THE CORN-TRADE

AND

OPTIONS-MARKETS,

CONSIDERED IN RELATION TO

SOCIAL ECONOMIC PROBLEMS.

BY

F. HAMMESFAHR.

LONDON, EFFINGHAM WILSON,
ROYAL EXCHANGE.

LEIPZIG, THEOD. THOMAS.

ANTWERP, O. FORST.

PARIS, GUILLAUMIN & CIE,
14, RUE RICHELIEU.

GUSTAV E. STECHERT,
NEW YORK.

1899.

CONTENTS.

INTRODUCTION.

One of the most important economic problems of the day is undoubtedly the solution of the question, whether or not Options in Cereals are advantageous or the contrary.

Are transactions in Options the cause of the depreciation of the price of Cereals, and of the unfavorable economic situation resulting therefrom; or do they form a necessary factor in the ordinary course of international trade?

Are they to be taken as indications of improvement in the trade, or does their influence tend to show that a false step has been taken?

Would their suppression be for the welfare of the public, or would such a proceeding be a danger, threatening the freedom of commercial life?

Gambling in Options and its consequences may, in my opinion, be considered as a small evil compared to one much greater, the cause of which is the so-called "legitimate" Options-business, which, if not abolished, will infallibly bring about the ruin of agriculture and of the corn-trade. It is by hundreds of millions that we can estimate the economic disasters which have been caused by this "legitimate" trade, during the very short time in which it has been in existence.

A long experience, acquired in the corn-trade, has led me little by little to this conclusion; and it is this experience which has imposed upon me the duty of doing my best, within the means at my command, to convince the world that all Options business should at once be condemned and driven from the markets.

In the many letters of approbation which have reached me, especially from persons competent to express themselves with authority on the subject, since the publication of my little work entitled "Options in Cereals," an opinion has been expressed that some of my observations were not made sufficiently clear. From another point of view, I myself have become convinced that my first publication was not wholly satisfactory in several respects. I have endeavored to correct its shortcomings in the present work, which I offer as an amended edition of the above-named little book; and I publish it in the hope that it will be successful in enlightening the public as to the struggle, now taking place all over the world, in favor of justice and of true economic freedom.

Antwerp, 1899.

THE AUTHOR.

CHAPTER I.

The difference existing between transactions in Cereals for future delivery and in Options.

By the term "Corn Market" is understood the place where buyers and sellers meet regularly for the transaction of business. If the meeting take place in a locality specially designated for this purpose, we call it indifferently Corn Market or Corn Exchange. The business done on these markets or Exchanges has reference to all transactions in corn, whether "spot", "shipment" or "future delivery." Business done for future delivery should not be confounded with the Options-trade. This latter is a special transaction, and has really nothing whatever to do with the corn-trade properly speaking. The places where Options transactions are carried on are known as "Options Markets." When the word "Exchange" is employed, without any special reference to the nature of the business done, it is understood that the "Options Markets" are meant.

One may divide the Options Markets for Cereals into three categories:

1st. Those of exporting countries.

These are exclusively the North-American Exchanges. For not one of the other Corn-exporting countries—that is, Russia, Roumania, Bulgaria, the East Indies, Argentine Republic, Chili or Australia—possesses an Options Market.

2d. Those of importing countries.

Only the Exchanges of Liverpool[1]), Amsterdam and

---

[1]) Several efforts have been made to introduce the Options trade into London, but hitherto without success. Will the efforts, which were renewed in October 1897, be successful?

Berlin[1]) (this last to the 31st of December 1896) are included within this category.

3d. The Options Markets of France and Austro-Hungary, **countries which, to-day, are considered neither as importing nor exporting countries, especially Paris, Vienna and Buda-Pesth.**

The four points following characterize the Options trade:

1st. The place stipulated for the execution of the contract must be a city holding an Options Exchange.

2d. The transaction must be concluded in Cereals known as "Options".[2])

3d. It must be concluded on the conditions determined for the Options trade.[3])

---

[1]) Besides Berlin, there were formerly important Options Markets in Germany, notably at Stettin, Cologne and Mannheim. The business has been discontinued for some time past, or at least has lost all its importance in the first two cities. In Mannheim, it was suppressed after some years of existence, by the corn-merchants of the town, under the plea that it was highly detrimental to the interests of the legitimate trade.

[2]) For greater facility, I will call "Options" the corn which is dealt in on the Options Exchanges, and "Cereals" that which is handled in all the markets of the world.

At New York and Chicago "Options Wheat" is No. 2 Red Winter or No. 1 Northern Spring Wheat, at the choice of the seller. If therefore a transaction be closed for any other kind of wheat, or for No. 2 Red Winter alone or for No. 1 Northern Spring alone, without giving the option to seller to supply the other quality, then it is not a transaction in "Options," but one in "Cereals." At Berlin "Options Wheat" is all wheat sound Red or White, no matter from what source of supply, at the option of the seller and that with a minimum of the natural weight. If, therefore, a buyer asks only for Red or only for White Wheat, or Wheat from a special source of supply; or, if in the contract, he stipulates for another natural weight, the transaction is at once carried out of the "Options" trade and is one in "Cereals."

All business done "as per sample" are transactions in "Cereals."

[3]) "Options" are tendered on all Exchanges in such a way

4th. There must be an official quotation on "Change" for such transactions.[1])

If one of these conditions fail, or if the buyer stipulate for the slightest change in the conditions of the Options trade, this is equivalent to declaring to the seller that the goods must be supplied, and the transaction is no longer in "Options" but one in "Cereals."

Thus, we may define as follows the real difference existing between the Options trade and that for Cereals:

The latter is practised on all the corn markets of the world, so long as they have a stock to get off or a demand to be supplied. It is accomplished under a tacit understanding that the goods sold shall be supplied and received.

On the other hand, the Options trade is only practiced on the Options markets, where a special regulation exempts buyer and seller from the restrictions caused by the supply and receipt of the goods; and this from the fact that the transaction is liquidated by simply paying differences. All Options business is consequently concluded under the tacit understanding, that the goods need neither be supplied nor received, so much so that in certain cases, the requirement to fulfil the engagements contracted is looked upon as even dishonest. (Corner and artificial depreciation.)

It is in this difference between Options trade and Cereals transactions where lies the key to the solution of

---

that the buyer ompelled to take delivery of the goods where the seller chooses. Any change in this condition, made by the buyer, and compelling the seller to deliver the goods in a place specially named, for example "f. o. b." or "free on rail," at once changes the transaction into one of "Cereals."

) There are official quotations only at the Options Exchanges, and only for "Options." In regard to the principal corn markets of the world, such as London, Hull, Antwerp, Hamburg, Bremen, Mannheim, Marseilles, Odessa, Rostoff, St. Petersburg, Braila, Buenos-Ayres, Bombay, Calcutta, Kurrachee etc., etc., there is neither an opening nor a closing quotation, nor in fact any "official" quotation.

the whole question; all the sad consequences attributed to the Options system have their origin in this difference.

This becomes evident if we examine separately the activity of those persons, who are engaged in the Options trade. We may range them into five categories:

1st. *The Speculator*, who buys or sells Options, in the hope of reselling or repurchasing with a profit.

2d. *The Owner of Elevators*, who buys and stores Cereals and sells Options against them in order to be able to recover warehouse charges and an interest on his capital.

3d. *The Arbitragist*, who buys Cereals for shipment or future delivery, and at the same time sells Options; or who buys Options and at the same time sells Cereals for future delivery.

4th. *The Corn Merchant*, who buys Cereals, thinking that he will be able to realize with a profit and who, when he thinks that he has made a mistake, sells Options in order to cover his risks, wholly or in part.

5th. *The Commission House*, which buys and sells Options for the account of a third party, and which only takes its commission.

Useless to add that an individual or a firm may at the same time combine any or all of these special functions.

CHAPTER II.

Speculations in Cereals and speculations in Options.

The speculator in Cereals buys Cereals in order to sell at a profit, or he sells Cereals for shipment or future delivery, in the hope of procuring them later on at a cheaper rate. The former is a speculator for the rise, or a "Bull"; the latter a speculator for the fall, or a "Bear."

The speculator for the rise either places the goods on arrival in warehouse (this is especially done in exporting countries), or he buys goods for shipment and endeavors, so long as they are afloat, to sell them at a profit. Speculation in this sense may be considered as equitable, for it is one which, when there are bad crops, foresees a demand, and is prepared to meet it.

But speculation for the fall has also its good side. Short sales are generally made when good harvests are expected, and although they might occasion a natural fall in prices, they avoid a sudden recoil, from the simple fact, that the goods sold must be delivered; the seller himself must procure them, and in this way he is keeping up prices.

In matters of speculation, excess is harmful, whether for the rise or for the fall; in fact, if owing to speculation for the rise, stocks accumulate beyond the demand, prices must decline; if the "Bears" have sold a larger quantity of Cereals than that which will be ultimately put on the market, they are forced to pay higher prices *as they are obliged to deliver.*

Speculation in Options is quite another thing!

It is an undeniable fact that the facility with which one can speculate on Change attracts many people, who would be careful not to approach the subject at all, if to buy or to sell necessitated the possession of capital, experience or labor. It is an undoubted fact that this mass of speculators increases the number of buyers at periods of a rise, and that of sellers at periods of a fall; and that, consequently, in the former case, prices rise still higher and in the latter, they have a greater fall than they would have, if there were no Options Exchanges. All these speculators without experience, whom I call *"bona fide speculators"*, buy and sell Options with one fixed intention, which is neither to take delivery nor supply the goods. This state of things is taken advantage of by other groups, who have experience in the matter, to-day by supplying goods which they know that nobody wants, in order to lower artificially the prices; and to-morrow by exacting the delivery of goods, a thing of which no one would have thought, in order to raise artificially the prices.

But an artificial rise of prices ("Corner") involves very great risks for the operator, because he must take up all the goods which the "Bears" are able to put on the market; whereas an artificial fall involves nearly no risk, since it is necessary simply to supply the Options sold. It necessarily results that an artificial rise is produced far more rarely than an artificial fall; in fact, practically it is the former kind of speculation which is the exception, whereas the latter is a *general rule;* I shall clearly demonstrate this further on.

The fact that it is generally considered as dishonest to corner or to depreciate artificially the Options market, must be particularly insisted upon, because there is nothing which more clearly characterizes the whole Options business.

It is considered as dishonest to exact the delivery of the goods purchased, but it is not considered as dishonest to sell large quantities of Options with the fixed intention never to supply them.

It is considered as dishonest to throw goods upon the

Options market in order to depreciate the prices and so the better to cover large preceding sales; but it is not considered as dishonest to buy Options with the fixed intention of never taking delivery.

The dishonesty is found, indeed, in the fact that both Options seller and buyer were acting in good faith, that neither had to supply or to take delivery; by the supply, or by the demand for delivery, buyers and sellers are, so to speak, taken by surprise.

There can be no surprises in the Cereals trade; Corners and artificial depreciations are only possible in the Options markets.

CHAPTER III.

Owners of Grain Elevators.

The owner of elevators buys Cereals and stores them; on the other hand he sells Options, in order to gain his warehouse charges.[1]) The difference in price, by which a distant Option is dearer than a near one, is called "Report." The elevator owner, therefore, in order to obtain his warehouse charges, must sell with a "Report" sufficient to cover these charges.

When, about the year 1876, the American Options Exchanges commenced their activity, the newly arrived speculators were nearly all of them Bulls; and as everybody wished to buy, "Reports" of wheat reached an average of 2 cents per bushel and per month, say about 24 cents per bushel per annum. As the warehouse charges only amounted to about 10 cents per bushel, there remained an interest of 14 per cent. on an average price of 100 cents for wheat.

The activity of elevator owners had its origin in the certain profits thus realized. Later on, the said owners had every interest to maintain "Reports" at the same level, since, in thus maintaining them, they assured for themselves the same profits in the future.

Did sufficient "Reports" not exist, they delivered the goods at the period fixed. *But as Options buyers do not, as a rule, wish for the goods, but only for differences,* they were forced to sell "at best," that is to say, at the price at which the elevator owner would be good enough to buy back his

[1]) For greater facility I shall call warehouse charges, the storage, loss in weight, interest on capital, insurance and eventual extra profit.

goods, or rather to let them remain in his warehouse. *In this manner, sufficient "Reports" were created, even when they did not previously exist.*

During ten years, the owners of grain elevators succeeded in maintaining the "Reports" at an average rate of 24 cents per annum; then they fell to 20 cents, in 1892 even to 10 cents; in 1893, they rose again to 16 cents and then again began to decline. The visible stock of wheat in the United States included, from 1876 to 1896, an average of 45 million bushels, of which each one, sold as "Options," has produced 400 cents in "Reports" during those twenty years, or a total of 180 million dollars. Deducting real expenses on the goods warehoused, say 200 cents per bushel, equal to 90 million dollars, then the interest at 5 per cent. on 36 million dollars (45 million bushels at the average price of 80 cents a bushel) equal to 36 million dollars, total 126 million dollars, there remains 54 million dollars as net profit realized, during these twenty years, by the elevator owners.

There would be nothing to say against this, if the work of the elevator owners had been productive; but such was not the case. The cost of warehousing and the profits have not been produced; they have been drawn from the pockets of the Bulls. These latter have consequently had to pay 180 million dollars, in order to allow the elevator owner to realize a profit of 54 millions. But, in fact, the loss of the Bulls was much more considerable, for these latter paid "Reports" not only on the goods warehoused, *but on their whole engagement in Options.*

An incontrovertible fact, and one which may be mathematically demonstrated is, that a speculator, who remained "short" incessantly during the period 1876—1896, would have realized 400 cents profit on every bushel of wheat (the quintuple in fact of its actual value). And that in "Reports" only, without taking into consideration the fall in prices, if he had never, to avoid a Corner, transferred his engagements later than the first day of the month stipulated for delivery. In the same way a Bull would have lost 400 cents in "Reports" during the same period. It is useleſs to pretend that any individual Bull would have had this p ·-ical experience; *but it cannot be doubted that Bulls, whole, did lose in these twenty years, 400 cents per bushel on their current engagement.*

Did the elevator owners themselves sell not only the stocks warehoused, but the double, the triple or ten ti the amount in Options, and that in order to correspondi increase their profits? This is a question which I cannot answer. But it is certain that their mode of doing bus ess has re-inforced the number of the Bears; on the o er hand is has weakened the Bulls and diminished t number.

In September 1896, the Bulls were forced to sell at Chicago, maize Options at 19½ cents per bushel (7 shillings the 480 lbs.) because the elevator owners would not give a higher price. When it was warehoused, in the sprin 1896, this maize cost 30 cents, or, adding the wareh charges on to the cost, 35 cents in September. The elevator owners who repurchased this maize at 19½ ce ts, could not easily have paid a higher price, since, in calculating on 25 cents, quotation for maize of the new op month of May, there would have remained to them a Report of only 5½ cents November to May.

From a commercial point of view, has a more ridiculous state of things ever been witnessed? Because maize new crop costs 25 cents seven months later on, it was necessary to lower the old crop to 19½ cents. No merchant whatever would get rid of his goods for such a motive!

The elevator owners have perhaps gained one or two cents on this maize, over actual warehouse charges, and for this the Bull had to lose 15½ cents, to the very serious prejudice of the producer. For the depreciation of goods, on any Options market, is not local only; it extends to every other market in the world, that which I shall more amply demonstrate further on.

The activity of the elevator owner has therefore a fourfold effect:

1st. It increases visible stocks, which fact, in itself ses a depression.

2d. It abuses the force, which these stocks possess, in causing artificial falls in order to create "Reports."

3d. It strengthens the Bears, while it weakens and ihilates the Bulls.

4th. It causes incalculable damage to agriculture by the depression in prices.

