2, and 3). He contracted to repay this loan in annual instalments over thirty years but was only obliged to start repayment after five years, during which period he had to pay interest only, and even then at the rate of $4\frac{1}{2}\%$ per annum instead of the 6 to 8% which he had been paying. Robinson had to undertake to leave 5% of the borrowed money with what was known as the National Farm Loan Association for investment in that Association's capital, as part provision of a fund to protect the

Association against loss, and enable the money which was to be lent to the farmers to be raised from the public at cheap rates by the issue of bonds.

The National Farm Loan Association was founded by the Government for the purpose of making loans on easy terms to the farmers. The Government guarantees the interest on the bonds, and care is taken that loans are only made on sound value in order to ensure that the principal is safe. The 5% investment of each individual borrower serves as a mutual guarantee fund for all the borrowers.

In due course Hezekiah's crop was harvested. His ten acres yielded about 1800 lb. of cotton, but the cotton when picked was full of seed, and Hezekiah sent it to the local gin, the Mississippi Ginning Company, in order that it might be ginned, that is, the seed separated from the cotton. Hezekiah had to drive his wagon with his cotton several miles to the nearest gin. The ginner not only removed the seed from the cotton lint, but took out a certain amount of dirt and then packed the cotton, when ginned, into a bale. Some ginners purchase the cotton before it is ginned, but otherwise they keep sufficient of the seed to repay themselves for their work, returning the remainder to the farmer. Usually about one-third of the unginned cotton is lint and two-thirds seed, but sometimes the proportion is as high as half and half. Cotton seed is a valuable commodity, and from the seed four products are obtained: oil (the most valuable) which is used for salad oil, vegetable shortening

(fat used for cookery), soap and sardine packing; linters (the fibre which is left on the seed after ginning) is used for felt, writing-paper, explosives, varnishes, absorbent cotton, photograph films, and nowadays in the manufacture of rayon; the hulls or husks are used for cattle food and fertilizers; and the material left after extracting the oil from the seed has also a large market for the same purposes. A ton of seed will yield approximately 330 lb. of oil, 825 lb. of cake or meal, 595 lb. of hulls, and 150 lb. of linters. When Hezekiah received back his lint and seed from the ginner, he handed it all, including his own share, to Robinson so that he might sell it.

John B. Robinson drove every day into the country town with two or three bales of cotton which had been grown by Hezekiah and other negro croppers. In the country town he might have sold the cotton to a "scalper", a man who buys a few bales every day on his own account and usually sells them in the evening of the same day. There are also other buyers of cotton; for instance, a man who is known as "the supply merchant", possibly he is the store-keeper in the town and has given credit to Robinson for fertilizers and implements. Having made his profit in this way he would sometimes pay a price rather higher than the market price for the cotton in order to set off the value against the money owing to him. If the supply merchant bought the cotton, he would probably immediately re-sell it to a "merchant's take-up man" who buys for some large merchant, or possibly to an "exporter's agent"

who usually buys from other buyers for some large exporting firm. But John B. Robinson sold to a "f.o.b. man" (who also more frequently buys from other buyers than from the farmers direct). The term f.o.b. means "free on board" and it is one of the functions of the f.o.b. man to care for putting the cotton free on board the train and arranging for it to be forwarded to his buyer. This f.o.b. man, Marcus B. Levine in this instance, had been in the habit of buying Hezekiah's cotton every season, because he knew that he had a buyer for the special quality which Hezekiah grew, and he had probably arranged the price with his buyer before he purchased the cotton from John B. Robinson (Credit instrument No. 9).

Levine, before buying the cotton from Robinson, cut a hole in a bale, took a sample of the cotton, examined it, and then made his bargain regarding the price. He then carted the cotton to the town's cotton-yard or warehouse, where it was weighed by the public weigher. If Marcus B. Levine had sufficient cash, he might use it to buy his first few bales of cotton, or, failing this, he would arrange a loan with a local bank, giving them some bonds or shares as security. He would pay John B. Robinson out of these funds (Credit instrument No. 6), and when John B. Robinson sold his cotton, he would repay the loan which he obtained for the seed from the Production Credit Association and also his annual instalment in repayment of the mortgage. The bales which Levine bought were loosely packed and if loaded in that condition would have

cost an unnecessarily large amount in railway freight, so Levine sent them to a pressing company which pressed them into bales of smaller compass and warehoused them for Levine until he was ready to forward them by rail to his customer. Levine then took the warehouse receipt (Credit instrument No. 7) to the bank and obtained a further loan against the cotton which he had stored in the warehouse. This enabled him to make a new purchase of cotton, and with every new purchase he obtained a warehouse receipt which he pledged with the bank, and obtained a still further loan which enabled him to continue his purchases. But the bank would probably see that it only advanced about 75 to 80% of the market value of the cotton, thus keeping themselves covered against any possible fall in the value of the security which might occur owing to a decline in price, and Levine would have to find the remaining 20 to 25% out of his own money.

When Levine had collected sufficient cotton to send a load to his buyer, Silas J. Hocking in New Orleans, he went to his bank and obtained from them an order to the warehouse to release the cotton on his promise (Credit instrument No. 8) to hand over to the bank the railway bill of lading (that is, the railway's receipt for the cotton) when he had loaded it, which the bank would then hold as security in place of the warehouse receipt. He then made out his invoice charging Silas J. Hocking with the cotton, and at the same time he wrote out a draft (similar to Credit instrument No. 6), but instead of being drawn on a bank, it was drawn on his

buyer Silas J. Hocking, who was obliged to pay it to anybody to whom Levine endorsed it. He then took the draft and the railway bill of lading to his local bank. The bank deducted from the value of the draft the loan which it had made to Levine, its charges for interest and any other charges, and credited Levine's account with any balance which remained over. The local bank sent the bill of lading and the draft to a bank in New Orleans, which collected the money from Silas J. Hocking and in exchange handed to him the railway bill of lading, the bank in New Orleans remitting the money to the local bank from which it had received the bill of lading.

PART II

. CREDIT INSTRUMENTS

Credit instrument No. 1: In this instrument there are three points which should be noted. First, by it John B. Robinson offers his farm as security for the money which he asks should be advanced to him and which he undertakes to repay by instalments; so that the debt would be liquidated in thirty years. Secondly, he agrees to purchase stock to the extent of 5% of the money advanced, in a National Farm Loan Association if the money is obtained from the Association or (if the money is obtained from the bank), in the bank. Thirdly, if the money is obtained from the bank, he agrees to unite with other borrowers at some future time in forming a National Loan Association, from which, when formed, he may obtain a reduction of $\frac{1}{2}$ or 1% per annum in the rate of interest charged for his loan. In addition, this document, which is signed by John B. Robinson, contains detailed information concerning his property, debts, and the purpose for which the loan is required.

CREDIT INSTRUMENT NO. 1.—APPLICATION FOR LOAN

Form 1221—Consolidated—Rev. 7-20-28

(THIS APPLICATION MUST BE FILLED OUT WITH PEN AND INK OR TYPEWRITER)

Kind of Loan(s) Closed		Rate		Appraisal Fee, \$	
Application	Land Located in Territory of	Amount Applied for	Amount Loaned	Loan	
FLB No	N F L A	FLB \$	FLB \$	FLB No	
LBC No	Classification	LBC \$	LBC \$	LBC No	
(Do not write above this line)			(Space above the line for Farm Credit Administration use only)		

APPLICATION OF

JOHN BENJAMIN ROBINSON

(Applicant's full name—Print or type)

FO

VICKSBURG

(Town)

MISSISSIPPI

(R F D)

(State)

EVA JEAN ROBINSON

(Husband's or wife's name—Print or type)

FO

VICKSBURG

(Town)

MISSISSIPPI

(R F D)

(State)

to THE FEDERAL LAND BANK OF NEW ORLEANS

(Hereinafter termed "bank")

and

to THE LAND BANK COMMISSIONER

(Hereinafter termed "Commissioner")

Paragraph 1 Amount of Loan 1, the undersigned, hereby apply for a loan of Six thousand dollars

(\$ 6000)

Dollars, to be repaid in 30 installments

(Initial—semi annual)

(Multiples of \$100)

Paragraph 2 Loan from Bank I apply to the bank for a loan of so much of the amount desired as can be guaranteed by it on the security offered such loan to be made through a national farm loan association serving the town wherein the security is located, if the payment of such association is acceptable to the bank and if such endorsement is of acceptable I desire a direct loan from the bank I agree to purchase stock to the extent of \$5.00 for each \$100.00 lent by the bank, such stock to be in the association if the loan is made through it, and in the bank if a direct loan is made I agree that the cost of the stock may be deducted

from the loan If a direct loan is made I do (do—do not) desire to covenant in my mortgage to unite with other borrowers later in forming a national farm loan association in order to obtain a reduction of 1/4 of 1% in the rate of interest on my loan in accordance with Section 7 of the Federal Farm Loan Act, as amended I agree to comply with all the terms and conditions of, and rules and regulations issued under, the Federal Farm Loan Act, as amended

Paragraph 3 Loan From Commissioner If the bank cannot lend any or all of the amount desired, I apply to the Commissioner for the balance or so much thereof as he can lend on the security offered I agree to comply with all the terms and conditions of, and rules and regulations issued under, part 3 of the Emergency Farm Mortgage Act of 1933

Paragraph 4 As hereinafter used the term "Loan" shall be deemed to refer to any loan or loans made to me by the bank and/or the commissioner pursuant to this application

A. DESCRIPTION OF LAND OFFERED AS SECURITY:

I offer as security for the loan a first mortgage on the real estate described as follows (Give legal description which must be in sufficient detail to identify the property and its bounds)
(first second)

Credit instrument No. 2: This report is not merely a report on the condition and value of the farm, but also on the applicant's character and farming experience; also on the probability or otherwise of the applicant being able to earn sufficient from the farm to keep his family and gradually pay off the loan. At the foot of the form is a certificate from the National Loan Association stating that John B. Robinson is either a charter member (or as we should call him, a founder member) or has been elected a member of the National Farm Loan Association, and that the board of directors by a majority vote approves the application for the loan and recommends that the Federal Land Bank of Mississippi should grant it.

CREDIT INSTRUMENT NO. 2

Form 1321 A - Rev. 7-20-33

- FOR LOAN THROUGH N. F. L. A. ONLY -
(CONFIDENTIAL)

REPORT OF THE LOAN COMMITTEE TO THE FEDERAL LAND BANK OF MISSISSIPPI

NOTE: Section 10 of the Farm Loan Act as amended, provides that the loan committee may designate someone to make an investigation of the security and the applicant in its behalf, or the committee itself may make the investigation. The result of the investigation must be approved and the report signed by every member of the loan committee.

- 1 The land on which this report is used is the identical property described in the application hereto attached and signed by **JOHN BENJAMIN ROBINSON**
- 2 The farm offered as security is in a (good—~~very good~~) location. It shows ~~very good~~—(fair—~~good~~) management. It is in ~~very good~~—(fair—~~good~~) condition.
- 3 The soil is (describe land) **black loamy** of ~~very good~~—(good—~~very good~~) quality, **95** acres can be profitably cultivated.
- 4.

Kind	Value Unimprovable Buildings	Value Perma- nent Imovable Buildings	VALUATION OF LAND			
			(The acreage classified must agree with total acreage offered as security for this loan)			
			No. of Acres	Classification	Value per Acre	Total Value
Dwelling (Bldg. No 1)	\$	\$	95	Cultivated	\$ 172	\$ 16150
~~House~~ (Bldg. No 2)						
~~House~~ (Bldg. No 3)		200	5	Uncultivated		
(Bldg. No 4)		150		Orchard		
(Bldg. No 5)		150		Groves		
(Bldg. No 6)	120			Pasture		
(Bldg. No 7)	90			Timber		
				Waste Land		
				Total Value of Land		\$ 16150
				Value of Insurable Bldgs. to Farm		500
				Total Value of Farm		\$ 16650

- 5 The present sale price of the property is \$ **16650**.
- 6 The applicant's character and habits are (good—~~very good~~) He is (slow—~~prompt~~) in meeting obligations.
- 7 The applicant is—~~very~~ by virtue of actual farming experience, training and temperament, qualified to be capable of making a success in the operation of this farm.
- 8 This farm (will—~~cannot~~), under the management of the applicant, produce a sufficient revenue to sustain the family of the applicant and enable him to meet amortization payments as they become due.
- 9 The applicant is in (good—~~very good~~) health. He is (White—~~Black—American—Negro~~).
- 10 Give any further information you have bearing on this loan.
- 11 The applicant (will—~~may not~~) accept the loan as herein recommended.

Based upon the investigation of the property, its earning power under normal conditions, the solvency, character, and qualifications of the applicant, I recommend that a loan be granted for an amount not to exceed **\$ 6000**.

The foregoing is a report of an investigation made the **12th** day of **May**, **1934**.

Robert G. Horton
Investigator for Loan Committee.

We, the Loan Committee of the **WARREN** National Farm Loan Association, have carefully considered this application and the report of our Investigator, or have personally investigated the security, and recommend that a loan be granted for an amount not to exceed **six thousand dollars**.

No member of this committee nor any person who made the investigation is interested, directly or indirectly, in the loan sought by the within-named applicant.

Dated at **VICKSBURG** (This report MUST be signed in ink by all members of the Loan Committee.)

4th day of **June**, **1934**

Angus P. MacMahon
Secretary-Treasurer

Robert G. Horton
Philip A. Soudy

ACTION OF THE BOARD OF DIRECTORS

The undersigned Secretary-Treasurer of the within and above-named National Farm Loan Association, hereby certifies that the within-named applicant is a charter member of or has been admitted to membership in said Association by a two-thirds or more vote of the Board of Directors. I further certify that the Board of Directors of said Association by a favorable vote of a majority of the entire directorate, at the casting of which vote no interested director participated in any manner, has approved and recommended to the Federal Land Bank of Mississippi that said applicant, on the land described in this application, be granted a loan not exceeding **six thousand dollars**.

Witness my official signature this **14th** day of **June**, **1934**.

Angus P. MacMahon
Secretary-Treasurer.

Note to Secretary-Treasurer: In connection with consolidated application form 1321 (Rev. 7-20-33), the above report must be filled in completely and sent to the Bank with each application, except in cases where loans cannot be made through your association and in cases where you know that a loan can be made only by the commissioner.

Credit instrument No. 3: This is a direct loan from the Federal Land Bank of New Orleans, the National Farm Loan Association referred to in document No. 1 not having been established at the time the loan was made. The loan is repayable plus a certain percentage per annum, in an agreed number of years according to the amortization tables approved by the Land Bank Commissioner. These are tables which show how long it will take to repay a given debt by annual payments which are applied partly in payment of interest and partly as an instalment towards the repayment of the capital, or what we should call a Sinking Fund. In Robinson's case the interest was $4\frac{1}{2}\%$ per annum; the capital commenced to be repayable only after five years, and the table would show how much a year would have to be paid over the whole thirty years in order to wipe out both interest and capital. The document also contains many legal clauses, too numerous to reproduce here.

CREDIT INSTRUMENT NO. 3

FLB FORM NO. 206
7-20-33

DIRECT LOAN

Deed of Trust

State of Mississippi, }
County of WARREN

OFFICE COPY
FORM SUBJECT TO CHANGE
WITHOUT NOTICE.

Know all Men by These Presents:

FEDERAL LAND BANK
OF NEW ORLEANS

That WHEREAS,

JOHN BENJAMIN ROBINSON

hereinafter called Grantors, whether one or more, is/are indebted to **THE FEDERAL LAND BANK OF NEW ORLEANS**—hereinafter called the Bank—in the sum of six thousand

— DOLLARS,
for money lent by it, which indebtedness and the interest accruing thereon, at the rate of 4½ per centum
per annum from the date hereof, is repayable in 30 installments, according to amortiza-
tion tables approved by the Land Bank Commissioner, the terms of which are hereby agreed to, in varying amounts
and at times as follows, to-wit:

On the 24 day of April, 1939, the first installment, comprising interest from
date hereof on the principal amount of such indebtedness, plus the principal portion of the said first installment of
the amortization table which is printed on the back of the note hereinafter described and herein secured; and the re-
maining installments successively, including principal and interest, one on the same day of each year thereafter until
all have matured; on an amortization plan, in the order and in the several respective amounts as the same are set forth
in, and fully in accordance with, the amortization table printed on the back of the note hereinafter described in and
identified with this deed of trust, the terms of which are hereby accepted and made a part of this deed of trust, to the
same extent as if the said note, including the said amortization table, were recited verbatim herein. Said indebtedness
repayable in said annual installments is evidenced by a note of even date herewith for the said principal sum, which,
with the interest therein provided, is repayable in the amounts and at the times aforesaid, at the office of the Bank, in
the City of New Orleans, Louisiana:

AND WHEREAS, the undersigned desire to secure the payment of said indebtedness as the several installments
thereof respectively fall due and the performance of all obligations, agreements, and conditions herein assumed:

NOW THEREFORE, in consideration of the premises as well as the sum of Five Dollars to them paid by
John Benjamin Robinson as Trustee, hereinafter called the Trustee, the receipt whereof is
hereby acknowledged, the Grantors do hereby convey and warrant unto said Trustee the following described real
estate, situated in the County of WARREN State of Mississippi, to-wit:

one farm of 100 acres.

Comprising five huts.

In the postal district of Vicksburg. Box No: 270

CREDIT INSTRUMENT NO. 3 (continued)

Witness the signature of the Grantors on this the 16th day of March, 1934
John B. Robinson

State of Mississippi, }
 County of WARREN }

Before me, the undersigned authority in and for the County and State aforesaid, this day personally appeared the within named

John Benjamin Robinson

who acknowledged that he signed and delivered the foregoing instrument on the day and year therein mentioned

Given under my hand and official seal this 24 day of April, 1934

Joshua R. Watts

(SEAL)

Credit instrument No. 4 is an indenture, that is an agreement by which John B. Robinson who is the Grantor, acknowledges a loan from the Production Credit Association and undertakes to repay the same with interest. He gives promissory notes as security which bear interest from the date of the note (*Credit instrument No. 5*). He also gives as collateral security (i.e. additional security, literally security which runs alongside the original security) his growing crops, and other chattels. This security is given by selling the whole of his crops grown or to be grown, to a trustee for one dollar. The trustee holds them on trust until the debt to the Production Credit Association is paid, after which they revert to John B. Robinson. It will be remembered, however, that half the crops belong to John B. Robinson's tenants, and of course, Robinson cannot give a lien (that is, pledge) on his tenants' share of the crops. In order to get over this difficulty there is attached to the indenture a "waiver" which is signed by Robinson's tenants in which these tenants agree to waive any rights which they have in the crops in favour of the Production Credit Association to the extent of the Association's claim. Formerly it was not possible, under the ordinary law of the United Kingdom, to give a lien on growing crops, unless this was coupled with a lien on the land. But in the Agricultural Mortgage Act of the United Kingdom, an exception was made in this respect. However, the American indenture would not ordinarily be legal in this country, as it would still involve the necessity for giving a bill of sale.

CREDIT INSTRUMENT NO. 4.—CROPS AND CHATTELS MORTGAGE

P C A - M 403

CROPS AND CHATTELS

State of Mississippi, }
County of WARREN

THIS INDENTURE, this day made and entered into between JOHN BENJAMIN ROBINSON
of VICKSBURG, Mississippi,
hereinafter designated as the GRANTOR; JOSHUA R. WATTS of VICKSBURG, Mississippi,
TRUSTEE, and the JACKSON Production Credit Association of WARREN,
Mississippi, hereinafter designated as the ASSOCIATION.

WITNESSETH: That whereas the GRANTOR is justly indebted to the ASSOCIATION in the full sum of
four hundred DOLLARS (\$400.00)

for money loaned and to be loaned as evidenced by the GRANTOR'S 4 promissory notes of even date herewith, in
favor of the ASSOCIATION, bearing interest from date until paid at the rate of 4½ % per annum, and being due
and payable as follows:

No 1 for \$ 100	due September 10th 1934	No. 5 for \$	, due
No 2 for \$ 100	, due October 10th 1934	No. 6 for \$	, due
No 3 for \$ 100	, due November 10th 1934	No 7 for \$	, due
No 4 for \$ 100	, due December 10th 1934	No 8 for \$	, due

All of said notes provide that in the event they are placed in the hands of an attorney for collection, or if suit is
brought on the same, or any portion thereof, or if collected by any court proceedings, the GRANTOR agrees to pay a
reasonable attorney's fee.

WHEREAS, the said GRANTOR is willing to secure the prompt and full payment of the indebtedness hereinbe-
fore specifically described, and also such future and additional advances as may, within one year from the date hereof,
be made to the GRANTOR by the ASSOCIATION, such additional future advances not to exceed the sum of \$ 100 ,
together with any other indebtedness that may become due and owing under the terms of this instrument:

NOW, THEREFORE, in consideration of the premises, and the further consideration of One Dollar (\$1.00) cash
in hand paid by the aforesaid TRUSTEE the receipt of which is hereby acknowledged, the GRANTOR does hereby sell,
convey and warrant unto said TRUSTEE, any and all crops of cotton, cotton seed, corn, hay, truck and any and all
agricultural products, of any and all kinds whatsoever, grown and to be grown by said GRANTOR and by any and all
tenants, share-croppers, laborers and/or any employees of said GRANTOR during the crop year 1934, on any and
all lands cultivated and controlled by said GRANTOR and particularly on the land situated in the County of

WARREN, Mississippi, described as follows, to-wit:

1 farm of 100 acres

in the postal district of VICKSBURG,

Box. No.270

John B. Robinson

15th February 1934

CREDIT INSTRUMENT NO. 4 (continued)

State of Mississippi }

COUNTY OF WARREN }

Personally appeared before me the undersigned authority, in and for the jurisdiction aforesaid, the within named

JOHN BENJAMIN ROBINSON who acknowledged that he signed and delivered the foregoing deed of trust on the day and year therein mentioned.

Given under my hand and official seal this 15th day of February, 1934

FIX OFFICIAL
SEAL HERE

James S. Neale
Notary Public

WAIVER AND AGREEMENT

Date 1st February 1934In consideration of the loan to be made by the JACKSON

Production Credit

Association of WARREN, Mississippi, to the GRANTOR named in the foregoing deed, of true which is to be a lien superior to any lien, claim or interest of the undersigned upon the crops and chattels mentioned therein the undersigned, as owner and/or mortgagee of the land therein described and/or prior mortgagee, sharecropper, tenant or licensor of the crops and chattels so mortgaged and/or the present owner and holder of a rent note, mortgage note, agreement or land-sales contract entitling the holder to a legal interest in said crop or chattels and/or the present legal equitable owner of any interest of any kind or character in and to the land described therein or in said crops and chattels, does hereby waive, subordinate and release in favor of said JACKSON

Production Credit Association of WARREN, Mississippi, or its assigns, all or any right, lien, claim or interest which the undersigned or any of them may now have or may hereafter have under whatever claim or right in or to the said crops and chattels or the proceeds from the sale thereof, to the extent of the claim of the said Association thereof, and do hereby covenant and agree that the enforcement of their said rights, liens, claims or interests in the said crops and chattels shall be deferred until such claim is fully paid satisfied and discharged. And for the consideration aforesaid the undersigned do further covenant and agree: (1) That he is the present owner and holder of all notes or other documents evidencing the indebtedness due him; (2) Not to transfer, pledge hypothecate, sell or assign any rent note, mortgage note, agreement land-sales contract, mortgage, or other lien or claim held by them against the said crops or chattels without first obtaining the written consent of the said Association until its aforesaid mortgage or lien is fully paid and or paid; and (3) That in the event loans or advances are made by said Association for the purpose of harvesting and marketing the said crops, it is agreed that the money so advanced may be repaid from the proceeds derived from the sale thereof prior to the satisfaction of any lien, claim or interest of the undersigned

Hezekiah Godbehene
Augustus Moses Longstone
Pompey Greene
Adam Samuel Mason
Lazarus Ferguson
Seth Johnson

Credit instrument No. 5 is a promissory note undertaking to pay by various instalments the amount borrowed plus interest from the date of the note. It contains a clause agreeing that the Association's right, to call upon any guarantor of this promissory note to pay it in the event of Robinson failing to do so, shall not be affected by the Association's failure to give notice that Robinson has not paid on the due date. Further, the Association's rights against the guarantor shall not be annulled if the Association agrees to give Robinson an extension of the time for payment.

CREDIT INSTRUMENT NO. 5

INSTALLMENT NOTE

\$ 200 15th February 19 34

For value received, I, ~~W. A. Robinson~~ promise to pay to the order of the JACKSON
PRODUCTION CREDIT ASSOCIATION of WARREN MISSISSIPPI the sum of
Four hundred Dollars (\$ 400.)

with interest at the rate of $4\frac{1}{2}$ % per annum from date, until paid, payable at its office in the City
of VICKSBURG MISSISSIPPI in installments as follows, to-wit:

\$ 100	on September 10th 19 34	\$	on	19
\$ 100	on October 10th 19 34	\$	on	19
\$ 100	on November 10th 19 34	\$	on	19
\$ 100	on December 10th 19 34	\$	on	19
\$	on 19	\$	on	19
\$	on 19	\$	on	19

Interest on each installment to be paid at maturity thereof.

Upon the failure to pay any of the said installments, or interest thereon when the same becomes due, then the entire indebtedness, at the option of the holder may be declared to be due and payable.

The makers, sureties, endorsers and guarantors of this note hereby severally waive presentment for payment, notice of non-payment, protest and notice of protest, and diligence in the enforcing of payment hereof and all right of exemption under the Constitution and laws of the State of Alabama as to personal property, and consent that time of payment may be extended without notice thereof to any of the sureties of this note. It is further expressly agreed that if this note, after the maturity of any of the installments or payments, above referred to, is placed in the hands of an attorney, for collection, whether suit is brought on the same or not, then and in that event to pay the owner or holder of this note ten per cent additional of the principal and interest due thereon as attorney's fees for collection. This note is secured by chattel

mortgage dated..... 15th. February. 1934.....; executed by the makers hereof to the payee herein on property more particularly described in said mortgage.

No. 1679

Due September - December 1934

Address P.O. Box 270 VICKSBURG

John B. Robinson

Credit instrument No. 6 calls for no comment. It serves the same purpose as an ordinary English cheque.

CREDIT INSTRUMENT NO. 6---CHEQUE

MARCUS B. LEVINE COTTON MERCHANTS	\$ 168.30	Vicksburg, Mississippi	October 3rd 1934
	At sight		
	Pay to the order of John B. Robinson		
	One hundred and sixty eight		
	thirty cents		
	Dollars		
	VALID RECEIVED AND CHARGE TO ACCOUNT OF		
	For cotton 3 bales		
To Mississippi Cotton Banking Corporation		Marcus J. Levine	
MISSISSIPPI		(signed) Marcus B. Levine	
No. 3193			

Credit instrument No. 7 requires little explanation. The words "without novation" mean without the right to substitute some other debtor or trustee for the debtor or trustee mentioned in the document.

CREDIT INSTRUMENT NO. 7

THE COMPRESSION Co. INC. SHIPPING AGENTS HOUSTON GALVESTON CORPUS CHRISTI DALLAS LAKE CHARLES VICKSBURG	TRUST RECEIPT	Vicksburg, Miss. (Office)
		October 3rd 1934. (Date)
Received in Trust from Marcus B. Levine		
three bales cotton		
for account of Mississippi Cotton Banking Corporation		
The documents above described are held by us IN TRUST and WILL NOT BE DELIVERED without surrender of this Receipt. This delivery being temporarily made to us for convenience only, without novation, or without giving to us any title to the documents or the property they represent except as trustee and agent for the above mentioned parties		
THE COMPRESSION Co INC		
BY J. Harrison		

Credit instrument No. 8 is an application to withdraw the cotton from the warehouse for the purpose of putting it on the railway. In this document Levine agrees to hold the cotton in trust for the bank, and to hand over to the bank the railway bill of lading directly he receives it. By this "application" the bank is asked to give Levine permission to substitute the railway bill of lading (or "way-bill" as it is also called) for the warehouseman's receipt for the cotton. In order that the bank may not lose its hold on the security, it is assured by this document that Levine only handles the cotton in transit from the warehouse to the railway only as a trustee for the bank.