In presence of these facts, one may reasonably ask how it is possible that there are still Bulls in Options arkets. To this question I will reply that, in general, dealers who know the article well, only employ the Options markets in order to sell, whilst they leave purchases to those who know nothing about the matter. I shall have more to say under this head when I come to the pter of "Options markets considered as Insurance Institions."

Without Options markets, warehousing of grain would be effected for two motives only :

1st. When the holder of Cereals thinks that he can obtain a higher price later on: in this case, the warehousing is nothing else than a simple speculation for the rise. As this higher price has no existence, that is, it is only hoped for, no Bear can sell at this price, and thus use another man's warehousing for his own benefit. And, as in serious trade, the speculator for the rise and the holder of the goods is one and the same person, the goods which have cost 30 cents when stored, will never be thrown away at 19½ cents, when there is no other motive for so doing than the quotation of 25 cents for a period of delivery seven months later.

2d. When the holder of Cereals sells for future delivery and when he must wait until this term arrives. In this case, the goods are delivered at the term fixed, and the transaction is closed.

There is a third possible motive, viz., when the holder sells for future delivery, with a sufficient "Report," just the same as the elevator owner; in this case too, the transaction would be closed by the delivery of the goods. But this possibility must be taken as a very rare exception, for in the legitimate corn trade, there are no persons to be found who are so foolish as to pay such large "Reports." In the corn trade, speculating for the rise is possible without paying such high "Reports." It is sufficient to recollect the cargoes of sailing vessels from the East Indies, California and La Plata, which can be purchased for future shipment, and which, after being dispatched, are four or five months afloat.

CHAPTER IV.

The Arbitragist.

The Arbitragist buys Cereals for shipment from the producing countries, and at the same time sells Options: he later on sells the Cereals in the world's market and covers the Options. The former of these operations is called "Opening of arbitration," the latter "Liquidation of arbitration."

The opening of arbitration nearly always takes place under well defined rules, which are based on practical experience. Let us suppose that the margin of price between La Plata wheat on the world's market and the Options wheat in Berlin, be on an average 35 Marks[1]); if this difference become more considerable, the Arbitragist will take this circumstance as his point of departure in opening an arbitration. If one can buy a cargo of 1500 tons La Plata Wheat at 140 Marks on the world's market, whereas one pays 180 Marks for Options, the Arbitragist would buy the former and sell the latter, calculating that the margin of 40 Marks will fall to the level of 35 Marks before the arrival of the cargo. And in this case he sells the cargo and at the same time covers the Options, which leaves him a profit of 5 Marks a ton.

From this, it is seen that the proportion between the world's market's price and the Options price does not keep always the same pace, for otherwise it would be impossible to arbitrate. Options quotations generally precede those

---

[1]) Freight and charges from Hamburg to Berlin, including customs, are about 40 Marks per ton; whence arises the wide difference between quotations of Options wheat in Berlin and wheat in the world's market.

of the world's market, as much during the rise as during the fall; in the former case arbitration is opened, in the latter it is liquidated.

When has the Arbitragist the best chance of seeing such opportunities present themselves?

Arbitration can be opened only when the Options price advances more rapidly than that of the world's market; this especially happens during periods of a rise, when, as we have previously seen, a mass of Option speculators increases the number of buyers.

We must necessarily conclude that the liquidation of an arbitration especially happens at periods of depression, a fact which is abundantly proved by the following:

In an upward movement of the market, the cost price of Cereals, purchased by the Arbitragist, increases by the sum which he loses in Options. It becomes difficult for him to realize at this higher price, because he has to contend against the competition of the corn merchant, who loses nothing in Options, and who, in realizing the goods which he holds, is contented with a reasonable profit.

In a downward movement of tho market, the cost price of Cereals, bought by the Arbitragist, diminishes by as much as he gains on Options; he may sell the Cereals on the world's market at cost price, and even at a lower rate, and still realize a profit. The corn merchant who has not sold Options cannot struggle against the competition: it is impossible for him to prevent his neighbor from selling the Cereals at prices at which they never could have been bought![1])

---

[1]) Let us take, as an example, the cargo of La Plata Wheat which we have just mentioned. This was bought at 140 Marks, whereas Options were sold against it at 180 Marks. If the Options price rose to 200 Marks, that would mean a loss of 20 Marks on the Options sold; the Arbitragist consequently must sell the La Plata Wheat at 165 Marks in order to realize a profit of 5 Marks. This becomes impossible, because the merchant who has also bought at 140 Marks, but who loses nothing in Options, would be content to realize at a much lower price than 165 Marks.

Herein lies the explanation of two remarkable facts: Firstly, that Cereals, considering, of course, the cost of carriage, are almost always the cheaper, the nearer they are to the place of consumption; and secondly, that Cereals, even when the prices of the exporting countries do not pay, find their way towards Europe, attracted by the Options Exchanges, as if under the influence of a magnet.

Yet what happens when the expected diminution in the difference of prices does not show itself? Ought not one to liquidate arbitration with a loss? Evidently, unless one be in a position to cause this diminution artificially, if it do not happen of itself; and to effect this, as we have seen before, one has only to bring the goods to the Options market and deliver them against the Options sold.

We have seen that Options purchases, made by speculators, induce the Arbitragist to make purchases of Cereals in the exporting countries, and that Options sales by speculators have the effect of throwing the Cereals, purchased by the Arbitragist, on the world's market. Here then is the thread which connects the world's market with the Options Exchanges; here are the causes which clearly prove to us why the quotations of Options have so vast an influence on the corn trade. If only speculators and gamblers operated on the Options markets, the world's market would influence these latter, but would never be influenced by them. Even a glut of Cereals, on an Options Exchange, would not cause anything but local depression, just the same as when there is a glut on a place which is no Options market. As a matter of fact, about fifteen years ago, Options quotations exercised no influence whatever on the world's market, for it was only later on that the Arbitra-

---

If, on the other hand, Options fall from 180 to 160 Marks, this shows 20 Marks profit on the Options sold; according to this, the Arbitragist can sell the La Plata Wheat at 125 Marks, a thing which the merchant, who has paid 140 Marks, is not in a position to do.

gist, one of the most important outcomes of Options intelligence, sprang into existence.

It is the activity of the Arbitragist which causes the disastrous influence of the Options quotations throughout the world, in bringing to bear on the world's market the fluctuations of an Options Exchange, fluctuations which may be caused by gambling, manipulating, compulsory liquidations, or by any other local cause. The local fall in Options prices, whatever may be the cause, has the effect of liquidating arbitrations, and consequently the world's market is influenced by the Arbitragist's lower offers of Cereals. The local rise on an Options market, whatever may be the cause, gives to the Arbitragist the opportunity to open an arbitration, that is to say, of buying in exporting countries, at prices which are not based on the demand coming from real trade, but based on that from speculators.

This explains the fact that a rise in Options is immediately felt in the exporting countries, whereas the fall makes itself felt, first of all, in the importing countries.

In order to understand this influence, one must imagine the movement of Cereals as a river, the sources of which, springing up in the exporting countries, reunite in the Atlantic Ocean, and which separate at the mouth into several channels, carrying the grain to the countries where it is consumed. The orders relating to the destination of the goods are generally given, when the cargoes arrive at the place, where the river divides out (Channel for orders). They can then be directed towards a port of the United Kingdom, France, Belgium, Holland, Germany, and even to Denmark, Sweden and Norway.

As these cargoes are much liked for arbitration purposes, it is easily understood that, when offering them at a lower price, one must necessarily cause a depression on all places towards which they may be directed.

It is an erroneous idea to think that the work of the Arbitragist has any equalizing force, or that one may consider it as a kind of safety valve; for, when the Arbitragist, instead of purchasing Cereals and selling Options, does the opposite, the result is not the contrary.

If the Arbitragist buy Options and sell Cereals, he must always deliver the Cereals: in both cases, he takes them in the exporting countries to throw them on to the world's market. If after that, any one should speak of equalizing forces, it is because one confounds arbitrations in Cereals and in Options with similar dealings in public-stocks.

On the Stock Exchange, there is no world's market opposed to the Options market; there are no fictitious goods, no exporting or importing countries, neither production nor consumption. Arbitrations are carried on between Exchanges, and when one has too much arbitrated on one side, one rearbitrates next day as much on the other. If the bills or bonds have already been forwarded, they are returned by the post, which involves only the expense of the postage. Can arbitrations in Cereals and Options be compared to these Stock Exchange transactions? Can Cereals which have been arbitrated out of the exporting country, be ever rearbitrated in that country? May one consider as equalizing the working of the extraordinary organ, known as the Arbitragist, when the market is only glutted, but never relieved? May we venture to qualify as a safety valve, an organ that increases the excitement at a period of a frantic rise in Options by purchasing Cereals at irrational prices, and which produces a panic at periods of depression, by throwing on the world's market enormous quantities of Cereals in the same irrational way? *This line of conduct could only be called a safety valve in irony.*

The same as the elevator owner founds his existence on *Reports*, the Arbitragist founds his on the *faults* of the speculators who make their Options purchases *above*, and their Options sales *below* the level of the world's market. Both parties are compelled to manipulate, in order to assure themselves of their profit. Both cause losses a thousand times greater than their profits; *for the bona fide speculators pay not only the profits of the Arbitragist, but indeed the whole stupendous difference at which the Cereals of the Arbitragist are sold cheaper on the world's market than they cost originally.*

And this is not all: Every owner of merchandise, every producer, grain merchant, miller and baker is involved in the loss to the extent of about the same difference.

According to this, the action of the Arbitragist has a quadruple consequence:

1st. It attracts the Cereals of exporting countries to the world's market without regard to the demand and thus depreciates the value of the article.

2d. By this depreciation it causes an incalculable wrong to the corn trade and to agriculture.

3d. It occasions artificial depressions on the Options markets in order to be able to liquidate arbitrations with a profit.

4th. It thus strengthens the "Bears", while it enfeebles the "Bulls".

The object of the corn trade is to supply humanity with bread, by relieving the insufficiency of breadstuffs in one country by means of the superabundance in another. What is the motive of this action? The hope of realizing a profit! To attain this end the corn must be sold dearer than it has been bought, and this requires, besides a good knowledge of the merchandise and the consuming market, much commercial prudence in buying and selling.

It is impossible to deny, that the success of Option markets stands in direct correlation with the crisis which the commerce of Cereals undergoes. The grain merchant is the less able to carry on the combat successfully against this competition, as this one fights neither on the same basis nor with the same principles. The Arbitragist seeks and finds his profit elsewhere than in the rise of grain prices. He has no need to know the article; he buys "fair average" and sells Options or vice versa. The wants of the consuming market, the laws of demand and supply are indifferent to him; he does not even push commercial foresight so far as to consider the importance of his engagements. These words so often repeated at the *Bourse:* "It matters little about the quantity" have become the vital principle of commerce in Options! In the long run it becomes impossible for the grain merchant to stand this competition; for while all his efforts must confine themselves to selling dearer than he has bought, we have seen that the Arbitragist can in fact buy dearer and sell cheap.

From the economical standpoint, it is not difficult to see which of the two competitors has the sole right to exist. We need only reflect and ask ourselves, whence the Arbitragist derives his profit and who bears the loss resulting from his purchase of Cereals generally dearer than he sells them.

CHAPTER V.

The Corn Merchant who temporarily avails himself of the Options Market.

The Corn merchant, availing himself of the Options market, is distinguished from the Arbitragist inasmuch as he occasionally seeks on 'Change a cover against his purchases of Cereals, whereas the latter only opens an arbitration, when the necessary conditions for so doing present themselves.

His position is scarcely an enviable one. When he does not make use of the Options market, he is checked at every decline by the offers of the Arbitragists; and must realize, at a loss, the Cereals which he has bought in the exporting countries with the greatest commercial caution, even though they cannot be replaced at the original price.

On the other hand, if he operate on the Options market, still he cannot compete with the Arbitragist, because as a general rule, he does not reside in the place where the said Exchange is situated, and he is therefore not able to profit by the slightest fluctuation in prices. Moreover he has the disadvantage of paying a commission, since he must apply to a Commission-house in order to execute his orders on the Options market, a disadvantage from which the Arbitragist is freed.

When we consider the small profits which the merchant can thus realize, we easily understand, that it is natural, that he tries to increase his profits in another way. He hopes to attain this object by increasing his engagement: "It is the quantity which should yield the profit." He thus accustoms himself not to take into consideration the risk which he runs in buying large quantities, reckoning upon being able to cover himself eventually in Options.

We thus see clearly how this Options system induces also the merchant to bring on to the market larger quantities of Cereals than he would do without the Options Exchanges.

Do Options really afford cover to the merchant? If Cereals, when purchased, could be delivered on Options with a profit, or at least without a loss, then Options would afford the cover. But this is not even the case in arbitrating, and still less it is so in the merchant's cover, as he is obliged to pay a commission on Options sales, and moreover he is not in a position to choose the favorable moment either for the sale or for the repurchase. And, as the merchant only avails himself of Options in order to guard himself against a fall, the result is that he generally sells Options at the most unfavorable moment, especially during the same period of depression, by which the Arbitragist profits, in order to *repurchase his Options, that is to liquidate his arbitration.*

The corn merchant thus finds himself continually between two stools, and remains in this disagreeable position until the arrival of Cereals forces him to sell his goods and cover Options as well as possible, that which in most cases must lead to loss.

If the corn merchant could not take into account the possibility of being able to cover himself on 'Change, he would be forced to buy according to his means, and, from the outset would be unable to be too large a holder.

CHAPTER VI.

The Commission House.

The Commission-house buys and sells Options for the account of a third party and desires to earn commissions. In all important centres it has agents or representatives, whose duty it is to try and procure orders.

These agents seek to do business, not only with the producers of Cereals, the merchants and the millers, but also with all those who wish to speculate and who possess either credit or capital.

It is useless to attempt, in this little work, to describe the activity of some Commission-houses and that of their agents, and to examine certain phases of this particular trade, especially the action of giving and receiving *Privileges.* (*Once more, twice more* in Berlin, *single* and *double premiums* in Paris, *puts* and *calls* and *Stop-orders* in Chicago and New York.) It is sufficient to point out that they thus procure commissions for the house and customers for the Exchange, and that these forms of business have very often—and that in spite of human calculations—a most unexpected effect on prices.

One must not under-rate the importance of the customers brought to the Exchange by the Commission-house, customers whom I have called "bona fide speculators" in order to distinguish them from other groups, "who know how it is done," *for without the former the Options system could not exist.* To whom would the owner of warehouse sell or where would the Arbitragist find his counter-part, if the Commission-house did not continually supply the market with a crowd of orders, coming from the number of *outsiders,* which it always has at its heels?

CHAPTER VII.

Options Markets considered as Insurance Institutions.

Every holder of goods is affected by the fluctuations in prices to which Cereals are liable. They will gain if prices raise, and will lose if they fall. Of all the motives which are invoked by the partisans of the Options system in its defence, the most important is undoubtedly that which claims that the Options market is a kind of Insurance Company, inasmuch as it takes upon itself all risk in connection with the goods. The question therefore is well worth examining.

Every competent person knows perfectly well, that in many cases an Options sale, against a purchase of Cereals, is not good cover. I may mention, for instance, sales made on American Exchanges, or on those of Vienna and Buda-Pesth against purchases in Cereals afloat for European ports. These Cereals cannot serve as cover for the sales effected, because they cannot be consigned to the above named Exchanges. There is nothing in common, here, between the purchase and the sale; each transaction must be settled apart, and the merchant runs the risk of sustaining on the one hand a loss much greater than his profit on the other. The same thing happens in every case, where the quality of Cereals purchased does not correspond with the quality of the Options sold. All arbitrations made in Berlin between La Plata Wheat and Options must be placed within this category since La Plata Wheat is not deliverable at Berlin.