CREDIT INSTRUMENT NO. 8

FORM 1

Form adopted by the
New Orleans Clearing House Association

9-12-2014

APPLICATION AND TRUST RECEIPT

Vicksburg Miss. 30th October 1934.
Mississippi Cotton Banking Corporation

I hereby make application to withdraw, on the terms and conditions of the subjoined TRUST RECEIPT, the certain documents hereinafter described, which said documents and the property represented thereby are pledged with you to secure advances made to me on ONE obligations dated October 3rd 1934.

for one or both of the following purposes, viz.:

First, for delivery, of the property represented by said documents, to

Y. & M.V. Railway

(Name of steamship or railway)

for shipment to

New Orleans

(Destination)

Second, for substituting and changing said documents for warehouse receipts or other documents representing and describing the identical property, to be obtained from The Y. & M.V. Railway

(Name of warehouse, etc.)

Said documents to be withdrawn ~~and~~ viz.:

Trust Receipt dated October 3rd 1934

for 3 bales cotton

MARKS, NUMBERS AND
DESCRIPTION OF COLLATERAL PLEDGED

Signature

Marcus B. Devine

TRUST RECEIPT

Vicksburg Miss. October 30th 1934

Received in trust from The Mississippi Cotton Banking Corporation the bills of lading, press or warehouse receipts, or other documents or securities described in the foregoing application, held by said Bank as collateral pledged to secure advances made to the undersigned, and in consideration thereof, the undersigned hereby expressly agrees to pay over to said Bank or its assigns, on demand, the proceeds of the sale of the property described in and/or represented by said documents, or should the amount of said proceeds exceed the entire indebtedness to said Bank, in principal and interest, the undersigned expressly agrees to pay over to said Bank or its assigns, on demand, a proportion thereof, equal to the full amount of said entire indebtedness, in principal and interest.

It is stipulated that the payments herein contemplated shall be specifically applied against the identical advances secured by the aforesaid property.

In the event that the undersigned withdraws said documents for the purpose of substituting and/or changing them for warehouse receipts or other documents, representing and describing the identical property pledged, it is expressly agreed that said new documents shall be delivered to said Bank or its assigns within one (1) day from the receipt thereof by the undersigned.

In either or both of the above cases it is expressly agreed that this delivery is being temporarily made to the undersigned for convenience only, without novation of the original debt, or giving the undersigned any title to said property and the undersigned is given possession thereof solely as trustee for said Bank, and as such to receive the avails thereof or the documents therefor for account of the said Bank.

It is further stipulated, that the undersigned shall not, under any circumstances whatsoever, repledge the property withdrawn under the terms of this TRUST RECEIPT, or, use or sell said property, so withdrawn, for any other purpose than that of paying the indebtedness for the security of which the said property was pledged to said Bank.

(Any violation of the terms and conditions of this TRUST RECEIPT is made a felony by Act No. 9, of 1914, printed in full on the back hereof.)

Signature

Marcus B. Devine

Form No. 9 is not a credit instrument. It is a contract of sale for the cotton sold by Levine to Silas J. Hocking, that is for 20 bales of cotton at 11.85 cents per lb. The cost, freight, and insurance is included in the price, and an allowance of 6% of the value of the cotton is made for tare, that is, the approximate weight of the material used in packing the cotton, or in other words, the "tare" is the difference between the nett and the gross weight.

FORM NO. 9.—CONTRACT OF SALE

FROM		SALE NOTE No <u>412</u>
MARCUS B. LEVINE		To <u>Mr. Silas J. Hocking</u>
<u>Vicksburg, Miss.</u>	<u>October 30th 1934</u>	<u>New Orleans</u>
We have this day Sold to you: 20 bales cotton		
as sample in your possession marked: B.A.Z.		
@ 11.85 cents per lb.		
TERMS: Cost Freight, Insurance and 6 per cent. for Tare, <u>October</u> Shipment		
To <u>New Orleans</u>		
Reimbursement <u>by draft</u>		
All other terms in accordance with our general agreement. <u>Marcus B. Levine</u>		

CHAPTER II

THE EXPORT OF RAW COTTON FROM NEW ORLEANS TO LIVERPOOL

PART I

WE have now carried the story up to the point where the cotton was received in New Orleans.

Silas J. Hocking placed the cotton in the New Orleans Public Cotton Warehouse, the largest port cotton warehouse in the world. It covers 33 acres, it warehouses 461,800 bales, 250 cars can be unloaded at one time, and there is a wharf accommodation for four large ocean-going steamers. When the cotton had been warehoused, with many other bales which Silas J. Hocking had bought in various cotton centres, he graded the cotton according to quality, and marked the bales with distinctive marks. For instance, his mark for Hezekiah's quality was B.A.Z., which he also used for cotton bought from other farmers equal to Hezekiah's quality.

It might happen that some time elapsed before Silas J. Hocking sold his cotton. If, in the meantime, he wanted money to pay drafts for new cotton which was coming in, he might take his warehouse receipt (Credit instrument No. 10) to his bank in New Orleans and obtain a loan against the security of the cotton. Or, he might issue to his bank in addition, his own promissory note, *i.e.* his promise

to pay on demand or on a certain date a given sum of money (Credit instrument No. 11), or, if he were sufficiently wealthy and well known, sell it through a broker; that is a man who sells it in the open market to anyone who will buy it, earning a commission for his services (Credit instrument No. 12).

One day Silas J. Hocking might receive a cable from Birdhead & Co. in Liverpool offering him a price—we will suppose of 12·10 cents per lb.—for 1000 bales of B.A.Z. mark, shipment 200 bales a month October/February. If he was willing to accept the price, he would cable Birdhead & Co., who, by arrangement, would open a credit with a bank in Manchester, Liverpool, or London, authorizing Silas J. Hocking to draw a ninety-days Bill of Exchange (Credit instrument No. 13) on the bank for the amount of the shipment of cotton, on condition that the ocean-going bill of lading (Credit instrument No. 14) and a marine insurance policy (Credit instrument No. 15) were handed over to the bank as security. Generally speaking there would be no credit instrument for opening the credit. Birdhead & Co. would simply go to their bankers and ask them if they were willing to accept drafts drawn on the bank by the sellers of cotton in New York for shipments to Birdhead & Co. An amount would be fixed and the bank would agree to accept drafts say up to £50,000. This is the manner in which these cotton credits are usually arranged. It sometimes happens, however, that an American seller might sell cotton to a firm in Liverpool of whose financial

standing the seller was uncertain. In this case, he might ask the buyer to open an irrevocable confirmed credit (Credit instrument No. 16).

Silas J. Hocking having accepted Birdhead & Co.'s offer, the bales were pressed once more into still smaller compass before the cotton was shipped, in order to save ocean freight. Silas J. Hocking on receipt of his credit, drew, from time to time as he shipped the cotton, Bills of Exchange on the bank, (say the North-Western Bank, Ltd., in Liverpool), for the value of each shipment. The value of a particular shipment of cotton was say £250, so Silas J. Hocking's bill was an instruction to the North-Western Bank, Ltd. to pay to himself or his order, the sum of £250 ninety days after sight. (that is ninety days after the North-Western Bank, Ltd. had seen the bill, or, as it is usually expressed, had "sighted" the bill). Silas J. Hocking then endorsed the bill to his New Orleans bank, which had the effect of instructing the North-Western Bank, Ltd. to pay the amount to the bank in New Orleans or to anyone to whom the New Orleans Bank might order it to be paid. In order to take the goods (which were pledged to the bank) out of the warehouse, Silas J. Hocking made application to the bank in the same way as Credit instrument No. 8 and gave the bank as security a Trust Receipt undertaking to hand over the bills of lading when received. This Trust Receipt would be in a similar form to Credit instrument No. 8, but would refer to ocean bills of lading, whereas the former referred to railway bills of lading. Along with the Bill of

Exchange, Silas J. Hocking handed to his New Orleans bank the ocean bill of lading when he received it, the marine insurance policy, and his invoice for the cotton, all of which were forwarded to the bank's agents in Liverpool. The New Orleans bank deducted from the value of the sterling Bill of Exchange the equivalent in dollars of the amount of any loan plus interest which it had made to Silas J. Hocking, and credited his account for the surplus, if any.

The New Orleans bank then sent the Bill of Exchange and all the other documents to a New York bank, who forwarded it to agents in Liverpool; or possibly the New Orleans bank sent the Bill of Exchange and other documents direct to its agent in Liverpool. Whichever way it was done, the agents in Liverpool on receipt of the Bill of Exchange and documents, presented them to the North-Western Bank, Ltd., and left the bill of lading and insurance policy, etc., with the bank against the return of the Bill of Exchange with the word "accepted" written across it and the signature of the North-Western Bank, Ltd., indicating that the bank was willing to pay it after ninety days (Credit instrument No. 17). If the New York or New Orleans bank desired to receive the money immediately, the accepted Bill of Exchange would be discounted with a discount broker or with a bank in England and the money remitted to New York or to New Orleans by a demand draft on an American bank, or else used to make payments here in England on behalf of the New

York or New Orleans bank. The discount broker or bank would thus have given ninety days credit to the New York or New Orleans bank, and it would be said that the shipment of cotton had been financed in England. On the other hand, if the New York or New Orleans bank did not require the money, it might hold the bill until maturity, that is, until payment became due after ninety days had elapsed. In such a case the cotton would have been financed in America, for it would have been by money provided by the New York or New Orleans bank that Silas J. Hocking received credit for the ninety days which had to elapse before his cotton was paid for by Birdhead & Co. in Liverpool.

Before accepting the bill, however, the North-Western Bank, Ltd., received a request from Birdhead & Co. asking them to accept it (Credit instrument No. 18). After acceptance of the Bill of Exchange, the bank handed over the bill of lading to a warehouse-keeper or to a shipping agent in Liverpool in order to enable them to obtain the cotton from the ship in exchange for this bill of lading, and the shipping agent or warehouse-keeper undertook to hold the cotton in trust for the bank (Credit instrument No. 19), and to hand to the bank the warehouse receipt for the cotton when it was stored.

Later on, when Birdhead & Co. sold the cotton, in order to deliver it to their buyer (the Diamond Spinning Co. Ltd.), they requested the bank (Credit instrument No. 20) to instruct the ware-

house-keeper to deliver the cotton to Birdhead & Co.; this firm undertaking to hand over the proceeds of the cotton directly they received them from their buyer. The bank then released the cotton (Credit instrument No. 21) and used the proceeds, when received from Birdhead & Co., to pay the Bill of Exchange drawn by Silas J. Hocking.

When the bank received payment from Birdhead & Co., for the cotton which had been delivered to the Diamond Spinning Co., Ltd., the bank credited Birdhead & Co., in their account with the bank, which was called the "Provision for Acceptances" account, and the money in this account was used by the bank to pay the Bill of Exchange drawn on the bank by Silas J. Hocking. If, by the time the Bill of Exchange was due, all the cotton was not sold and paid for, the bank would make a loan to Birdhead & Co. for the value of the unsold cotton, and Birdhead & Co. would use this loan to fulfil their obligations to pay the bank sufficient cash to meet the Bill of Exchange.

The banks concerned held the cotton as security (either by means of warehouse receipts or by the bill of lading), for all credit which was given to Silas J. Hocking from the time that he bought the cotton from Levine until he was finally paid by Birdhead & Co. ninety days after the Bill of Exchange arrived in Liverpool. From the time, however, when Levine delivered the cotton until final payment, a period of five or six months might elapse. For the last ninety days of this period the American bank would be fully covered because they held the accept-

ance of the North-Western Bank, Ltd. But, for the first part of the period, if cotton fell to a price which, when sold, would be insufficient to reimburse the bank for its advances to Silas J. Hocking, and if this latter firm were unable to make good the deficiency, then the New Orleans bank would lose. In the same way, if the cotton fell to a price which made the total value less than the value of the Bill of Exchange "accepted" by the North-Western Bank, Ltd., and if Birdhead & Co. could not pay the difference, the North-Western Bank, Ltd., would lose.

Neither Silas J. Hocking nor Birdhead & Co. were speculators. They bought their cotton in order to sell it at their normal profit, and this was all they desired to make. They expected a profit to remunerate them for the services they rendered to the ultimate consumer, which consisted in bringing the cotton to the place where it was wanted and at the time it was wanted, in order that it might be spun into yarn. They did not look to make a profit through the possible rise in the price of cotton, but, on the other hand, they wished to safeguard themselves against a possible loss through a fall in the price of cotton between the time when they bought it and the time when they sold it.

In order to ensure that the value of the security of the banks was always maintained at the value which it had when the credit was given, and in order to ensure that Silas J. Hocking and Birdhead & Co. did not make losses through a fall in the price of cotton, the cotton when purchased was

immediately "hedged" by Silas J. Hocking, and later by Birdhead & Co.

The system of hedging is as follows. When Silas J. Hocking bought his cotton from Levine, he would immediately sell it for delivery at some future time ahead; he would not sell the actual cotton, because this he expected Birdhead & Co. to want at some future date, but he would sell "futures", *i.e.* he would enter into a contract to deliver so many bales of cotton at some future period. When the time came, he would be entitled to deliver cotton of a quality equal to certain standards such as MIDDLING, LOW MIDDLING, etc., according to universal standards which are recognized by the chief cotton exchanges of the world. For instance, if he had bought in November, 1000 bales of B.A.Z. mark, he might sell 1000 bales of "futures" for delivery in March. The price he paid for B.A.Z. would, of course, bear some relation to the price of MIDDLING quality on the same day, more or less according to whether B.A.Z. was better or worse than that quality. Now when Birdhead & Co. bought the B.A.Z. cotton some months later, Silas J. Hocking would lose if, in the meantime, the price of cotton had fallen. On the other hand, he would be able to buy cotton at a corresponding reduction to deliver against his contract for "futures" which had to be settled in March, so that what he lost with Birdhead & Co. he would gain on his "futures" contract. But whenever Silas J. Hocking sold to Birdhead & Co., the price at which he sold would be higher than the price at which he could replace the

cotton on that day, the difference representing the remuneration which he received for his services. If the price of cotton rose between his purchase and sale of B.A.Z., then he would get a higher price from Birdhead & Co. and make an extra profit, which extra profit, however, would be swept away because he would have to pay a higher price in order to complete his deal in March "futures". By this method of "hedging", then, Silas J. Hocking could not suffer any loss through a fall in the price of cotton, and would always be able to make good the deficiency (if any), to the bank which advanced him money.¹

We have now traced the cotton from the time when Hezekiah planted the seed in his ground, until the cotton was finally landed in Liverpool. We have seen that even before the cotton was planted, John B. Robinson held his farm on credit; that the fertilizers for the land were bought on credit; that the cotton seed was bought on credit; and that the cotton was moved from Hezekiah's farm into the warehouse in Liverpool on a continuous belt of credit. This credit enabled everyone in America who grew or handled the cotton to be paid for his efforts, but nothing, that is, no specific thing or things, had as yet (in the transactions which we have described) been received by America in exchange for the cotton which she had sent to England.

In describing the sale of Hezekiah's B.A.Z. cotton,

¹ The hodge described is not absolutely watertight, because an alteration in demand for a special quality of cotton may cause a variation in the price of that quality, irrespective of a variation in the price of the standard qualities.

we have used this transaction as illustrative of hundreds of others which are taking place daily between the United Kingdom and United States in all kinds of commodities. The commercial and financial relationship of two countries is, however, not confined to the export and import of commodities, but embraces other transactions also which are called "invisible" imports and exports. By this term is meant the exchange of services, such as the ocean freight earned for carrying goods; insurance premiums; and commissions and interest on borrowed money. The term also includes the buying and selling of bonds and shares belonging to the nationals of one country to the nationals of another; money remitted home from people living in a foreign country and money spent in a foreign country by visitors from abroad; film rights and various other items.

When we say that America received nothing in exchange for Hezekiah's cotton, we do not mean, of course, for this one special transaction. Nor do we mean that America did not receive goods and services in exchange for goods and services sent and rendered to us, but as she sends us three or four times the value of commodities which she receives from us, there must remain a balance in her favour. This balance can only be regulated either by invisible exports, the shipment of gold, or through methods of indirect payment which it is one of the objects of this book to describe.

PART II

CREDIT INSTRUMENTS

Credit instrument No. 10: This is an acknowledgment from the New Orleans Federal Compress and Warehouse Company, that they have received one bale of cotton as described on the receipt, but that they have not insured it against fire, so this would have to be done by Silas J. Hocking. The warehouse company has a lien on this cotton for the charges for storage on this bale. The space on the left-hand of the receipt is to enable the cotton to be graded by the examiners of the Board of Agriculture if desired. A separate receipt is given for each bale.

CREDIT INSTRUMENT NO. 10.—COTTON WAREHOUSE RECEIPT

Tag and Receipt
Old Tag Number

No. 216004

U.S. DEPARTMENT OF AGRICULTURE - BOARD OF COTTON EXAMINERS

Nov. 34 GRADE **M** RED FROM **%** STAPLE

TENDERABLE **1 Bale** **1 1/2**

UNTENDERABLE

U.S. COTTON FUTURES ACT WE CERTIFY THE CLASSIFICATION OF THE COTTON DESCRIBED HEREIN IS THAT STATED ABOVE

By **Charles B. Fell**

CHAIRMAN - BOARD OF COTTON EXAMINERS

REVIEWED AND DETERMINED TO BE AS SET FORTH BELOW

GRADE RED FROM % STAPLE

TENDERABLE

UNTENDERABLE

By

GOVT Lot No

Old Lot No

FEDERAL COMPRESS WAREHOUSE, New Orleans, La.
FEDERAL COMPRESS & WAREHOUSE COMPANY, Proprietors, License No. 2-585
Located on Thibodaux St. between St. Mary and St. Andrew Sts.
(Incorporated under the laws of Louisiana)

No. 216004

Tag and Receipt

WAREHOUSE CLASSIFICATION GRADE STAPLE WEIGHT CONDITION
ACCORDING TO THE OFFICIAL COTTON STANDARDS OF THE UNITED STATES

SANDS	COMPS	DATE WEIGHED	WEIGHT	DATE REWEIGHED	REWEIGHED	HTC-LES NO. 128
3		7 Nov. 34	512	---	---	2
						2 lbs.

LICENSED AND BONDED UNDER THE UNITED STATES WAREHOUSE ACT

Copy Not Negotiable

Received for **Silas J. Hookins**

STORAGE BEGINS **7 NOV. PRO** AT NEW ORLEANS, LA.
ISSUED
FEDERAL COMPRESS & WAREHOUSE COMPANY
LICENSED WAREHOUSEMAN
WEIGHT DETERMINED BY A **STORAGE**
WEIGHER LICENSED UNDER
THE U. S. WAREHOUSE ACT. .004
PER DAY
By **Thomas Watterdt.**

STORAGE BEGINS **7 NOV. PRO** AT NEW ORLEANS, LA.
ISSUED
FEDERAL COMPRESS & WAREHOUSE COMPANY
LICENSED WAREHOUSEMAN

WEIGHT DETERMINED BY A **STORAGE**
WEIGHER LICENSED UNDER
THE U. S. WAREHOUSE ACT. .004
PER DAY

By **Thomas Watterdt.**

GOVT Lot No

Old Lot No

THE ISSUANCE OF A FRAUDULENT RECEIPT OR ILLEGAL CONVERSION OR REMOVAL OF THE COTTON PRESENTED BY THIS RECEIPT IS PUNISHABLE BY A \$100,000 FINE OR IMPRISONMENT FOR 1 YEAR, OR BOTH.

Credit instrument No. 11 is a promise to pay after 30 days the sum stated plus 5% interest per annum and agreeing that the cotton warehoused, as shown by Credit instrument No. 10, shall be held by the bank as collateral security for the payment of this promissory note, and that Silas J. Hocking will give further collateral security to the bank if demanded. It further agrees that any other property or money which the bank may hold belonging to Silas J. Hocking is pledged to the bank for the payment of this note, and gives the bank the right to sell any security which it may hold, if the note is not paid on the due date. If Silas J. Hocking becomes insolvent, and under other similar circumstances as stated, this note becomes due immediately.

CREDIT INSTRUMENT NO. 11.—SECURED PROMISSORY NOTE

FORM DIS. 11

\$ 1000 New Orleans, La., 7th November 1934
thirty days after date, & whether maker,
endorser, guarantor, surety, or other party hereto, promise to pay
to the order of New Orleans & Overseas Bank at
METROPOLITAN BANK OF NEW ORLEANS
one thousand Dollars,
for value received, with interest at the rate of 5 per cent. per annum
from 7th November 1934 until paid

All parties hereto hereby severally waive presentment for payment, demand, notice of non-payment, protest, and all pleas of division and discussion, and agree that the payment hereof may be extended from time to time, one or more times, without notice, hereby binding themselves, in solido, unconditionally and as original promisors, for the payment hereof, in principal, interest, costs, and attorney's fees.

All parties hereto bind themselves to pay the fees of any attorney-at-law who may be employed to recover the amount hereof, or any part hereof, in principal or interest, or to protect the interests of the holder hereof, or to enforce the pledge herein contained, or to compromise, or to take other action with regard hereto, which fees are hereby fixed at ten per cent. (10%) on the amount then owing hereon and sought to be collected, protected, or preserved, which fee is secured by the pledge herein contained.

The property described on the reverse hereof, and any property that may be substituted therefor or added thereto, and all other property that may now or at any time hereafter be given or left in the possession of the Whitney National Bank of New Orleans, for any purpose by any party hereto, or any property belonging to any party hereto, that may come or be in the possession of said Bank, or that may be in transit to or from said Bank, for any purpose, are hereby pledged and delivered to said Bank to secure the payment of this note, and of any note given in extension or renewal thereof, as well as for the payment of any other obligation or liability, direct or contingent, of any of the parties hereto to said Bank, whether due or to become due and whether now existing or hereafter arising, with interest, attorney's fees, expenses, and costs, up to the amount of \$500,000.00. All parties hereto severally consent and agree that the property hereby pledged may be exchanged or surrendered from time to time without notice or to assent from any party hereto, and without in any manner releasing or altering their obligations hereunder.

Should any of the pledged property decline in value, each of the parties hereto agrees upon demand to deliver and pledge, on the terms here stated, to said Bank satisfactory additional property as security and to make payments to said Bank's satisfaction on account of this note. On the non-performance of this agreement, or upon the non-payment at any maturity of any of the obligations or liabilities of any party hereto, or upon the death, suspension, failure, or insolvency, or upon any application for the adjudication in bankruptcy, or upon the commencing of dissolution proceedings, or proceedings for the appointment of a liquidator or liquidators, of any party hereto, or upon the application by or against any party hereto for a respite, assignment, or receivership, then and in any such case this note and all other obligations and liabilities, direct or contingent, of the parties hereto, and each of them, to said Bank, shall forthwith mature and become due and payable, without demand, notice, or putting in default, anything herein contained to the contrary notwithstanding; and full irrevocable power and authority are hereby granted and given to said Bank, thereupon, or upon this note not being paid at maturity, to sell, assign, transfer, and effectively deliver the whole of the property of every kind pledged hereby, or any part thereof, or substitutes therefor, or additions thereto, at public or private sale, without recourse to judicial proceedings and without either demand, appraisal, advertisement, or notice of any kind, all of which are hereby expressly waived. At any such sale, said Bank may itself purchase the whole or any part of the property sold, free from any right of redemption on the part of any party hereto, which right is hereby waived and released. In case of any sale or other disposition of any of the property aforesaid, after deducting all costs, attorney's fees, and expenses of every kind, said Bank may apply the residue of the proceeds of sale or sales, pro tanto, to the payment of any or all of the obligations or liabilities of the parties hereto or any of them, whether then due or not due, up to the amount of \$500,000.00, making proper rebate for interest on obligations or liabilities not then due and returning the overplus, if any, to the maker hereof.

All parties hereto hereby authorize and empower said Bank, at any time, to appropriate and apply to the payment and extinguishment hereof and/or of any of the obligations or liabilities, direct or contingent, of any of the parties hereto, whether now existing or hereafter arising, and whether then due or not due, up to the amount of \$500,000.00, said Bank being authorized to impute the payments as it sees fit, and any all moneys, stocks, bonds, or other property of any kind whatever now or hereafter in the hands of said Bank on deposit or otherwise to the credit of or belonging to any party hereto, including any moneys or other property in transit to or from said Bank for any purpose. All parties hereto do hereby further irrevocably authorize and empower said Bank, at any time to collect, and appropriate, and apply to the payment and extinguishment hereof, the interest, dividends, or other income accruing and payable on any of the property pledged to secure the payment hereof, and, to facilitate such collection, all parties hereto agree that any of the said property may be transferred, at said Bank's option, to the name of said Bank, or its nominee, on the books of the company issuing same.

Any holder hereof may transfer this note and may deliver said collateral security or any part thereof to the transferee or transferees, who shall thereupon become vested with all the powers and rights herein given in respect thereto; and any holder making such transfer shall thereafter be forever relieved and fully discharged from any liability or responsibility in the matter. No delay on the part of any holder hereof in exercising any rights hereunder shall operate as a waiver of such rights.

All parties hereto further severally agree that this note evidences and sets forth their entire agreement with the holder hereof, that they hereby consent to all the terms and conditions hereof, and that no modification hereof shall be binding unless hereon endorsed in writing and signed by the parties.

\$ 1000

Due 7th December 1934

Signature

Credit instrument No. 12 is the promissory note which Silas J. Hocking might sell in the open market through a broker. No comment beyond that already made for Credit instrument No. 5 is necessary.

CREDIT INSTRUMENT NO. 12.—UNSECURED PROMISSORY
NOTE

\$ 1000 New Orleans, La. November 7th 1934
thirty days after date, & whether maker,
endorser, guarantor, surety, or other party hereto, promise to pay
to the order of The New Orleans & Overseas Bank at
METROPOLITAN BANK OF NEW ORLEANS
one thousand Dollars,
for value received, with interest at the rate of 5 per cent per annum
from 7th November 1934 until paid

Upon the non-payment at any maturity of any of the obligations or liabilities of any party hereto, or upon the death, suspension, failure, or insolvency, or upon any application for the adjudication in bankruptcy, or upon the commencing of dissolution proceedings, or proceedings for the appointment of a liquidator or liquidators, of any party hereto, or upon the application by or against any party hereto for a respite, assignment, or receivership, then and in any such case this note and all other obligations and liabilities, direct or contingent, of the parties hereto, and each of them, to the Whitney National Bank of New Orleans, shall forthwith mature and become due and payable, without demand, notice, or putting in default, anything herein contained to the contrary notwithstanding.

All parties hereto hereby authorize and empower said Bank, at any time, to appropriate and apply to the payment and extinguishment hereof and/or of any of the obligations or liabilities, direct or contingent, of any of the parties hereto, whether now existing or hereafter arising, and whether then due or not due, said Bank being authorized to impute the payments as it sees fit, any and all moneys, stocks, bonds, or other property of any kind whatever now or hereafter in the hands of said Bank on deposit or otherwise to the credit of or belonging to any party hereto, including any moneys or other property in transit to or from said Bank for any purpose.

All parties hereto bind themselves to pay the fees of any attorney-at-law who may be employed to recover the amount hereof, or any part hereof, in principal or interest, or to protect the interests of the holder hereof, or to compromise, or to take other action with regard hereto, which fees are hereby fixed at ten per cent. (10%) on the amount then owing hereon and sought to be collected, protected, or preserved.

All parties hereto hereby severally waive presentment for payment, demand, notice of non-payment, protest, and all pleas of division and discussion, and agree that the payment hereof may be extended from time to time, one or more times, without notice, hereby binding themselves, in solido, unconditionally and as original promisors, for the payment hereof, in principal, interest, costs, and attorney's fees.

All parties hereto further severally agree that this note evidences and sets forth their entire agreement with the holder hereof, that they hereby consent to all the terms and conditions hereof, and that no modification hereof shall be binding unless hereon endorsed in writing and signed by the parties.

\$ 1000

Silas J. Hocking

Due 7th December 1934

Credit instrument No. 13 is the Bill of Exchange drawn by Silas J. Hocking on the North-Western Bank, Ltd., in Liverpool. The Bill of Exchange is drawn in duplicate and the second copy sent by a different mail from that of the first, so that if the first were lost, the second would be presented for acceptance and eventually for payment. Silas J. Hocking endorses the bill to the New Orleans & Overseas Bank, which bank credits him for the amount.

CREDIT INSTRUMENT NO. 13.—BILL OF EXCHANGE

SILAS J. HOCKING COTTON MERCHANTS	Exchange for	New Orleans, La.	<u>15th</u> November 1934
	~~£ 250 0 0~~		
	ninety days after sight of this FIRST of Exchange (second unpaid)		
	Pay to the Order of OURSELVES, two hundred and fifty pounds in London		
	VALUE RECEIVED AND CHARGE TO ACCOUNT OF		
	To The North-Western Bank Ltd. LIVERPOOL		
No 2115		1 <i>Silas J. Hocking</i>	

SILAS J. HOCKING COTTON MERCHANTS	Exchange for	New Orleans, La.	<u>15th</u> November 1934
	~~£ 250 0 0~~		
	ninety days after sight of this SECOND of Exchange (first unpaid)		
	Pay to the Order of OURSELVES, two hundred and fifty pounds in London		
	VALUE RECEIVED AND CHARGE TO ACCOUNT OF		
	To The North-Western Bank Ltd. LIVERPOOL		
No 2115		2 <i>Silas J. Hocking</i>	

Credit instrument No. 14 is the bill of lading used for the ocean transport of the cotton. It is a transferable acknowledgement by the shipowners of the receipt of the cotton in apparent good order and condition, and stating to which port it has to be carried. On a bill of lading there are always a large number of clauses detailing the conditions under which the cargo is carried. These would take up too much space to reproduce here, but students who require further information regarding these clauses should refer to text-books like Scrutton's *Charter Parties and Bills of Lading*, or if information is required from the technical banking point of view, to Grant's *Law of Banking*, Hart's *Banking*, or similar standard text-books.

CREDIT INSTRUMENT NO. 14.—OCEAN BILL OF LADING

NEW ORLEANS U-K LINEowned and operated
by

William Jemson S.S. Co., Inc.

General Offices

New Orleans Houston
Galveston

U.S. Gulf Ports

to

UNITED KINGDOM

SHIPPER'S MARKS AND
NUMBERS

B.A.Z. 20 Bales

OCEAN FREIGHT AND
WHARFAGE PREPAID

Freight on 9833 lbs.

(at) 33 cents per 100 lbs.

Issued under Agreement with the Liver-
pool Bill of Lading Conference Com-
mittee with respect to shipments of
Cotton.

S.S. Contract No.

Port

Bill of Lading No.

424

1934

Received in apparent good order and
condition from Silas J. Hocking
to be transported by the American
steamship NEW ENSIGNfrom the port of New Orleans, La.,
and bound for EUROPEAN PORTS
or failing shipment by said vessel by
a subsequent vessel, carrying vessel
having liberties as to routes and ports
of call as hereinafter provided: the
following goods:

Twenty Bales (20) High Density Compressed Bales Cotton

WEIGHING 9833 LBS.

being marked and numbered as per margin (quality, quantity, gauge,
weight, measurement, contents, and value unknown), and to be
delivered in like good order and condition

at the port of

Liverpool, England

or as

near thereunto as the vessel may safely get, and always lie afloat,
unto ORDER OF

SHIPPER

or to his or their assigns, on payment of freight and charges thereon
in cash without deduction, credit, or discount, immediately on dis-
charge of the goods at the rate as per margin, unless prepaid (all
collect freights under this bill of lading, including any short paid
freight, shall be converted at the current sight rate of exchange on
New York on the date the vessel enters customs at the port of dis-
charge), and upon the following terms and conditions:*[Here follow usual Clauses.]*

CREDIT INSTRUMENT NO. 14 (*continued*)

IN ACCEPTING THIS BILL OF LADING the shipper, owner, and consignee of the goods and the holder of the bill of lading agree to be bound by all its stipulations, exceptions, and conditions, whether written, printed or stamped on the front or back hereof, as fully as if they were all signed by said shipper, owner, consignee, or holder, any local custom or privileges to the contrary notwithstanding.

IN WITNESS WHEREOF, the Master or Agent of said vessel has affirmed to Two bills of lading, all this tenor and date, one of which being accomplished, the other to stand void.

Dated at New Orleans, La., November 14th 1934.

For the Master:

WILLIAM JEMSON S.S. Co., INC.

By A. J. Dempster.

Credit instrument No. 15 is a marine insurance policy. It declares that the insurer has represented that he is interested in the cargo, because in order to insure he must have an interest which might be injured in the event of a loss, and an outsider who has no such interest, cannot insure the cargo. Subject to many clauses and provisions which are not shown here, the insurance company, in consideration of the arranged premium, undertakes to reimburse the insurer for any insured loss which he may sustain. Students who wish to pursue the matter further should read the clauses of an ordinary marine insurance policy, or, if they are interested from the banking point of view, the books mentioned at the foot of the preceding credit instrument, while for the legal aspect they should refer to Gow's *Marine Insurance* or other standard text-books.

CREDIT INSTRUMENT NO. 15.—MARINE INSURANCE POLICY

The London & National Marine & General Insurance Co., Ltd.

Head Office: 14, FENCHURCH AVENUE, LONDON, E.C.8.

Stamp

Gd

New Orleans

Agency

No. 34 / 5846

Whereas Silas J. Hocking

has represented to THE LONDON & NATIONAL MARINE & GENERAL INSURANCE COMPANY LIMITED that he is interested in or duly authorized as Owner Agent or otherwise to make the Insurance hereinafter mentioned and described with the said Company and promised or otherwise obliged himself to pay forthwith to the said Company the Sum of

Fourteen shillings and threepence as a premium or one quarter per Cent for such Insurance

Now this Policy of Insurance witnesseth that in consideration of the premium and of the said Sum the said Company doth promise and agree with the said Assured the Executive Administrators and Assigns that the said Company shall be subject and liable to pay and make good all such Losses and Damages hereinafter expressed as may happen to the subject matter of this Policy and may attach to this Policy in respect of the Sum of

Twenty bales cotton B.A.2. 1/20

Pounds

PAID IN Liverpool

At the current exchange of the day for a Bank Demand Draft on London

In case of loss or claim apply to

Company's Office

In the Ship or Vessel called the New Ensign and/or steamer or steamship as at present Master or whoever shall go for Master of the said Ship or Vessel lost

or not lost as and from

the Agents of the Company in

Liverpool

New Orleans to Liverpool

Subject to the conditions of the printed clauses

(HERE FOLLOW PRINTED CLAUSES)

Including the Risk of CRAFT Each Craft or Lighter to be deemed a separate Insurance.

In Witness whereof, We the Agent(s) for THE LONDON & NATIONAL MARINE & GENERAL INSURANCE COMPANY LIMITED, have subscribed our name(s) to two Policies of the same tenor and date one of which being accomplished

the other to be void this Fifteenth day of November in the Year One Thousand Nine Hundred and thirty-four

For and on behalf of THE LONDON & NATIONAL MARINE & GENERAL INSURANCE COMPANY LIMITED

End

34

Nicholas Huront & Co
Agent(s)

Credit instrument No. 16 is a request to the bank to open an irrevocable confirmed credit, which once being granted by the bank cannot be withdrawn, so that Silas J. Hocking with a credit of this description would be sure that he could get his money for his cotton even if Birdhead & Co. became insolvent before it was delivered. Banks often charge a somewhat higher rate of commission for these irrevocable credits than they do for an ordinary unconfirmed credit, which latter they are at liberty to withdraw before use. Birdhead & Co. undertake in clause 1 to provide the North-Western Bank, Ltd., with money to pay out-of-pocket expenses and sufficient money to pay the Bill of Exchange; such money to be in the hands of the bank three days before the bill falls due. The effect of clause 2 is to give the documents, the cotton, and any money received from the sale of the cotton, to the bank as security. Clause 5 is an agreement on the part of Birdhead & Co. that if they fail to pay the bank sufficient money as mentioned in clause 1, the bank shall hold any goods or money as security against money owing to them by Birdhead & Co. on *any* account and not merely for anything owing against this special transaction. Clause 6 frees the bank from any responsibility regarding the quantity, quality, and value of the cotton against which they have accepted the Bill of Exchange.

CREDIT INSTRUMENT NO. 16.—IRREVOCABLE CONFIRMED CREDIT

CONFIRMED (IRREVOCABLE) CREDIT.

No. 120

November 2nd 1934

To THE NORTH-WESTERN BANK, LIMITED

Delete mail
or cableWe request you to open on our account by ^{telex} ~~post~~ cable at our risk and cost a confirmed credit

with The New Orleans & Overseas Bank at New Orleans

in favour of Silas J. Hocking

of New Orleans

for an aggregate amount of £ 12500 (say Twelve thousand five hundred pounds

available by their drafts on your Liverpool office

at ninety days sight for the amount of their invoices purporting to cover shipment of

from October 1934

to February 1935

the drafts to be accompanied by the following documents:—

(a) Invoices

(b) Full sets of bills of lading to Order endorsed in blank.

(c) Delete if
all insurance
effected here.(c) Policies or certificates of insurance endorsed in blank covering all risks, including War
Risks, for approximately 10 per cent above C.I.F. value payable in England.(d) Insert any
additional
documents
required

(d)

(e) Delete if
shippers are to
insureThis credit is not to be available in New Orleans after the
28th day of February 1935

IN consideration of your opening the above credit:—

- 1 We will put you in funds a cash to meet your disbursements and we will provide you with funds to meet your acceptances three days before their maturity
- 2 We hereby charge the above mentioned documents and the goods and all proceeds thereof in your favour as a continuing security for the payment to you on demand of all moneys payable by us hereunder with interest, banking charges and expenses.
- 3 In case we should fail to do so we authorise you to pay and debit to our account cost, insurance, freight and any other charges and expenses in respect of the goods or otherwise
- 4 We will assign to and lodge with you the policies in respect of the above mentioned insurance and any money paid thereunder shall forthwith be paid over to you and until so paid shall be held by us in trust for you
- 5 If we fail to put you in funds as aforesaid you may debit all sums paid under or in connection with this credit and all bills as they mature to our current or any other account and this security shall be a continuing security for all moneys then or from time to time owing by us to you on any account and for all liabilities incurred by you on bills, guarantees or otherwise for us alone or jointly with others on any account whatsoever, and on default in payment on demand of any money hereby secured you may take possession of and sell the goods or any part thereof when and in such manner as you think fit and may collect any insurance moneys due or to become due and repay yourselves all money hereby secured with all costs and expenses of and incidental to storage and realisation, including your commission and all your other charges and expenses whatsoever, and on demand we will pay to you any deficiency
- 6 You incur no liability hereunder beyond the due acceptance and payment of drafts drawn in accordance with the terms hereof and in particular you and your Correspondents shall not be responsible for the quantity, quality, value or description of any goods nor for the terms or sufficiency of any insurance and your rights hereunder shall not be prejudiced or affected by any invalidity, insufficiency, irregularity or misdescription in any document
- 7 This Agreement shall continue in force notwithstanding any change in the constitution of any firm or company referred to herein
- 8 We agree to pay you a commission of 1 per cent on the amount of this credit.
- 9 This Agreement and all matters arising thereout shall in all respects be construed according to English law

60.
STAMP

Birdhead & Co

Credit instrument No. 17 is the same as credit instrument No. 13, but it has now been "accepted" by the North-Western Bank, Ltd., in Liverpool by writing across it the word "accepted". For convenience, as most bills are discounted in London, when the bill is accepted, it is made payable in London.

CREDIT INSTRUMENT NO. 17.—ACCEPTANCE

SILAS J. HOCKING COTTON MERCHANTS	stamp 3/-	Exchange for	New Orleans, La	November 15th	1924
		£/250. 0. 0.			
		of this FIRST of Exchange (second unpaid)			
		Pay to the Order of OURSELVES, two hundred and fifty pounds in London			
		VALUE RECEIVED AND CHARGE TO ACCOUNT OF			
	To	The North-Western Bank Ltd. LIVERPOOL			
	No	2115			

Accepted 29th Nov 1924 at ninety days after sight
 He North Western Bank Ltd.
 J. Good account
 M. Rand Manager
 For North-Western Bank Ltd.

Silas J. Hocking

Credit instrument No. 18: In this document Bird-head & Co. ask the North-Western Bank, Ltd., to accept the Bill of Exchange. They guarantee the validity of all the documents and authorize the bank to hold the cotton as security, but as a continuing security, that is, a security for all present and future debts. They give the bank an estimate of the day's value of the cotton, and undertake to pay the bank sufficient cash to make up any deficiency in the event of a fall in the price of cotton. They also undertake to provide the bank with cash to meet the bill either at or before maturity.

CREDIT INSTRUMENT NO. 18.—CUSTOMER'S REQUEST
FOR ACCEPTANCE

To the North-Western Bank Ltd.

. November 21st 19 34

We understand that pursuant to our instructions the Vendors named below have delivered to you the bills of lading relating to the cotton specified below together with the undermentioned drafts for your acceptance and that the said cotton is now in your possession, you holding either the bills of lading or the warehouseman's receipt therefor

Please accept the said drafts and debit the amount thereof to our acceptance account. In consideration thereof we hereby guarantee the validity of the said documents and drafts and authorise you to retain possession of the said cotton as security not only for our liability to you on the said accepted drafts but also as a continuing security for every debt or liability however arising which we have incurred or may incur with or be or become under to you whether solely or jointly with others and whether as principal debtors or sureties and whether such debt or liability be absolute contingent mature or immature.

The net value of the cotton at to-day's price we estimate to be about £250. 0. 0. after deducting freight and all charges. In the event of any fall in the value, we engage from time to time forthwith to deposit with you cash and/or security to your approval equivalent to the amount of such fall.

We further engage to provide you with cash funds to meet the drafts at or before maturity.

Yours faithfully,

Bird Head & Co.

DRAFTS				PROPERTY			
NO.	DRAWN BY	TENOR	AMOUNT	MARKS	BALES	GROWTH	SHIP
2115	Silas J. Hocking	90 days sight	£250	B.A.Z 1/20	20	American	S.S. New Ensign

Credit instrument No. 19: This is the document by which the warehouse-keeper or shipping agent undertakes to hold the cotton in trust for the bank, and to hand a warehouse receipt to the bank when the cotton is stored. The only point to be noted in regard to this document is the fact that it bears the marks and numbers of the bales, thus identifying the property of the bank, so that if the warehouse-keeper were to become bankrupt or to be in liquidation, the liquidator could not claim the cotton, as the marks would enable the bank to prove which actual cotton was the bank's property.

CREDIT INSTRUMENT NO. 19.—WAREHOUSE TRUST
RECEIPT

To The North-Western Bank Ltd.

November 27th 1934

In consideration of your handing to us the documents for the cotton as specified hereunder, we undertake as your Agents, until further instructed by you, to hold the said documents and the cotton thereby represented in trust for the Bank, and not to part with the said documents or cotton for any purpose whatsoever.

We also undertake to retain entire control thereof and to store in your name with the Liverpool Cotton Warehouse Co. Ltd, all the cotton represented by the documents and to direct to you the relative warehouse receipt in due course.

We further undertake to keep the cotton fully covered by insurance in trust for the Bank and to pay any insurance monies we may receive to you specifically.

Yours faithfully,

Liverpool Cotton Warehouse Co. Ltd

Peter Walsh.

N ^o .	MARKS	BALES	SHIP
207	B.A.Z. 1/20	20	S.S. New Ensign

Received the above mentioned documents

Liverpool Cotton Warehouse Co. Ltd

Peter Walsh.

Credit instrument No. 20: When Birdhead & Co. require the cotton in order to deliver it to their buyer, the Diamond Spinning Co., Ltd., they sign credit instrument No. 20 in which they request the bank to give them (Birdhead & Co.) a delivery order authorizing the warehouse company to hand the cotton over to them. They undertake, in return, to hand over to the bank the payment for the cotton when they receive it from the Diamond Spinning Co., Ltd. (It is assumed in this instance that the cotton has been in store in Liverpool for a period of about seven months.)

CREDIT INSTRUMENT NO. 20.—REQUEST FOR
DELIVERY ORDER

To The North-Western Bank Ltd.

July..11th1935

We desire to obtain possession of the undermentioned cotton now in the hands of the
Liverpool Cotton Warehouse Company Limited.
 on your behalf and shall be obliged if you will sign and hand to the bearer the enclosed
 delivery order In consideration of your so doing and without prejudice to your right to
 require repayment of the balance of our account at any time we hereby expressly undertake to
 deliver the goods to the said purchasers and to receive and hold the net proceeds of the sale
 thereof and of any insurances thereon in trust for you and to pay all such proceeds direct to
 you specifically and immediately on receipt thereof or each portion thereof as the case maybe,
 and to hold the said delivery order and/or the goods and/or proceeds of sale and/or insurance
 thereof only in accordance herewith and as trustees for you

ACCEPTANCE NO.	MARKS	BALES	GROWTH	SHIP
2115	B.A.Z. 1/20	20	American	S.S. New Ensign

Yours faithfully,

Burdhead & Co

Credit instrument No. 21: This is merely an order to the warehouse company signed by the bank, authorizing the cotton to be delivered to Birdhead & Co. on payment of the storage and other relevant charges.

CREDIT INSTRUMENT NO. 21.—DELIVERY ORDER

12th July, 1935

To The Liverpool Cotton Warehouse Company Limited.

You are authorised to transfer to Messrs. Birdhead & Co.

or order the undermentioned cotton which you now hold for account of this Bank upon payment by them of all relevant charges.

Yours faithfully,

North-Western Bank Ltd.

sub-manager:

Lester Hampton

NO.	MARKS	BALES	GROWTH	SHIP
207	B.A.Z. 1/20	20	American	S.S. New-Ensign

CHAPTER III

CHINESE PURCHASE OF LANCASHIRE COTTON GOODS

MRS. WU lived in Fuen-choo, a town in the province of Shan-si in China. Fuen-choo is about a thousand miles from Shanghai, an old Chinese walled city the gates of which were shut every night. The streets were very narrow, and in summer they were shaded from the sun and protected from the rain by matting which could be rolled to close or open as desired. The shops and houses were lighted by electric light, but were not very well lighted.

It was summer and Mr. Wu sat outside in the street stripped to the waist, fanning his stomach with a paper fan. He was very fat and looked rather like the Chinese god of which we see porcelain figures in the shops here. Mr. Wu sold pork in his shop. All the shops in Mr. Wu's street sold pork, and all the shops in the next street sold fans; at right angles ran a street in which nothing but dried fish was sold, and opposite, a street full of grocery stores, for in China the shops are not all higgledy-piggledy as with us, but all in one street sell the same kind of goods.

One day Mrs. Wu set out for the street of cotton cloth merchants, because she wanted to buy twenty-one feet (a Chinese foot is about 12·3 inches) of the same cotton cloth which she had bought annually

for the past five years, in order to make new shirts for her husband. The trade mark under which this cloth was sold was called the "Nine Dragon Chop", and every piece bore a beautiful paper label on which nine Chinese dragons were printed in gold on a black ground. Mrs. Wu and her friends knew that the material which bore this ticket made shirts which washed well and lasted a long time.

As Mrs. Wu entered the shop, she met the proprietor, Mr. Feng, who said to her: "Ah, Mrs. Wu, I have long been without the benefit of your felicitous face and your instructions", to which she replied, "I am much obliged and hope for your happiness". "I failed", said Mr. Feng, "in not being here to welcome you". "How can I presume to accept such a compliment", said Mrs. Wu, and to his enquiry "Are all in your honourable house well?" she replied, "I am much indebted for your enquiries". These phrases are the literal translations of the customary greetings between Chinese people, but neither Mr. Feng nor Mrs. Wu realized their original meaning; any more than we do when we say "I am very pleased to meet you" or even "How-do-you-do", to which enquiry we never expect to receive any answer. But when Mrs. Wu began to talk to his salesman, business was business, and all these flowery compliments were dropped and the following conversation took place :

MRS. WU: "What is the price of this Nine Dragon Chop?"

SALESMAN: "Thirty coppers a foot."

MRS. WU: "But that is a great deal more than I paid last time. Why has the price gone up?"

SALESMAN: "Well, you see, Mrs. Wu, this Chop is very popular and we have had to renew our stock since you bought last time. All foreign goods cost more now owing to the Tariff increase—and, besides, exchange has moved against us. The rate on Shanghai is 112 now, whereas a year ago, you'll remember, it was under par. You know, too, Mrs. Wu, that copper cents have fallen badly. Why, a year ago the rate was 130 to the dollar and to-day it is 153. All prices are up. It is difficult for all of us to buy and sell in these times, but worst for us dealers in foreign goods."

MRS. WU: "Well, perhaps some of this national cloth might do. What is the price of that 'Three Tigers?'"

SALESMAN: "Ah, that is less expensive, it is true. But I know that you, Mrs. Wu, always take the best and there is nothing like Nine Dragon for good finish and hard wear."

MRS. WU: "But I can't pay at this rate. I'll give you twenty-five coppers."

SALESMAN: "How many feet do you want?"

MRS. WU: "Twenty-one feet."

SALESMAN: "I'll tell you what, Mrs. Wu, you take a little more than twenty-one feet and that will finish off the piece. Then I'll take the responsibility of reducing the price by three coppers."

Mrs. Wu grumbled a bit, but her husband's shop had done fairly well lately, and she was very

particular about keeping him and her children neatly clothed, so she paid the price and took the extra length.

It may seem very peculiar to us that Mrs. Wu knew all about the rate of exchange, but she did, as do all Chinese people, because their own money varies from day to day and from province to province. For instance, nominally there are 100 coppers to a silver dollar, but the number of coppers given in exchange for a dollar has greatly increased and alters continually. It is as if on some days we received 13d. for a shilling, on other days 13½d., and on others 11½d., and so on; and not only that, but as if the exchange value of copper and silver coins coined in Lancashire altered continually in comparison with those coined in Middlesex, Northumberland, etc.

After Mrs. Wu had made her purchase and left the shop, the Chinese salesman went to Mr. Feng, the owner, and told him that they had sold so much of the "Nine Dragon Chop" during the last few days that they had very little stock left. Mr. Feng said that as the season was drawing to an end he would not buy any more but that he would write to his business friend, Mr. Chang, in Shanghai from whom he bought the cloth, and tell him that in about nine months he would require for his next spring trade two cases of forty pieces each of the "Nine Dragon Chop" instead of the one case which he had bought last year. So he wrote the following letter to his friend Mr. Chang in Shanghai.

The envelope bore the inscription: "For the hon-

oured Mr. Chang to open", and inside the letter commenced: "This letter respectfully begins". But these phrases mean no more to the Chinese than "Dear Sirs", and "Yours very truly" mean to us. It is an extraordinary thing how grotesque the motes in the eyes of foreigners appear to us, while we quite fail to realize the curious contours of the beams in our own.

The letter continued as follows: "The last consignment of 'Nine Dragon Chop' has gone well, but if the price continues to go up like this, I don't think business in it will continue for long. Please send me two cases as soon as possible, and try to get it from the foreign firm at the old price. Please examine the market thoroughly." (Literally: Let there be a falling of the water till the stones on the bottom appear.) "A further rise will mean that the market will disappear. All my customers, although they prefer such goods as 'Nine Dragon' and have used it for many years, are beginning to ask for national goods, which as yet, we must admit, are not quite up to standard. Still, one can't squeeze money out of empty purses, and price decides. I tell you this because we've been friends for so many years" (literally: You and I have been as closely connected in our business as the upper and lower teeth of the jaw) "and I know the whole of your business is in the import trade. I should not like to have to go elsewhere for my supplies."

On receipt of this letter Mr. Chang went to call on the English importing house, G. Townsend, Ltd., from whom he had bought twenty cases of these

goods in the preceding year, because he sold this quality not only to Mr. Feng but to other shopkeepers in different towns in China. The Chinese dealers do not converse in Chinese with English importers but in what is known as "pidgin English". Mr. Chang said to Mr. Townsend, "My think more better you puttee book forty case Nine Dragon shirting suppose you can catchee six and a half pence per yard shipment five moon. My think come next year this Chop can walkee velly well."

G. Townsend, Ltd., had other customers besides Mr. Chang for this cloth and, in consequence of this conversation, which took place in May, cabled an offer to their suppliers in Manchester, Rathbone Baxter & Co., Ltd., saying that they were willing to buy forty cases "Nine Dragon Chop" at sixpence farthing a yard December shipment. This offer was at a farthing a yard less than the price Mr. Chang was willing to pay so that G. Townsend, Ltd., could make a profit.

When Rathbone Baxter & Co., Ltd., received from G. Townsend, Ltd., the offer for forty cases of shirting cloth at sixpence farthing per yard c.i.f. Shanghai, shipment December, they had to make certain calculations, in order to find out whether the business could be accepted and still leave them a profit. (C.i.f. stands for Cost, Insurance, and Freight, so that the price of sixpence farthing had to include in addition to the cost of the cloth plus the profit, the cost of insuring the goods on the ocean voyage, and the charge for freight for carrying the goods from Manchester to Shanghai.) Rathbone Baxter &

Co., Ltd., started their calculations with the figure of sixpence farthing. From this they had to deduct a certain percentage, possibly 5%, to cover their overhead charges. The freight to Shanghai varies, of course, at different times, but when this particular order came through it was 55 shillings per ton—this is not per ton of weight, it is 55 shillings per ton of 40 cubic feet. The number of yards, therefore, which are contained in 40 cubic feet will vary according to the thickness of the cloth. Rathbone Baxter & Co., Ltd., calculated how many yards of this “Nine Dragon Chop” were contained in 40 cubic feet and thus found out how much was to be deducted for the cost of ocean freight. In addition they deducted $\frac{1}{4}$ % of the value of the goods for the cost of marine insurance. Then the goods had to be forwarded from Manchester to Birkenhead, whence the China steamer sailed. This might cost about 10s. a ton weight, so they had to find out the weight of the cloth, ascertain how many yards went to a ton weight, and made deductions accordingly. There were other small items which had to be taken into consideration; for instance, the charges of the Liverpool agent for putting the goods on to the steamer and the cost of obtaining the bills of lading, which latter are subject to a small Government stamp. The firm also calculated for the cost of providing the shipment patterns, and for the cost of cabling and other incidental expenses. Then the goods had to be packed in a tin-lined wooden case, the cost of which had to be deducted from the price. The Manchester exporter bought these goods in the unbleached state,

or, as they say in Lancashire, "in the grey". But the goods needed bleaching before shipment, so the charge for bleaching had also to be deducted from the price of sixpence farthing. They also deducted for the loss of interest on the cost of the grey cloth while the goods were being bleached, because they paid cash for the grey cloth and only received their money back when the goods were shipped.

Having made all these calculations, Rathbone Baxter & Co., Ltd., knew how much they could then afford to offer to the manufacturer, the Blackburn Weaving Co., Ltd., who wove the unbleached cloth. In order to make a profit on the goods, they would offer the Blackburn Weaving Co., Ltd., something less than the nett price which G. Townsend, Ltd., in Shanghai was willing to pay, that is, the figure which represented the resultant price after taking into consideration all the deductions enumerated.

The Blackburn Weaving Co., Ltd., before deciding whether they could accept Rathbone Baxter & Co., Ltd.'s offer, had also to make certain calculations in order to see whether they could accept the price. The Blackburn Weaving Co., Ltd., had made this cloth before for Rathbone Baxter & Co., Ltd., and had bought the yarn from which it was woven from the Diamond Spinning Co., Ltd., of Oldham. In order to produce exactly the same quality of cloth again they would have to buy the same quality of yarn as that which they used to weave the cloth on former occasions. They, therefore, wished to buy their yarn again from the Diamond Spinning Co.,

Ltd., of Oldham and informed this firm of the price which, according to the calculation they had made, they could afford to pay and yet leave a margin of profit on the transaction. The spinners (the Diamond Spinning Co., Ltd.), however, could not accept, as the price was too low. The Blackburn Weaving Co., Ltd., therefore told Rathbone Baxter & Co., Ltd., that they would require $\frac{1}{8}$ d. per yard more than the price which was proposed to them. This latter firm cabled this information to G. Townsend, Ltd., in Shanghai, who asked Mr. Chang if he was willing to pay the increased price. Mr. Chang said "Can do", and G. Townsend, Ltd., cabled to Manchester accepting the price. Rathbone Baxter & Co., Ltd., then bought the goods from the Blackburn Weaving Co., Ltd., who in their turn bought the cotton yarn from the Diamond Spinning Co., Ltd.

How did the Diamond Spinning Co., Ltd., obtain exactly the correct quality of cotton which they required to spin the yarn, in order to give the same quality of cloth which the Blackburn Weaving Co., Ltd., had sold on previous occasions to Rathbone Baxter & Co., Ltd., who exported it to G. Townsend, Ltd., in Shanghai, who sold it to Mr. Chang, who sent it to Mr. Feng in Shan-si, who sold it to little Mrs. Wu, who insisted on having the same "Nine Dragon Chop" which she had always bought?

The Diamond Spinning Co., Ltd., had many customers for this special quality of yarn spun from a special brand of cotton which they had always bought as the B.A.Z. mark, from Birdhead & Co. in

Liverpool. As we know, that Liverpool firm in their turn, purchased this cotton from Silas J. Hocking in New Orleans, who obtained his supplies, in part, from the cotton grown by Hezekiah Godbehere.