But even admitting that all cover is good, that does not, however, prove its utility. For one must consider not only the interest of the person who covers: one must also take into consideration the fate of him who runs the risk of the cover given, and we must examine the economic consequences of such transactions.

Who are the persons covering their risk on the Options market? In the first place, we have the elevator owner, who stores Cereals and *sells Options.* In the second place the Arbitragist, who buys Cereals and *sells Options;* and lastly the corn merchant, who occasionally *sells Options* to cover his engagements. In other words, all those who are in the trade, employ the Bourse as cover by *selling Options.*

Who are the buyers? Are they not those confiding outsiders, the *bona fide speculators* who take upon themselves the risk without pausing to reflect upon the consequences involved? They are venturesome, and can direct the prices, so long as there is only the question of buying, but who draw in their horns and fly from one month into another, as soon as the question of taking delivery arises.

Here then is indeed an excellent system of Insurance! And still one is astonished when he learns that prices cannot be maintained!

On 'Change, as soon as the number of sellers exceeds that of buyers, there is a fall, as in the contrary case, there is a rise. If the absurd assertion often made, that the action of buying compensates for that of selling, were true, prices would never vary, for every purchase is at the same time a sale. In every transaction which is concluded, a buyer is always found in the presence of a seller. But the name of buyer and seller is given, not only to those who have concluded a transaction, but also to those who have the desire to conclude one. It thus comes about that a single buyer finds himself in presence of ten sellers, who are competing one against the other (each wishing to sell); hence we have a fall; just as in the opposite case, there would be a rise. To avoid a fall in prices, there should be consequently, on the Options markets, as many Bulls as Bears. But besides the latter, there come into play the "*Specialists,*" as we will call henceforth the people whose business it is to deal in Cereals and cover themselves in Options. We may therefore conclude by posing the simple question: How many speculators for the rise must there be in excess of speculators for the fall, in order to be able to afford cover for Cereals, without lowering prices?

But every man, competent to speak on the subject, knows that when the Options trade commenced its activity, there were more Bulls than Bears, and that to-day the contrary is the case. The explanation is to be found in the fact that the Options system favors the Bears to the detriment of the Bulls. (Compare Chapter IV.)

But even when, on the Bourse, there were enough Bulls in order to allow covering the risk of Cereals harvested without lowering prices, one will not yet have created outlets for the goods attracted by the Options markets. For the Bulls in Options do not want to have the Cereals, they desire only differences. They only accept the risk temporarily, that is until the moment of delivery arrives. Then they draw back, either in liquidating their engagement, or in carrying it forward to a more distant period. But for the Options delivered, there must be found, at no matter what cost, some one in the trade, (elevator owner, merchant or miller) who, in incurring the risk, finds in it his profit. This explains why Bulls in Options, whatever may be their number or their strength, must always end up with a loss. The *bona fide speculator* buys on the off-chance, without any calculation; the man in trade, his seller, does not sell under the price which he has fixed to himself. At the liquidation, the same thing happens; the speculator must resell just as it turns out, of which the man in the trade naturally takes advantage.

It is generally thought that when the "Specialist" *buys Options* to cover himself against sales of Cereals or flour, the effect of these operations compensates for those of the *sale of Options* destined to serve as cover. When the Inquiry, organized by the Austrian Chamber of deputies on the 13th of January 1897, was held, Mr. Weil, the

Vice-President of the Vienna Bourse, trying to demonstrate the utility of the Options trade, furnished the following examples:

Suppose that a large firm of millers receives from England an important order for flour, for future delivery. The execution of the order only suits the miller in the event of his being able to cover himself with an equivalent quantity of wheat, for the expected profit is not sufficient to cover the risk of a fluctuation in prices. Again, suppose that it would be impossible for the miller to procure the wheat required. This might arise from several causes. The quality offered might not suit him, or he might not be able to purchase wheat on the spot, because his own granaries are already full, and storage elsewhere would too much increase the purchasing price. On the other hand, many people would only be too glad, to be able to sell just what the miller wants, but they do not make any offer within the time in which the miller desires to cover himself. If this latter do not wish to let slip the opportunity of selling his flour, he will in the meantime cover himself in Options. It is possible, that, in doing this, he has not at all the intention of taking delivery of the Options purchased, but does intend to realize and exchange them, when the opportunity shall present itself, against some other wheat which shall suit him better. In thus assuring for himself a fixed cost price, it is not absolutely necessary that the seller to the miller should be a speculator; he may be either a farmer or a merchant, having the quantity but not the quality required available, and who is also anxious to profit by the opportunity of assuring himself as to the price of his wheat.

Here is another example taken from common and daily experience.

In the month of May an exporter has the opportunity to sell for France, delivery September/October, wheat, the quality of which is carefully designated. As this wheat is still growing, it is absolutely impossible for the exporter to cover himself for the quality guaranteed to his buyer, as he is totally ignorant of the district which produces the required wheat. If the exporter wish to conclude the transaction on a solid basis, he is forced to do the same thing as the miller, that is, to purchase Options. His counterpart will then be the merchant to whom the farmer, on account of financial or other reasons, will have sold the crop long before it was harvested.

In order to form an exact idea of the value of the first example, one must ask onesself what would have happened had no Options market existed. The miller would have had to pay for the wheat on future delivery, either the same or a lower price than that of the purchased Options, or a higher price. It would be proved, in the two first cases, that an Options market is useless for carrying out such transactions; and, in the latter case, that the Options system exercises a depressing influence, because it enables the miller to sell in England flour at a lower price than that which he would ask, if he generally took, as a basis of calculation, the quotations of available wheat. It follows, herefrom, that Options *purchases*, serving as cover, do not compensate for the *sales* of the same nature; that rather they depress the market, just the same as Options sales. The miller who sells his flour in England, and who *buys* Options in exchange, acts, as a matter of fact like another miller who would forward to England flour unsold (in consignment) and who would *sell* Options against it. The whole difference lies in the fact that the former buys Options and resells them afterwards, whereas the other first sells Options and repurchases them later on. But both of them exploit the "bona fide" speculators, the former in profiting by a momentary depreciation in Options to buy them cheap, whereas the other profits by a rise in Options to sell them dear. This becomes more clear, if we take the example furnished in the chapter "The Arbitragist." If one can purchase a cargo of 1500 tons La Plata Wheat at 140 marks, when 180 marks is paid for Options in Berlin, one arbitrates by buying the cargo and selling the Options. One liquidates, if the difference between the two prices reach the average of 35 marks. But if the difference fall to 30 marks, one arbitrates in a contrary direction; one purchases 1500 tons Options and sells short 1500 tons La Plata Wheat. This second arbitration will be liquidated as soon as the average rises again to 35 marks. What now becomes of the compensation? There is now not only one cargo of wheat, but two, to be delivered on the world's market.

The belief that the Options market does enable the men of the trade to transact business among themselves, is hereby settled. As a matter of fact, the Options trade is impossible without the intervention of the "bona fide" speculator, who is fleeced now by the one side, now by the other.

It is the same thing in the second example supplied by the Vice-president of the Vienna Bourse; we pretend, however, that the transaction mentioned by him *never occurs in practice.* It is impossible to reconcile with the principles of serious business transactions, the guarantee of the quality of a growing crop, either in regard to the natural weight, or as per type sample, because no one is able to say whether or not such a quality will ever be harvested.

The selection of this example once more shows how rare it is in practice, to see Options *purchases* made as cover; and from this very fact we see that there can be no question of compensation.

Options sales, as cover, are a hundred times more numerous, simply because it is less dangerous and easier to sell "short" Options, which one will never be called upon to deliver, than to sell Cereals, which, when sold "short", must always be delivered.

If we examine the action of the so-called "legitimate" Options trade, putting aside purchases and sales made on the Bourse, one of which settles the other, there remain the purchases of Cereals made without any regard to the needs of consumption; whence the inundation of the consuming markets, and sales at ridiculous prices. The merchant who thus acts so imprudently and without principles, must pay, out of his own pocket, the loss which is the result. In the Options trade it is the "bona fide" speculator who has to bear the brunt. And the same as a merchant, without prudence or principle, not only wrongs himself, but his competitors also, so the Options trade does harm not only to the "bona fide" speculator, but to every holder of goods. It is in this manner that the system is a menace to the whole Corn-trade and to Agriculture.

The assertion that "Specialists", if they cannot cover themselves any more on the Options Exchange, are not able any longer to buy Cereals from the farmer, is absolutely true; but the time is come when it is necessary to make these "Specialists" and their absurd system disappear altogether from the trade.

For the risk inherent to the goods does not disappear on the Bourse, it falls upon shoulders too feeble to sustain such a burden. Here we see the cause of the terrible fall which Cereals have sustained since 1880, although the production has not increased as much as the consumption. How many honest farmers, how many competent merchants have been ruined by this enormous and continuous fall in prices?

When this Option trade, devoid of principles, absolutely unable to sustain the risk inherent to the goods shall have disappeared, we shall then find ourselves face to face with the question: Who henceforth will bear the risk? The reply is simplicity itself. Who is it that takes the risk in barley, potatoes, oil-seed, metals, coal, timber and any other kind of merchandise which exist on earth, to any trade in fact, in which the phantasmagoria known as Options is as yet unknown? Who is it that twenty years ago took the risk in wheat and rye, when the present cover system did not exist? Who is it, if it be not the owner of the goods? The risk of fluctuations in the price must be borne by those who alone are in a position to assume the responsibility; especially, and in the first place, by the producer, then by the merchant, the miller and the baker. For the producer, the risk of keeping the goods after the harvest, until the time when the needs of consumption forces buyers to purchase, is a small one in comparison with that, which he incurred from the period of sowing until the harvesting; moreover this risk is, with the producer, divided into a great many parts. The producer is thus clearly indicated as the one who should incur the risk, and for this reason it could once be said that the farmer was the largest speculator in Cereals. He did not sell except at a price which suited him. To day, thanks to the invention of Options, the farmer who finds prices too low for the sale of his Cereals, sells them nevertheless and buys Options in return, imagining that in this manner he still retains his stock. What blindness! He delivers his Cereals to the Arbitragist and to the Elevator Owners, who employ them for manipulating and causing artificial depression, and make use of them to glut the market and stifle the demand; this demand, which is indispensable to the farmer, in order to obtain a fair price for his new crop. And in the meantime, what happens to him, as Options buyer among the group of "bona fide" speculators? He is exploited by the other groups, and forced to realize at the end his Options at whatever price the Bourse chooses to dictate.

For the merchant and the miller, there is only one legitimate cover against the purchases which they effect, that is their sales made to their own customers. When they buy more than they sell, they have two things which must be taken into consideration, the needs of their customers and their own means. The greed of gain which may egg them on to buy more than their means permit, must be maintained by the risk inherent to the goods, and this risk thus becomes an economic necessity. The merchant, who does not wish to run this risk, must content himself with being a commission agent or a broker. But to play the part of a large merchant, to export Cereals, to import them, store them, in one word, to speculate in Cereals, and to let the risk be incurred and borne by incompetent persons, will inevitably only to bring about a catastrophe.

Just in the same way as the forests, situated on the mountain slopes, are designed by nature to arrest the waters, in order to allow them to find their way slowly to the plains beneath, in order properly to fertilize them, so in like manner, the risk has for object the holding back of Cereals with the producer, until the needs of the consumption begin to make themselves felt. If an inexperienced hand were to uproot the trees of the forest, the result would be that the plains would be flooded instead of being fertilized. In causing the risk to be borne by "bona fide" speculators, instead of leaving it on the shoulders of the producer, the Options system has uprooted the natural checks which maintained the Cereals; it is for this reason that we see that good crops, unreasonably thrown on the consuming markets, are a source of trouble to the farmer, rather than a source of profit.

CHAPTER VIII.

The prohibition of Options in Germany.

The execution of the German Exchange Law promulgated on June 24th, 1896, prohibiting the trade in Options from and after January 1st, 1897, has hitherto satisfied but few people, not even the adversaries of the system. If the agrarians desire that the government commissioner should, as far as possible, exercise a supervision over the Bourse, one has the right to ask what can be the use of this supervision? It is impossible, even to the most experienced merchant, to state whether a transaction, which has just been closed on the Bourse, is a contract in Cereals or a contract in Options, so far as by this latter is understood the mere differential business, or the professional exploitation of "bona fide" speculators. In fact, one cannot discover this exploitation in a single transaction, but only in a series of contracts concluded, in part on the Bourse, and in part outside of it. Besides, every one, be it knowingly or not, plays a part in this exploitation. The Commission-house, which buys for foreign customers, does not know the reason why the Arbitragist sells Options; this latter on his side, only looks to his own advantage, and will not stop to ask himself, where his Options buyers find their profit; the more so, when he finds himself dealing with a respectable Commission-house and not with speculators without experience. And when the Arbitragist cannot liquidate his arbitration otherwise than by throwing Options on the market, so as to lower the prices, no competent man, and the more so no government commissioner without practical experience will be able to prove that this transaction is an exploitation of "bona fide" speculators.

The closing by the police of the "Feenpalast" is a step to be regretted; it will be harmful rather than beneficial to the good cause. The efforts attempted in the whole world for the abolition of the Options system are in no way encouraged by the restrictions imposed on speculations of a few German merchants. Their apparent martyrdom will evidently force a crowd of incompetent persons to direct their sympathetic attention towards the Options trade. In reality, the closing of the Bourse is without importance and causes no prejudice whatever to any merchant in Cereals. He is neither stopped nor limited in his buying or selling operations for delivery;, any assertion to the contrary denotes a want of knowledge of anything connected with dealings in Cereals.

The need of official quotations is one of the weak points for which we are indebted to the Options system. During many years this Bourse has dictated the prices, not only to the farmer, but also to the merchant in Cereals; it has prevented every independent tendency; it has rendered impossible any sale at higher rates; its caprices and faults have been accepted as if they were fatalities. It is not astonishing that the freedom which has just been revived in trade and in agriculture, by the abolition of the official Berlin quotation, should at first go unrecognized. Have we not seen that slaves, when first granted their liberty, have begged to be allowed to take back their chains?

The pretention put forward by some professors of political economy, lacking practical experience, that the prices of Cereals are fixed by a kind of fatality, and that the Exchanges are a kind of commercial university, where the exact prices are calculated, cannot be upheld when subjected to serious examination. The price of Cereals, like that of all merchandise, results from the subjective ideas of an immense crowd of buyers, of sellers and of holders, each one of which considers only his own advantage. When events liable to provoke a rise or a fall occur, no one can calculate their importance, because these events have different effects on different individuals and therefore are incalculable.

Prices are influenced by human intelligence and by human stupidity, by firmness of character and by its weakness, by the force of capital and by bankruptcy, by confidence and by distrust, by hope and by fear, by truth and by falsehood, by frank and open dealing and by false and crafty manipulations. Every holder of Cereals, every buyer and seller, according to his own activity, influences the prices and has a right to this influence. Consequently the idea of creating a central place, the prices of which would have an action in a more or less extended sphere, is simply utopian. It is as impossible to satisfy this demand as it is unjust. Indeed, if certain people dictate prices, the right of all others becomes injured. Options quotations, especially on American Exchanges, constantly infringe on this right.

In order to keep the gambler informed, and make him decide to speculate, these quotations are sent out broadcast. Their influence on the world's market extends as far as the steppes of Siberia, and into the valleys of the Caucasus mountains; and the credulous worshippers bow respectfully before the oracle of their Fetish, a miserable puppet in the hands of American speculators who make it dance before the wondering eyes of the crowd. Even the merchant in Cereals who reflects, and who knows quite well that these oracles, far from spreading clearness and light, are only will-o'-the-wisps, destined to attract too confiding people, cannot escape from their influence, because he must deal with the stupidity of the crowd, accustomed to follow the impulse given. Of what avail is it to him to know that these quotations are false, when he cannot prevent them from compromising his own business? It is not astonishing that he feels himself bound by these miserable quotations, as a slave is bound by the chains, which at the same time, he fears, hates and curses!