The Diamond Spinning Co., Ltd., knew that they always used a certain amount of this B.A.Z. cotton annually, and in order to make sure that they would be able to obtain it when required, bought it in November from Birdhead & Co. in anticipation of their requirements and for delivery one-third of the quantity in May, one-third of the quantity in June, and the remaining third in July. They bought 300 bales, but they did not fix the price of the cotton at the time at which they bought it. The B.A.Z. mark was superior to the standard quality of "MIDDLING" as fixed by the Liverpool Cotton Association. In November it was worth 75 "points on", that is seventy-five hundredths of a penny more than the standard "MIDDLING", and although the Diamond Spinning Co., Ltd., did not wish to fix the price in November which they would have to pay for the cotton in May/June/July, they did wish to fix this basis of 75 "points on" which would be in addition to the price of standard "MIDDLING". Birdhead & Co. only paid 50 "points on" when they bought the cotton from Silas J. Hocking, so that when they sold it to the Diamond Spinning Co., Ltd., at 75 "points on" they made twenty-five hundredths, which is equal to $\frac{1}{4}$ d. per lb. profit. If the B.A.Z. mark had been an inferior quality to "MIDDLING", it would have been sold at a certain number of "points off" MIDDLING.

When the Diamond Spinning Co., Ltd., received their order for yarn from the Blackburn Weaving Co., Ltd., in May, they calculated the price which they were offered for the yarn on the basis of 75 "points on" the price of standard "MIDDLING" cotton ruling on the day when they were offered the order from the Blackburn Weaving Co., Ltd. They then told Birdhead & Co. in Liverpool that they wanted 100 bales delivered out of their contract in May at this price. This is termed "calling" the cotton, and after calling the 100 bales the Diamond Spinning Co., Ltd., had still 200 bales "to call" out of their contract.

Why did Birdhead & Co., who were not speculators, sell cotton in November to the Diamond Spinning Co., Ltd., at a price which would not be fixed till May/June/July, and on which they would lose if the price of cotton fell from the time they had purchased it until the Diamond Spinning Co. "called" it? Birdhead & Co. safeguarded themselves in exactly the same way as Silas J. Hocking had done, that is to say they "put out a hedge". When they bought their cotton they sold "futures" for delivery May/June/July, and when the Diamond Spinning Co., Ltd., wanted the B.A.Z. cotton, they delivered the actual cotton to them at the market price and bought enough cotton in the market to enable them to fill their contract for the sale of the "futures" which they had made in November.

To summarize this short history. Mrs. Wu bought the Nine Dragon Chop cotton cloth from Mr. Feng

in Shan-si. Mr. Feng, in order to replenish his supplies, ordered further quantities from Mr. Chang in Shanghai for delivery nine months ahead. Mr. Chang ordered the cloth from G. Townsend, Ltd., in Shanghai, who bought it from Rathbone Baxter & Co., Ltd., in Manchester. This latter firm gave an order to the Blackburn Weaving Co., Ltd., to make the cloth who, in their turn, bought the yarn from the Diamond Spinning Co., Ltd. This firm (although they had not fixed the price) had some time previously entered into a contract to buy the special cotton they required from Birdhead & Co., in Liverpool, who obtained it from stock held by Silas J. Hocking, in New Orleans. This cotton was known as the B.A.Z. mark and part of it had been bought by Silas J. Hocking from Marcus B. Levine, who had acquired it from John B. Robinson, who obtained it from Hezekiah Godbehere's crop. So that it was really Mrs. Wu (and of course thousands of other women) who caused Hezekiah Godbehere's cotton to be sent from Mississippi to Lancashire, where it was made into cloth and sent out to China.

CHAPTER IV

COTTON SPINNING, WEAVING, AND MERCHANTING

PART I

WE must now examine the means by which the different people involved in these transactions in Lancashire were paid, and what part credit played in providing the necessary money. We must commence with the spinner, but, in order to understand the position, it is necessary to say something about the origin of spinning firms in Lancashire. These may, perhaps, be classified under four headings. First there are the very old firms; the history of a few going back as far as 150 years. These firms had very small beginnings. They may have been started by an operative spinner who hired a room and a few spindles; profits were made, the profits were put back into the business and probably, sometime during the last fifty years, the business was turned into a private limited company, usually all the shares of which are still held by members of the original family and their friends. A private limited company may not have more than fifty shareholders, and it is under no obligation to publish its balance-sheet. In some cases, however, some of these old concerns were formed into public companies, the shares being held, not only by the family, but also by members of the public.

The second type of spinning companies, formed about the end of the nineteenth century, consisted at that time of new businesses, the shares of which were generally subscribed by the families of the people who were to *manage* the business, and by their friends. There were, as a rule, no debentures issued (*i.e.* no money was obtained by loan against security of the machinery and buildings), but operatives and other employees, and outsiders who wanted a short-term investment, were allowed to deposit with the company sums of money bearing 4 or 5% interest per annum, which deposits were payable on demand or short notice (Credit instrument No. 22). These deposits in the spinning firms (in which respect they differed from loans by employees in other trades) were not invested in good securities outside the business and held as a separate fund, but the money was used in the business, and not separated in any way from the other moneys of the concerns.

The third type of mill was similar to the second type, except that it was formed in the boom of 1907 and the architects, builders, machine makers, and other suppliers often took a proportion—perhaps 20 or 25%—of the sums owing to them in the shape of shares in the company. In some cases even spinners and other operatives took shares in order to be employed in the mill.

The fourth type has brought great disaster to Lancashire. In 1920 there was an enormous boom during which profits were very large, and this opened up a great field for the enterprise of com-

pany promoters. They suggested to the owners of the mills that their buildings and machinery should be revalued, and that new companies should be formed with a capital based on the then earning power, which was five or six times greater than that previously earned on the original capital. For example, they would offer the owner of a mill to purchase the business which had a capital of £100,000 for perhaps £300,000 in cash and £300,000 in shares of the new company which they intended to form, and at the same time they would secure a rich harvest for themselves. They would raise the £300,000 cash by selling shares in the new company to the public. The gambling fever became very widespread, and operatives, small shopkeepers, clerks, and others, all wanted to buy shares in the companies which had taken over the old concerns. In the great majority of cases these people had little or no money with which to do this, so the company promoters arranged that part of the new shares should only be partly paid up, that is, that a man could acquire a £1 share for 2s. 6d. or 5s. cash, the remainder being a liability, which he might be called upon to meet should necessity arise; but in those halcyon days it was not expected that the necessity would ever arise, as it was thought that the mills had more than enough money with which to carry on their businesses.

These reconstituted firms (which are called in Lancashire "turnover" firms) issued no debentures, but still continued to take deposit loans from their operatives and others. In certain cases the "turn-

over" mills were formed into large amalgamations of several companies, and these amalgamations did issue debentures to the public against their land, buildings, and machinery.

The company promoters had to find the cash which they had to pay to the people who had sold the old companies to the new owners. The promoters could not obtain this cash until they had sold the new shares to the public, or in some cases, obtained deposit loan money, or made profits. They, therefore, borrowed money from the banks on behalf of the new companies. As long as the boom was in full swing, these loans were paid back directly the public subscribed for the new shares, but when the boom came to an end, the public suddenly would not subscribe for any new shares and there was no money with which to repay the banks. The banks then insisted that they should receive as security what is known as "a floating charge" on all the assets of the new companies (Credit instrument No. 23), that is, not only on the land, buildings, and machinery, but also on any stocks of yarn or cotton belonging to the companies and any debts due to the companies including the liability for uncalled capital on the partly paid-up shares, for which the operatives, clerks, shopkeepers, and others who had bought these shares were responsible.

These debts, owing by the new companies to the banks, were increased because of the losses which were sustained when the slump came, and these losses, which persisted for a long time, eventually forced other mills which had not originally been indebted

to the banks, to borrow from them also against "a floating charge" on their assets. The effect of these "floating charges" is—in the event of a liquidation—to put the banks in the position that they are paid off before any other creditors of the company, including the loan-holders.

These transactions illustrate two direct forms and one indirect form of credit which the mills obtained. The money deposited by the loan-holders was lent to the company and was a direct form of credit, as was the money obtained from the banks on the security of the "fixed" and "floating" assets of the company. These assets, however, were increased by the liability of the holders of the partly paid shares for the amount of the uncalled capital, and this liability to the companies enabled them to obtain larger loans from the banks than they could otherwise have done, and this may be considered a form of indirect credit.

The methods which have been described were the main sources of credit obtained by the spinning mills, but formerly the Liverpool cotton brokers often gave credit to the spinners by drawing bills on them payable after two months. Owing to the bad position of the Lancashire spinners, this credit has ceased and all cotton has now to be paid for on the tenth day after delivery, and, in the case of weak firms, very often on delivery. This facility having been withdrawn, the hiatus has been made good either by calling up and using the balance of partly paid capital, or by increased loans from the banks. The banks occasionally advance money on

cotton for spinning companies, such cotton being warehoused in the bank's name. This is frequently done where cotton is bought from India or from Egypt, the shipment being financed against a bank acceptance credit, as in the case of Birdhead & Co.

The only other form of credit which spinners enjoy is that accorded by the suppliers of mill stores, coal, oil, and other necessities. These things are usually paid for on the average about six weeks after delivery, and very often after the stores have been consumed, and the yarn into whose cost they have entered, has been paid for.

After the yarn has been spun in the spinning mills, it is sold to those firms whose business it is to weave it into cloth. For this purpose credit again plays some part.

The weaving sheds in Lancashire are mostly either private family firms or private limited companies, the shares of which (with few exceptions) are held by the founders of the firms and their friends. Until recently the credit which these firms obtained from their suppliers of yarn and mill stores did not, as a rule, exceed three weeks. Generally speaking, their working capital was sufficient for their purposes; but it sometimes happened that they held unusually heavy stocks of yarn, and in order to pay for these they required money. It might be they were short of money because they had to give extended credit to their merchant customers or hold up deliveries of goods for them owing to bad conditions ruling in their markets. Under

these circumstances, the manufacturers¹ sometimes found it necessary to have recourse to their banks. The bank would examine their balance-sheets, and if the concerns which required temporary accommodation were good and had been making profits, the bank would grant an overdraft on the strength of the surplus of assets over liabilities. This is usually a verbal agreement and there is no credit instrument used. In more recent years many weaving concerns have made no profit and have even made losses. Balance-sheets do not look as healthy as they formerly did, and the banks, before granting overdrafts, would now require some security. This security might take one of two forms. It might be a specific charge on the "fixed assets", *i.e.* the land, mill, and machinery, which of course always remain the same, and a floating charge (Credit instrument No. 23) on the "liquid assets", *i.e.* on the stock and book debts, which, of course, do change from day to day. Or, on the other hand, it might take the form of collateral security, perhaps in the shape of a deposit with the bank of some bonds or other securities belonging to the directors and their friends, or possibly a guarantee to the bank by the directors or their friends of the overdraft which the bank granted to the company.

The merchant who buys the goods from the manufacturer also requires credit. He pays the manufacturer seven to ten days after receipt of the goods, and unless they are to be shipped abroad in the

¹ In the Lancashire cotton trade the term "manufacturer" only applies to the owners of the weaving sheds.

“grey” state, they require dyeing, bleaching, or printing, which may take a couple of months. During this time the merchant is out of his money, while his own capital may, to a large extent, be locked up in credit which he has given to those customers upon whom he does not draw bills. The conditions under which he can obtain loans or overdrafts from his bank are similar to those which we have outlined in the case of the manufacturers, except that the merchant has, as a rule, no fixed assets which he can give to the bank as security. Whether his bank will or will not require security will depend on the financial strength of the firm, its reputation, and its profit-earning capacity.

During the present century there has grown up another system by which merchants obtain credit from their banks or possibly from London finance houses. By this method they pledge the actual goods which are in process at the bleachers, dyers, or printers (Credit instruments Nos. 24, 25, and 26). This system is not looked upon with much favour by the banks. While they are in process at the bleachers, dyers, or printers these firms have a lien or charge on the goods belonging to the merchant. This lien is not only for the value of the work done on these specific goods, but extends to any money which may be owing by the merchant to the processing firms. The banks, therefore—if the security has to be realized because the merchant cannot pay his debts—never know how much will be left for them after the dyer, printer, or bleacher has been paid. It is, perhaps, mainly for this reason that they

look with little favour on this method of giving credit.

The merchant pays the dyer, printer, or bleacher for work done on his goods, towards the end of the month following that in which the goods have been returned to him in the finished state.

Thus up to this point, *i.e.* until the goods are ready for shipment, the credit which the merchant receives is first, seven to ten days on the unfinished cotton cloth; secondly, an average of about five to six weeks from the bleacher, dyer, or printer on the cost of the work which he has done on the cloth; and thirdly, sometimes an overdraft from his bank to carry him over the time while the goods are in process. The credit which he receives on exporting the goods will be dealt with in the next chapter.

PART II

CREDIT INSTRUMENTS

Credit instrument No. 22 is the receipt given by the Diamond Spinning Co., Ltd., to one of its loan depositors, Ebenezer Murgatroyd, and calls for no comment.

CREDIT INSTRUMENT NO. 22.—SPINNER'S LOAN
ACKNOWLEDGEMENT

No. 499 DUPLICATE. Loan Acknowledgment. Date <u>January 17, 1920</u> Folio <u>101</u> Name <u>Ebenezer Murgatroyd</u> Address <u>131 Burton St.</u> <u>Oldham,</u> <u>twelve</u> Pounds <u>ten</u> Shillings, and <u>Six</u> Pence, £ 12 : 10s. 6 d. Present Claim.....£ 56 17s. 6 d. Examined by <u>Peter Platt</u>	No. 499 THE DIAMOND SPINNING Co. Ltd OLDHAM <u>January 17, 1920</u> Folio <u>101</u> Directors' Receipt. To <u>Mr Ebenezer Murgatroyd</u> <u>Oldham</u> We have pleasure in notifying you that your Loan Account with this Company was duly credited with <u>twelve</u> Pounds <u>ten</u> Shillings, and <u>Six</u> Pence, on the <u>12th</u> <u>January</u> 19<u>20</u> The total sum at your credit is now £ 56 17 6 If this amount differs from your Loan Book we shall be glad to be advised immediately. <u>John Thompson</u> Directors. <u>James Richards</u> <u>Peter Platt</u> Secretary.
---	--

Credit instrument No. 23 is the “floating charge” which the Diamond Spinning Co., Ltd., give to the bank as security for a loan. It is a long document containing many clauses setting out the conditions under which the loan is granted. The effect of the document is to give to the bank as security for any money owing at the time, or which might become owing:

- (1) The mill, machinery contained therein, and the freehold land on which it was built.
- (2) All the other assets of the Company, present and future, including uncalled capital and the goodwill of the concern.

Further, the Company undertakes:

- (a) To pay to the bank on demand any money which may be owing. This enables the bank to demand payment at any time, and if not paid, to sell the security.
- (b) That the bank’s security shall rank before any other security and that the Company will not dispose of any of its assets.
- (c) That any money received for uncalled capital shall be paid to the bank and no uncalled capital will be called up without the consent of the bank.
- (d) To supply all information regarding its affairs to the bank when required.
- (e) To keep its property insured.

Banking students wishing to make a closer acquaintance with this type of document should consult Grant’s *Law of Banking* or Hart’s *Banking*, and

those seeking legal knowledge on these instruments should consult Coote's *Treatise on the Law of Mortgages* or other standard text-books.

CREDIT INSTRUMENT NO. 23.—FLOATING CHARGE

THIS INDENTURE made the seventeenth day of January One thousand nine hundred and thirty-three Between THE DIAMOND SPINNING COMPANY LIMITED, whose registered office is situate at Diamond Mill, Oldham, in the County of Lancashire (hereinafter called "the Company" which expression shall where the context requires or admits include the assigns of the Company) of the one part and THE LANCASHIRE & CHESHIRE BANK LIMITED, whose registered office is situate at 12 Mosley Street in the City of Manchester (hereinafter called "the Bank" which expression shall where the context requires or admits include the assigns of the Bank) of the other part.

WHEREAS the Company has at the request of the Bank agreed to give to the Bank such security as is hereinafter contained as well for the moneys (if any) now owing as for any moneys which may hereafter during the continuance of this security become owing by the Company to the Bank either alone or jointly or otherwise as hereinafter mentioned NOW THIS INDENTURE WITNESSETH that in pursuance of the said Agreement and in consideration of the premises the Company as beneficial owner hereby charges in favour of the Bank with the payment to the Bank of all and every sums and sum of money for which these presents are hereinafter declared to be a security FIRST the premises described in the Schedule hereto (hereinafter called the specifically mortgaged premises) and SECONDLY the undertaking and goodwill of the Company and all its other property assets and rights whatsoever and whatsoever both present and future including its uncalled capital for the time being (all of which premises secondly hereby charged are hereinafter referred to collectively as the general assets).

[Here follow the usual Clauses and Signature.]

Credit instrument No. 24 is an instruction from the Manchester exporting merchants, Rathbone Baxter & Co., Ltd., to the Quicksilver Bleaching, Dyeing & Finishing Co., Ltd., instructing the latter to hold the goods mentioned in the schedule to the order of the London & Manchester Bank, Ltd. The point which calls for comment are the words "subject only to your lien for charges for work done to the goods". This means that the Quicksilver Bleaching Co. has a prior claim on the goods to the claim of the bank, but only for the amount of the cost of the work which the Quicksilver Bleaching Co. has done on the goods. The general lien referred to on page 74 will thus not operate in this case.

CREDIT INSTRUMENT NO. 24. INSTRUCTION TO HOLD
IN TRUST

Enclosure

2nd October

1935

To

THE QUICKSILVER BLEACHING, DYEING & FINISHING CO. LTD.
DROYLSDEN

DEAR SIRs,

We have handed you goods as per Schedule hereunder. Please hold the same to the order of LONDON & MANCHESTER BANK LTD. MANCHESTER, subject only to your lien for charges for work done to the goods.

Will you kindly sign and forward to the Bank the enclosed acknowledgement.

(Signed) RATHBONE BAXTER & CO. LTD.
Director, AMOS BAXTER.

SCHEDULE

Description of Goods

500 pieces 32 inches 120 yards Shirting—Lot 340
(part delivery against order No. 312)

Credit instrument No. 25 pledges the goods to the bank as security not only for the specific loan relating to these goods, but for any other money which Rathbone Baxter & Co., Ltd., may owe at the time or at some future time to the bank. It is a continuing security; that is to say, even if this specific loan is paid off, as long as the bank holds the security, it is available as security against any other money owing, or against any fresh loan which may be made.

CREDIT INSTRUMENT NO. 25.—PLEDGE OF GOODS

2nd October 1935

To THE LONDON & MANCHESTER BANK LTD.

DEAR SIRs,

We have delivered to The Quicksilver Bleaching, Dyeing, & Finishing Co. Ltd. Droylsden, goods as per Schedule hereunder to be held to your order.

In consideration of advance made and/or to be made to us from time to time we hereby charge the said goods in your favour as a continuing security for the payment to you on demand of all sums and liabilities now due or hereafter to become due from us to you upon any account whatsoever including guarantees and either alone or jointly with another or others with interest, banking charges and expenses.

This is without prejudice to any other lien which the Bank may have or might have had apart from this security.

We will keep the said goods fully insured against all risks and will, if required, deposit with you the policies of insurance and insurance cover notes and premium receipts, and in the meantime will hold in trust for you such policies and all moneys received under them.

Dated this second day of October nineteen hundred and thirty-five.

(Signed) RATHBONE BAXTER & CO. LTD.

Director, AMOS BAXTER.

6d.

SCHEDULE

123 - S&S.1/25.

Description of Goods.	Value.		
500 Pieces 32 inches 120 yards Shirting—Lot 340	£750	0	0

Credit instrument No. 26 is a confirmation from the Quicksilver Bleaching Co. to the bank that they hold the goods for the bank, subject only to their lien for charges for work done on these specific goods. The instrument also informs the bank that the goods are insured by the Quicksilver Bleaching Co., and that any money which may eventually be received under the policies, belongs to the bank, subject to the above-mentioned lien.

CREDIT INSTRUMENT NO. 26.—CONFIRMATION OF LIEN

3rd October 1935

To THE LONDON & MANCHESTER BANK LTD.

DEAR SIRs,

We have received from Messrs. Rathbone Baxter & Co. Ltd. goods as per Schedule hereunder which we hold to your order subject only to our lien for charges for work done to the goods.

As regards all such goods for the time being insured in our name we undertake in case of damage or destruction by fire that the money payable under the Policies shall belong to you subject only to our lien as aforesaid.

(Signed) THE QUICKSILVER BLEACHING, DYEING & FINISHING CO. LTD.

Director, W. TWEMLOW.

Secretary, HENRY KAROLSON.

SCHEDULE

Description of the Goods.

500 Pieces 32 inches 120 yards Shirting—Lot 340

CHAPTER V

EXPORT OF COTTON GOODS FROM MANCHESTER, AND MARKETING IN CHINA

PART I

WE may now return to our story and describe how the shirting cloth which was manufactured by the Blackburn Weaving Co., Ltd., and sold to Rathbone Baxter & Co., Ltd., was dealt with by the latter firm.

When G. Townsend, Ltd., sent the order in May for the cotton cloth to Rathbone Baxter & Co., Ltd., the former immediately opened a credit in favour of Rathbone Baxter & Co., Ltd. This credit was opened with the China Exchange Bank, Ltd., in Shanghai, and by it the bank instructed their branch in London to make cash advances to Rathbone Baxter & Co., Ltd., for the value of the goods which they had to ship to G. Townsend, Ltd., in Shanghai, in December. Although the bank could cancel this credit before the goods were shipped (as it was not an irrevocable credit), this would not be done in normal circumstances, and so by the opening of the credit, Rathbone Baxter & Co., Ltd., were assured that they would be able to get their money in London in December when they shipped the goods. (Credit instrument No. 27).

When the goods were ready, they were packed

and forwarded to Birkenhead to be put on a steamer sailing for China. Rathbone Baxter & Co., Ltd., procured from the shipowner a Bill of Lading, that is a receipt for the goods, and insured the goods against loss or damage on the voyage to the Far East. They made out their invoices, charging the goods to G. Townsend, Ltd., in Shanghai. Having done this, they sent the Bill of Lading, Insurance Policy, and invoices to the China Exchange Bank, Ltd., in London, accompanied by a Bill of Exchange, drawn by them on G. Townsend, Ltd., and instructing that firm to pay the amount stated in the Bill of Exchange (which sum was for the value of the goods shipped). The Bill of Exchange which G. Townsend, Ltd., had undertaken to "accept" (Credit instrument No. 28), was drawn at four months sight, so that G. Townsend, Ltd., would pay it four months after they had seen it, that is, four months after it had been presented to them for acceptance. If the bill, for any reason, could not conveniently be paid at the end of four months, it would usually be renewed for a further period of three months by arrangement between the bank, Rathbone Baxter & Co., Ltd., and G. Townsend, Ltd.

To make the transaction perfectly clear, we may explain that "opening a credit in favour of Rathbone Baxter & Co., Ltd." simply means that the China Exchange Bank, Ltd., inform them that when the goods are shipped and the bank has received the Bill of Lading, Insurance Policy, Invoice and Bill of Exchange on G. Townsend, Ltd., it will lend to the suppliers of the goods (Rathbone

Baxter & Co., Ltd.) the amount of the bill. The Bill of Exchange contained a clause which instructed G. Townsend, Ltd., to pay—in addition to the amount stated on the bill—a sum equivalent to 5% interest per annum from the date the bill was drawn, until the approximate time when the money, which had been paid in Shanghai to meet the bill, would arrive in London (Credit instruments Nos. 28, 29, 30, and 31). By this means Rathbone Baxter & Co., Ltd., recovered the interest for the four months' interval which elapsed from the time the bill was presented for acceptance until payment was made, and also for the time of transit of the bill out to China and the money back to England. The interest varies according to the rate charged to Rathbone Baxter & Co., Ltd., by the China Exchange Bank, Ltd. Rathbone Baxter & Co., Ltd., endorsed the Bill of Exchange, the effect of which was that G. Townsend, Ltd., were instructed to pay the money when due to the China Exchange Bank, Ltd., or to their order, *i.e.* to whomsoever the bank might, in turn, instruct it to be paid. G. Townsend, Ltd., being in Shanghai, only possessed Chinese dollars and not pounds sterling. In order, therefore, to avoid all questions regarding the rate of exchange at which the bill should be paid, a clause was inserted which ensured that G. Townsend, Ltd., paid sufficient dollars to provide the necessary amount of pounds sterling, calculating the exchange at a rate at which the bank was willing to sell pounds sterling for Chinese dollars on the date when the bill fell due.

The rate of interest which the China Exchange Bank, Ltd., charged would usually be 1% higher (but with a minimum of 5%) than the rate of discount charged by the Bank of England (bank rate) for discounting bills, the bank's remuneration being included in the rate of interest which it charged on the loan.

Under certain circumstances there is a cheaper method by which Rathbone Baxter & Co., Ltd., might obtain their money against the bill which they drew on G. Townsend, Ltd. If the rate for discounting bills in the London discount market were very low, the China Exchange Bank, Ltd., instead of lending *cash* to Rathbone Baxter & Co., Ltd., might allow them to draw a bill on the China Exchange Bank, Ltd., in London (Credit instruments Nos. 32 and 33). Rathbone Baxter & Co., Ltd., could discount this bill with their own Manchester bank or with a London discount broker at a rate which (after paying the commission of the China Exchange Bank, Ltd., and the other charges for their services) would work out cheaper than if they had borrowed the cash from the China Exchange Bank, Ltd., at 5% or 1% over the Bank of England rate, whichever was more (Credit instrument No. 34). For example, if Rathbone Baxter & Co., Ltd., could discount a bill on the China Exchange Bank, Ltd., for 2% per annum, and if the bank's charge for "accepting" the bill were $1\frac{1}{2}\%$ per annum, then the credit would cost Rathbone Baxter & Co., Ltd., $3\frac{1}{2}\%$ per annum, plus bill stamp and collecting commission, instead of the 5% which they would

have to pay if they obtained a cash loan from the bank. Where a cash advance is taken from the bank, interest is only charged from the date of the advance until the bank is paid, so that if part of the goods, against which the bill is drawn, is delivered before the maturity of the bill, a rebate of interest would be allowed on this part for the unexpired period of the bill. In this respect the system of taking a cash advance has an advantage over the method of drawing a bill on the bank in London, for in the latter case the charge for discounting the bill is payable for the full period for which the bill runs.

By one of the two means, credit was given by Rathbone Baxter & Co., Ltd., in Manchester to G. Townsend, Ltd., in Shanghai for a period of at least four months in addition to the time that the mail took for the voyage and for the time necessary to bring the money back to England. Rathbone Baxter & Co., Ltd., were enabled to grant this credit through the help of the China Exchange Bank, Ltd., and possibly through the additional help of their own Manchester bank, or a London discount broker, if they used the second method of obtaining credit from the China Exchange Bank, Ltd.

When the goods arrived in Shanghai, the Bill of Exchange drawn on G. Townsend, Ltd., was presented to them by the China Exchange Bank, Ltd., and the firm wrote across it the word "Accepted", which meant that they were willing to pay the bill when due. They then advised Rathbone Baxter & Co., Ltd., in Manchester that they had

accepted the bill (Form No. 31). Having once "accepted" the bill, they could not refuse to pay it, even if the goods turned out to be not in accordance with their order. In such a case they would, of course, have a legal claim against Rathbone Baxter & Co., Ltd., in Manchester, but in any event they would have to pay the amount of the bill to the China Exchange Bank, Ltd. It is obvious that the banks would not grant credit freely if their reimbursement could be affected by disputes between buyer and seller.

The Bill of Exchange having been "accepted" and the goods discharged from the ship, they were placed in a bonded warehouse in Shanghai, that is, a warehouse under the control of the Chinese Customs authorities. It was not necessary to pay import duties on them until they were taken out of this warehouse. They were placed in the warehouse either in the name of the bank or in the name of G. Townsend, Ltd. In the latter event G. Townsend, Ltd., would sign a receipt saying that they held the goods in trust for the bank. During the time that they remained in the warehouse, G. Townsend, Ltd., was obliged to keep them insured against fire (Credit instruments Nos. 35 and 36).