Twenty years ago, when there were no Options markets, the merchant derived his information only by the offers of the sellers and the orders of his customers. When, owing to favorable crop prospects or from any cause whatever, the prices were lowered, it was neither the miller nor the baker, who was the first to be informed thereof: it was the dealer in Cereals; he had thus the time to rid himself of his merchandise, in handing it over to his customers, not only without loss, but even sometimes with a profit.

And the miller did the same thing as the merchant, and that as soon as he perceived a weakness on the market, consequent upon lower or more pressing offers. As to the baker, it never occured to him to sell bread at a low price, so long as he had dear flour in his granary. At the time each one could gain, because a downward movement was slowly preparing itself, because everybody was able to note the sign of the coming storm and could, in managing cleverly, reach a harbor of refuge. It was the same when an upward movement was taking place. Neither the baker nor the miller would have bought at a dear price, so long as either would have had a supply of goods bought at a cheap rate. As once upon a time were supply and demand, so now are the caprices of speculators on the Options markets, the Alpha and the Omega of the trade in Cereals.

To sell his corn with profit, the farmer must act like an experienced merchant. The fact that, without Options markets, he cannot sell when it pleases him, is absolutely exact, but he will sell with profit, if he waits until the need should make itself felt. After the suppression of the Options trade, as many Cereals as before will be used. If all the farmers in the world kept the Cereals harvested only during two weeks longer than is done at present, this measure would suffice to reduce visible stocks to a minimum, to maintain the demand and to bring the prices of Cereals to a level which could permit both producer and merchant to realize profits. Here is the point where the farmer should enforce his rights to the formation of prices, as owner and seller of his goods, and not with the naive desire to dictate from an Exchange, prices to other people. Certainly the farmer will not be able to emancipate himself from the world's market, but to submit blindly to an Option quotation, that is quite another question.

Of all the motives put forward in their defence by the partisans of Options, none seems to me to be so foolish as that which pretends that the Options system can work cheaper. They are singular defenders of economical liberty who do not admit that the commerce makes this more considerable profit! It is evident that, when the prices are higher, the bread of the consumer will be dearer. But notwithstanding all the sympathy we feel in regard to the poor man's bread, yet one cannot demand that Agriculture and the Corn trade should ruin themselves in order to supply bread at a cheaper rate. These philanthropists do not allow that in this world of ours, we all depend one upon the other; that the ruin of Agriculture and of trade would conduce inevitably to that of industry; and that bread, however low its price may be, would not be available for the food of the poor, if these latter had no money, wherewith to buy it.

We have to say to the ignorant people who talk about a flourishing trade in Cereals, ruined by the abolition of Options: Since the creation of Options Exchanges, there is no longer a flourishing trade in Cereals! The compilers of statistics may pretend that trade is prosperous, when the figures representing business are large; we think, however, that trade is only prosperous when it is able to realize profits. At present, according to the assertions made in the Free Trade Press, the Berlin bakers would be anxious because there is no more official quotations, "*of which dishonest millers might profit to obtain higher prices.*" Just think of it! Here we see bakers without official quotations! There they are forced in future to buy their flour like the boot-maker buys his leather, and the tailor buys his cloth, without any Options quotations and without central places. And dreadful as it may be to state, they are obliged to buy from millers, who act upon the immoral principle, the desire to realize profits! In truth, we ask ourselves if this Options mania, which has befooled the world for these last twenty years, is acting in a matter so absolutely bad, that half of the human race has thereby lost its little brain power.

In the civilized world we follow with interest the efforts attempted in Germany for the abolition of the Options trade. In fact, it is not only a question of the abolition of this trade in Germany, but of its suppression in the whole world. And even those who have recommended the nomination of a government commissioner, and the admission of farmers into the Administrative Committee of the Bourse, recognize, that this is not the way to attain this high aim. Even though the adversaries of Options must be very grateful to the German Exchange law, so far as it has paralyzed the Options trade in that country, nevertheless, in order to keep to the truth, we must add, that this result has only been obtained by pure accident. It is true that the law prohibits "The trade in Options for Cereals", but as nobody can know, whether an Options transaction concluded on 'Change, will not become a contract in Cereals, there is no way in which such transactions can be directly prohibited. And if the Berlin Champions of the Exchange had purely and simply conformed to this law, the speculators would all the more quickly have recovered from their panic, since the violation of the law is not even a punishable act, and consequently this innocent traffic in Options would be, in Germany, to-day, as flourishing as ever.

There is only one way of totally destroying the trade in Options throughout the whole world, without in the least degree injuring serious trade; this we shall explain in the next chapter.

CHAPTER IX.

The Abolition of the Options trade in the whole world.

If we compare the Options trade with the trade in Cereals for delivery, we find the distinctive characters mentioned in the first chapter of this book. But from a juridical point of view, these indications have no value whatever, because they raise the questions: What is an Options Market or an Exchange? What are the goods dealt as Options and what conditions determine Options contracts? And were one able to define these notions in the clearest manner possible, would not the Options trade be able to find new forms in order to continue business just the same as before? Supposing the law would define: "Each contract in Cereals on *sample* is a contract of Cereals", could not trade in Options establish a type sample and declare: "From this day, only merchandise which is not inferior to this sample will be dealt in, therefore our trade is no longer a trade in Options, and we can quietly continue to transact our business?"

When we consider the true difference that exists between trade in Options and trade in Cereals, we remark that the former offers as well to the buyer as to the seller, a very easy way of avoiding reception or delivery of the goods, — in fact more than nine tenths of contracts in Options are liquidated by the simple payment of the differences, between the price at which it is bought and the price at which it is sold, — while the serious trade of Cereals is carried on under the tacit understanding that the buyer shall receive and the seller shall deliver; in default of which they are responsible for the prejudice caused (and not only for the difference of price). And, when we consider that each Exchange was once a market of Cereals, pure and simple, which has only transformed itself into an Options market by the ever increasing participation of foreign speculators, we remark that the real difference between the serious trade in Cereals and the trade in Options consists in the fact, that in the former there are only competent men, and in the latter, there is a mixture of competent men and inexperienced gamblers.

In fact, the characteristic conditions of trade in Options have never had any other subject than that of attracting *bona fide speculators*, and it is only where these latter have swallowed the bait, that the trade in Options has blossomed forth, whereas in any place, where this object has not been attained, it has not been able even to take root. Berlin has paralyzed the Options trade, which once existed in Cologne, Stettin and Breslau, by attracting to itr lf all the customers of these latter. Many Cereals markets, jealous of the commissions that the large Exchanges gain, have tried to imitate them. But the name of "Exchange" and the introduction of the conditions, which characterize the Options trade cannot bring this about, so long as the speculators, who continually animate the market, by a host of orders for purchase and sale, are missing. (In this connection, we will only remind our readers of the fiasco of Mannheim and of that, more recently, of Rotterdam). But if this be the state of things, it follows that when one has found a means of driving away the *bona fide speculators*, the Options Exchanges will again become simple markets in Cereals.

To find out this means, we must ask ourselves, who are the men in the trade, who can have any interest in selling or buying Cereals for future delivery on a market, in order to deliver or receive them at the place itself, and that under the conditions in force for the contracts for future delivery. Every competent and sincere man could give but one answer: "Only the men engaged in the trade and residing on the spot!" In fact every contract made at an Options Exchange, for the account of a person not residing at the place in question, is a fictitious operation, the contracting party having taken the resolution, even before the conclusion of the contract, never to deliver or receive.

As we are able to easily determine the exceptions to this rule, so we could legally, without any difficulty, abolish the trade in Options, without in any way disturbing the serious trade in Cereals.

This law should be formulated about as follows :

A tax of . . . is imposed on all transactions in Cereals purely differential . . .*)

Are considered as transactions in Cereals purely differential : Every business in Cereals for future delivery, concluded in a place, either in the interior or abroad, for the account of persons or firms who have not their residence in that place, and that on condition, that the place in question be the place of execution of the contract, concerning the delivery and the payment of the merchandise.

Are not considered as transactions purely differential :

1st. Every business in which the contracting party proves that he has received the goods purchased, or that he has effected delivery of the goods sold.

2nd. All business contracted under one of the conditions following, viz : free on board the vessel of the buyer, free on wagon or truck, cost and freight (c. & f.), cost freight and insurance (cif).

3rd. Every contract giving a credit to the buyer or stipulating the payment against shipping documents.

4th. All business concluded on a place where there is no official quotation, nor any particular conditions relating to Cereals for future delivery.

The tax should be due on the liquidation of each dif-

---

*) A tax amounting to three per cent of the value of the goods, forming the subject of the contract, seems to me sufficient to act as an effective prohibition.

ferential transaction. For the differential transactions concluded on a market of the interior, the Commission-house, having its domicile on the market in question, should pay this tax and debit its customer therewith. For the differential transaction concluded on foreign markets, the tax should be paid by the intermediary agent, if the business has been contracted by an agent of the country, or by the contracting party, if the latter has dealt directly with the party abroad.

Such a law would permit dealers in Cereals of the same place to deal between themselves as much as they pleased. Because if, as a general rule, the merchants in Cereals sell on different conditions to those at which they have bought — that which indeed makes their activity productive — yet it happens that a contract passes from hand to hand, without any change of conditions, and it is certainly desirable in this sense that no fetters be imposed upon the trade. No Exchange in the whole world would be forced to change its rules. America could keep its Options and Margins, Liverpool its Produce Clearing House, Vienna and Buda-Pesth their "Usance Wheat".

Speculation itself would be protected rather than limited by this law, because to prevent the exploitation of speculators, is nothing else than protect speculation. If the foreign Bourses raise their prices, all those who would be able to send their goods there, and who would do so, should be able to sell there; but men incapable of transacting these operations, should abstain therefrom. And, were the prices on foreign Exchanges exceptionally low, all those who could use the goods and would receive them, should be allowed to purchase in these places. But if Europeans buy wheat in Chicago, in the hope that others will go there, to pull their chestnuts out of the fire, or sell wheat, in the hope that Providence will do the rest, it is not astonishing, that the art of exploiting foreign fools has taken a vigorous flight forwards.

The fact that speculators could continue to deal on the place of their residence, is of such insignificant importance that it would not prevent the decay of the Options trade. For if one reflects that on the Exchange of New York, there will only be New York speculators, at Liverpool only speculators of that city, the competent man cannot doubt the consequences. The element regularly exploited would disappear with the foreign speculators; the Options Exchanges would lose their disastrous influence on the world's market, and their importance would be reduced to the proper level, which is due to them, as sellers or buyers in the serious corn trade.

The Arbitragist would no longer see, as counterpart, the foreign speculator, but the customers of his district; hence all arbitration would become a solid commercial operation. If, for example, a merchant in Cereals of London, buys a cargo of La Plata wheat, and on the other hand, sells in London La Plata wheat for delivery; if he finds later on the chance to sell the cargo on the world's market, at a price higher than that, at which he can repurchase in London, he will, by doing so, effect a solid commercial operation, which cannot be hindered by any legislation whatever. And that not only because the cargo, if it be not sold on the world's market, can serve as a cover for the sales made in London, but rather because the wheat, sold in London, must be delivered, since the buyers are not gamblers but consumers. But, to sell Options in Vienna, in Buda-Pesth or in Chicago, and on the other hand, to buy a cargo of La Plata wheat, which can only be sold for the United Kingdom or for a port on the Continent between Bordeaux and Hamburgh, is neither solid nor serious. The prohibition of such foolish transactions can but act in favor of real trade.

Moreover, such a law, (especially if it be not limited to Cereals), would do away with the abuse made of the law concerning the gambling objection. At present, the transactions purely differential, and gambling, are on the same footing in nearly all countries, that is to say, they are legally ignored. Thus a speculator, losing on the Exchange, has only to declare, that he considered the transaction a gambling one, and his creditors find it impossible to take legal proceedings against him. Dishonest men can profit by this practice. For the same article, they could speculate for the rise on one Bourse, for the fall on another, and then pocket the profits realised, without paying the loss sustained.

CHAPTER X.

The Chief Cause of the Depreciation of Cereals.

The adversaries, as well as the partisans of the trade in Options, admit the principle, that prices could not be maintained without a sufficient speculation for the rise. In reality, speculation for the rise in nothing else, than the possession of the goods, and the maintenance of that possession. If we designate as A the quantity of Cereals existing in the whole world, and as B all the short sales, the Bulls evidently bear a risk on a quantity of Cereals equivalent to A plus B. If the Bulls will not run this risk any longer, and if other Bulls do not come forward to take it at the current price, the Cereals must infallibly fall in value.

But while we affirm that the risk inherent in the goods must be borne by men in the trade, the partisans of the Options trade adopt as their principle the idea, that those in the trade must cover their risk on 'Change.

All the risk of Cereals is first borne by the producer. We call speculating for the rise the action of assuming a part of that risk. The baker who lays in his stock of flour, the miller who buys a larger quantity of wheat, than he has flour sold, the merchant who buys more wheat than he has sold for delivery, all these speculate for the rise. Every fresh risk, that the merchant takes upon himself, lightens by so much that of the producer, the miller's purchases relieve the merchant, and thus the risk is absorbed little by little by the consumption. This speculation in Cereals is an economical necessity, it is that what keeps up prices, and that which maintains the struggle for their rise. The speculator in Cereals for the fall also works in the same sense, because his buyer accepts with the purchase a part of the future risk, whereas the seller, *who must deliver the*

Cereals, discharges the producer at the moment when they are to be covered.

The speculator in Options for the rise only assumes the risk in an apparent manner, because generally, we might say always, the dealer in Options does not wish to have the goods. The speculator in Options for the fall does not relieve any producer, because in nearly all cases, the seller in Options does not deliver.

But, if this be true, is it permitted to use Options Exchanges as cover?

Must not the mere placing of the risk exercise an alarming pressure on the price of Options?

Must not the sale of large quantities of Cereals, the risks of which the Bourses have only temporarily assumed until the arrival at the place of destination, cause a fresh depression, when the consumption is not prepared to take delivery?

This trade in Options must it not annihilate the speculation of the competent men, when the prices depend upon the caprices or the inability of speculators without experience, and on the shameful manipulations of the "prominent" speculators; when, on the other hand, the arbitrated Cereals are thrown on the consuming market without considering in any way the prices of purchase?

Is it possible that there are people capable of believing that prices of Cereals rise of themselves, when in the whole world there is not a single person, who has any interest whatever in seeing them rise, or who has the courage to struggle for higher prices?

Without Options Exchanges the producer will be unable to sell when he pleases; he will have to wait till the wants force the merchant to demand his goods. The producer will be obliged to speculate for the rise with his own goods and that speculation will thus become *legitimate.*

The merchant will have to run the assumed risk till the moment, when he will be able to sell his goods. In times of depression and of weakness, when the merchant cannot get rid of his goods, he will no longer have recourse to the Exchanges. This would prevent him increasing and accentuating the fall by a sale in Options; this would prevent him loading himself with goods for which he has no outlet, and this would prevent him going beyond his means. Before entering into an engagement, he would have to consider the risk to be run, and once the risk assumed, he would have to bear it through every crisis. That is what we call *legitimate* speculation.

The miller had no need whatever to lay in a stock, so long as the Options Exchanges flooded the consuming market with Cereals. When there shall be no more Options Exchanges, the miller will have to change his system, if he do not wish some day or other to find himself without any wheat. He will have to return to the wholesome principle of buying for future delivery, in one word, to that of *legitimate* speculation.

Without Options Exchanges, legitimate speculation must necessarily become remunerative, even during years of plenty, whereas at present the losses, occasioned by the competition of the Options trade, have reduced it to a worthless condition.

In suppressing legitimate speculation and replacing it by speculation of inexperienced gamblers, the Options trade has thrown over the supports which were alone capable of maintaining prices.