Mr. Chang, the Chinese who bought the goods from G. Townsend, Ltd., was advised by the latter firm when the goods had arrived. According to the general custom he could only obtain possession of the goods by paying cash for them, but he was at liberty to leave them lying in the warehouse for two months before he need take delivery—a period which in bad times is often extended. The interest

for the two months was included in the price of the goods, but Mr. Chang was liable to pay interest for any longer period for which he left them in the warehouse. Although Mr. Chang received the goods only when he paid for them, the arrangement by which they could lie in the warehouse until he was ready to pay, was in itself a kind of credit, and pending delivery of the goods to Mr. Chang, G. Townsend, Ltd., could obtain a loan from the bank against the security of the goods, provided they had paid Rathbone Baxter & Co., Ltd.'s Bill of Exchange.

Rathbone Baxter & Co., Ltd., did business in other parts of the world, and in some countries they, or their European customers, allowed the native dealers to receive delivery of the goods on arrival against their promise to pay; so that these dealers, because they had the goods in their possession and could sell them, enjoyed a greater degree of credit than that which was accorded to the Chinese merchants in Shanghai who received the goods only when they paid for them.

Mr. Chang, when he obtained delivery of the goods, had to send them to the shopkeeper Mr. Feng in Shan-si. It took a long time for the goods to reach Shan-si, and even then Mr. Feng could not pay for them until he had sold them, because his stock in his shop was always much greater in value than the amount of his capital, so that he was obliged to obtain credit from Mr. Chang. Mr. Chang in his turn, also had to obtain credit in order to be able to give credit to Mr. Feng and his other customers, for he did a large business, and the value of

his stock plus the amount of money owing to him at any one time was always greater than the amount of his capital.

We must now consider how Mr. Chang obtained his credit. Twice a year every Chinese settles his debts; once at the Midsummer Festival, and once at the Chinese New Year. After the New Year settlement, the Chinese merchant goes to his native banker and arranges with him for an overdraft sufficient, with his own capital, to enable him to carry on his business and give credit to his customers. If his banker was the old-style native bank, Mr. Chang would obtain his overdraft purely on his personal standing, and possibly without giving the bank any security; his overdraft might be as much as five or ten times his own capital but a very high rate of interest would be charged, that is anything from 12% per annum upwards. Not every firm could obtain an overdraft without security, but only approved firms, the standing of whose partners was well known to the bank. In recent years, modern Chinese banks have come into existence which work on the same principles as the foreign banks. They charge a much lower rate of interest than the old-style native bank, probably from 6% per annum upwards, but they give no overdrafts to anyone without security (Credit instrument No. 37).

Mr. Chang, having arranged his overdraft, obtained from his native bank a "native bank order" for the amount which he had to pay to G. Townsend, Ltd., in order to obtain delivery of the goods which he wanted to send to Mr. Feng in Shan-si. This native

bank order is a promissory note of the Chinese bank promising to pay the sum stated on it after ten days. These native bank orders are accepted by the European banks in China as the equivalent of cash. Mr. Chang paid this native bank order to G. Townsend, Ltd., who took it to the China Exchange Bank, Ltd., with which they had pledged the goods, and obtained a release note from the bank authorizing the warehouse to deliver the goods (Credit instrument No. 38). This release note was then handed to Mr. Chang, who obtained the goods from the warehouse and put them on a steamer in Shanghai which transported them to the nearest port from which they could be sent to Mr. Feng in Shan-si.

Mr. Chang could now wait for his money to come from Mr. Feng and then pay it into his native bank, or (since the growth of modern banks in China), he could draw a bill on Mr. Feng and take it with the Bill of Lading and Insurance Policy to the modern Chinese bank and obtain an advance against the security of the Bill of Exchange and the Bill of Lading in exactly the same way that Silas J. Hocking sent his cotton to Birdhead & Co. in Liverpool, and as Rathbone Baxter & Co., Ltd., financed the shipment of their goods to G. Townsend, Ltd., in Shanghai. Mr. Feng who, in his turn, gave credit to his customers, would obtain credit from his native bank, probably without giving it any security. These native banks are private partnerships of unlimited liability, in addition to which their liabilities are guaranteed by the Native Bankers' Guild.

Our transaction in Chinese shirting is now complete. We have seen that, from the negro cropper to Mrs. Wu (who received fifty dollars' credit from Mr. Feng), the whole business was carried on by credit. Nothing tangible had been exchanged; it had all been done by bits of paper. Although the negro cropper, and all the manufacturers and merchants in the chain of transactions, were paid, America received no commodity or service in exchange for her cotton, nor did the United Kingdom receive any goods in payment of the labour, etc., which she expended in manufacturing the raw cotton into shirts.

We must remind ourselves here of what we said at the conclusion of Chapter I. When we say that America and the United Kingdom received no commodities in exchange for the cotton and cotton goods, we do not mean that these countries received no goods and services in exchange for all the goods which they exported and all the services which they rendered. America, however, sends more to the United Kingdom than she receives from the United Kingdom, and the United Kingdom sends more to China than she receives from China, and in our story, no goods or services have been exchanged up to this point in payment for these surplus exports, visible and invisible. In order to see how America and the United Kingdom ultimately were paid, we must carry the transactions four stages further.

PART II

CREDIT INSTRUMENTS

Credit instrument No. 27 is the credit which G. Townsend, Ltd., in Shanghai opened with the China Exchange Bank, Ltd., in favour of Rathbone Baxter & Co., Ltd. Through this document the opening of the credit is advised to Rathbone Baxter & Co., Ltd., by the China Exchange Bank, Ltd.'s office in London. It stipulates that the freight on the goods shall be paid to Shanghai and that all the documents shall be hypothecated, that is pledged, to the bank. Part of these documents consists of Bills of Exchange drawn by Rathbone Baxter & Co., Ltd., on G. Townsend, Ltd., in Shanghai. The credit stipulates that Rathbone Baxter & Co., Ltd., are to remain responsible as drawers of the bills in the event of them not being paid by G. Townsend, Ltd.

CREDIT INSTRUMENT NO. 27.—LETTER OF CREDIT

(Outward Bills Department)

THE CHINA EXCHANGE BANK LTD.,
19 Lombard St., LONDON, E.C.

1st February 1935.

Messrs. Rathbone Baxter & Co. Ltd.,
Rathbone House,
Whitworth Street,
MANCHESTER.

DEAR SIR/S,

We beg to inform you that we are instructed by the Manager of our Branch at Shanghai to negotiate, as offered, your documentary Bills drawn at 4 months' sight on G. Townsend, Ltd. to the extent of not exceeding £1400 (Fourteen hundred pounds) for full Invoice cost of 40 Cases Cotton goods shipped to that Port.

The Bills must be accompanied by full sets of Bills of Lading, made out to the order of the Shippers, for account of the Consignee, and be duly endorsed by the said Shippers, also marked by the Shipping Company "Freight paid", together with Invoices and Policies of Insurance for Marine and War Risks, all duly hypothecated to the Bank against payment of the Bills.

Please note that this is not to be considered as being a Bank Credit and does not relieve you from the liability usually attaching to the Drawer of a Bill of Exchange, also that although it is considered to be open until 15/1/36 it may be cancelled by us upon giving you notice.

Bills drawn under the above-mentioned instructions must be plainly marked "Shanghai D/C 82/1386" and must be accompanied by a letter quoting this reference number.

Postage Charge at the rate of 2/- per Bill upon each Documentary Bill under £100 will be deducted by us when making payment.

Marine and war risk insurance to be effected in England.

Yours faithfully,
(Signed) THE CHINA EXCHANGE BANK LTD.
E. PHILLIPS, Manager

Credit instrument No. 28 is the bill drawn by Rathbone Baxter & Co., Ltd., on G. Townsend, Ltd., in Shanghai. The bill is for £1327 : 4 : 10, but states that interest is to be added to this sum at 5% per annum from the date of the bill until the approximate time of payment of the money in London. As G. Townsend, Ltd., in Shanghai will only have Chinese dollars, the bill stipulates that the money shall be paid at the rate of exchange at which the China Exchange Bank, Ltd., is willing to sell demand drafts on London on the day the bill is payable. The bill further stipulates that the documents (that is the Bill of Lading and the Insurance Policy) may only be handed over by the bank to G. Townsend, Ltd., on payment of the bill.

CREDIT INSTRUMENT NO. 28.—BILL OF EXCHANGE

BILL OR
NOTE
FOURTEEN
SHILLINGS
11. 12 35

£ 13 27 4 10 Shanghai of £ 82/1386
Manchester. 21st December 1935
Four months after sight pay this first of Exchange second
unpaid to the order of ourselves thirteen hundred and twenty seven pounds
four shillings and ten pence sterling with interest added thereto at five per
cent per Annum from date hereof to approximate due date of remittance
Payable at the current drawing rate for the China Exchange Bank Ltd
Remand Bank Drafts at Shanghai on London Documents to be
given up to the drawee on payment of the bill Value received against £ 123 1/40
to Messrs. G. Townsend & Co. Per and on behalf of LTD
Madame Porter & Co. Ltd per ss "Antenor"
Shanghai G. Gadsden Director.
J. Smith Director.

N^o 526

Credit instrument No. 29: This is the letter from Rathbone Baxter & Co., Ltd., handing the documents including the Bill of Exchange to the China Exchange Bank, Ltd., in London, and instructing the bank to pay the amount of the advance, *i.e.* the amount of the Bill of Exchange, to the London & Manchester Bank, Ltd., in London, to Rathbone Baxter & Co., Ltd.'s credit with the bank's Head Office in Manchester.

CREDIT INSTRUMENT NO. 29.—REQUEST FOR ADVANCE

Rathbone House,
Whitworth Street,
MANCHESTER,
21st December 1935

The China Exchange Bank Ltd.,
LONDON, E.C. 2.

DEAR SIRs,

Shanghai D/C. No. 82/1386.

Against the credit granted in your favour of the 31st October 1935 we beg to hand you herein first and second of exchange to order ourselves at four months' sight

1 draft for £1327 : 4 : 10.

Attached to this draft is a complete set of B/Lading in duplicate, Marine and War Risk Policy in duplicate and relative invoice and copies covering goods sold and shipped to drawees as per particulars below.

Documents are only to be given up against payment of the bill.

Thereagainst please pay tomorrow the 1st prox. the amount of the abovementioned bill to the London & Manchester Bank Ltd., Cornhill, E.C., to our credit with their Head Office here.

We are, dear Sirs,

Yours faithfully,

For and on behalf of

(Signed) RATHBONE BAXTER & Co. LTD.

E. GADSON, Director

G T
 123
 LTD.

1/40

per ss. "Antenor"

Credit instrument No. 30 is the means by which Rathbone Baxter & Co., Ltd., pledge the Bill of Exchange and the shipping documents to the China Exchange Bank, Ltd., as security for their advances. This hypothecation does not refer to this transaction only, but to all transactions of this nature which the bank may have with the firm.

CREDIT INSTRUMENT NO. 30.—GENERAL LETTER OF
HYPOTHECATION*General Letter of Hypothecation*

To the CHINA EXCHANGE BANK LIMITED.

1. As you may from time to time purchase from or negotiate for me/us Bills of Exchange drawn or endorsed by me/us with collateral securities, it has been agreed between us that the stipulations contained in this Memorandum shall be deemed to be continuing and ambulatory, and are to apply to all cases in which such Bills of Exchange may at any time either directly, or through other persons, be negotiated with or sold to you by me/us and this Memorandum shall have the same force until I/we shall give you notice of my/our intention to terminate it, as if a separate Memorandum were signed by me/us on each purchase or negotiation.

2. I/we authorize you, or any of your Managers, or Agents or the Holders for the time being, of any such Bill or Bills as aforesaid (but not so as to make it imperative) to insure any goods forming the collateral security for any such Bill or Bills of Exchange from sea risk including loss by capture, and also from loss by fire on shore, and to add the premiums and expenses of such insurances to the amount chargeable to me/us in respect of such Bill or Bills and to take recourse against such goods in priority to any other claims thereon, or against me/us, without prejudice to any claim against any endorser or endorsers of the said Bills, for reimbursing yourselves, or other the person or persons paying the same, the amount of such premiums and expenses, and also to sell any portion of such goods which may be necessary for payment of freight, insurance, and expenses, and generally to take such measures and make such charges for commission, and to be accountable in such manner, but not further or otherwise than as in ordinary cases between a merchant and his correspondent. And I/we consent to the goods being warehoused at any public or private wharf or warehouse selected by the Drawees or Acceptors of the Bills, unless you offer an objection to such wharf or warehouse.

CREDIT INSTRUMENT NO. 30 (*continued*)

3. I/we hereby also authorize you, or any of your Managers, or Agents, or the Holders for the time being of any Bill or Bills of Exchange as aforesaid, to take conditional acceptances to all or any of such Bills, to the effect that, on payment thereof at maturity, the Documents handed to you as collateral security for the due payment of any such Bill or Bills shall be delivered to the Drawees or Acceptors thereof, and such authorization shall be taken to extend to cases of acceptances for honour. Subject nevertheless to the power next hereinafter given, in case the Drawee shall suspend payment, become bankrupt, or go into liquidation during the currency of any such Bill or Bills.

4. I/we further authorize you, but not so as to make it imperative, at any time or times before the maturity of any Bill or Bills of Exchange as aforesaid, to grant a partial delivery or partial deliveries of such goods, in such manner as you or the Acceptors of such Bill or Bills of Exchange, or their representatives may think desirable to any person or persons on payment of a proportionate amount of the invoice cost of such goods, or of the Bill or Bills of Exchange drawn against same.

5. I/we further authorize you, or any of your Managers, or Agents, or the Holders for the time being of any Bill or Bills of Exchange as aforesaid, on default, being made in acceptance on presentation, or in payment at maturity, of any such Bill or Bills, or in case of the Drawees or Acceptors suspending payment, becoming bankrupt, or taking any steps whatever towards entering into liquidation during the currency of any such Bill or Bills, and whether accepted conditionally or absolutely, to sell all, or any part of the goods forming the collateral security for the payment thereof at such times and in such manner as you, or such Holders may deem fit, and, after deducting usual commission and charges, to apply the net proceeds in payment of such Bill or Bills with re-exchange and charges; the balance, if any, to be placed at your or their option against any other of my/our Bills, secured or otherwise, which may be in your or their hands, or any other debt or liability of mine/ours to you or them, and subject

CREDIT INSTRUMENT NO. 30 (*continued*)

thereto, to be accounted for to the proper parties. In case of loss of ship or goods insured at any time I/we authorize you, or the holders thereof, to realize the policy or policies, and charge the same commission on the proceeds as upon a sale of goods, and to apply the net proceeds, after such deductions as aforesaid, in manner hereinbefore lastly provided.

6. In case the net proceeds of such goods shall be insufficient to pay the amount of any such Bill or Bills, with re-exchange and charges, I/we authorize you, or any of your Managers, or Agents, or the Holders for the time being of such Bill or Bills as the case may be, to draw on me/us for the deficiency, without prejudice nevertheless to any claim against any endorser or endorsers of the said Bills for recovery of the same or any deficiency on the same; and I/we engage to honour such Drafts on presentation, it being understood that the Account Current rendered by you or by such Holders, shall be sufficient proof of sale and loss.

7. I/we further authorize you, or any of your Managers, or Agents, or the Holders for the time being of any such Bill or Bills as aforesaid, whether the aforesaid Power of Sale shall or shall not have arisen at any time before the maturity of any such Bill or Bills, to accept payment from the Drawees or Acceptors thereof, if required so to do, and on payment to deliver the Bills of Lading and Shipping Documents to such Drawees or Acceptors; and, in that event, you or the Holders of any such Bill or Bills are to allow a discount thereon *not exceeding five per cent* per annum for the time they may have to run as follows:—

At one-half per cent per annum above the advertised rate of interest for short deposits allowed by the leading London Joint Stock Banks, if payable in Great Britain.

At the current minimum rate of discount of the National Banks of France, Italy and Belgium, if payable in those countries.

At the current minimum market rate of discount, if payable in Germany.

CREDIT INSTRUMENT NO. 30 (*continued*)

At the current rate of rebate for Documentary Bills, if payable in Switzerland or the United States.

At the current rate of rebate allowed by the Exchange Banks if payable at any place east of Suez.

8. Lastly, it is mutually agreed that the delivery of such collateral securities to you shall not prejudice your rights on any of such Bills in case of dishonour, nor shall any recourse taken thereon affect your title to such securities to the extent of my/our liability to you as above, and that notwithstanding any alteration by death, retirement introduction of new partners or otherwise in the persons from time to time constituting our firm or other the style or firm under which the business at present carried on by us may be from time to time continued, this Letter and the powers and authorities hereby given are to hold good as the Agreement on the part of the firm as aforesaid with you and that each negotiation of a Bill or Bills hereunder is to be treated as a renewal by or on behalf of the firm as then existing of the terms of this Agreement. It is also agreed that you are not to be responsible for the default of any Broker or Auctioneer employed by you for any purpose.

Dated at Manchester this twentieth
day of April One Thousand Nine Hundred and
Thirty-Five

Witness to the Signature of Amos Baxter

(Signed) MARY HODEN,

Witness

SECRETARY,

Occupation

RATHBONE HOUSE, MANCHESTER,

Address of Firm

(Signed) RATHBONE BAXTER & CO. LTD.

AMOS BAXTER, Director.

Form No. 31: This is not a credit instrument but is merely the advice which will reach Rathbone Baxter & Co., Ltd., in due course from G. Townsend, Ltd., advising the former firm that they have accepted the bill of £1327 : 4 : 10, and informing them on which date the bill will fall due. As it is a four months' sight bill, that is, payable four months after acceptance, Rathbone Baxter & Co., Ltd., cannot know the due date of the bill until they know on what date G. Townsend, Ltd., have accepted it.

FORM NO. 31.—ADVICE OF ACCEPTANCE

PLEASE RETURN TO

— 25th. January — 1936

MESSRS. RATHBONE BAXTER & Co. Ltd.**MANCHESTER***Dear Sirs,*

We beg to advise having during the week accepted the following drafts against shipment made by you

*We are, dear sir,**Yours faithfully,*

**For and on behalf of:-
G. TOWNSEND LTD.**

Documents against payment.

J. Kenne **Director.**

DATE OF ACCEPTANCE	STEAMER	MARKS AND NUMBERS	CURRENCY	AMOUNT £ s d	DUE DATE OF DRAFT
1936 Jan. 25	Antenor	G T 123 LTD.	1/40 4 m/s	1327. 4. 10	May 28

Credit instrument No. 32: This is the bill drawn by Rathbone Baxter & Co., Ltd., on the China Exchange Bank, Ltd., in London, because this method of finance was, at that time, cheaper than taking a cash advance from the China Exchange Bank, Ltd.

CREDIT INSTRUMENT NO. 32.—BANK'S ACCEPTANCE

BILL OR
NOTE
FOURTEEN
SHILLINGS
11 11 35



Due 24th April 1936
 Manchester 21st December 1935
 after date pay to the order of ourselves
 Twelve hundred and forty seven pounds four shillings and ten pence
 Sterling Value against LTD 1/40
 To the Chartered Bank Ltd. For and on behalf of
 London. Red Cross Bank Ltd.
 J. G. Smith Director.
 J. G. Smith Director.

Credit instrument No. 33 is the letter sending the bill (Credit instrument No. 32) for acceptance. It should be noted that in this letter Rathbone Baxter & Co., Ltd., undertake to give the China Exchange Bank, Ltd., enough money to meet the bill in case G. Townsend, Ltd., have not sent sufficient funds from Shanghai to pay the bill at due date. The understanding is that the bank is giving credit by lending its name, and that it is not to be called upon to find any cash.

CREDIT INSTRUMENT NO. 33.—PRESENTATION FOR
ACCEPTANCE

Rathbone House,
Whitworth Street,
MANCHESTER,
21st December 1935.

The China Exchange Bank Ltd.,
LONDON, E.C.2.

DEAR SIRs,

We have pleasure to hand you herein first and second of exchange to order ourselves at four months' sight

1 draft for £1327:4:10.

Attached to this draft is a complete set of B/Lading in duplicate, Marine and War Risk Policy in duplicate and relative invoice and copies covering goods sold and shipped to drawees as per particulars below.

Documents are only to be given up against payment of the bill.

Thereagainst we have today drawn upon your goodselves at four months' date 1 draft for a like amount and this draft we enclose for your kind acceptance and return.

We undertake to put you in funds to meet your acceptance at maturity should proceeds not have been received from Shanghai and at all times to keep you out of cash advance.

In settlement of your accepting commission we enclose our cheque for £6:12:9 of which kindly acknowledge receipt.

We are, dear Sirs,

Yours faithfully,

G T
123
LTD.
per ss. "Antenor".

For and on behalf of
RATHBONE BAXTER & CO. LTD.
E. GADSON, Director. (Signed).

Credit instrument No. 34: The cash for the above credit instrument was found by the London & Manchester Bank, Ltd., and Credit instrument No. 34 shows that the bank has discounted the bill at the rate of $1\frac{1}{4}\%$ per annum. (This is an abnormally low rate of discount, but discount rates during 1932-34 were lower than they had been for forty years.)

CREDIT INSTRUMENT NO. 34. DISCOUNT NOTE

LONDON & MANCHESTER BANK, LTD.									
BILL DEPARTMENT.					Manchester, 24 th December 1935.				
Bills discounted for Messrs. Rathbone Baxter & Co. Ltd.									
Amount		Due	Days	Rate	Discount		Drawee		
1327	4 10	April 24	122	1 $\frac{1}{4}$	5	10 11	China Exchange Bank Ltd		
£ 1327	4 10			£	5	10 11	Debited to a/c		
Specimen									
E. Mason pro. Manager.									

Credit instrument No. 35: is an application from G. Townsend, Ltd., to the China Exchange Bank, Ltd., asking for the Bill of Lading in order that they may obtain the goods from the ship, and store them in a neutral godown (warehouse) to the order of the bank.

CREDIT INSTRUMENT NO. 35

APPLICATION FOR BILL OF LADING

SHANGHAI, 15th February 1936.

The Manager,

CHINA EXCHANGE BANK, Ltd

SHANGHAI.

Dear Sir,

Kindly hand to us Bill of Lading relating to our acceptance as stated below. We hereby agree to land and store the goods in a neutral godown to your order and to send you Landing Account in due course.

We shall effect insurance and send you the Policy.

Yours faithfully,

C. TOWNSEND LTD.

Gordon Townsend
DIRECTOR.

ACCEPTANCE				BILL OF LADING	
Bank No	Amount	Due Date	Steamer	Wharf	Marks & Nos. of Packages
D/C No: 82/2386	£ 1327. 4. 10	May 28 36	S.S. "Antenor"	Pootung	G 123 T LTD 1/40.

Credit instrument No. 36 is similar to No. 35 except that in this case the goods are stored in the name of G. Townsend, Ltd., who undertake to hold them for the bank as trustees. As the bank has been instructed by Rathbone Baxter & Co., Ltd., only to hand the goods over against payment, the responsibility for handing them to G. Townsend, Ltd., without payment, rests with the bank.

CREDIT INSTRUMENT NO. 36

TRUST RECEIPT

(Hypothecated Shipping Documents)

Shanghai, 17 February, . 1936.

To the Manager,

CHINA EXCHANGE BANK LTD

SHANGHAI

Dear Sir,

In consideration of your handing to ~~us~~ Shipping Documents for goods, as per particulars at foot, hypothecated to the Bank as collateral security for the due payment of the undermentioned draft drawn upon ~~us~~ Messrs. Rathbone Duxter & Co. Ltd. and accepted by ~~us~~ ~~us~~ hereby engage to land, store and hold the said goods as Trustee for and on behalf of the Bank, and in the event of the goods or any portion thereof being sold and delivered before full payment of the said draft the proceeds of such sales shall be received by ~~us~~ as Trustee for the Bank, and paid to the Bank when and as received, ~~us~~ at the same time specially advising the Bank of the account on which such payment is made.

~~us~~ undertake not to sell any part of the goods on credit unless with your previous consent in writing.

~~us~~ also undertake to keep the goods fully insured against marine risks, and to hand over to the Bank all amounts received from the insurers, the benefit of insurance being in the meantime, held by ~~us~~ as Trustee for and on behalf of the Bank.

Yours faithfully, G. TOWNSEND LTD.

Gregory Townsend.
DIRECTOR.

PARTICULARS OF DRAFTS AND GOODS.

AB No	Amount of Bill			Due	Description of Goods	Vessel
12	£1327	4	10	May 28 1935	Cotton Shirtings	S.S. "Antenor" G. 123 LTD. 1/40

Credit instrument No. 37 shows the form that Mr. Chang signed when he obtained his overdraft from the modern Chinese bank against security which is mentioned on the back of the instrument. It empowers the bank to sell the security in case Mr. Chang should not pay back the loan on demand, and Mr. Chang obliges himself to keep the value of the security up to the original amount, and to find fresh security to make up the amount if it should decline in value.

III

SECURITY FOR OVERDRAFTS.

To the

CHINA EXCHANGE BANK, Ltd

I, Ghang, hereby acknowledge to have deposited with the CHINA EXCHANGE BANK, Ltd established at the port of Shanghai the property, goods, merchandise, documents and security for property or money mentioned on the other side, as security for the payment of all my joint or several indebtedness to the said Bank at any time and on whatsoever account and more especially for the payment of my overdraft with the said Bank to an amount not exceeding

\$ 20,000 (twenty thousand dollars)

and of interest thereon at the rate of 6 (six) per cent per annum and of the costs and charges of keeping the said property as a security or otherwise incurred in connection therewith and undertake to do all things which may at any time be required by the Bank for more effectually granting to and maintaining in the said Bank an effective pledge of the said property, and in case I should make default in paying the said overdraft or any other indebtedness to the said Bank on demand or at due date as the case may be, or in any other obligation by me hereby undertaken I hereby authorize and empower the said Bank to sell or otherwise dispose of the said property in such manner as it may think most advisable without any reference to me or consent on my part, and I further authorize the said Bank to reimburse itself for and pay out of the proceeds of the said property in the first place the costs, charges, and expenses of keeping and selling the property, or otherwise incurred in connection therewith, but so that the said Bank shall not be responsible, for any loss through or by any broker or auctioneer employed in the sale of the said property or in any other manner whatever in respect of the said property, and in the next place the amount of the said overdraft and the interest and charges thereon, and should any balance remain over the said Bank shall be entitled to place the amount of such balance against all or any sums or sum of money which may at the time of such sale be due or owing from or by me to the said Bank upon or in respect of any debt, advance, promissory note, bill of exchange, or other engagement, although it shall happen that such sums or sum of money shall not be due at the time of such sale and I further engage to pay on demand to the said Bank the balance (if any) of such overdraft or other debts remaining unsatisfied with interest and I further engage to execute deliver and do and do hereby appoint the said Bank and its Manager or other recognised officer at Shanghai my attorneys and attorney jointly and severally to execute deliver and do all such deeds document and acts as may be found necessary or expedient effectually to vest in the said Bank the said property and documents and to enable it to sell or transfer the same, and I further engage to keep up the value of the said security as mentioned on the other side to the full amount of dollars 20,000 (twenty thousand dollars) according to the market rate of the day either by payment of money or (at the option of the Manager or other recognised officer for the time being of the said Bank at Shanghai) by deposit of other property equivalent in value to the market deterioration of the undermentioned property and in the event of my failing so to do I hereby authorise the said Bank to sell at any time all or such portion of the said property as may be necessary for the full payment of my overdraft and other indebtedness (if any) with interest and charges as aforesaid, and to retain or pay out of the proceeds the amount of such overdraft indebtedness, interest and charges, and all further security added is to be subject to the foregoing stipulations, and I further agree and engage not to revoke or make void this or any other power of attorney or other authority which I have given or may give to the said Bank to enable it to sell and transfer the said property and documents, and I agree that the said Bank shall not be answerable or responsible for any damage or depreciation which any of my property may suffer while in its possession under this agreement.

Dated this twenty third day of May 1936

Ghang

Credit instrument No. 38 is the delivery order which Mr. Chang obtains from the China Exchange Bank, Ltd., when he has paid for the goods, and it authorizes the godown man (warehouse-keeper) to deliver the goods to Mr. Chang.

CREDIT INSTRUMENT NO. 38

CHINA EXCHANGE BANK. L^{td}**DELIVERY ORDER.**No. 12SHANGHAI, May 22nd 1936.GODOWN MAN OF: G. Townsend Ltd's Woosung WarehouseDELIVER TO: Chang or order

the under-mentioned goods charges thereon to be paid by the holder:—

MARKS & NUMBERS	NUMBER OF PACKAGES	DESCRIPTION OF GOOD.
 1/40	40	Cotton Shirts

CHINA EXCHANGE BANK L^{td}.