Here we see the principal cause of depreciation in the price of Cereals.

CHAPTER XI.

The Influence of Options Exchanges on the Price of Cereals.

In an article which appeared on October 16th 1897 in the review "Die Zukunft," treating of the Options trade in Cereals, there was an endeavor to show, that, owing to the abolition of the Options trade in Berlin, the prices of wheat had not risen so much in Germany as in other countries. The author of the article in question imagined, that therefrom he could draw the following conclusions:

That the German Cereal crops had been sold and were still being sold at a much lower price than their true value:

That in the future, with generally good harvests, we should have to expect great difficulties in selling the Cereals, owing to the abolition of the Options trade. Consequently one would have to expect extremely bad prices for German agriculture;

That Germany might find itself in danger of not being sufficiently supplied, if the crop prospects would become unfavorable in next spring. And all this, because Germany exported a small quantity of Cereals, whilst being forced to make large imports.

Before discussing these conclusions, we have to rectify several errors, which slipped into the aforesaid article. From the 4th of January 1896 until the 10th of September 1897, the prices of wheat in Chicago did not go up 32 marks, as the author says, but 52 marks. At Paris 54 marks, at Buda-Pesth 63 marks and at Berlin not 4 marks, but 40 marks per thousand kilos. These remarkable differences have nevertheless nothing in common with the suppression of the Berlin Exchange. They are a necessity arising from the altogether different situation on the world's market. By world's market, we mean all the exporting and importing countries of Cereals, so long as the prices pay from one country to the other. If, in an exporting country, the prices rise so high, that exportation must be interrupted, this country retires from the world's market, until prices again permit of exportation, or until the prices be raised so high that the country, which engaged originally in exporting, should take to importing. Austro-Hungary, during the years 1896/97, exported half a million of quarters of wheat, having harvested 24 millions quarters. The crop of 1897 did not reach above 17 millions quarters; from an exporting country, Austro-Hungary became an importing country. In the year 1896/97, France imported only 1½ million of quarters of wheat, whereas it had harvested 41 millions. In that country, the prices were so low during the whole year, that they permitted, so to speak, no importation whatever. The French harvest in 1897 was 31 millions quarters: we may estimate 8 millions quarters at least as the quantity necessary for importation until the 31st July 1898. In 1896/97, Germany imported 7 millions quarters of wheat having a crop of 14 millions. The amount of the harvest of 1897 being the same as in 1896, the figure of importation is not subject to any appreciable change. Now, as in January 1896 the prices of wheat permitted importation into Germany, whereas in Austro-Hungary and in France these were much inferior to the basis of importation, it is evident that the prices in Austro-Hungary and in France had first to rise to the equivalent level, in order to permit of importation. The 12 marks that Chicago, on the 10th of September 1897, quoted higher than Berlin, are explained by the fact, that on that day American prices left no margin for exportation, and that there was no reason to follow this speculative rise either in Germany or elsewhere.

These facts refute in the most simple manner the deductions, that the author of the article drew from the aforesaid differences. It is another question to ascertain, whether the prices of Cereals would not have been quite different, if the Berlin Options Exchange had been able to develop its former activity. Every competent man will give an affirmative answer to this question. The author of the article is absolutely correct, when he gives us to understand, that the higher rise of the prices at Vienna and Buda-Pesth would have given opportunities to arbitrations at Berlin. Wheat Options at Berlin "not dear enough in proportion" would have been bought by speculators, partly in order to recoup the losses proceeding from Option sales at Vienna and at Buda-Pesth, partly in order to make a simple speculation for the rise. We understand perfectly well, that the "Matadores" of the Berlin Exchange calculate with regret the amount of commission, which they have lost, owing to the suppression of the Options trade; in fact, it would have been a god-send to them, to sell to Austro-Hungarian and other speculators as many Options as they wanted, and to arbitrate from America into Germany a few hundred thousand tons of Cereals on the basis of the Options sold. Without any doubt these purchases of American Cereals would have raised the prices of Options in America far above the quotations of the 10th of September 1897, whereas the purchases at Berlin, in conjunction with this American rise, would have caused a still more considerable upward movement. And then?

Then hundreds of thousands of tons would have crossed the ocean, and this wheat would not have found purchasers, either in Germany or on the world's market. For the Austro-Hungarian speculators and others, whose Options purchases would have put this mass of wheat in motion, do not want wheat but only differences. The 50th part of the arbitrated quantity, thrown on the Berlin market, would have sufficed to satiate the Bulls, to shake the prices and to attract the professional Bears. Instead of a small reaction, following the rise of 40 marks on the world's market, we would have had a catastrophe and the annihilation of the Bulls. A terrible blow would have been struck at the trade in Cereals and to agriculture, just as in 1891–92.

In fact, the causes of the enormous decline of that period can be accounted for exclusively by the activity of the Berlin Exchange. For in no other Exchange was seen arbitration to be effected in so unscrupulous a manner, that is to say, buying Cereals in enormous quantities, and at the highest rates, and throwing them then on the world's market at vile prices. The impudence with which the partisans of this Options trade boast of this activity is truly phenomenal. We read in the "Frankfurter Zeitung": "At that period, and with a quotation of 270 marks for rye, only the boldest speculator would have risked purchases in distant countries" [1]). Therefore the serious merchant could do no such business without exposing himself to ruin, but the "Specialist" could indulge in this folly, since he was covered by the purchases of the outsiders. We may esteem ourselves lucky in the fact that the inaction of this pseudo-trade in Germany in 1897 spared the world a similar economic disaster.

The fear of seeing Germany in the Spring of 1898 without wheat, because it exported some of it, is really too chimerical. The importation of Cereals via Hamburg, Bremen, Rotterdam and Antwerp, goes on as regularly as if an Options Exchange had never existed in Germany. How could it be otherwise? If the baker buy flour, the miller provides himself with wheat, and the dealer covers himself abroad. Cereals imported in this manner, will not be thrown upon the world's market, even if they arrive unsold, because it is in everybody's interest to keep up the price, a condition *sine qua non* for realizing a profit. That is the corn trade in the real sense of the word, and these transactions are called transactions for future delivery. The actual need is the solid basis of real trade in corn. The basis of trade in Options is formed by the offer and demand of inexperienced and unscrupulous speculators, who thus

---

[1]) Compare "Nach dem Verbot des Getreide-Terminhandels." Frankfurter Zeitung, May 16th, 1896:

continually falsify the real offer and demand. The assertion, that Options trade always has a compensatory effect, is quite as fallacious as the one which claims, that the Option quotations reflect the real tendency of the world's market. The inconsequence of these theories was never demonstrated in a more striking manner to competent men than in the year 1897. For the great rise of quotations, in July and Augustwas not due to the Options Exchanges, but, indeed, to the trade in Cereals. The uncommonly bad harvest in the Danube countries induced the merchants of Braila to buy large quantities of American wheat on speculation. These orders for purchase were executed by the sister-firms of Antwerp and Mannheim, and the whole trade of these two towns followed the impulse thus given.

The Exchanges looked on with perfect indifference at the beginning of the movement; they quietly kept on with their short sales, although they knew about the bad harvest as well as the corn trade did. It is a notorious fact, that the unsteady and feeble quotations of the Liverpool Exchange, during June and July, 1897, kept the whole of England from buying at low prices, and that no change, took place until wheat shipments commenced in the Atlantic ports, and the American Options sellers knew the figures of the business contracted for. Then they became frightened, and tried quickly to cover their short engagements, or to go still long, thus overriding the natural tendency in a brutal and disorderly manner. Such then are the celebrated Options Bourses! Unhappy is he who allows himself to be governed by their quotations![1])

[1]) We published this chapter in the "Zukunft" of November 27th, 1897. Since then we have seen a catastrophe still more disastrous than that of 1891-92, in consequence of the corner of Joseph Leiter. We shall return to this subject in the next chapter.

CHAPTER XII.

Manipulations in Cereals on the Options Markets.

More than 95% of the whole Options transactions have their termination by the payment of the differences that result from them. On the American Exchanges the business thus liquidated amounts to 98%.

As always in those transactions which are regulated differentially, there is one party which gains as much as the other loses, there necessarily arises, in course of time, a struggle between the parties, a struggle about which there is nothing commercial. In the Options trade, a knowledge of the goods is useless; there are no customers; there is no need of being prudent in accepting or in giving credit, for there is no credit, and in most cases, the buyer does not even know who sells to him and vice versa. The science of the Exchange consists in this: Foreseeing, whether or not the seller can deliver; guessing, whether or not the buyer will receive, and arrange one's plans accordingly.

If the Bourse men lack financial strength to conduct singly a big operation, they found a syndicate, which has the double advantage of diminishing individual risks and of setting aside competition, which might guess the plan of campaign and stand in the way of its success. The syndicate, for instance, buys slowly at low prices, and, having thus secured a sufficient quantity, commences its manipulations to get rid of the goods at a profit. In most cases it is sufficient, to make known, by a calculated indiscretion, the existence of the syndicate hitherto kept secret, and the Bears are in a hurry to cover themselves or to change even into Bulls, in order to profit promptly by the expected rise. This is exactly what the syndicate wanted. It harvests its profits by realizing its engagements at the advance, and eventually sells even short at the prices artificially raised. Then, in attracting the merchandise which nobody wants, it causes a fall of prices, and thus catches the *bona fide* speculators between two fires.

Of all manipulations in Options, the artificial depression of prices is the simplest and least dangerous operation. The speculator sells short a large quantity, furnishes a part, and profits by the fall which results from the fact that nobody wants to take delivery, to cover the whole quantity sold. This artificial depression is continually practised on all Exchanges, as long as good harvests promise fair supplies of Cereals.

Nine tenths of the big operators are Bears, people that are at their ease only, when short of some millions of bushels, because they know how little danger there is for them in this state of things; while when long, even with a small quantity, they feel as if they had done a stupid thing.

To the same class belong the elevator owners and the arbitragists; if the fall do not come naturally, they all rush a sufficient quantity of merchandise on the market and so cause the fall artificially.

The corner (artificial rise) is the opposite of the artificial fall; it is at the same time the only danger, which short sellers have to dread. It must not be believed, however, that one counterbalances the other. The artificial fall can be operated with no matter what quantity more or less important; for a corner, on the contrary, the speculator must be ready to take up all the merchandise, which the sellers can throw on the market. He, who undertakes the operation of an artificial fall, has the *bona fide* Bulls for his adversaries, people without experience, who accept the liquidation price as dictated to them. But he, who undertakes a corner, has against him competent men, the elevator owners and the arbitragists, adversaries to be dreaded on account of their financial strength, as well as for their experience. The artificial fall goes on so quietly, that it is nearly always taken for a natural fall; the poor inexperienced Bulls allow themselves to be shorn like sheep, without resistance or complaint; the corner is always a serious fight; the Bears do not surrender without a vigorous defence, and without making an attack in their turn; victory rests with the stronger and more wary. The artificial fall has no dangerous consequences, simply a part of the merchandise is delivered; the corner, on the contrary, is very dangerous, for the merchandise delivered, remains in possession of him, who undertook this manipulation. It is thus that the realization of this great amount of Cereals has nearly always caused losses, greater than the profits derived from the corner, even if it were successful. The corner makes its appearance only when bad harvests justify a rising movement; then it accentuates the natural movement and pushes prices up to a swindling height, while the artificial fall aggravates a downward movement, caused by good harvests, to depreciation.

It is easy to deduce from the foregoing, that there can be no question of a counterpoise. It is actually only every ten years, that a man is found, daring enough to undertake a corner; while the artificial abatement is practised continually, interrupted only by short reactions, necessary for the recommencement of the usual manipulations, causing endless and irresistible depreciation.

The corner of Jos. Leiter in 1897–98 was the first corner in wheat in America since the year 1888. In 1888 Hutchinson made the September wheat go up in Chicago from 89¾ cents a bushel to 200 cents at liquidation. But, while Hutchinson owed his success to the fact of taking his sellers by surprise (for they did not believe in a corner up to the last moment), Leiter never made a secret of his intention to take delivery of the wheat purchased. In December 1897 he received and paid for the whole quantity bought on that month's delivery, about 10 million bushels. The men who, under these circumstances, dared to sell May wheat, without having the certainty of being able to deliver, and who thus facilitated the execution of a veritable corner, had to take upon themselves the consequences.

In any case, Leiter's operation cannot be considered an unfair corner, but rather as a gigantic speculation for the rise. This explains to us, why all those who profited by the rising movement, notably the American farmers, sympathized with Leiter, so long as this movement lasted. When success ceased, when the Bulls lost more than they had gained, the sympathy disappeared at once; all this is very human and very natural. But it is wrong to make Leiter responsible for the whole misfortune brought upon agriculture and the corn trade. For it was not Leiter who caused this catastrophe, but, indeed, the Options trade, and that alone.

Let us suppose that there had been no Options market and that Leiter had bought two millions quarters of wheat to resell them with a profit. Who would have paid any attention to Mr. Leiter? It mattered little to the world, whether two millions of the seventy millions quarters of wheat, harvested in the United States, belonged to Mr. Leiter or to somebody else. Could he have ever made the price go up to 175 cents without an Options market? Would the corn trade have followed this movement without the repartition of the Options quotations in the whole world? And, was it Mr. Leiter's fault that this Options system, going from one extreme to the other, forced prices down from 175 to 85 cents in a fortnight?

If Mr. Leiter, with a capital of ten millions dollars, had bought two millions quarters of wheat, a downfall would have been absolutely impossible without the Options system. He would probably have gained money, for, if a rising movement in wheat was ever to show itself, it was in that year. The crash could only produce itself, because Leiter, calling in the help of the Options system, imposed his corner; in order to push the price up to 175 cents and to keep it at that level, he was obliged to increase his engagements, until his strength was entirely exhausted.

Without the Options system, we should have had neither the exaggerated rise nor the terrible fall; the catastrophe was caused by the Options system, just as in 1891.

Consider only, that Leiter's engagement for two millions quarters, which is equivalent to the world's consumption in 2½ days, is able to keep the prices of Cereals up during six months; and the compulsory liquidation of a quantity also relatively insignificant is sufficient, to cause a fall analogous to a panic in the whole world. Can a more striking condemnation of the Options system be found? Where was the famous Options trade, the defenders of which loudly declared, that all the Cereals of the world could be covered by it, where was it at the moment of the liquidation? And where was the trade in Cereals, the legitimate speculation? Why did not *it* take upon itself the 2 millions quarters?

Never could the competent man see more clearly than during this frightful crisis, that the Options system is a scourge, and that it destroys legitimate speculation whereever it takes root. The real corn trade has ceased to exist in the United States and in England!

We must dwell upon one of the good sides of the corner. The Options manipulations during the whole year had the effect of paralyzing all so-called legitimate Options trade. Nobody dared to cover himself any longer on the Bourse; this wonderful theory of "cover" had practically ceased to exist. Where in the whole world should a grain merchant have looked for his cover? A man could have ruined himself in New York and Chicago in one day by thus covering himself; the situation was hardly better in Vienna and Buda-Pesth. Paris and Amsterdam are markets of too little importance; in Liverpool the Option wheat was the Red Winter Wheat No. 2, and in England as well as in America, there were not 10,000 tons of it available. It was therefore impossible to cover oneself, and this impossibility imposed the re-establishment of legitimate speculation.

Unfortunately this did not last long. The corner had hardly come to an end, when the short sellers came on the scene, and the owners of grain, frightened, turned back to the American Exchanges to cover their risks. Is it astonishing that the Options prices gave way under these circumstances? America comes down, it is said, as soon as the quotations over there are on the fall, but is it not Europe which causes the fall? From May 15th to June 15th 1898, Europe sold, to cover itself, upwards of 50 millions bushels of September and December wheat in Chicago and New York. Who were the buyers? Was it not the so much vaunted system of cover which thus brought down the prices?