CHAPTER VI

THE EXPORT OF TEA FROM CHINA TO MANCHURIA. HOW TEA IS GROWN

BEFORE the Japanese invasion of Manchuria in 1931, the town of Mukden was the seat of government, where Chang Tso Lin, the Overlord of three Manchurian provinces, had his residence. Mukden in those days was the home of many wealthy Chinese who, like wealthy people the world over, were fond of luxurious food. Among other dishes they liked birds'-nest soup, sharks' fins, and bamboo shoots. Birds'-nest soup is a greater luxury in China than turtle soup is in this country. The soup is made of the nests of a kind of swift. The bird uses neither sticks nor twigs, but as the Chinese say, makes it "all out of its own head"; that is, by means of a gelatinous saliva. Birds'-nest soup is an acquired taste, and to a novice it seems something like badly made junket. The Chinese consider it strengthening and stimulating, and usually cook it with pigeons' eggs, a little ham, and sometimes with the addition of sugar candy. The young shoots of the bamboo are very tender and have a pleasant taste, rather like truffles. Sharks' fins are sun-dried, steamed, and eaten with crab and a little ham. They are neither shark nor fin, but the delicate portions of the swordfish, and they are imported into China

mainly from Nova Scotia. Birds'-nest soup is served at all important dinners given by the rich, but no wedding party is complete without sharks' fins. A wedding dinner of the rich will comprise perhaps forty-six courses, and that of the more humble folk about eighteen, but the bill of fare of both would contain sharks' fins.

These dishes have not been described because they are fantastic; if they appear so to us, it is merely because we are not familiar with them and do not ourselves eat them. There is nothing more peculiar in eating a bird's nest made from the saliva of a bird than in eating honey, the excretion of a bee's honey sac, and the Chinese might find it as strange to eat caviare or herrings' roes as we should to consume sharks' fins. The reason for mentioning these articles is because Mr. Hsu Chiang sold them to his rich customers in Mukden and sent an order for them to his friend Mr. Fu in Shanghai. But Mr. Hsu Chiang had also customers who were less wealthy, and as Chinese of all classes drink tea, he did a large business in that commodity, which he ordered from Mr. Fu at the same time.

Mr. Fu in his turn bought the tea from Mr. Li, who lived in Hankow. Tea is grown in various parts of China, but best of all on the hill-tops and mountain slopes; sometimes as high as 4000 feet; mostly in inaccessible districts and hundreds of miles from the Treaty Ports. The seed is sown in a nursery bed, and the seedlings, when ready, are transplanted. The tea is ready to be picked in five or six years from the time of planting, and when the tree has come

to maturity it yields four crops a year. The first crop, which yields the tenderest leaves, is harvested before the Tomb festival, that is, in the first week in April; the second picking takes place in the third or fourth week in that month, before the Grain Rain festival, and the tea from these two pickings is called Spring tea. After the beginning of the Summer festival, in the first week of May, the third picking takes place, and the fourth about one month later. These two crops are called Summer tea; the leaves being full-grown are somewhat astringent with a bitter taste, and this tea is mainly consumed by the poorer classes. Tea should be picked in the early morning or at dusk, otherwise the sun spoils the leaves. The highest plant does not exceed seven feet, and the picking is usually done by women and children who earn about the equivalent of fourpence per day. They earn more for the Spring than for the Summer tea, the work being harder, as, from the former only two or three leaves can be picked from each bud. Green and black tea are the same, varying only in the method of preparation, the green colour being obtained by twisting the leaves in a particular manner. In order to produce dark green tea, the leaves are rubbed by hand and dried by fire, and black tea is the result of rubbing them still further, treading them underfoot, steaming, and then drying them in the sun. Semi-fired green tea keeps better than black, and individual factories need not have such a high weekly output as the tea will not deteriorate while awaiting preparation. When the tea is sent away from the tea-

growing district, it has probably been incompletely prepared by the farmer, and the wholesale merchant in the town to which it is sent will see to the final preparation. Some authorities estimate that only about 20% of the tea produced in China is exported.

Mr. Hsu Chiang ordered Spring tea for his rich customers and Summer tea for his less wealthy clients, but he also ordered from Mr. Fu considerable quantities of brick tea. The production of brick tea is said to date back a thousand years. It is used by nomadic tribes in Inner Mongolia, where it is often bartered for spices, furs, wool, and medicinal herbs. It is carried into Mongolia by caravans on pack animals, and it is made into bricks to lessen the bulk and prevent damage by rain, as the journeys may last a couple of months.

China is a land of small peasant proprietors and the growing of tea is in the hands of a large number of small farmers. Except in very mountainous districts, where the soil and conditions are unsuitable for other crops, it is grown as a side line, just as in England a farmer might have a small orchard on his farm. The bushes receive very little care or cultivation. Some of the farmers who grow tea, rent their land, the rent equalling about 10% of the yield of the tea harvest, but many others are themselves the owners of their farms. The farmers sometimes obtain credit by mortgaging their land, and often the growing crop, to money-lenders at high rates of interest, but the modern Chinese banks in an endeavour to help the farmers, are now trying to set up co-operative loan societies. There also

exists a type of mutual loan association organized by the farmers themselves or other borrowers, and these are formed by anyone who wants to borrow money and can find twenty others to join him. All the members pay monthly contributions into a common fund, the whole of which they borrow in turn. The member who offers the highest rate of interest has the right to borrow for that month, but no member can obtain a loan twice until everyone has had his turn. The man who starts the loan association is entitled to the first loan and is absolved from paying any interest in view of the fact that he manages the association and keeps all the accounts. Mr. Dyer Ball has compared this system (although it is more complicated) with that of the "Clubs" which are formed in so many of the Lancashire factories.

When Mr. Li in Hankow wished to buy the tea from the farmers, he engaged the services of a *chahong*, who usually specializes in the tea of one or two districts. He acts as an intermediary between the farmer and the wholesale merchant, and when the farmers are short of cash they often obtain credit from these *chahongs*. The *chahong*, in visiting the farms to purchase the tea, takes with him strings of cash, each string being approximately a thousand copper coins, or nowadays more probably he takes silver dollars. In some districts farmers are becoming more accustomed to the notes issued by the Bank of China and will accept these instead of silver dollars. Sometimes the *chahong* obtains his funds from the nearest local centre

by means of drafts drawn on these centres, a system of remitting funds which has been in use among the Chinese for centuries. Very often tea is sold by a grower to a wholesaler at the beginning of the season without the price being fixed or any money changing hands. This happens when the parties cannot agree upon the market price, so the grower sells the tea at "Market Price" and the manufacture begins. The actual price may not be settled until several weeks later.

Mr. Li in Hankow was a member of a private partnership with a capital of 60,000 dollars. When he wanted credit, he obtained it from Mr. Fu, the Shanghai tea merchant, but on condition that he sold all his tea through Mr. Fu's Shanghai firm. If he did not wish to do this, he might go to a native bank and obtain an overdraft without security, for which he would have to pay about 12% per annum, or he might borrow from one of the new modern banks at about 6% per annum, but only against approved security as Mr. Chang did for his cotton goods.

When Mr. Li had prepared the tea, he sent it to Mr. Fu in Shanghai, who paid cash for it, less 2% discount, or, he might have asked Mr. Li to draw a Bill of Exchange on him payable after forty days.

When Mr. Fu shipped the tea to Mr. Hsu Chiang in Mukden, he took the Bill of Lading, Insurance Policy, and invoice to a modern Chinese bank as well as the Bill of Exchange drawn on Mr. Hsu Chiang, and obtained an advance from the bank in a similar manner to that obtained by Rathbone Baxter &

Co., Ltd., in Manchester when they shipped cotton cloth to G. Townsend, Ltd., in Shanghai.

The farmer and Mr. Li and Mr. Fu had now all received payment for their tea, but China had received nothing from Manchuria in exchange for the birds' nests, sharks' fins, bamboo shoots, black, green, and brick tea which had been sent to that country. China had really received in exchange for these commodities the cotton cloth which she obtained from Lancashire, and for which she gave the United Kingdom nothing in exchange.

Neither the United Kingdom nor America had as yet received anything in exchange for the commodities which they exported, and in order to see how they were ultimately paid, we must carry the transactions three stages further.

CHAPTER VII

THE PRODUCTION OF SOYA BEANS IN MANCHURIA, AND EXPORT TO DENMARK

CHINA is divided from Manchuria by the Great Wall, which is 2000 miles long and was commenced in 255 B.C. and lengthened and completed in 214 B.C. The object of the Wall was to keep out the hordes of Manchurian and Mongolian raiders but, in spite of this protection, the Manchus conquered China and ruled it from A.D. 1644 till 1912, when the Emperor was dethroned and China became a republic. In 1931 the Japanese invaded Manchuria and rechristened the country Manchoukuo. In 1934 the former ex-Emperor of China, sometimes known as Mr. Henry Pu, was crowned Emperor of Manchoukuo.

The country is rich in minerals and has a fertile soil, and one of the chief products, the soya bean, has become an important article of international trade. Soya beans account for more than one-third of the agricultural produce of Manchuria and over 70% of the crop is exported. More than one-half of the population depends directly or indirectly on the cultivation of this bean and the railway system of the country relies mainly on the freight earned by the transport of this commodity, while an export duty thereon has, in the past, furnished a considerable part of the national revenue. Of the

world's production of soya beans 80% is centred in China and Manchuria, but Manchuria is by far the largest exporting country of this bean, and in 1928-29, out of a total world production estimated at 353 million bushels, Manchuria produced 222 millions.

The soya bean is the shape and size of a pea and is grown in various colours—in Manchuria mainly yellow. The bean contains a large amount of oil which the Chinese have used for edible purposes for many centuries, but the export trade to Japan and Europe has arisen during the last thirty years. For hundreds of years the Chinese have also used the oil for lighting purposes, but in other countries it is employed in manufacturing soap, sauce, margarine, paint, and during the Great War it was also used for making glycerine. After the oil has been expressed, the residual bean-cake is used for cattle food and as a fertilizer. The soya bean has become a serious competitor to the cotton seed which we described in the first chapter, some of which was grown on Hezekiah Godbehere's farm, as the two commodities are used for many similar purposes. Cotton seed, however, is still the more important article, furnishing 30% of the world's consumption of vegetable oils, whereas the soya bean supplies only half this quantity.

The United States both grows and imports soya beans, but Manchuria also exports to Japan, England, Germany, Holland, and Denmark, and it is with the export to the latter country that this chapter will deal.

Contracts for the purchase of soya beans are usually made in July and August, long before the crop is harvested. The delivery of the beans by the farmer and merchants takes place in October to December when the mud on the roads is frozen, enabling the carts to make their way. Few of the farmers own their own land and they cannot, therefore, mortgage it, but like farmers all over the world, many of them are in the hands of the money-lenders. At one time it was customary to make advances to the farmer while his crop was growing, for the full amount of the beans which he had promised to deliver during October to December; this the Japanese call "buying the beans green on the field", but so many defaults took place on these contracts that advances are now rare, except perhaps to the extent of 6 to 8% of the value of the beans. One reason why these advances ceased was owing to extensive floods which occurred in Manchuria washing away nearly the whole of the crop before it had been warehoused, and thus entailing severe losses on the buyers who had made advances.

Since the new kingdom of Manchoukuo has been formed, efforts have been made to introduce one standard currency because the number of kinds of money which had been employed previously in the purchase and sale of beans enormously complicated these transactions. The "tiao" for which Manchurian peasants formerly sold their crop has practically become obsolete, but there still existed up to the time of the Japanese occupation, the local dollar, the gold yen, the silver yen, the Russian

chervonetz, and the pound sterling, all of which currencies were employed in the business, the rates of exchange constantly varying between them.

The farmers sell their beans to Chinese wholesale dealers who collect them from the farms and store them at the principal railway centres, or along the rivers in Manchuria. The wholesale dealer pays cash to the farmers and is refunded by the large exporting firms who, in turn, buy the beans from him and who pay for them as soon as they are received in the railway and river warehouses, which is usually a long time before the beans are shipped or before they are even forwarded to the port of shipment. Sometimes the exporter pays the wholesale dealer on his promise to hand over the warehouse receipt as soon as the beans are warehoused (the Credit instruments used would be similar to Nos. 8 and 10).

In former days, when advances were made to the farmers against the growing crop, the money was also found by the exporting firms, who obtained it either from their own head-office in Europe, or by drawing "anticipatory bills" on London and discounting them with the local bank. The arrangement made in these cases was that the exporting house drew a bill on a London bank or finance house, giving as collateral security the Bill of Lading for the shipment of the beans. The "anticipatory" bill was one drawn in anticipation of the time when the beans would be shipped and the Bill of Lading received by the exporter. In this case the exporter would undertake to the bank that he would hand the Bill of Lading over when the beans were loaded

on the vessel. The exporting house nowadays obtains the money to pay the wholesale merchants either from its head-office in Europe or from local banks in Manchuria, from whom it obtains credit against railway waybills or barge Bills of Lading, which later, when the beans are shipped, are exchanged for ocean Bills of Lading. These local banks in Manchuria are repaid out of the proceeds of the bill which the exporter draws on London when he ships the cargo, and which bill he sells in Manchuria. These bills, which are at three or four months' sight, are drawn against credits which have been opened by a London bank. (See Credit instruments 8 and 10, and 13-18 inclusive.)

Beans sold to Denmark are usually sold direct to the oil mills. Under the credit which the Danish oil mill opens with a London bank, the oil mill receives the beans on arrival, and is only obliged to reimburse the bank in time for it to pay its acceptance, that is, three or four months after the arrival in Denmark of the beans. The oil mill thus secures credit during the process of manufacture and will, in most cases, have received payment from the buyer of the oil and bean cakes before it has to pay the bank. The oil is sold to margarine factories, principally in Denmark, and the firms owning the factories in many cases really belong to the oil mills. The bean cake for cattle fodder is sold to provincial merchants on one or two months' credit, and the merchants in their turn sell it to the farmers on similar credit terms.

China exports more goods to Manchuria than it

receives from that country, and for the purposes of our argument we may assume that among the other commodities which formed the excess of exports, was the tea, etc., sent by Mr. Fu to Mr. Hsu Chiang, and that for this China received no commodities from Manchuria in payment; on the other hand, she had given no commodities in exchange for the cotton cloth which she received from the United Kingdom. Manchuria received nothing from Denmark in payment for the soya beans, for Denmark exports little or nothing to that country. Manchuria really received, in exchange for the soya beans, the tea and other commodities which it obtained from China. In order to see what Denmark gave in exchange for the soya beans and how the United Kingdom and America were ultimately paid for the cotton and cotton goods, we must carry the description of the transactions two stages further.

CHAPTER VIII

SHIPMENT OF BUTTER FROM DENMARK TO ENGLAND, AND OF PIGS' BRISTLES FROM CHINA TO AMERICA

WE have seen that bills were drawn upon London in payment of soya beans which were shipped to Denmark. In order to find the money, that is, the pounds sterling, to pay for the soya beans, Denmark had to send something to the United Kingdom which she could sell and thus procure the sterling with which to reimburse the banks upon whom the bills for the soya beans had been drawn. We are assuming that the "something" which Denmark sent was butter, and that it is this butter which the United Kingdom received as the real payment for the services which she had performed in manufacturing Hezekiah's cotton into cotton shirting for Mrs. Wu's husband.

Cotton comes from America, tea from China, and soya beans from Manchuria because, owing to climatic reasons, these countries are peculiarly suitable for the production of these commodities. What are the conditions which render Denmark particularly suitable for the production of butter? A short survey of the Danish agricultural economy will help us to answer this question.

Of the total area of Denmark, 76% is used for agriculture. There are over 200,000 farms, 65% of

which vary in size from $1\frac{1}{2}$ to 36 acres, and while the number of farms occupying 36 to 150 acres is under 30% of the 200,000, these farms cover more than half the total acreage occupied by farmers. Only 10% of this acreage consists of farms between 150 and 300 acres and under 9% are farms over 300 acres. Denmark is thus a country of small farms and this fact has had a widespread influence on Danish agricultural economy. There exist in Denmark laws prohibiting the conversion of small farms into large farms, and 90% of the farms are owned by the farmers themselves.

Denmark formerly was a grain-growing country, but when competition, about fifty years ago, became very acute and most countries imposed tariffs on the importation of grain, Denmark adopted a policy of free trade, and concentrated her energies on the raising of cattle instead of on the production of corn. To-day the most important branches of her agriculture are dairy-farming, the raising of pigs, and to a smaller extent, the production of eggs. The food value produced in Denmark in 1929 was over 50% greater than that of 1920. In order to provide winter feed for her cattle, she has largely increased her production of root crops. She imports grain and fodder, and uses also her own production of barley and oats (mixed together) for cattle food. Over 80% of the total yield of small and medium-sized farms is due to animal husbandry; and of the total production of grain, cattle consume four times the quantity of that consumed as human food or used for industrial purposes.

In 1929 Denmark produced over 5 million tons of milk; 115,000 tons were made into cheese, 15,000 tons into condensed milk for export, and about 400,000 tons were consumed by her own people; about $4\frac{1}{4}$ million tons were used for making butter, almost entirely for export, as the Danes themselves mostly eat margarine. Butter forms one-third of the total value of the whole of Danish exports, and of 159 million kilogrammes exported in 1929 Great Britain took 108 millions and Germany 43 millions. It takes 26·3 lb. of milk to make 1 lb. of butter. Most of the butter is carried in Danish ships, as is also a considerable quantity of the soya beans which come from Manchuria.

Denmark has always been a great cattle country. At present to every hundred of human beings in the country there are 86 head of cattle, of which 45 are dairy kine, and during the present century the number of cows has increased over 60% and in 1930 was 1,692,000; the yield of milk increased about one-third, the butter-fat content being 40%.

Agricultural labourers are engaged on half-yearly contracts and are paid only twice a year, but usually, if requested by the wage-earner, monthly advances are made to him. In 1927 the annual wage of men was £36 a year plus board and lodging, £31 for women over eighteen, and £24 for girls under eighteen, the working hours varying from eight hours from December to February, to ten hours from April to November.

Some writers emphasize the fact that the Danish agricultural population is much better educated

than similar classes in this country, but the success of agriculture in Denmark must be mainly attributed to the co-operative system. The Danish farms, both large and small, are now organized on a co-operative basis for the purchase of the requirements of the farms. Co-operative dairies exist for making the butter and other co-operative units for marketing it, and this system gives to the small and medium-sized farmer the same advantage as those normally enjoyed by the big farms. Modern dairies require such expensive plant that it does not pay even the largest farmers to make their own butter. The co-operative societies were formed on the initiative of the farmers without State assistance and without State propaganda. They are organized on a democratic basis; anybody can join, profits are divided in proportion to each member's turnover, but every member has an equal voice in the management irrespective of the size of his farm. The only help which the co-operative societies receive from the Government is a grant towards research work and the provision of remuneration for expert advisers. Of the farmers, 90% owning 86% of the cows are members of co-operative dairies, of which there are 1382 with a membership of 180,000 and a turnover of about £40,000,000.

Of the quantity of butter exported, 90% is made in co-operative dairies. There are 11 co-operative butter exporting societies of which the co-operative dairies are members. They handle about 40% of the export of butter. Of the remainder, about 30% is dealt with by private exporters and another 30%

is purchased by the British Co-operative Wholesale Society and the Maypole Dairy Co.

There are four large co-operative societies for the importation of feeding-stuffs and they deal with about one-third of the total quantity imported; their annual turnover being about £8,000,000. In 1916 there was formed a Danish Co-operative Manure Purchasing Society which, in 1928, had 1376 local branches, about 57,000 members, and a turnover of nearly £1,500,000, which was about 40% of the total importation of fertilizers. Seeds are also purchased and sold co-operatively.

The co-operative societies which we have so far described are all producers' societies, but there exist also consumers' co-operative societies whose chief business is the supplying of the household requirements of the farmers.

Co-operative societies in Denmark perform a useful function for their members by the collection of statistics which are circulated and help the farmers to keep their farms up to date. Workers in the co-operative dairies are highly trained; they have constant meetings for discussion and it is said that no one has ever kept an invention concealed from his colleagues, and "everything that experiment and science could do to help them on the way forward, has been taken into use".

Members bind themselves, usually for ten years, to deliver all the milk produced to the society. Farmers are paid for the milk by the co-operative dairies once a week according to the quality as ascertained after testing, and profits are divided half-

yearly or yearly, each farmer receiving in proportion to the amount of milk delivered. The farmers originally subscribed enough money to cover the societies' first outlays and all the members are jointly and severally responsible for the liabilities of their own co-operative dairy. Directly the butter is churned it is handed over to the co-operative marketing organization which pays the dairies every week for it, thus enabling the dairies to pay the farmers weekly. The co-operative marketing organizations when sending the butter to the United Kingdom draw ten-day drafts on the importers which they hand to their bankers, and thus obtain the funds enabling them to pay the dairies. When the butter arrives in England it is sold weekly to the shops on about one month's credit.

If the farmer buys his bean-cake from a merchant and not through a co-operative society, he probably receives one to two months' credit, while the co-operative societies which supply him with seeds, implements, and other necessities, sometimes give him credit and sometimes sell to him for cash.

The Danish farmer possibly does not require as much credit as farmers in other countries owing to the system of only paying wages half-yearly, but the mortgage system by which he obtains the credit which he needs, is more developed than in many other agricultural countries. Farmers in Denmark often have three mortgages on their farm. With one exception, the institutions which grant first mortgages are also co-operative. They are associations of farmers who require loans and who are jointly

and severally responsible for all money borrowed. This system enables the mortgage society to issue bonds bearing a low rate of interest, which in 1929 was not more than $4\frac{1}{2}\%$. When the farmer mortgages his farm, he receives these bonds in payment and can sell them on the open market, and before the Great War they were commonly saleable in France and England. On the first mortgage the farmer can obtain an advance of 50 to 60% of the value of his farm. The rate of interest charged in 1934 was $3\frac{1}{2}$ to $4\frac{1}{2}\%$; the second mortgage, which is for 20 to 30% of the value of the property, would be subject to $4\frac{1}{2}$ to 5% interest. This class of mortgage is granted by "Hypotheec" Societies, but sometimes also by private people. Third mortgages are practically always in the hands of private people and the money could be borrowed in 1934 at 5 to 6% per annum, the percentage advanced on the value of the property being a matter of individual arrangement. The mortgages only cover immovable property and in all cases a $\frac{1}{2}\%$ per annum is added to the interest payment as part payment of the capital amount.

In this chapter, we have carried the butter from Denmark to England, and we have assumed that it is this commodity which we received in exchange for the work done in manufacturing the cotton goods which we sent to China.

In order to complete our circle, we must still show what America received in exchange for the raw cotton which she sent to the United Kingdom, and we will further assume in our story that

America received pigs' bristles in exchange for her raw cotton, which bristles came from China to the United Kingdom and were transhipped thence to the United States.

Pigs' bristles are exported mainly from China and Russia. Chinese farmers are not celebrated for modern ideas on sanitation, and regard their pigs as scavengers; this may lead (unless care is taken) to transmission of disease, particularly anthrax, through the medium of the bristles. Sanitary provision is, however, taken against this danger: exporters treat the bristles before they are shipped, and, if the shipment is certified by the Port Health officers, it can be taken that the bristles are free from contagion. The best quality comes from Hankow, but in some parts of China special pigs are raised for their long hair, and Dr. W. H. Bolton, an authority on Chinese bristles, states that about 70% are under three inches in length and 30% over three inches, while practically the reverse is true of Russian bristles. The Chinese are a pork-eating nation and consequently will not allow their pigs to grow to full age for the purpose of obtaining longer bristles. Although the Russian bristle, then, has an advantage in length, it has the disadvantage that the bristles have mixed with them a percentage of wool, or soft hair which is objectionable and which is not to be found in Chinese bristles. Bristles similar to those which come from Russia are also exported from Manchuria, but are inferior in quality.

China produces annually about 100,000 piculs

(133 $\frac{1}{3}$ lb. equal a picul) of which two-thirds are exported. It is estimated that 90% are black in colour and come mainly from North China, but white bristles are produced in the south and south-western provinces.

Bristles are collected in winter when the hair is crisp, and the average Chinese hog produces half a pound of spinal, and a quarter of a pound of side bristles. Tientsin is the largest collecting centre and the total value exported is about one million taels annually.

Some of the large firms have their own purchasing agents in the interior towns, but buyers and peddlers also go about the country making purchases in small lots, often by payment in kind. When collected, the bristles are sorted according to length, colour, and quality, and are then tied in bundles, disinfected, and packed according to sizes in boxes of one picul nett. In this form they are exported to the United States, where they are mainly used for making paint-brushes.

Our circle is now complete.¹ We may imagine that some of the imported Chinese bristles, after being made into paint-brushes, found their way to the store in Hezekiah's home town and that Hezekiah, wanting to paint his barn, bought one of these paint-brushes which came into the country in payment of the B.A.Z. cotton which he had raised. If we stretch our imagination still a little further we can envisage a coincidence by which the bristles in Hezekiah's paint-brush are from a hog slaughtered

¹ See Appendix No. 2.

by little Mrs. Wu's husband, who, it will be remembered, was a pork butcher, and that the profit which he made by selling the bristles and the meat which this hog yielded, enabled Mrs. Wu to buy the poplin shirting which was manufactured from Hezekiah Godbehere's B.A.Z. cotton. In that case Mr. Wu's bristles would have paid America for the cotton in Mr. Wu's shirt!

CHAPTER IX

THE COMPLETE CHAIN---THE PART PLAYED BY BANK LOANS IN MARKETING COMMODITIES

WE have now seen how Hezekiah Godbehere and John B. Robinson were paid for their cotton out of the money borrowed by Levine from the local bank. We have also seen how John B. Robinson reimbursed the banks for seed and paid the instalment on his mortgage, and how Levine reimbursed the bank when he received payment of the bill which he had drawn on Silas J. Hocking, to whom he had sold the cotton. Silas J. Hocking, who sold the cotton to Birdhead & Co. in Liverpool, was reimbursed by the New Orleans & Overseas Bank, to whom he gave the bill against the cotton which he had drawn on the North-Western Bank, Ltd., in Liverpool.

Birdhead & Co. obtained the money to pay the North-Western Bank, Ltd., by selling the cotton to a spinner (The Diamond Spinning Co., Ltd.). This spinner might have borrowed money from his bank in order to pay Birdhead & Co., in which case he could have paid his bank back when he had sold his yarn to the manufacturer of the cloth. In his turn the manufacturer (the Blackburn Weaving Co., Ltd.) might have obtained the funds which he needed to pay the spinner by borrowing

from his bank, in which case he could have paid his bank back when he received payment from the merchant (Rathbone Baxter & Co., Ltd.) to whom he sold the cloth. Rathbone Baxter & Co., Ltd., might have borrowed money from their bank in order to pay the Blackburn Weaving Co., Ltd., in which case the former could have paid the bank back out of the proceeds of the bill drawn by them on G. Townsend, Ltd., in Shanghai, on which they received an advance from the China Exchange Bank, Ltd., to whom they gave the bill.

G. Townsend, Ltd., in Shanghai could have paid the China Exchange Bank, Ltd., in Shanghai out of the money received from Mr. Chang, who probably borrowed it from a native bank and paid it back out of the money received from Mr. Feng, who sold the cotton cloth to Mrs. Wu, who paid for it out of the profit which Mr. Wu made by selling pork.

Mr. Fu, the tea merchant, perhaps borrowed money from his native bank in order to pay Mr. Li in Hankow and enable the latter to pay the *chahongs* who paid the farmers. Mr. Fu would pay back his native bank out of the money which he received from the modern Chinese bank in Shanghai for the bill which he had drawn on Mr. Hsu Chiang in Mukden. The bank in Shanghai would send the bill to its branch in Mukden, and when the bill fell due Mr. Hsu Chiang could pay the amount to the bank in Mukden out of the money which he received from the sale of the tea.

In the same way, the soya-bean farmer might have been paid by the merchant out of the money which he borrowed from the exporting firm. The exporting firm could have borrowed money (on the railway receipts) from a Manchurian bank, which it perhaps paid back out of the proceeds of the bill which it drew on London against shipment of soya beans to Denmark, which bill it gave to a bank in Manchuria.

Again in a similar way all the people involved in the butter transaction in Denmark were paid in their turn, the farmer by the co-operative dairies, co-operative dairies by the co-operative marketing organization, and the latter either by exporting merchants or by bills drawn on foreign importers, for which the co-operative marketing organizations would receive cash from the Danish banks.