The total wheat consumption of the world amounts to about 300 millions quarters. Of these 300 millions which exist after the harvest, there are not even 30 of which the risk is continually borne by the merchants, millers and bakers. Perhaps a quarter of these 30 millions passes for a moment to the Options markets, to illegitimate speculation, to that of the tailor, shoemaker, glover and other "bona fide" speculators! The whole risk of the remaining 270 millions quarters is borne by agriculture, until it disappears by consumption.

The whole engagement of Leiter involved only about 2 millions quarters. With this quantity he was able to maintain the price of wheat at about 100 cents a bushel nearly during the whole year. The danger of the corner has passed, speculation for a fall has again taken its course; down to what point will it depreciate Cereals?

American agriculture is said to have profited 100 millions dollars in consequence of Leiter's corner. How many thousands of millions will the agriculture of the whole world now lose, because a manipulation in the other sense has set in? Is it then possible that these miserable Bourses, which could scarcely take up 2½ per cent. of the risk inherent in the merchandise, do dictate prices to the agriculturists, who bear the risk during the whole year, and that these accept with a good will the quotations thus dictated?

When a speculator buys 10 millions bushels of wheat Options and expresses his intention to take delivery of it, this operation is called an *artificial and unfair screwing up of prices.* But, when European speculators sell on American Exchanges 50 millions bushels of wheat, of which they do not possess a single grain, trusting to Providence to furnish, in the nick of time, the quantity necessary to overwhelm the gallant Bulls; and when these sales depreciate not only the new harvest, but also the old stock of the whole world by 40 and 50 per cent., this is called an *absolutely natural fall of prices!*

In the real corn trade the artificial rise is as impossible as the fall of the same kind, since each of these manipulations is simply profiting by the circumstance that buyers and sellers in Options fancy that they have neither to deliver nor to receive.

There is only one means of preventing manipulations, that is to suppress the Options trade throughout the whole world.

CHAPTER XIII.

The Arguments raised by Partisans of Options refuted.

The partisans of the Options system may be divided into three groups:

1. The political adversaries of the German agrarians. From the point of view of Ludwig Bamberger and the German Manchester men, the agrarians are the enemies of all progress, the most complete expression of egotism and stupidity.*) The agrarians fought against the Options system; this was a sufficient reason for their adversaries to consider it as perfect and beneficial.

2. A large number of professors of political economy, of jurisconsults, and of journalists who, though they deplore the abuses of the Options system, are yet convinced of its necessity. This group searches earnestly after the truth, but as it possesses no practical experience, it wanders astray.

3. All those that profit by the existence of the trade in Options, and whose interests would be hurt by the abolition of it. In this class we may place the Elevator Owners, the Arbitragists, the Commission-houses and their agents. All these people are, without doubt, very honest and respectable, but they have one great fault: it is impossible to make them understand the economic disaster caused by their dealings. This, however, is quite natural. How can operations appear mischievous to these men, since they profit by them?

These three groups have two common arguments for the defence of the Options system:

---

*) Bamberger: "Der Kampf mit der Dummheit", Die Nation, August 21st 1897.

1. They deny that the Options market has a depressing influence on Cereals, assuring us that the Options trade has no influence whatever on grain quotations, or declare, on the contrary, that it exercises an influence which, in a way, is favorable to higher prices, or finally try to explain the depreciation of Cereals by natural causes.

2. They look upon the Options trade as being destined to play a very important economic part, and on these premises assert that its suppression would be a blow, aimed at the freedom of trade.

The partisans of the first theory principally rely on the arguments of Professor J. Conrad of Halle, who, by comparing average prices, came to the conclusion that the Options Exchange do not have a lasting influence on the formation of prices.*)

This conclusion is based on the following *erroneous assertions:*

1. Mr. Conrad sets forth that a momentary influence exercised on prices (which influence he admits without reserve) is of no consequence, because it is corrected later on by a corresponding inverse movement. (A sad consolation to those who bought at too high or sold at too low a price.)

2. He further states that this corrective movement must infallibly come.

3. He deduces from this, that average prices are the only true ones, and that deviations from them are *faults.*

4. He puts to the credit of the activity of the Options Exchanges the fact, that these *faults* have become less pronounced since their existence.

Even if these assertions were true, it would be impossible to deduce from the proportion of these *faults,* that the Exchanges do not constantly influence corn prices, for if we take these prices *ad libitum* higher or lower, for a period *ad libitum, the same faults might still very well appear.*

---

*) Compare "Wiener Neue Presse." June 10th and 11th 1896.

If we try to represent to ourselves the *ideal price*, according to the principles of economic science, it can only be the one which leaves a profit to agriculture and to the corn trade. This *ideal price* could never remain the same during the whole year, it would be bound to change from day to day, according to circumstances, if only on account of storage expenses, interest, and loss in weight. From this it follows that *every average price* is purely and simply *false*, and that it becomes the more so, as the period which it embraces is longer. Mr. Conrad compares the monthly quotations during a period of 29 years; that is to say, if, for example, the quotations in January of one year were 50 per cent. higher than those in February of the same year, and if they were 50 per cent. lower in January of another year than in February of that other year, *these differences disappear in the average* of Mr. Conrad. From this we may conclude that all the imaginative deductions made from average prices, by partisans as well as by adversaries of the Options system, are absolutely worthless.

The advice given by Mr. Conrad to agriculturists, to sell their corn during the months immediately following the harvest, is more dangerous than his calculations of the average prices. Admitting, that the highest prices were obtained in these months during a period of 30 years, the cause would have been found in the fact that very few farmers did sell their corn immediately after harvest. And it is evident that the prices would inevitably become the lowest in these same months, if most agriculturists were to follow Mr. Conrad's thoughtless and unreasonable advice.

In chapters XI and XII we have refuted the assertion that higher prices were due to the Options system. It will be sufficient to repeat, that the Options trade drives the natural fall in corn prices, resulting from favorable crops, down to depreciation, and that it pushes the natural rise, due to bad crops, up to famine prices.

Overproduction, and the state of perfection to which the means of transport have been brought, are sometimes mentioned as natural causes of the depreciation of Cereals. The fact, however, that more wheat exists than is consumed, cannot be regarded as a sign of overproduction, for every well regulated household should lay in a supply of provisions.

Consequently we must ask ourselves, what is the total wheat production of the world, what is its total consumption, and how large a supply remains on our hands at the end of the season. Is this surplus so large that we can speak of overproduction, or is it barely sufficient to ward off the effects of an eventual bad harvest?

Broomhall's Corn Trade Year Book furnishes us the following answer:

THE WORLD'S PRODUCTION AND CONSUMPTION OF WHEAT from August 1st, 1888, to July 31st, 1896.

SEASON	PRODUCTION in quarters	CONSUMPTION in quarters	DIFFERENCE in quarters
1888/89	289.000.000	288.000.000	+ 1.000.000
1889/90	271.000.000	291.000.000	— 20.000.000
1890/91	286.000.000	294.000.000	— 8.000.000
1891/92	308.000.000	297.000.000	+ 11.000.000
1892/93	305.000.000	301.000.000	+ 4.000.000
1893/94	314.000.000	304.000.000	+ 10.000.000
1894/95	320.000.000	*319.000.000	+ 1.000.000
1895/96	309.000.000	310.000.000	— 1.000.000
Eight year's average	300.250.000	300.500.000	— 250.000

THE WORLD'S WHEAT STOCKS AT THE END OF SEASONS, in quarters:

1992/93	1893/94	1894/95	1895/96	1896/97
34.000.000	39.000.000	35.500.000	29.000.000	17.000.000

These figures speak for themselves. There can be no question of an overproduction. The stocks, carried over at the end of the seasons, are so insignificant *that a single bad harvest in Central Europe would be sufficient to cause a famine!*

*) 12.000.000 quarters used as cattle feed.

They who attribute depreciation to perfection in the means of transport, instead of charging it to the account of Options trade, see, like ourselves, the cause of this depreciation in the superabundance on the consuming market, but, on the other hand, they look in the wrong direction for its origin. For, the means of transport do not of themselves draw Cereals out of exporting countries to take them to consuming countries; they are only the intermediaries, depending on the will of others. The means of transport preserve us from famine, and prevent the depreciation of Cereals in places, where they are superabundant, as they enable legitimate speculation to distribute the Cereals over the entire world according to requirements. If Options trade, however, makes use of the means of transport to inundate the consuming markets with Cereals, without regard to their needs, a depression becomes inevitable. But, in that case, it is the fault of the Options trade, and not of the means of transport.

Mr. Sayous explains himself thus in his study on the German Exchanges:

> The true causes of the fall of grain prices were clearly pointed out by Professor Schmoller: "The new means of communication, and the reduced cost of transport have rendered a rapid economic development possible in countries with abundant, unexhausted and fertile agricultural lands where entirely new economic conditions exist, and which had not brought about a complete development for lack of articles of exportion. In the first place Hungary and the Danube States, then Russia and later the United States, India, Australia, South America profited by it from 1850 to 1896."
>
> The fall of prices is not at all due to an increase in importation and has no connection whatever with the quantity of corn imported: the competition among agriculturists capable of producing cheaply, a whole series of splendid harvests, and several other events have brought about permanent low prices in grain exporting countries; from them the current has traversed the whole world and the mere possibility of importing from America, Russia . . . considerable

quantities at a fixed price, imposed this price on European markets and effected a prolonged current of low prices all over the world.

These reasons are sufficient to explain a natural fall of grain prices. But, they give us no satisfactory explanation, why wheat was sold in 1894 on the censuming markets at a lower price, than was paid for the same grain at the place of production. A state of affairs equally ruinous to the corn trade would have been impossible without the Options system. Certainly, the glutting of the consuming markets could take place without it, but then every dealer would be obliged to await the re-establishment of settled prices to commence new operations, while the Options trade has no need of taking this economic law into consideration. It quitely continues to arbitrate. If the prices fall still lower in consequence of their operations, the Arbitragists are not the ones to suffer by it! The wheat production of 1894/95 exceeded by five per cent the average consumption of the preceding ten years; the production of 1897/98 fell five per cent below this average. In the first named year we saw wheat prices fall to eleven francs, in the second period they rose to thirty francs per 100 Kg.

An equal depreciation and a similar rise would have been impossible without the Options system.

Mrs. A. Sayous has tried to prove, that the German Exchange Laws, and notably the one prohibiting the trade in Options, are hurtful measures, and that a complete abrogation of these laws is to be desired.

As he bases the views, expressed in his book, on the opinion of the majority of German professors of the political economy, it may be useful to discuss some of the opinions expressed in this book. Mr. Sayous says:

> Gambling on 'Change is an evil which gradually takes a hold on all classes of Society....
>
> The Options business is doubtless a dangerous weapon, the Options speculator a terrible enemy of Society, since he generally falsifies quotations, and whether he gains or loses, his transaction are equally baneful to his family.

....one thought of turning away from the Bourse the gamblers, that ruin their families and falsify quotions, the speculators, that cause a fluctation of prices by fraudulent manipulations....

If the gambler play a part which is in any way baneful, if not intentionally, then at least involuntarly, the manipulator will try to falsify quotations, in order to profit by the rise or fall, which he has artificially produced.

Of all kinds of agiotage the most frequent, in any case those which are the best known, are the corners, which are produced when spot goods are not sufficient for the execution of Options contracts sold short. Speculators buy, on term, a certain quantity of certain goods or of certain securities, because they think, that the other party to the transaction cannot meet his engagements when they become due. Under the effect of a never ceasing demand on the part of short sellers, an absurd rise is produced on the "Spot" market; when no more goods are available, unwise speculators have then nothing else to do than to settle. Buyer's terms then become crushing, especially when they find themselves dealing with persons who are solvent.

In order to favor speculation for the rise, agiotors also employ a process known in German as „*Abschiebung*"; under this system goods, destined to supply the market, are kept out of it by every possible means; we have here a manœuvre, which is resorted to frequently enough, when it is desired to establish a corner; the result is, however, only a sort of imperfect corner.

In order to obtain an artificial fall, considerable quantities of merchandise are attracted to the market. If one take the precaution to engage all the available warehouses, there may be a very considerable movement.

We are only pointing out here one or two among the thousand methods which permit speculators to raise or lower the market at their pleasure.

Nevertheless the Options trade should be maintained, owning to the economic part it plays:

The Options trade in goods is the highest expression of speculation on credit; it assures the equalisation of quotations within a certain period in a way which is generally more or less perfect; it allows the most remarkable equali-

1) Etude économique et juridique sur les Bourses allemandes. André E. Sayous, Paris 1898.

sation of quotations within the widest distances, it often serves as means of an assurance against the fluctuation of quotations, and this in a manner which is certainly better for him, who is assured than it is for the public interest; it gives the power of breaking up (dividing) the risks, inherent in the fluctuation of quotations.

Thus as the economic part played by the Options trade, we see 1st speculation; 2nd equalisation of quotions over time and through space; 3rd assurance against fluctuation in quotations; 4th the power of breaking up the risks.

Speculation has, as a consequence, a diminution of every rise on the expectation of which it is based; it is thus, for so much as it is exact, and consequently advantageous to the speculator, of a general utility. Can a rise on certain goods be foreseen? If so, every one will at once become a purchaser, and, when the moment shall have come, when one ought to buy, there would be no speculative demand on the market. Prices, at the moment of making the purchase, would, in consequence of an abnormal demand, be higher than they should have been; prices at the moment when one should have effected the purchase, would, owing to the absence of a normal demand, be lower than they should have been. If no mistake shall have been made in making the forecast, one will have accentuated the rise at the moment of the fall, and the fall at the moment of the rise. If, on the contrary, the forecast shall have been erroneous, if one shall have confused the relative relation between rise and fall, one will have accentuated the rise at the moment of the rise, and the fall at the moment of the fall.

The speculator, who will have all the elements necessary to make an exact forecast, will be the only who will have good chances of being of any social utility. The speculator who, from one reason or another, shall be incapable of making any exact forecast, will probably exercise a baneful influence. The slightest error in these forecasts will exercise an influence on the actual quotations; the nearer one approaches the day for delivery, the more will quotations become exact.

This theory is entirely false. If the speculator does not buy to day, he is by no means compelled to buy later on; if he does not sell to day, he is in no way forced to sell subsequently. Speculation in Options always forced the tone of the market: it increases the rise at the moment of the rise itself, the fall at the moment of the fall, and this is why it is always baneful.

The speculator, who possesses all the elements necessary to make an exact forecast, does not exist. This theory arises from the false idea that the price, paid subsequently for spot goods, will be the exact price.

If this were true, the price of goods really available would be equally exact, and it would be idle further to discuss the baneful influence of the Options trade. It is precisely on the price of spot goods that the action of the Option trade is the greatest. On the one hand, by the sales, at exceedingly low prices of term goods at the moment of delivery, on the other by the purchases made at extremely high prices, in order to cover the short engagements of timorous Bears.

On the 15th September 1888, spot-wheat (Cash No. 2) at Chicago cost 90 cents, and a fortnight later it cost 200 cents. On the 10th May 1898, at Liverpool, 11/6 per cental; six weeks later 6/4. Spot La Plata wheat, at Antwerp, cost on the 10th May 1898, 29 francs; and, four weeks later it was offered at 18½ francs. Which of these spot quotations was the true price? Was it the highest or the lowest? Or was it neither the one nor the other?

Who can say what is the true price? Can a speculator not operate in a manner objectively equitable, and still lose his money, especially when the majority of the other speculators are working in a different manner?

Can a speculator not lose his money, even when speculating in a regular fashion, because ten or twenty others are operating in the same manner as he, and because, from this very fact, more goods are brought on to the market than are required for the needs of current consumption? If they all had purchased one half of the goods, they would all have made money, whereas, as it is, every body loses.