It thus becomes clear how, throughout these transactions, the people who supplied the commodities, and the internal local banks which supplied the money, were all paid. We still have, however, to describe the means by which the various overseas banks were reimbursed; for instance, the New Orleans & Overseas Bank, which paid Silas J. Hocking; the China Exchange Bank, Ltd., which found the money for Rathbone Baxter & Co., Ltd.; and so on throughout the chain of international dealings in the various commodities.

In order that we may understand the position, we must bear in mind that the United Kingdom bought cotton from America and butter from Den-

mark. She sold cotton goods to China, the value of which included the value of the cotton which she bought from America.

We will assume that the value of the cotton goods which Rathbone Baxter & Co., Ltd., sold to G. Townsend, Ltd., in Shanghai (and similar transactions between other firms) was £100,000, and that the cost of the cotton bought by Birdhead & Co. from Silas J. Hocking and manufactured into these goods was £50,000; the other £50,000 representing the value of the work which had been done in Lancashire and the cost of transporting the cotton goods to Shanghai.

Our next assumption is that in exchange for this £100,000 of cotton goods, Mr. Fu in Shanghai sold tea, birds' nests, sharks' fins, and bamboo shoots to Mr. Hsu Chiang in Mukden (and others) to the value of £50,000, and sent £50,000 worth of bristles to the United Kingdom and that the bristles were re-exported from the United Kingdom to America. Manchuria sent £50,000 worth of beans to Denmark, for which she drew bills against credits opened in London, on London banks. Finally Denmark sent £50,000 worth of butter to the United Kingdom and drew bills for that amount on London.

The position then was, that banks in the United Kingdom had to *pay* the following Bills of Exchange:

(a) For raw cotton, bills amounting to	£50,000
Drawn from America.	
(b) For soya beans, bills amounting to	50,000
Drawn from Manchuria (shipped to Denmark).	
(c) For butter, bills amounting to	50,000
Drawn from Denmark.	
(d) For bristles, bills amounting to	50,000
Drawn from China.	
	£200,000

The banks in the United Kingdom had to *receive*:

(e) From China for the value of cotton goods	£100,000
(f) From America for the value of bristles	50,000
(g) From Denmark for the value of soya beans	50,000
	£200,000

The United Kingdom had to receive £100,000 from China for the bills drawn against shipment of cotton goods, but China drew bills on London for £50,000 for bristles which ultimately went to America, so that Great Britain only had to receive the balance of £50,000. Shanghai might pay this £50,000 balance by sending London the bills for £50,000 which had been drawn on Manchuria for the tea, or more probably give the bills to a

European bank in China with its head-office or branch in London. This would be the same thing as telling Manchuria to pay to London the money which it owed to China, and this would cancel out (a) the £50,000 which Manchuria had drawn on London against the soya beans; (b) the debt owing by Manchuria to China; and (c) the transactions for cotton goods and bristles between the United Kingdom and China.

The United Kingdom owed Denmark £50,000 on the bills which had been drawn against the shipments of butter, but Denmark owed the United Kingdom £50,000 for the bills which had been drawn on London for the soya beans received by Denmark from Manchuria, so these two transactions cancelled out and the account was settled between Denmark and London.

England owed America £50,000 for the bills drawn for cotton shipped to Liverpool, and America owed England £50,000 for bristles imported into England and re-exported to the United States, so that these two transactions cancelled each other.

All the international banks concerned were thus paid. If the bill on America for bristles were held by the China Exchange Bank, Ltd., in London, all that would be necessary would be for the North-Western Bank, Ltd., in Liverpool, which had to pay the bill for the cotton, to pay the amount to the office of the China Exchange Bank, Ltd., in London (which had to receive £50,000 for the bills drawn on the New York bank against the shipment of bristles). To regulate the position in America,

the New Orleans & Overseas Bank, which had to receive £50,000 for the bills drawn for cotton, could be paid this sum by the bank in New York on which the bills for the bristles had been drawn. All the banks would thus have been paid and no money would have passed internationally. The result of all these transactions as far as the United Kingdom was concerned would have been that she received butter in exchange for the work she had done in manufacturing the cotton goods.

Of course in practice things do not always work out as exactly as this. There may still remain a balance owing when all transactions for the exchange of goods, and services for freight, insurance, bank commissions, interest on investments, and money spent by travellers, money remitted home by emigrants, film rights, and sale of such stocks and shares as are internationally marketable, have been set off against each other. If the debit balance has arisen through the importation of such things as railway materials or materials for harbours and docks, repayment will probably not be due except very gradually over a long series of years. The bills drawn against the materials for the railways and docks will of course have to be paid, but as far as the international banks are affected, these will be cancelled out by loans raised in the exporting country or other countries in order to find the means of building the railways and docks in the importing country.

It must not be supposed that an account of international transactions is drawn up at particular

times and the balance then settled; transactions are going on continually, and balances still owing (after all the items which we have enumerated have had their effect), are reflected in the rate of exchange ruling between the different countries. If at any time England owes more money to America than America owes to England on balance (that is after all possible cancelling out has been done), then there will be a demand for dollars on the part of the people who have to pay money in dollars, which, however, will not be offset by any corresponding demand for sterling from America. The increased demand for dollars will send up their value, we shall have to pay more pounds sterling for the dollars, or, in other words, the rate of exchange will be against us.

Any balance which is unsettled may remain owing until it is rectified by a change in the visible and/or invisible imports and exports. The maladjustment in the trade between any two countries will, by affecting the rates of exchange, act as a warning to bankers and others. Credit in the country which owes the balance, and whose exchange will fall, will become restricted, prices will fall and imports will be discouraged and exports encouraged not only of goods but also of those Stock Exchange securities which are dealt in internationally, and in this way the balance may be rectified. If it is not, it may be settled by the transfer of balances held abroad by the different banks. Central Banks and banks engaged in international trade hold balances in banks in foreign

countries in the currency of those foreign countries. If for instance we have a balance owing to France which is not settled by any of the aforesaid means, then it may be adjusted by our banks transferring to French banks, out of their balances held in Paris, as many francs as may be necessary to readjust matters. In the last resort, and if all these other means are exhausted, the balance will be settled (under Gold Standard conditions) by the transference of gold from the debtor country to the creditor country, but even in this case it need not be a physical transfer. If the balance is against England and in favour of France, gold need not actually be shipped from England to France, but it will suffice if gold belonging to the Bank of England is transferred or, as we say, "earmarked" for the Bank of France. Gold in this case would still remain in the vaults of the Bank of England, but the ownership would have passed from the Bank of England to the Bank of France, and the Bank of England would then merely hold it as a warehouse-keeper or agent for the Bank of France.

CHAPTER X

BORROWERS AND LENDERS

HAVING seen how all the banks were paid back for the credit which they gave, we may now enquire whence they obtained the money which they lent.

The amount of credit given by banks far exceeds the amount of capital owned by them. They are really only channels through which credit can be obtained, and the funds for providing this credit emanate from the savings of the people, including the undistributed profits of business concerns if invested outside the businesses. These savings are deposited with the banks and lent by them to the borrowers, or the savings are lent by the savers for a term of years in the form of mortgages, debentures, or bonds. Just as Employment Exchanges function as intermediaries between those seeking employment and those having employment to give, so the banks function as intermediaries between those seeking to borrow and those who are willing to lend.

Not all trade is carried on by means of credit, although a very large part is transacted by this method. If a customer buys a motor-car and pays cash for it, no credit is involved, but if the motor-car manufacturer sells him a motor-car on the understanding that he will pay for it after a lapse of time, then the motor-car is obtained on what is

called "trader's credit", and if the motor-car manufacturer's capital is sufficient to allow him to give his customers such credit, then no bank credit is involved in the transaction. But the motor-car when bought, although not yet paid for, belongs to the customer, and the motor-car manufacturer has no security for the debt owing to him. Most cars, however, are sold on the deferred-payment system. This is a different form of trader's credit, for the manufacturer owns the motor-car until it is paid for, or, in other words, he is really lending it, and it is only finally sold when all the instalments have been paid. In transactions of this nature in the motor and other trades, bank credit is also involved. The motor-car manufacturer insures with a company against the risk that his customer will not pay all the instalments, and gives this insurance policy to some bank or financial institution which advances him money, thus enabling him to deliver the car against deferred payments by his customers.

We may now turn to an examination of what it is that the lender actually lends and for what purposes it is borrowed.

What is it that the borrower desires to borrow? We have seen that all credit is obtained from the banks in exchange for credit instruments, warehouse receipts, Bills of Exchange, and similar documents, but while it is said that man cannot live by bread alone, it is equally true that he cannot live on bits of paper. Of what, then, does credit really consist? Let us look at the chain once more in order to see what it is that the people have borrowed. What is

actually borrowed is *purchasing power* which enables the borrowers to acquire the commodities which they need in order to produce, or to satisfy their wants. In a community in which money did not exist it would be the commodities themselves which would be borrowed, but in a modern community it is purchasing power which is borrowed, the borrower himself, by means of money, acquiring the commodities which he needs. John B. Robinson acquired his farm. Hezekiah Godbhere rented part of the farm from Robinson and acquired the cotton seed on credit. Levine, the f.o.b. man, bought cotton from Robinson with money advanced from his bank; virtually the bank lent the purchasing power to Levine, Levine acquired the cotton, and later some other bank again lent purchasing power to Silas J. Hocking in New Orleans in order that he might acquire the cotton from Levine, and still another bank lent purchasing power to Birdhead & Co. in Liverpool in order that they (Birdhead & Co.) might acquire the cotton from Silas J. Hocking. Throughout the transactions it was the actual bales of cotton which the purchasers desired to acquire on credit. The spinner who bought the cotton mortgaged his mill by a floating charge, that is, he really acquired his machinery, building, or possibly cotton and other commodities, by means of the purchasing power which he borrowed from the bank. The manufacturer who wove the cloth wanted yarn and obtained credit which was for the purpose of acquiring yarn, while the merchant borrowed purchasing power to enable him to

acquire the cloth and hold it during the period when it was being bleached, printed, and shipped to China; and the firms in China also acquired it by means of credit until little Mrs. Wu, who bought it on credit, finally paid for it out of her savings. The tea was acquired by somebody in China on credit until it was actually paid for by Mukden; the soya beans and the fertilizers for growing them were acquired on credit, while the Danes, in order to produce the butter, obtained fertilizers on credit from the co-operative societies, and purchasing power from the Mortgage Associations (which they used to acquire their farms), and finally the English shopkeeper acquired the Danish butter and remained indebted for it until he had sold it over the counter.

When purchasing power is borrowed, it is always in order to acquire commodities; that is, commodities in the widest sense including farms, factories, ships, railways, and the commodities which are necessary to maintain the labour used in producing goods. It is obvious then, that the limit of credit which is available at any time for new production is measured by the amount of purchasing power which people are able and willing to lend, and which other people are able and willing to borrow in order to acquire the commodities which they want. But the quantity which the borrower can acquire of these commodities at any given time is limited by the quantity of actual stock which the holders are able and willing to sell. On the one hand, the willingness of banks or other people to lend purchasing

power will not increase production unless there are borrowers able and willing to borrow it in order to acquire the commodities. On the other hand, an alteration in the amount of purchasing power which people are able and willing to lend and other people able and willing to borrow will (unless a corresponding alteration takes place in the amount of commodities which people are able and willing to sell and other people are able and willing to buy), only alter the price of the available stock of commodities, but cannot increase or decrease the actual stock available at any moment. An alteration in the available amount of purchasing power, however, may encourage or discourage future production, or it may increase or decrease the willingness of holders of stock to sell, and the willingness of buyers to buy.

It must be remembered that this is not a theoretical book on Capital and Credit, but a description of how credit actually enters into and is used in commercial transactions. Let us take an example. We will suppose the stock of American cotton existing in the world and available for sale on June 1st is 6 million bales. We will further suppose that this cotton has been bought by the present holders at a price of £10 a bale by means of purchasing power borrowed from the banks; that is, the holders have borrowed £60,000,000. We will assume that the demand for cotton on the part of cotton merchants and speculators increases. This will send the price up perhaps to £11 a bale, and as cotton is parted with by the original holders and passes into the

hands of the new buyers, they will require to borrow purchasing power at the rate of £11 a bale. The total amount of purchasing power required to be borrowed in order to hold the 6 million bales will be increased, while the stock of the actual cotton will remain the same until the next year when new cotton can be grown or until the present stock passes into actual consumption.

The rise in the price of cotton, made possible by the increase in purchasing power which has been lent, may induce farmers to grow more cotton in the next year, just as a fall in price might induce them to grow less. But the increased credit obtained to market the existing stock of cotton at £11 instead of £10 a bale does not increase the quantity of that stock, nor will it directly help any more cotton to be raised in the next crop. It will induce a cotton farmer to try to raise more cotton, but he will only succeed in doing this if he can find a lender able and willing to lend him the purchasing power which he will require in order to buy the necessary increased supply of seed and fertilizers. In the same way, if the farmer grows more cotton, having obtained the necessary increase in purchasing power, no more cotton yarn will be produced, if the spinners (possibly because their credit is bad and they have no more security to offer to the banks) are unable to borrow the increased purchasing power necessary to absorb the greater quantity of cotton.

During the cotton famine of 1864 there was plenty of cotton in America which the Americans were willing to sell and the Lancashire spinners

anxious to buy, but (owing to the blockade of the southern ports), although they were willing, they were not able to sell it because it could not be transported to Lancashire. There was, however, plenty of purchasing power which people were willing and able to lend, and others willing and able to borrow in order to acquire the cotton. The consequence of this was that the price of cotton soared to four or five times the pre-famine price, while the Lancashire mills were standing idle for lack of the raw material. We had an example of the reverse position in 1933 when again there was plenty of purchasing power available to be lent or to be borrowed in order to acquire the cotton, and large stocks of raw cotton which the holders were very anxious to sell. But Lancashire mills again stood idle, and the price of cotton fell to abnormal depths because the spinners, owing to the existing trade depression, were unwilling to borrow the purchasing power (even if they could), as they did not wish to acquire the cotton, fearing that they would be unable to sell the yarn at a profitable price.

We may now ask who lends the purchasing power used to acquire all these commodities? As a rule, obviously not the people who produce them. Hezekiah cannot afford to sell his cotton and wait for payment until the Lancashire spinner has bought it. The spinner cannot afford to sell his yarn on long credit; he already owes money to his bank for his mill and machinery. The farmers in China and in Manchuria cannot afford to sell the tea and the soya beans and wait for payment; they

are probably already in the hands of money-lenders.

The amount of money which the banks lend far exceeds their own capital. Somebody, or rather many people, save up money, and it is by means of these savings that Hezekiah's cotton is acquired by Levine. These people who save, do not themselves buy the cotton from Hezekiah and then lend it to Levine, but they deposit their savings in the banks and allow the banks to lend them to the Levines who wish to buy the cotton from the Hezekiahs. Although the banks lend their customers' money, they guarantee the savers the safety of their deposits and it is the banks which take the risk of lending the money to the borrowers.

If Hezekiah himself sells the cotton on credit, he can only do so if he has saved up enough other things (or enough money to purchase other things) to subsist until he receives payment for the cotton. He can only sell the cotton on credit if he has accumulated capital. When the banks lend money it is also capital, but the capital of someone else, which they are lending.

There may be at any given time, and there generally is at all times in some commodities, a stock of things which people are not willing to sell at that particular time because they think that by withholding the stocks from the buyers they will, at some future date, obtain a higher price for them. On the other hand, there are times when buyers are not prepared to buy the stocks, because they think that by withholding their purchase they will ac-

quire them later on at a cheaper price. There are also times when the banks and other lenders of purchasing power are not prepared to lend freely, either because they lack confidence in the ability of the borrowers to pay them back, or because they think that later on they will get a higher rate of interest for their money. Similarly, there are times when borrowers are not prepared to borrow, either because they lack the necessary confidence to undertake new enterprises or expand their present undertakings, or because they think that by delaying their borrowing, they will obtain the money later on at a lower rate of interest.

We have seen that the money which people are able and willing to lend affects the price of the stock of things which the borrowers are able and willing to acquire. If the money which is being lent at any given time is greater than the amount of money lent at some previous time and no alteration in the meantime has taken place in the stock of commodities available for selling, then the effect of the increased money credit is only to increase the price of these commodities but does not increase the existing stock. The reverse is equally true if the amount of money which people are willing to lend in relationship to the commodities has decreased instead of increased, and it is also true if an alteration has taken place in the amount of commodities available for sale, without a corresponding alteration in the money available for loans. But an alteration in the price of commodities may induce the holders to expedite or retard their sale, and consequently

their passing into the hands of people able and willing to use them, and in this way may affect future lending and production. On the other hand, an alteration in the price of commodities may have an effect in stimulating or retarding enterprise and thus increase or diminish the willingness of borrowers to borrow.

Realization of the fact that all credit is founded on somebody's savings should help us to understand why it is that in the chain of international transactions which we have described, America and the United Kingdom are the last of the countries involved to receive payment in commodities for the goods which they have exported. The reason is that the people of these two countries save a large amount annually, and it is they who either own a large part of the surplus stocks of the world, or own the means of purchasing them, and who are able and willing to lend these stocks to people in other countries. The stocks themselves may, of course, not be in the United Kingdom or America, but in other countries. The English people, for example, have invested a considerable amount of their savings in China in railways, docks, and similar undertakings, and on these savings receive interest. If they are willing to lend this interest to foreigners they may possibly deposit it with the China & Exchange Bank, Ltd., in Shanghai, which bank could, in its turn, lend it to Mr. Li, who could lend it to Mr. Fu in Hankow, who could lend it to the *chahong* who bought the tea from the Chinese farmer. Thus someone in the United Kingdom would

have given the credit necessary to buy the tea in China. It may happen, and it does, of course, happen very often, that the Englishman who is entitled to receive interest on his investment in a Chinese railway for instance, needs the money to spend in England and does not want to reinvest it in China, but as long as there are other Englishmen who have savings which they are willing to invest in China, the investment will still take place; the first Englishman will sell, directly or indirectly, the interest which he is entitled to receive in China to the other Englishman who is willing to lend it in China, the latter paying the amount to the former in England.

The United Kingdom is the country in which the technique of lending money abroad is most fully developed, and for this reason London is the greatest money market in the world. She has the longest experience and the best organization for foreign lending. It is only comparatively recently that America has become an important international lender, and during the nineteenth century she was indeed an international borrower. France and, to a lesser degree, Holland are also important lenders to foreigners, but this type of business is nowhere as fully developed as it is in England.

CHAPTER XI

THE BREAKING OF A LINK, AND ITS CONSEQUENCES

OUR chain is now complete. We have seen how the cotton brought from America has been exchanged for bristles imported from China into England, and exported thence to the United States. Lancashire exported cotton goods to China; part of the value of these goods represented the value of the raw cotton used in their manufacture, and we may consider that this part was exchanged for the bristles, and for the remainder (that is for the work done on the cotton), the United Kingdom received Danish butter. China gave in exchange for the cotton goods, partly bristles, exported to the United Kingdom and thence to the United States, and partly tea, birds' nests, sharks' fins, and bamboo shoots, which were exported to Manchuria. In exchange for these Manchuria sent soya beans to Denmark, and in payment for the soya beans Denmark sent butter to the United Kingdom.

We have mentioned a few of the people, firms, and banks involved in these transactions, but there were, of course, many people and business concerns indirectly involved; for instance, those concerned in making the agricultural implements used by the various farmers whose dealings in produce we have described. There were also the railways and ships,

which carried the produce, and all the people who helped in maintaining the railways, running the ships, and mining the coal which was used for these purposes.

It is apparent that in all these transactions many different interests were involved, and that many complex considerations might arise. The breaking of a link in our chain might cause dislocations having consequences, some of which it would be very difficult to foresee. The effect of these consequences might be so widespread that it is worth while describing some of the possible reactions which might result, in order that the reader may understand how dislocations in commerce and industry sometimes arise. We must remember, however, that all the time new chains of transactions are coming into existence which may minimise the consequences of the breaking of some links in the old.

We can classify the principal causes of the breaking of the chain under the following headings:

- (1) Failure, or alteration in consumptive demand.
- (2) Failure of production, or alteration in the nature of production.
- (3) Failure to release or acquire stocks of commodities.
- (4) Failure to lend or to borrow the money to finance the moving of stocks of commodities.
- (5) Government interference with the normal flow of trade through the imposition of tariffs, exchange restrictions, quotas, subsidies, and other hindrances to trade.

All these have one common feature; they all

cause dislocation in the exchange of commodities which results in dislocation in industry and commerce, and dislocation means unemployment for somebody. We will consider these causes in the order which we have mentioned them. First, failure or alteration in consumptive demand.

It will be remembered that little Mrs. Wu married a pork butcher who lives in Shan-si. We will assume that one year the province is inundated by terrible floods (which frequently occur in China). Crops are destroyed, people generally impoverished, demand reduced, and Mr. Wu's trade suffers equally with that of his neighbours. Consequently Mrs. Wu cannot afford to buy the "Nine Dragon Chop" of shirting for her husband's shirts, so that she decides to buy a lower quality, that is one which is cheaper in price. We may also assume, and the assumption is quite probable, that the motives which induce Mrs. Wu to economize induce, at the same time, thousands of other women who are accustomed to buy the "Nine Dragon Chop" or similar qualities, to satisfy themselves with cheaper cloths. If Mrs. Wu substitutes another English quality for the "Nine Dragon Chop", she may either choose a cloth which contains a smaller quantity of cotton, or she may choose one which is made from a cheaper quality of cotton. In the former case, the demand for Hezekiah's quality of cotton, the B.A.Z. mark, will decline and, in order to get rid of his crop, Hezekiah may be forced to lower his price somewhat. But if Mrs. Wu's new purchase is made from a different quality of cotton, then the demand for

the B.A.Z. mark for the purposes of the "Nine Dragon Chop" will be entirely lacking, and Hezekiah may have to lower his price considerably in order to sell all his cotton. This will reduce Hezekiah's income and Robinson's income; their general purchasing power will decline, and they will have greater difficulty than before in meeting the interest payments on the money which they have borrowed. The decline in Hezekiah's purchasing power will tend to cause a certain amount of unemployment among those people who have been manufacturing commodities, such as farming implements, clothing, and other necessities, to meet his requirements. If instead of the B.A.Z. mark other American cotton is used, the increased demand for such cotton will tend to increase the purchasing power of the growers thereof and stimulate their demand for the commodities which they require. But they may be different commodities, or those farms may be situated in a different State in America, and the improvement of the demand in that State will not prevent the dislocation and consequent unemployment in Hezekiah's State.

It is possible also that the new quality of shirting is not manufactured from American cotton at all, but perhaps from cotton grown in some other country, in which case prosperity in that country might be increased at the cost of unemployment in the United States. Let us suppose, however, that Mrs. Wu decides to buy a cloth which is manufactured in Japan and made half from American and half from Indian cotton. A different set of

reactions would arise. Imports of American and Indian cotton into Japan would increase, giving more employment to the ships that carried the cotton from India. On the other hand, as America would only be supplying half the amount of cotton to Japan for Mrs. Wu's shirts that she had supplied to England, the demand for ships carrying cotton from America would decline. Levine, the f.o.b. man, would have less business to handle; the American ginner, less cotton to gin; the railways, less cotton to carry; and the warehouses, less to warehouse; the loans demanded from the banks would decline; and Silas J. Hocking would lose part of his business. Hezekiah, not having been informed, however, by Mrs. Wu that she had ceased to buy shirts made from his cotton, would possibly think that the decline in the demand for his quality of cotton was purely temporary and, therefore, plant his usual quantity of seed for next season's crop instead of some other crop, and thus prolong the period of his loss of purchasing power. The cumulative effect of all this would be unemployment in America.

The Liverpool warehouses would have less cotton to warehouse; Birdhead & Co. would lose part of their business; the railways would carry less cotton to the Diamond Spinning Co., Ltd., in Oldham, who would have less cotton to spin and to send to the Blackburn Weaving Co., Ltd., in Blackburn, who in their turn would have less cloth to weave and to send by motor lorry to the bleachers in Droylsden, who would have less cloth to bleach. The

Manchester packers would have less goods to pack, causing a decline in the demand for paper, timber for cases,terne plates, and nails. Rathbone Baxter & Co., Ltd., would lose part of their business; the shipowners who carry goods from Birkenhead to Shanghai would lose part of their freight. All along the line unemployment would be caused in the United Kingdom because Mrs. Wu in Shanghai and her thousands of countrywomen had decided to buy Japanese cloth as it was cheaper than the English "Nine Dragon Chop".

The reactions would go further than this. Manchuria would still require tea from China, and Denmark soya beans from Manchuria, but Japan would now import something in exchange for her shirting cloth, and India something in exchange for her cotton. America, on the other hand, would only have to receive half the former amount of bristles because she had sent half of the amount of cotton to Japan which she formerly sent to the United Kingdom. Her diminished export of cotton would lessen the purchasing power of her people and she might find her demand for bristles reduced; if not, she would have to export some other article to replace the cotton or reduce other imports. The United Kingdom would have to receive nothing from China in exchange for the cotton goods which she had ceased to export, but she would still want Danish butter (perhaps in a somewhat reduced quantity owing to unemployment); she would have to find some new export to pay for the Danish butter, or reduce

some other import, or lend less money to foreign countries as she would have a smaller surplus.

In Japan and India the reverse would happen to that which would happen in the United Kingdom and America. There would tend to be more employment in the former countries; and greater employment would lead to a greater demand. For instance, Japan's increased prosperity might lead to a greater demand for wool from Australia with which to clothe her people, and in turn, Australia might buy perhaps more agricultural implements from the United Kingdom and improve the demand for labour in that industry, but the dislocation would still exist because the increased demand for labour in the agricultural implement industry would not absorb labour trained to spin yarn and weave cloth, which labour would consequently tend to remain unemployed. India having experienced a greater demand for her raw cotton, might increase her demand for machinery, Ford tractors, or for machinery from America, causing more employment in those trades but not helping Hezekiah, Robinson, Levine, the cotton ginneries, warehouses, and all others employed directly or indirectly in the export of cotton from America.

If Mrs. Wu decided to buy cotton cloth made in China from Chinese cotton, the same dislocation and loss of business would occur in the United Kingdom and America as if she had bought the cotton cloth in Japan. China, owing to the extension of her cotton industry, would want more

machinery. We should send her machinery instead of cotton cloth, and this would mean more employment for our mechanical engineers, but would not help the spinners and weavers who had been thrown out of work, except possibly to the slight extent that the increase in the machinery trade might stimulate employment in the home demand for cotton goods. China, on the other hand, might buy the machinery from Germany. The circle would then be widened and the dislocation extended, but in the end if Germany's exports increased, her imports would also increase.

The action of Mrs. Wu might set up changes in prices other than in the price of cotton cloth; for instance, the demand for Chinese cotton would be increased and for American cotton diminished, consequently the price of Chinese cotton would tend to rise and that of American cotton would tend to fall which, in its turn, might cause some goods formerly made of Chinese cotton now to be made from American cotton. If this took place to a sufficient extent, the equilibrium between the prices would, in time, be restored. Or again, if unemployment in the cotton trade in this country reduced the demand for Danish butter, it might increase the demand for margarine, causing a larger demand for the soya bean oil in order to make margarine, but a decreased demand for the by-product, namely, the bean-cake which is used to feed the cattle which give the milk which makes the butter.

Mrs. Wu's change (and all the other Mrs. Wus'

changes) in the purchase of the quality of shirt-making which she buys might also cause considerable financial disturbance because, if the dislocation in the United Kingdom and America led to unemployment and reduced the purchasing power of the people, that might (and probably would) affect the total value of goods imported into the United Kingdom and America, possibly from countries outside our chain. On the other hand, exports of cotton from America to us (that is our imports) and our cotton cloth exported to China would be reduced. If our imports were reduced, the amount of Bills of Exchange drawn on London would also be reduced, and the rate of exchange between the exporting countries and England would consequently be altered. America would have a less amount of bills to draw on us, which would affect the rate of exchange between America and England, and Manchester would have fewer bills to draw on Shanghai, which would affect the rate of exchange between England and China. In time, other forces operating would readjust the position, but in the meantime a certain amount of dislocation in the foreign exchanges might have been caused.

Mrs. Wu's action would also have an effect on the London Discount Market. As fewer bills would be drawn on London, there would be a smaller amount offering in the market for discount; discount brokers would, therefore, be more eager to acquire the bills and consequently would charge a lower rate of interest for discounting. (The rate of interest charged

for discounting a bill is the price which discount brokers charge for lending their money). It is not the purpose of this book to discuss all the repercussions of an alteration in the discount rate, but any reader interested in pursuing this further, should refer to a text-book on money.