Mr. Sayous and the German professors make no difference between legitimate and illegitimate speculation: the former alone is an economic necessity. This legitimate speculation should be protected against the Options trade; otherwise the former will be destroyed by the latter.

The theory of Mr. Sayous, in regard to the equalization of quotations over time and through space, is as false as his theory in regard to speculation. The economic part to be played by the trade consists in helping the scarcity of goods on one market, by bringing to it the snperfluity existing on another. From a social point of view, this action is only useful when trade is rewarded for its labor, that is to say when it is carried on at a profit. This action is baneful when the trading has resulted in a loss. Trade can only make a profit when an equalisation of quotations, over time and through space, does not exist, for if prices be equal everywhere, there is nothing to negociate, and, consequently, nothing to gain. It is, therefore, absolutely absurd to commend this equalization of quotations over time and through space, which, as a matter of fact is produced by Options quotations. On the contrary, from the political economist's point of view, it is an evil, and one which becomes the greater as Options quotations become the falser.

Let us now examine the ideas of Mr. Sayous in regard to insurance:

> The wholesale trader, the importer, the miller, the temporary holder of large stocks, the persons who will have booked orders at current rates, government contractors or large public institutions, all these can protect temselves against a rise or fall of quotations, and may transfer not only their chances of gain, but also the risk of loss, to another person, who thereby becomes an insurer. This last reckons upon a kind of premium on a difference, more or less apparent, between the purchasing or selling price and a subsequent sale or purchase, in order to have some remuneration for the dangers to which he has voluntarily exposed himself.

But with the developement of this system, who is the insurer and who is the assured? One cannot reply to this question, by an answer which would allow us to see in this system of insurance the principal feature of the Options trade : other persons who insure themselves against adverse risks. In the first place, there is no complete equality between the numbers of insurers against the fall and those insuring against the rise of quotations; and then again, a market which would be composed of men as indifferent as are those who are insured, would supply us with incomplete elements of seeing clear in the future, and would ultimately become an institution baneful to the public interest. Both sales and arbitrages would be effected on such a fragile basis.

Are the people, who effect insurances the small capitalists? Are the insurers the large capitalists? A frank and clear reply to these two questions is impossible. No statistics whatever can supply us with the elements, upon which to base our judgment; it is difficult to give a wholly negative reply; it would be still more difficult to give an affirmative one, except under the greatest reserves.

The insurers may disturb the market just as much as the equalization of quotations over time and through space: they are of weight in such and such a sense, they accentuate certain tendencies or bring about a reaction without any real motive; happily the importance of the transactions generally prevents an almost total falling off of this general movement. One can now comprehend why we do not consider the system of insurance the happiest feature of the Options markets, why indeed we should demand the total suppression of the system if such were the principal part it would have to play in our social system, and if we were not aware that such a suppression would be useless.

The man in the trade has no needed of statistics in order to be able to answer the two questions proposed. As a general rule it is the large capitalist who risks nothing; it is the small capitalist who takes the risks. It is the knowing one in the trade who is the insured, it is the *outsider* who is the insurer.

Everywhere the weak are exploited by the strong, but nowhere does this exploitation show itself in a more brutal and impudent a manner than in the Options trade.

The power of being able to break up the risks attributed to Options trade is a mistake, just as are all the pretended advantages of this pseudo commerce.

The risks cannot be more broken up than they are when they fall upon legitimate speculators and especially on farmers. In the real corn trade, one does not like to sell to an outsider, for the very good reason that this individual, when the moment comes for reselling, nearly always spoils the regular dealer's market. The participation of outsiders is generally considered in the trade as an evil; and, if this be true for the real trade, how can the Options trade be anything else than an evil, since it cannot even exist without the participation of outsiders?

Has the Options trade a baneful effect on spot and cash quotations? Mr. Sayous finds a solution of the question in the statistics furnished by Mr. Gustave Cohn. We have already shown the value of such statistics on the beginning of this chapter.

Mr. Henry Schumacher *(Die Getreidebörsen in den Vereinigten Staaten von Amerika; Jahrbücher für National-ökonomie und Statistik, III. Serie)* is convinced that the present state of corn trade in the United States of North America has as a consequence, a depression in quotations:

> In regard to the real trade, exporters have every interest in a permanent fall on the national market. Elevator Owners have the same interest. Millers alone have an interest in the rise; consequently there is no counterpoise. Where speculation is concerned, the groups of those interested are more difficult to determine; the Bulls are the buyers and the Bears are the sellers. Now that which gives strength to the parties is not their number, but their knowledge of business, their ability and the capital at their command; one must know then on which side are found those in the trade, on which side are the *outsiders.* Men in the trade sometimes speculate for the rise, notably so when they create corners, but that is only the exception to the rule. In the business world, it is a well kown fact, that the Bulls are speculators who have little capital at command but who are excessively venturesome. This state of things has a psychological cause;

to the speculator, outside the trade, who makes only an occasional deal, who is badly posted, such a thing never enters his mind, and he cannot comprehend how one can sell a thing which one does not possess, and how one can make a profit on the basis of such and such a sale; on the contrary it appears to him to be the simplest thing in the world to buy anything in order to sell la teron at a profit. This natural tendency of the *outsider* is of very great importance in a country like America, where the taste, nay the passion for speculation has tainted all classes of society. Therefore in the United States, in the world of corn speculation there is no real counterpoise whatever between the rise and the fall.

Mr. Sayous replies as follows:

We cannot follow Mr. Schumacher on the ground over which he leads us. This gentleman knows perfectly well the United States markets; in regard to ourselves we know very little about them and that only through him. We feel constrained to say that the arguments, which could in any way be deemed conclusive, are taken from the special nature of the American markets: that of the "Elevators", of a frenzied speculation, of a margins system extensively developed....; that the theory of an absence of counterpoise, arising from a simple inequality of forces, lose, nearly all its value, when it is applied to European markets, where the gambler does not play so large a part.

These are the arguments of Mr. Sayous. He does not know the American markets and he candidly avows it; but, in regard to Europe, that is of no value, just as if the artificial fall in America did not influence the European markets!

But Mr. Sayous is deceived when he thinks that only the American Exchanges are not within his knowledge. He is just as ignorant of the European Bourses, a fact which is proved by his own words:

Since the London Corn Trade Association has stereotyped a certain number of Contracts (now about sixty) for cif, cargoes or parcels, and that merchants, who are well posted, take particular care not to modify any of these conditions, the London Corn trade practices, as a matter of fact, the Options trade under the guise of stereotyped contracts for shipment at a given period; here the absence of a fixed quantity renders the settlement scarcely more difficult than that for securities,

. . . . All transactions, concluded in accordance with the London market custom, and under the rules of the London Corn trade Association especially, are not necessarily contracts in real goods, A transaction for delivery may be grafted on to a transaction cif; one may conclude a contract for shipment on a determined date; it then becomes not only possible, but very probable, that the contract will be liquidated by a pecuniary arrangement between a certain number of persons, on the arrival of the documents necessary to effect the payment; we find ourselves face to face with a veritable transaction in Options.

If these assertions are correct, how can one explain the fact that the Corn trade introduced into London, in October 1897, dealing in Options? But these assertions, are not correct; they only prove that Mr. Sayous has but a superficial acquaintance of the trade in futures, and that he has not very minutely examined the special characteristics of this trade. The Options trade cannot exist without *outsiders;* in the real trade, *outsiders* are not required. In the Options trade 95 per cent. of the business done consists of differential transactions; in the Corn trade, differential transactions are unknown; every contract is closed by an actual delivery; and if, by chance, no delivery is made, the settlement is not a differential one. Let us admit that A. has sold to B. a cargo of wheat on a London c. i. f. contract at 30/—per quarter. B. sells this cargo to C. at 35/—, C. to D. at 40/—; suppose that the cargo shall not have been delivered, and that the arbitrators shall have fixed the liquidation price at 34/—. Every buyer who has bought at a higher price, simply cancels his contract, because there has been no delivery. A. must then pay to B. 4/—but B. loses his profit of 5/—, C. loses his whole profit of 5/—, whereas D. who purchased at 40/—makes a profit of 6/—by the non-delivery. According to London rules, A. cannot be rendered responsible for the profit which B. and all other buyers have lost; each one must deliver that which he has sold.

It is a well known fact that, in the Options trade, the settlement is effected in quite a different manner. If the price for settlement is fixed at 34/—, buyers at higher prices have to pay the difference. In the Options trade, therefore, it is sufficient to be covered by the purchase and the sale; in the real trade this does not suffice, *delivery must also be made.*

It is the facility of conditions which attracts gamblers to the Options markets, and the systematic exploitation of these gamblers is called the *legitimate* Options trade. In the real Corn trade the exploitation of speculators is *impossible.*

Our criticism of Mr. Sayous' work would be incomplete unless we reproduced here the remarks made by this gentleman in regard to our plan for abolishing the Options trade:

> Mr. Hammesfahr tells us, in a novel and interesting manner, who are the persons who, in his opinion, should not be allowed to engage in the Options trade, and more especially in the Cereal Options trade, their transactions being purely differential and if we interpret aright his idea, are blameworthy speculative, worse in fact than gambling,
>
> "What person thoroughly well acquainted with trade can have any interest in selling or buying corn on an Options market, in order to deliver or receive delivery, in accordance with conditions fixed for the Options transactions?" "Every man, cognisant of commercial usages, could only truthfully give one answer—viz: Only the men engaged in the trade and residing on that particular market."
>
> We believe that such an observation is, in practice, of very little use, and that the consequences of such a principle would be extremely dangerous. Let us briefly develop these two ideas, it being distinctly understood, that we make the greatest reserve on all questions, which would tend to make it clear, whether or not transactions purely differential have not a place in our social scheme, and if it would be so very easy to establish with some exactitude any exceptions to a principle, laid down in what is evidently too arbitrary a fashion. The transactions which Mr. Hammesfahr considers

as being especially baneful, from a social point of view (the glutting of the markets by goods which are not required, transactions the only object of which is to lower quotations) could they not be carried out by persons living on the spot, just as well as by persons who are non-residents? Would it not be easy to establish a system of a name borrowed for the occasion? the abolition of the clause *port for orders* to which Mr. Hammesfahr has shown a dislike altogether exceptional, would prevent a distribution of goods proportionally more exact across the world. Such a measure would effect all arbitrages, elsewhere than on the importing market itself; the public would find itself at the mercy of some large corn merchants, who would have in their own hands all the means of creating corners, either temporarily or prolonged, without in any way being hampered by the competition of persons who are strangers to the market. It is true that, if this isolation of the markets were socially very dange: us, it would restore to the more important houses doing a real corn trade, their former position in the business world, that which would not be at all displeasing to Mr. Hammesfahr.

It is much to be regretted that Mr. Sayous has misunderstood our meaning. The gamblers are only a small part of the evil, the exploitation of these gamblers is the greater one. If the *outsiders* were to disappear, they could not be exploited any more. It is impossible to establi ' a system of men of straw, for an honest merchant would not lend himself to such manœuvres; and gambling on the Exchanges is not so attractive, that *outsiders* would be willing to incur the risk of having to pay a fine, in addition to their losses.

The clause *port of orders* is necessary for the trade; it is a profound error to think that we desire its abolition.

The putting an end to the Options trade, as we understand it, does not involve any isolation of the markets; every market would be open to the fair competition of the whole world; the creation of corners would no longer to be feared, for without the Options trade *corners are impossible.*

The following article appeared in the "Globe" of London on April 2nd, 1899:

FUTURES IN THE GRAIN MARKET.

An attempt has been made lately, both in and out of Parliament, to stop the trade in "futures in the grain market," which has been represented as a new form of gambling that seriously affects "the staff of life." A different view of the subject is given by Mr. H. C. Emery, in the "Economic Journal." He begins by admitting that the modern system of "futures" has proved itself a convenient scapegoat for all the evils of the grain trade. It is charged with being the cause of low prices and of high prices, with increasing trade risks, and with diminishing them till there is no chance for profit. A few years ago the farming class clamored for the suppression of the speculative market, while recently the Kansas farmers started a movement to contribute a cent a bushel on all their wheat to a fund for the benefit of the most daring speculator of the Chicago market. This confusion of ideas is not unnatural. The last half-century has seen a complete revolution in the trade in agricultural staples, brought about by the great changes in the means of transportation and communication. Even as late as 1850 the markets for grain were local markets, and in the main, prices were determined by local conditions. With the growth of the world-market of to-day the price in each locality came to be determined by the conditions of demand and supply in all parts of the world. A sudden change in the crop conditions of India had an immediate effect on the price of wheat in Birmingham and San Francisco. The trade in these commodities consequently became far more hazardous. No knowledge of local conditions and no foresight regarding them could protect a dealer against disastrous changes in value due to far-off occurrences. The unpredictable forces in the market—the "Konjunktur"—became increasingly important. The more extensive the trade in the great staples became, with the growth of commercial facilities, the more seriously these risks were felt. All great branches of the international trade in raw products became extremely speculative. To buy and store wheat for a future market was no longer a conservative but a hazardous undertaking. The growth of organized speculative markets was in direct response to these conditions. The greater the risks, the greater the opportunity for, and the greater the need of, speculation.

Object of the Movement.

The conditions, which repelled the cautious traders, attracted those of a speculative turn of mind. Furthermore, new men were attracted to these trades, who were equally willing to deal in wheat or cotton stocks or anything else, so long as the ordinary cares of the trader were reduced to a minimum and the fluctuations in price were great. In other words, the uncertainties of trade differentiated traders into two classes, out of one of which the class of professional speculators arose. This special class, organized in exchanges, with a perfect method of facilitating business, has arisen to assume the great risks that were becoming intolerable to the trader; and this is its primary economic function. The way in which trade risks may be shifted to the speculative class is twofold; first, through the existence of a continuous market; secondly, through the possibility of hedging transactions. The former is due to a general change in trade conditions, the latter is a special device for insurance against loss. The continuous market is the result of the ceaseless opportunities for trade, furnished by market fluctuations. There is an unending stream of business, the bulls and the bears, the buyers and the sellers, making new contracts with every indication of changed conditions of demand and supply. Into this stream the merchant, or the producer, or the manufacturer, may enter at any time to make such contracts as are necessary in his business. Here there is a price fixed for the delivery of goods of various qualities at various times. Suppose a Minneapolis miller receives a bid on 50,000 barrels of flour to be delivered in Liverpool at the end of six months. He has only to look at the prevailing price of wheat to determine at once the prospect of a profit. If favorable, he at once cables acceptance and the same hour purchases wheat for delivery at such times as will be most convenient for grinding purposes. The price of his wheat and of his flour are known to him at the start, and only the rates of insurance and freight can come in to affect his profit. In the same way a spinner, by buying his cotton regularly for future delivery in response to his contracts for the delivery of the manufactured goods, knows exactly what the results of his business are going to be.

A Complete Insurance.