So much for Mrs. Wu. Although we have described some of the reactions caused by the decline in her purchasing power, these are only the first ripples caused in the pond by the stone which she has thrown; the effects which result from her action continue in ever-widening circles.

We have now to consider the reactions set up by failure of production or alteration in the nature of production. What about our friend Hezekiah Godbehere?

Hezekiah might decide to plant maize instead of cotton. This might be due to the fact that the price of his cotton had fallen considerably and he hoped to make more money by growing maize; or his reason might be that the last crop of cotton suffered seriously from the ravages of the boll-weevil of which trouble he feared a recurrence. But—whatever his reason—by his failure to re-plant cotton he would cause various kinds of dislocation similar to those which we have described, although perhaps different people might suffer in different ways and in different countries. If other planters who produced the same quality of cotton as Hezekiah also curtailed their production, then the price of this particular quality of cotton would become dear relatively to the price of other qualities. Mrs.

Wu might consequently have to pay more for her "Nine Dragon Chop", and might decide to do so even if that necessitated the postponing of the purchase of the new silk jacket which she had promised herself for the coming New Year's festivals.

The demand for Chinese silk would then be reduced. The price of cocoons would fall to the detriment of the farmers who depend to some extent on sericulture, and unemployment would be caused in the silk filatures in Shanghai, until Mrs. Wu and all the other women who had had to abjure their new silk garments owing to rise in price of cotton cloth, had saved sufficient money to resume their purchases of silk goods. But a more serious reaction on the silk market might take place. Mrs. Wu, instead of foregoing her new coat, might buy one made of artificial silk. She might be so pleased with this that she would continue to buy artificial silk goods instead of real silk goods, and the demand for real silk would permanently decline while that for artificial silk would be increased.

Another reaction to Hezekiah's reduction of production would affect an entirely different trade. If less cotton were produced there would be a smaller supply of cotton seed. Cotton seed, relatively to other seeds used for oil pressing, would tend to become dear. In some cases soya beans might be used in place of the cotton seed; the demand for soya beans would increase, bringing prosperity to Manchuria and a greater demand (among other things) for sharks' fins for wedding feasts, thus stimulating the export from Newfoundland, whence

these delicacies emanate. On the other hand, the unforeseen demand for soya beans would tend to increase the price; the raw material for margarine would become dearer and the English shopkeeper would have to pay a higher price to the Danish producers. Higher prices might also be asked for bean-cake which is used as a fertilizer, and some farmers who had hesitated between the use of bean-cake and chemical manures might be induced to turn to the latter, and if they found them more satisfactory, adhere to that form of fertilizer and cause a permanently increased demand for the products of the chemical works in England, Germany, and other countries in which they are manufactured.

We have assumed that Hezekiah and many other cotton-growers turned over for the time being from cotton to maize. Perhaps the growers of maize in the Argentine might not know that this had occurred and would continue to plant their accustomed acreage of that cereal. This might lead to excessive world stocks of maize, the price of which, if lowered, would drag down with it the prices of competing feeding stuffs, reduce the purchasing power of the farmers, and consequently the demand for the manufactured goods of the industrial countries of the world. All these dislocations would, if sufficiently widespread, cause bad trade, losses, unemployment, business failures, and in the end create a feeling of want of confidence, with the consequent disinclination on the part of the producers, on the one hand, to undertake new enterprises, and on the other hand, on the part of people

who lend money, to encourage the undertaking of new enterprises.

This brings us to our third point, which is the failure to release or acquire stocks of commodities. Hezekiah and John B. Robinson, if they realised that the low prices which they received for the B.A.Z. cotton was due to an over-supply of their quality of cotton in the world, would be discouraged from planting and consequently would need less cotton seed than before. Robinson would still require, however, some fertilizers and some farm implements, but the man who had these in stock, knowing that Robinson had had continued severe losses over a series of years, might be disinclined to sell them to him on credit. Silas J. Hocking in New Orleans, and Birdhead & Co. in Liverpool, would be equally nervous, and would reduce to a minimum the amount of stock held by them and necessary to satisfy their customers' requirements; Silas J. Hocking, possibly because he was nervous of Birdhead's position, perhaps might not wish to ship him too much cotton, for which, after all, he would have to give credit by means of the ninety days bill which he would draw. Birdhead & Co., in their turn, might be uneasy about the position in Lancashire and consequently not wish to buy the cotton from Silas J. Hocking, even on credit, not desiring to be overloaded with stock which they might have difficulty in selling. If the lack of confidence continued for sufficiently long, then fewer warehouses would be required to store the diminished quantity of cotton, fewer ships to carry it, less machinery

to manufacture it; consequently new enterprise in the provision of these would be discouraged. As a result, the stocks of commodities available for use in such new enterprises would remain in the hands of their owners who would be afraid to release them, while producers would be unwilling to acquire them fearing that they could not be turned to a profitable use.

The same motive would underlie our fourth cause of dislocation, which is the failure to lend or to borrow the money necessary to finance the moving of stocks of commodities. Bankers, owing to the general lack of confidence, might become chary of lending the money necessary to enable the possession of stocks of commodities to pass from the owners into the hands of those whose ordinary business it is to buy them. The banks might be willing to afford the necessary financial facilities only to people whose soundness was beyond question. But those people would probably be of a very careful and conservative nature and not only would not want to borrow fresh money (because they would be frightened of undertaking new ventures), but might indeed actually pay back to the banks money which they had previously borrowed, and thus pile up uninvested savings in the hands of the banks. If the banks were frightened of lending money, they would ask a high rate of interest in order to deter borrowers from borrowing. As, however, the unused money continued to lie idle in the banks, their policy would gradually change, and they would become willing to take a very low rate

of interest to encourage sound borrowers to seize the opportunity of cheap money in order to start new enterprises. But this provision of cheap money might last a considerable time before the confidence of sound borrowers was restored.

The last of the causes of dislocation in our chain, namely: government interference with the normal flow of trade through the imposition of tariffs, exchange restrictions, quotas, and subsidies, is the most serious of them all. For, while all the other dislocations might right themselves within a comparatively short time, when restrictions on trade are once imposed by one country they tend to spread to many other countries, and it may take years before they are removed. Mrs. Wu might, as we have seen, have caused a reduction in the exports from some countries and a dislocation in the rate of exchange of their currency. Such countries would have an increasingly unfavourable balance of trade and in an endeavour to reduce it, might restrict imports by the imposition of tariffs and quotas, which restrictions their statesmen would advocate as a means of absorbing the labour which had become unemployed as a result of a reduction in the exports. Reduction of imports in one country means reduction of exports from some other country. This loss of exports may, in some countries, make it more difficult to obtain the foreign currency requisite to pay interest on loans which had been raised in other countries. This would lead the government of the borrowing country to impose exchange restrictions on operations which might otherwise

result in a still further depreciation of their rate of exchange. The imposition of tariffs, quotas, and exchange restrictions, in the various countries of the world might also lead to political repercussions, the discussion of which lie outside the scope of this book.

If Mrs. Wu knew what she had done, she would have been unable to sleep at night.

CHAPTER XII

CONCLUSION

WE have described in the previous chapter some of the consequences of a reduction in the production of Hezekiah's cotton or an alteration in the consumption of cotton goods by Mrs. Wu. We have used cotton as an illustration, because the production of cotton, and the manufacturing and distribution of cotton goods, covers a large field of industrial and commercial activity. Cotton illustrates the production and marketing of a raw material and it affords an example,—the greatest example—of America's export trade, while at the same time it shows how an important commodity is handled when entering the United Kingdom. It goes through many processes in the course of manufacture in Lancashire, and, owing to the horizontal structure of the industry, these processes are carried out by several different manufacturing units. It exemplifies the export of manufactured goods from one country, and the import of these goods into another, as well as demonstrating how this is carried out, and how the goods are marketed in the importing country from the time of entry until they are finally bought over the shop's counter by the consumer.

Perhaps another reason for choosing cotton is that the author is more conversant with this trade

than with any other; although he has handled commercially all the other commodities described in this book, with the exception of birds' nests, sharks' fins, and bamboo shoots, which he has only handled comestibly.

Cotton forms a useful illustration in another way, because the length of time elapsing from the planting of the seed until the consumption of the finished article is so great. The object of credit is to cover the period between production and consumption and the longer this period is, the longer is the time for which credit is required. The more complex and numerous the processes of production, manufacturing, and distribution are, the more complex are the kinds of credit required and the greater the variation in the types of credit instruments used. This fact is clearly demonstrated in this book because at least 90% of the credit instruments which have been reproduced appertain to the cotton industry, although most of them are equally applicable in aiding the movement of the other commodities described. Not only in America but in all civilized countries means are provided by which a farmer who is short of money owing to bad times, can obtain credit by mortgaging his farm and avoiding the necessity of selling it directly the bad times come upon him. In the same way in most agricultural countries, means are provided, if necessary, for supplying the farmer with seed and his other requirements in aid of production on credit until he is able to pay after having harvested his crop.

Methods of "hedging" in the cotton industry

have been described at length because in dealings in other kinds of produce "hedging" has also been created in order that risks may be minimized and the giving of credit facilitated. At one time banks regarded "hedging" as a type of speculation, but have now come to see that by this means their interests are safeguarded, and in many cases now will only grant credit if the produce is "hedged". In order to obtain credit when required, all owners of factories (not only cotton factories), issue debentures or pledge their fixed and often their floating assets. The custom of granting overdrafts to merchants exists in many other trades besides the cotton trade. The system by which Silas J. Hocking in New Orleans, obtained credit for the cotton which he shipped to Birdhead & Co. in Liverpool, by drawing Bills of Exchange on the latter firm and obtaining from banks advances against them in cash, is common to all international transactions in commodities.

Of course, the credit instruments which have been reproduced here are only samples. Each bank, each trade, each district, each State, and each country use credit instruments which, although similar in principle, vary in detail. We have mentioned in this book only a very few of the commodities which enter into international trade. His Majesty's Customs has scheduled over four thousand items of different commodities imported into this country, and the variety alone in types of raw cotton, in types of cotton yarn and cotton cloth, and the uses to which they are put, would run into many hundreds.

Quite apart from the commerce in imports and exports, there is a trade carried on which forms part of our invisible imports and exports. Our ships not only carry goods to and from this country, but also goods which neither reach nor leave our shores, but which are borne between different ports all over the world. The profit which is earned by British insurance companies in insuring them, and the profit earned by our banks and financial houses in financing them (for they are mostly carried on credit by means of bills on London), all form part of our invisible exports, and the fact that these boats are largely consuming English coal increases our exports of this commodity.

In order to exemplify the varied and widespread voyages of these boats, the actual itineraries of three tramp steamers, which may be taken as typical, are given in Appendix 1.

Only the credit necessary to move the raw cotton, the manufactured cotton shirting, the tea, soya beans, butter, and bristles has been described, but the production and distribution of these commodities involved the use of a great volume of other credit. Credit was required for mining the iron used in making the ploughs for all the Hezekiahs; credit was required by the chemical trades manufacturing the fertilizers, and the insecticide for killing the boll-weevil. Credit was required for obtaining the timber to build the railway trucks and for building the railways themselves, and credit to build the ships which carried the goods, and the warehouses which warehoused them, and for the

coal mines which produced the coal for the ships' bunkers. Credit was required for the sizing material for sizing the yarn, for the bleaching powder for bleaching the goods, for mining in the Straits Settlements and transporting the tin for the packing-cases in which the goods were packed, for felling the trees in Scandinavia, and for preparing the pulp from which the paper was made in which the goods were wrapped. Credit was required for mining and transporting the lead used in China for the lining of the tea-chests, and credit was also required for producing jute in Bengal in order to make and transport to Manchuria the gunnies in which the beans were packed, and so on *ad infinitum*, because all these things required other things to help in their production, and all those other things required the aid of credit in order that they could be produced and marketed.

Finally, it must be remembered that trade is not carried on between nations, but between individuals. Hezekiah Godbehere and little Mrs. Wu have been created merely as an illustration of millions of other Hezekiahs and Mrs. Wus in the world,—counting their children they number about two thousand millions—all of whom are busy exchanging commodities between themselves. It is this urge to exchange commodities, in order to satisfy human wants, that increases the wealth of the world, and it is only by using the world's savings in the form of credit that these commodities can be produced and exchanged.

APPENDIX No. 1

VOYAGE ITINERARIES

From Barry in May 1933 for Port Said with . *coals*.
 Thence Aden to Chittagong with . . *salt*.
 „ Burmah to Hamburg with . . *rice*.
 „ Danzig to Albany, U.S.A., with . *rye*.
 „ Cuba to Marseilles with . . *sugar*.
 „ North Pacific to Sydney, N.S.W., with *lumber*.
 Will load *grain* in South Australia for home.
 Due about June 1934.

Tyne/Trinidad, Port Royal, West Indies . *coal*
 then
 Galveston, Houston or New Orleans/Japan and
 China *via* Panama . . . *cotton*
 then
 Philippine Islands, Manila, Po. Ilo/Galveston,
 New Orleans, Baltimore, Philadelphia, New
 York or Boston *via* Panama . . . *sugar*
 then
 Newport News for *bunkers*
 Cuba, San Domingo, Jamaica, Trinidad or
 Barbados/Montreal . . . *sugar*
 Montreal/United Kingdom . . . *grain*

The following is a typical example of a tramp steamer,
 the voyage occupying a total of 435 days: The vessel loaded

a cargo of *coal* Dunston (Newcastle-on-Tyne) to Servola (Italy); she then proceeded in *ballast* to Casablanca (Morocco), and loaded a cargo of *phosphate* for Japan, proceeding *via* the Panama Canal. After discharging *phosphate* in Japan she proceeded to Ocean Island (one of the Gilbert Islands in the Pacific-British) in *ballast* and there loaded a cargo of *phosphate* which she discharged at Bunbury (W. Australia) and Freemantle (W. Australia). She then proceeded to New Caledonia in *ballast* and loaded at Paagoumene (New Caledonia in the Pacific-French) a part cargo of *nickel ore*, completing her loading at the Solomon and Fiji Islands (Pacific-British) with *copra*, which she discharged at Marseilles, Valencia (Spain) and, Passages (Spain), afterwards proceeding to New York to discharge the balance of her *nickel ore*. From New York she proceeded to St. John, N.B., in *ballast* and there loaded a cargo of *bulk grain*, discharging this at Oneglia (Italy), Genoa, Naples, and Milazzo (Sicily), proceeding thence to the Tyne in *ballast* for dry docking and overhaul.

APPENDIX No. 2

CHAIN OF TRANSACTIONS

Raw Cotton

Hezekiah Godbehere in Vicksburg, Miss., sent cotton to ginner: The Mississippi Ginning Company (for ginning).

From ginner to Hezekiah.

From Hezekiah to Marcus B. Levine in Vicksburg through John B. Robinson.

From Levine to Silas J. Hocking in New Orleans.

From Silas J. Hocking to Birdhead & Co. in Liverpool.

From Birdhead & Co. to the Diamond Spinning Co., Ltd., in Oldham (to be spun into yarn).

Cotton Yarn

From Diamond Spinning Co., Ltd., to the Blackburn Weaving Co., Ltd., Blackburn (to be woven into cloth).

Cotton Cloth "in the grey state"

From the Blackburn Weaving Co., Ltd., to Rathbone Baxter & Co., Ltd., in Manchester (for examination).

From Rathbone Baxter & Co., Ltd., to the Quicksilver Bleaching, Dyeing, & Finishing Co., Ltd., in Droylsden (for bleaching).

Cotton Cloth "in the bleached state"

From the Quicksilver Bleaching, Dyeing, & Finishing Co., Ltd., to Rathbone Baxter & Co., Ltd., in Manchester (for packing).

From Rathbone Baxter & Co., Ltd., to Birkenhead for shipment to G. Townsend, Ltd., in Shanghai.

From G. Townsend, Ltd., to Mr. Chang in Shanghai.

From Mr. Chang to Mr. Feng in Fuen-Choo (province of Shan-si).

From Mr. Feng to Mrs. Wu also in Fuen-Choo (to be made into shirts for Mr. Wu).

Tea

From Chinese farmer to the *chahong* (buyer's intermediary).

From *chahong* to Mr. Li in Hankow (for final preparation).

From Mr. Li to Mr. Fu in Shanghai.

From Mr. Fu to Mr. Hsu Chiang in Mukden, Manchuria (for sale to consumers).

Birds'-Nests and Bamboo Shoots

From Mr. Fu in Shanghai to Mr. Hsu Chiang in Mukden.

Sharks' Fins

From Newfoundland to Mr. Fu in Shanghai.

From Mr. Fu to Mr. Hsu Chiang in Mukden.

Soya Beans

From Manchurian farmer to wholesale merchant.

From wholesale merchant to railway warehouse or barge.

From railway warehouse or barge to exporter in Dairen.

From Dairen to oil mills in Copenhagen (for extraction of oil).

From oil mills in Copenhagen (as soya oil) to margarine factories.

From oil mills in Copenhagen (as soya bean-cake) to farmers as fodder for milch cows and other cattle.

Butter

Milk from cows to co-operative dairy (to be made into butter).

From co-operative dairies to co-operative marketing organization.

From co-operative marketing organization to Manchester butter importers.

From Manchester butter importers to shops in Lancashire (who sell the butter to cotton spinning, and weaving operatives).

Pigs' Bristles

From the backs of Mr. Wu's pigs in Fuen-Choo to Shanghai.

From Shanghai to London.

From London to New York.

From New York to Vicksburg (in the form of paint-brushes).

From Vicksburg to Hezekiah Godbehere (who used the brushes to paint his barn where he stored his cotton).

INDEX

- Agricultural Mortgage Act
 (United Kingdom), 17
 American crisis, 1929, 4
 Amortization table, 14
 Assets—
 fixed, 71, 73, 74, 178
 floating, 71, 178
 liquid, 73

 Balance of international pay-
 ments, 146, 147, 148
 Balance of trade, 34, 174
 Bamboo shoots, 117, 123, 143,
 160
 Bank order—
 Chinese native, 90, 91
 Bank rate, 86
 Banks—
 Chinese modern, 90, 91, 114,
 120, 122, 141
 Chinese native, 90, 91, 122,
 141
 Bills of Exchange—26-30, 41,
 46, 84-88, 91, 94, 96, 98, 100,
 106, 108, 110, 122, 130,
 141-146, 150, 168, 172, 178
 acceptance, 28-31, 41, 48, 49,
 84-88, 105
 anticipatory, 127
 endorsement of, 27, 41, 85
 on London, 127, 130, 142-
 145, 168, 179
 sight, 27, 84, 105, 128
 Bills of Lading—
 ocean-going, 26-30, 42, 61,
 84, 91, 96, 111, 122, 127,
 128
 railway (*see* Waybill)

 Birds'-nest soup, 117, 118, 123,
 143, 160
 Bonded warehouse, 88
 Boom—
 of 1907, 68
 of 1920, 68, 70
 Butter, 130, 132, 133, 135, 136,
 142, 144-146, 152, 160, 165-
 167, 179

 Cattle food, 6, 125, 128, 131
 Chahong, 121, 141, 158
 C.i.f., 60
 Collateral security, 17, 38, 73,
 127
 Commodities—
 stock of, 152, 153, 156, 157,
 161, 173
 Compressing company, 8
 Continuing security, 49, 80
 Co-operative—
 butter exporting societies,
 133
 consumers' societies, 134
 dairies, 133-135, 142
 loan societies, 120
 Manure Purchasing Society,
 134
 marketing organization, 133,
 135, 142
 mortgage societies, 135, 136,
 152
 producers' societies, 134, 152
 Wholesale Society, 134
 Cotton, 1, 5-8, 25-34, 36, 38,
 42, 46, 49, 50, 52, 54, 63-66,
 92, 129, 130, 136, 137, 139,
 140, 142, 143, 145, 146,

- 151, 153-156, 160, 165-167,
- 169, 170, 177, 178, 179
- "calling", 65
- cloth, or goods, 56, 59-63, 66,
- 72, 74, 75, 79, 83, 92, 123,
- 129, 130, 139, 140, 143-146,
- 151, 162, 163, 165-168, 170,
- 176, 178, 179
- "futures", 32, 33, 65, 66
- ginners, 5, 6, 164, 165
- "grey" cotton cloth, 62, 74
- linters, 6
- "Middling", 32, 64, 65
- sale contract, 24, 65, 66
- seed, 3-7, 33, 125, 140, 151,
- 154, 164, 170, 172, 177
- seed oil, 5, 6, 170
- Cotton famine, 1864, 154, 155
- Credit—
- bank, 26, 29, 30, 33, 41, 46,
- 71, 72, 74, 75, 83, 87, 89,
- 94, 108, 128, 135, 140-143,
- 149-151, 156, 173, 178
- complexity of, 178
- insurance, 150
- limit of, 152
- money, 157
- traders', 150
- Cropper, 1, 6, 92
- Daniel Defoe, 2
- Debentures, 68-70, 149, 178
- Deferred-payment system, 150
- Delivery order, 52, 54, 116
- Department of Agriculture's
- Credit Association (U.S.A.),
- 3
- Discount broker, 26, 28, 29, 40,
- 86, 87, 168, 169
- Discounting, 28, 48, 86, 87, 110,
- 127, 168, 169
- Drafts, 8, 9, 25, 28, 96, 122, 135
- Emergency Farm Mortgage Act
- (U.S.A.), 4
- Exporter's agent, 7
- Federal Land Bank, 12, 14
- Fertilizers, 3, 6, 33, 125, 134,
- 152, 154, 171, 172, 179
- Finishers, 75
- Floating charge, 70, 71, 73, 77,
- 151
- F.o.b. man, 151, 164
- Freight—
- ocean, 34, 61, 94, 146, 165
- railway, 8, 124
- Godown, 111
- Gold—
- carmarked, 148
- shipments of, 148
- Gold Standard, 148
- Half-and-half system, 3
- "Hedging", 32, 33, 65, 177, 178
- "Hypothec" Societies, 136
- Hypothecation, 94, 100
- Indenture, 17
- Investments and savings, 68,
- 146, 149, 156, 158, 159, 173
- Invisible—
- exports, 34, 92, 147, 179
- imports, 34, 92, 147, 179
- Invoice, 8, 28, 84, 122
- Irrevocable confirmed credit,
- 27, 46
- Land Bank Commissioner, 14
- Lien, 17, 36, 74, 79, 82
- Limited companies
- private, 67, 72
- public, 67
- Loan deposits, 68-71, 76
- Loans from local banks, 3, 7-9,
- 128, 140, 142
- Margarine, 125, 132, 167, 171
- Marine insurance policy, 26, 28,
- 44, 61, 84, 91, 96, 122
- Maypole Dairy Company, 134
- Merchant's take-up man, 6

Mortgage—
 bonds, 5, 136, 149
 chattel, 3, 17, 140
 farm, 4, 5, 7, 120, 136, 177
 Mutual loan associations, 121

National Farm Loan Association (U.S.A.), 4, 10, 12, 14

New Orleans Federal Compress and Warehouse Company, 36

New Orleans Public Cotton Warehouse, 25

Novation, 21

Oil mills, 128

Overdraft, 73-75, 90, 114, 122, 178

Partly paid-up shares, 69-71

Pigs' bristles, 137-139, 143-146, 160, 165, 179

"Points off" basis, 65

"Points on" basis, 64, 65

Production Credit Association (U.S.A.), 3, 7, 17, 20

Promissory note, 17, 20, 38, 40, 91

"Provision for Acceptances" account, 30

Purchasing power, 151-155, 157, 163-165, 168, 169

Rates of exchange—126, 127, 147, 168, 174, 175
 Chinese, 85, 96
 Chinese coppers, 57, 58

Scalper, 6

Sericulture, 170

Shark's fins, 117, 118, 123, 143, 160, 170

Silk—
 artificial, 170
 Chinese, 170
 Cocoons, 170
 filatures, 170

Sinking Fund, 14

Slaves, 1, 2

Slump—
 cotton, 1920, 70

Soya beans, 124-130, 132, 142-145, 152, 155, 160, 165, 170, 171, 179
 bean cake, 125, 128, 135, 167, 171
 oil, 125, 128, 167

Spinning mills, 67-69, 72, 155

Supply merchant, 6

Tare, 24

Tea—118-123, 129, 130, 141, 143, 152, 155, 160, 165, 179
 black, 119, 123
 brick, 120, 123
 green, 119, 123
 spring, 119, 120
 summer, 119

Trade, hindrances to, 161, 174, 175

Tramp steamers, 179

Trust receipt, 27, 50, 88

Turnover mills, 69, 70

Uncalled capital, 70, 71, 77

Unemployment and dislocation, 161-163, 165-167, 169-171

Waiver, 17

Warehouse receipt, 8, 22, 29, 30, 50, 88, 127, 150

Warehouse release, 8, 91

Waybill (railway bill of lading), 8, 9, 22, 27, 128

Weaving sheds, 72, 73

NEW WORKS ON ECONOMICS

THE GREAT DEPRESSION. By LIONEL ROBBINS, Professor of Economics in the University of London. *Second Impression.* 8s. 6d.

SOME RELATIONS BETWEEN POLITICAL AND ECONOMIC THEORY. By G. D. H. COLE. 4s. 6d.

STUDIES IN WORLD ECONOMICS. By G. D. H. COLE. 12s. 6d.

CREDIT AND INTERNATIONAL TRADE: How they Work in Practice. By BARNARD ELLINGER, C.B.E. With an Introduction by Sir CHARLES ADDIS, K.C.M.G. 7s. 6d.

THE EMPLOYMENT EXCHANGE SERVICE OF GREAT BRITAIN: An Outline of the Administration of Placing and Unemployment Insurance. By T. S. CHEGWIDDEN and G. MYRDDIN-EVANS. With a Foreword by the Rt. Hon. WINSTON S. CHURCHILL, C.H., M.P. 14s.

THEORIES OF THE TRADE CYCLE. By ALEC L. MACFIE, M.A., LL.B., Lecturer in Political Economy, University of Glasgow. 7s. 6d.

THE NEW AMERICA. By the Rt. Hon. Sir ARTHUR STEEL-MAITLAND, Bart., P.C., M.P. 10s. 6d.

FRANCE'S CRISIS. By Dr. PAUL EINZIG. 7s. 6d.

THE FUTURE OF GOLD. By Dr. PAUL EINZIG. 7s. 6d.

FREE BANKING: An Outline of a Policy of Individualism. By HENRY MEULEN.

AN INTRODUCTION TO THE STUDY OF PRICES. By Sir WALTER LAYTON. *A New Edition with Revisions and Additions* by GEOFFREY CROWTHER.

(All prices are net)

MACMILLAN AND CO. LTD., LONDON

WORKS ON ECONOMICS

THE THEORY OF UNEMPLOYMENT. By
Prof. A. C. PIGOU, M.A. 15s.

A TREATISE ON MONEY. By J. M. KEYNES,
C.B. Vol. I. The Pure Theory of Money. Vol. II.
The Applied Theory of Money. 15s. each.

A TRACT ON MONETARY REFORM. By
J. M. KEYNES, C.B. 7s. 6d.

THE NATIONAL INCOME, 1924-1931. By
COLIN CLARK, M.A. 8s. 6d.

CHRISTIANITY AND ECONOMICS. By
A. D. LINDSAY, LL.D. 5s.

THE ECONOMICS OF IMPERFECT COM-
PETITION. By JOAN ROBINSON, M.A. 18s.

CENTRAL BANKS : A Study of the Constitutions
of Banks of Issue, with an Analysis of Representative
Charters. By Sir C. H. KIRSCH, K.C.I.E., and W. A.
ELKIN. With a Foreword by the Rt. Hon. MONTAGU
C. NORMAN, D.S.O. Fourth edition (1932). 18s.

GREAT BRITAIN AND THE GOLD
STANDARD : A Study of the Present World
Depression. By Prof. H. F. FRASER, M.A. 8s. 6d.

THE THEORY OF WAGES. By J. R. HICKS,
M.A. 8s. 6d.

THE RATE OF INTEREST IN A PRO-
GRESSIVE STATE. By J. E. MEADE. 7s. 6d.

THE ECONOMIC LIFE OF SOVIET RUSSIA.
By Prof. C. B. HOOVER, Ph.D. 12s. 6d.

AN ECONOMIC HISTORY OF SOVIET
RUSSIA. By LANCELOT LAWTON. 2 vols. 25s.

(All prices are net)

MACMILLAN AND CO. LTD., LONDON