This use of the continuous market, however, is not the merchant's or manufacturer's only safeguard against risk. By a natural extension of the system he has devised a method of almost complete insurance. This is effected by what are called "hedging sales." The practice is now so familiar that it scarcely needs description. It consists in carrying two lines of compensating contracts on the part of the merchant or manufacturer, one in the speculative market and one outside. These contracts being always of opposite nature constitute a hedge against all price fluctuations. Take the case of a wheat merchant for example. He is continuously buying wheat at the "interior points" and selling this wheat to millers, or to exporters. The wheat itself he buys at a cash price and probably wishes to hold it in store till a favorable opportunity for selling occurs. This would doubtless be called good old-fashioned legitimate dealing. Such dealing is, however, extremely risky. The fluctuations in the wheat market are such that the dealer's expected profit might be wiped out by the fall in price of a single day. To avoid this, he may sell his wheat for forward delivery in the speculative market as soon as possible after buying it, and make the delivery at the required time. The dealer, as soon as he buys in the interior, may sell an equivalent amount for future delivery on some exchange, not meaning at all to deliver the wheat he has just bought, and then when he does sell his actual holdings, fulfil his exchange contract by covering in open market. The object of the exchange contract is, of course, to avoid risk. If the price falls, the dealer's wheat is worth less to him, but this loss will be made good by the profit on his exchange transaction, where he sold short on a falling market. In the same way he sacrifices all chance of great profit. The increase in the value of his wheat in case of a rise in price will be off-set by the loss on his short sale. This method of insurance by hedging contracts is familiar enough. It may not be so well known, however, to what extent this practice is carried. In the case of wheat, most large millers, dealers, and elevator companies insure themselves regularly in this way. Minneapolis and Duluth are the two great depots of the north-western wheat field, and of the enormous supplies held at these two points probably more than nine-tenths are protected by hedging sales, partly on the local exchanges, and partly on the Chicago exchange. Hedging has become so common a practice that in the main a dealer or miller who does not hedge—that is, who carries his own risks—is looked upon as extremely reckless. Paradoxical as it may sound, the man who avoids the speculative market is the greatest speculator of them all.

Mr. Emery says: "The greater the risks, the greater the opportunity for, and the need of, speculation." Very good!

This gentleman says further: "The man, in trade, who avoids the speculative market, is the greatest speculator of them all." Again I say very good! In fact, if no Options Exchanges exist, those who are in the trade, are *forced* to speculate.

But have we not here the key to the solution of the whole question?

Without speculation, prices cannot be maintained; speculation is a necessity. If this be true, why should not the men in the trade be the speculators at same time?

Mr. Emery answers, because the risks being too great to be borne by the competent men, *they* cannot do it; the risks must be borne by bootmakers, tailors and other outsiders, they alone can do it. They are the right men in the right place!

We should not say anything against this, if bootmakers, tailors, etc., could be *forced* to speculate, in the same way, as producers and merchants *are forced* to speculate without Options Exchanges. But if the bootmakers and tailors strike, what then? If, after having lost their money as Bulls, they turn over and become Bears, what then? Then the level of the "*unending stream in the continuous market*" will sink lower and lower, until prices *are lying on the bottom.*

Mr. Emery has very well described one side of the medal, but he has forgotten to turn it over and look at the reverse side.

CHAPTER XIV.

A Solution of Social Problems.

Political economy concerns itself with the economical life of mankind, with the production and consumption of goods, and endeavors to ascertain what are the principles according to which economic life should best be governed.

The present representatives of this science put to themselves two problems for solution—viz., the knowledge of what is and the knowledge of what ought to be; theoretical science comprises the former, practical science the latter of these problems.[1])

The theorists endeavor to arrive at a knowledge of what is by employing two methods, a) the historical method or the direct way; that is, observation and description of what has been and of what is, and on this they base a presumption of what will be; b) the isolating or indirect method; the theorists imagine *real economists*, who regard nothing but their own personal interests, whose whole activity is dictated by the so-called "*economical principle.*"

There would be nothing to say against these two methods if they were correctly employed. But who is able—in regard to the direct way—to perceive the intimate coherency of all things? Who is able to distinguish between what is right and what is false? Is it possible to form a judgment about that which is, otherwise than by applying to it the light of that which ought to be? As economical narrative, in order to be useful for ascertaining the truth, should consider the economical actions of men through the critical scale of what ought to be; in making

[1]) Compare Ad. Wagner, Grundlegung, Leipzig, 1892-3, and H. Dietzel, Theoretische Socialoekonomik, Leipzig, 1895.

clear all human progress, its causes and consequences, and also every retrograde movement of humanity, its causes and consequences. This economical narrative has not yet been written. The theorists who, intentionally, do not care for what ought to be, are incapable of solving this part of the problem which they put before themselves.

If we look at the other part, the indirect way, we find that the economical principle, as such, is false. The imagined *real economists* are acting like simple children, who have no idea of their own interests. It is indeed not possible otherwise, because all men, who consider only their own personal interests, and act accordingly, do, from this very fact, not understand their own interests. I shall endeavor to prove the truth of this assertion later on in detail.

But if the "economical principle" be false, then all "laws" based upon it are also false. This is confirmed by the facts. False is the economic law in regard to wages, because where the wages rate is the highest, there the employer's profit is the largest; and where machines "compete" the most with human labor, there this latter earns the highest rate of wages.

False is the principle of saving, because where the *consumption* of goods is the highest, there is the wealth of the people the greatest. They who teach the contrary are mistaken.

The representatives of the practical science are not much happier in their speculations. In the first place it is erroneous to assert that there is a continual conflict between two contradictory and elementary principles of that which ought to be: the principle of individualism and that of socialism. False is the assertion that the elementary moral rule in regard to what humanity dares to wish or dares not wish, is other for the workman than for his employer, other for the Christian than for the Jew and Moslem, other for the European than for the Asiatic, other for the Democratic than for the Conservative, other for the individual than for society or for the State. Science is truth, and there is only one truth. It stands above individuals, above parties, above States, and above faith.

To discover the principles according to which our economic life should be governed, one must keep in view the aim of economy, which is the satisfaction of human needs. The more these needs are satisfied, the more perfectly the aim of economy is attained. But, as nobody is able alone to produce everything which he requires, everybody is necessarily dependent on the assistance of his fellow-men. Everybody has to produce goods, which are to serve in satisfying the needs of others. A man employs these goods as a means of exchange, and thus procures for himself such goods as he himself needs.

As everyone therefore requires the help of his fellowmen in order to satisfy his needs, an elementary rule of ethics necesssarily follows, viz.: *Protection of one's own personal interests, without injuring those of others.*

This elementary rule of ethics is the same for all individuals and for all nations; and it has been the only sound one since the world began. So long as a nation follows this elementary rule, it progresses both economically and politically: the nations which have neglected this rule have sunk into decadence or are showing signs of it.

The ethic principle is identical with the "sound economic principle," because that which is right and good is at the same time economically the most advantageous for everybody, for the individual as well as for society in general.

In order to attain the most perfect satisfaction for human needs, the goods serving that purpose must be produced in sufficient quantity. The incitement to production is the profit which the producer makes or hopes to make; in order to stimulate production, there must be, in fact, a certainty of being able to reap a due reward.

In order that production may find its reward, there must be a demand for the goods, because without this demand, their value diminishes. The best means, therefore, to increase the value of the production is to increase the consumption.

Now, consumption increases with an increase of income, since the more a person earns, the more does he consume.

The whole revenue of a nation is equal to the value of its production of goods, is equal to its purchasing power, and is equal to the value of the goods consumed, plus the increase of capital made by savings.

The wealth of a nation is to be estimated according to its revenue, considered as an annuity. Opinions may differ about the question whether a private individual, whose capital produces an income of ten thousand dollars a year, is richer than another, whose knowledge produces the same yearly income. Considered from an economic point of view, the one is just as rich as the other, because each one produces goods of ten thousand dollars' value and can consume goods to the same amount.

Here we come to the simple truth that knowledge is nothing else than capital, that working power is nothing else than capital, and that capital is nothing else than working power.

Now, economy is nothing else than the reward of human labor bestowed in the form of goods; the higher the exchange value of human labor, the more goods everyone obtains; the more perfect the satisfaction of a nation's needs, the higher its rank in the march of civilization.

The fundamental basis of the economy and of the civilization of a nation is the value of the goods produced and the amount of the goods consumed by that nation; these values become the greater the larger the average income of every individual forming part of that nation.

The ultimate aim, therefore, of political economy should be nothing else than an effort to increase the income of every individual member of the community.

This ultimate aim of the science brings us face to face with the following questions, viz.:

1. How can income (the value of human labor) be raised without injuring the interests of anybody?

2. What influence has the increase in the value of human labor on all other values?

3. Is the economic prosperity of a State identical with the interest of each one of its inhabitants?

To answer the first question we borrow an example from practical life, from the domestic-wages' question; partly because the help of the State (the assistance of the whole for a part) is nowhere more necessary than here, partly because the concensus of opinion considers that the raising of such wages is an especially difficult question.

The wages paid to those who cover umbrellas, which are sold in the shops for ten shillings each, amount to one shilling and sixpence the dozen. It is impossible to earn more than three farthings an hour with such wages. Whose interest is it to maintain such an absurdly low rate of wages? What objection could be made to a law stipulating a minimum rate of three pence for one hour's human labor? Not even the employer would have any interest in oppsing such a rise in the wages rate, provided that all other employers were compelled to pay the same wages. Two objections only might be raised: 1) that umbrellas, made in a cheaper way abroad, would compete with the native manufacture; 2) that the home industry would no longer be able to do an export trade. Granted that this be so (in fact it does happen occasionally), a prohibitive duty, equivalent to the advance in the wages rate, would be sufficient to do away with the first objection; the other so-called drawback would be more than compensated for by the increase in the home consumption, provided that the rise in wages would extend itself to all human labor, and not alone to the manufacture of umbrellas. There can be no doubt that a higher-wages' rate would cause an increase in respect to a demand for food, clothing, housing, education, and in domestic life generally, and that, in this manner, the whole community would profit by a higher-wages' rate.

Where lies the cause of the enormous economic development of the United States of North America? Where else than in the circumstance that in those States every inhabitant consumes, on an average, at least forty dollars more a year than in any country of the old Continent? This difference, taking the population as 70,000,000, amounts to about three milliard dollars a year. This surplus of consumption is the consequence of a corresponding surplus in the value of the production, and this means for the United States an increase of the purchasing power for the same amount, which, in its turn, brings increased profits to agriculture, industry, trade, arts and sciences, in short, to everything, and also to the foreign trade of the country. This must indeed be clearly understood: A lower-wages' rate alone would not enable Europe to export to the States a portion of its industrial products, if the inhabitants of the States, owing to their higher wages, were not able to consume more in proportion to their higher income.

Nowhere does there exist an enterprise so splendid that it could not be ruined by an incapable or disloyal management; nowhere does there exist a State so wealthy that it could not be ruined by an incapable or disloyal government. What has caused the decline of Spain? What else than the neglect of the vital interests of her inhabitants during centuries? In America, not only are goods produced, but this production finds its reward; in Spain there is not sufficient production, and even were this materially increased, it would not find its reward. If one earn nothing, one can consume nothing; where nothing is consumed, nothing can be earned!

The second question is as follows: What influence has an increase in the value of human labor on all other values?

This influence is different for every article, according to the greater or lesser importance of the human labor employed in its production. The belief, so widely spread, that the rise in value of human labor has, as a consequence, a proportional increase in the value of all goods, is entirely erroneous. It is the more remarkable that this belief does still exist, inasmuch as for every single article the theory can be refuted, and that with mathematical accuracy.

The rise in the wages' rate, for covering umbrellas, from three farthings to three pence an hour, say a rise of 300 per cent., would increase the cost of a ten-shilling umbrella by four pence halfpenny. If we stipulate a minimum wage of three pence per hour for all the work necessary in the production of an umbrella, the cost of an umbrella would not increase even by ten per cent. Still smaller is the part of human labor in the value of all alimentary products: Bread, meat, sugar, milk, butter, vegetables and fruit. The value of bread depends upon the value of the land which produces the corn, of the interest on the capital necessary for working the land, of the work done by agricultural machinery, by the horses and oxen employed on the farm, of the costs of storing, forwarding and transporting the corn, of the cost of the miller's plant, and that of the baker, and finally of the value of human labor. The little importance of this latter factor is shown at a glance by the modern milling industry. A mill which produces 3,600 sacks of flour a day requires sixty workmen to effect this. Taking the wages at five shillings a day for every workmen, we find the cost of wages to be one penny per sack of flour, say about one-third per cent. of the value of the article itself. Of course, the circumstance must be considered that an increased demand raises the value of each article; but this rise in value is again but an increase in the value of human labor alone, which brings profit to the producer as well as to the merchant.

A rise in the reward of human labor does not increase the value of the forces of nature, nor that of the land, nor of capital, nor of labor of animals and of machinery, nor the costs of transport (except indirectly by an increase in the price of coals, iron, etc.)

How is it possible, otherwise, that American industry, which pays the highest wages, appears as a successful competitor in the world's market? That the steel and iron industry of free-trade England is beaten even now in its own country by American industry?

Mr. G. Schweitzer, in his "Voyage Round the World," expresses the opinion that it will be the Asiatics who will one day take up the struggle with the Standard Oil Co., and will put an end to its monopoly.[1]) According to Mr. Schweitzer's statement the workman, employed in the Eastern oil mills, earns a little over five pence a day, whereas the American workman earns five shillings, if not more. We shall have to wait and see. Meanwhile we do not think that even the most learned professor believes that Asiatic petroleum, on the place of production, simply because the wages there are ten times lower, could be produced at a cost ten times cheaper than that of the petroleum produced in America.

The theory of value of actual economic science is just as false as the law in regard to the wages' rate and the principle of savings.

It is neither the amount of the labor, which the goods cost, which is decisive as a measure of their value, nor their utility or the advantage caused by the goods. These factors and a thousand others besides may influence, more or less, the value of the goods, but they do not determine it.

The new school of economists takes less trouble, its followers say: The value of goods is determined by the cost which their acquisition involves.[2])

---

[1]) Compare Preussische Jahrbuecher, February, 1899.
[2]) Compare Dietzel.

This theory is also false, because it is based on the false presumption that the price paid at any time is equivalent to the value of the goods. Thus it does not take into consideration the fact that an article can be paid either far under or far above its real value.

In the year 1894, wheat went down to eleven francs per 100 Kg.; in the year 1898 the price rose to thirty francs. The only cause for this difference in price lay in the circumstance that in the year 1894 there were people foolish enough to sell their wheat at eleven francs, and that in the year 1898 there were people foolish enough to pay thirty francs for the same quantity.

If we were to say to the farmers: "Do not sell your wheat, because within two months we shall have higher prices," then prices would *infallibly* be higher within the two months, *provided that producers followed the advice given.*

If we were to say to the producers: "Sell your wheat, because within two months we shall have lower prices," then prices would *infallibly* fall within the two months, *provided that the producers did follow the advice offered.*

Although in both cases we may have predicted truly, we did not foresee the rise or the decline, but we directly *caused it.*

So, in many cases, the people who sold below the market value did not foresee the greater decline in prices which set in later on, but they caused it, just in the same way as cowardly soldiers, who, the first to lay down their arms, did not foresee the disgraceful issue of the battle, but directly caused it.

Here we come to the real theory of value, that is to say, the basis on which the whole economical science rests.

Human intelligence is the sole cause of national prosperity, just as the lack of it is the sole cause of a nation's poverty.

If we consider that for all central European States the duties on coffee, tea and cocoa, on petroleum, cotton and raw silk, in short, on all articles which do not compete with the home industries, that further all accise duties on spirits, sugar, beer, salt, etc., could be suppressed, we come to the conclusion that a rise in the average income of the inhabitants of central Europe by 100 per cent. would perhaps increase the cost of life by ten per cent. In other words, every State is in a position to increase its own economic prosperity; it has only to wish it to be done to make it an accomplished fact.

One might possibly object to this by saying that, since one has the means of doubling the average income, so in like manner it could be increased tenfold. The reply to this is: Every rise in the average income increases the consumption of goods, and consequently their production. We have to wait and see the effect of such a demand on the production of goods. It is clear that the producers of the goods would not be able to satisfy this demand if they had only manual labor at their disposal. Natural forces and machinery must help to produce the goods with which human labor is to be rewarded. A further proof (if one be necessary) is here afforded that machine work does not compete with human labor, but increases its reward.

We come to the third question: Does the economic prosperity of a State lie in the interest of every member of it?

It is a generally accepted opinion that the unintelligent of this world are exploited by the more intelligent, and that, in a certain sense, the unintelligent are necessary in order to render life easier to those who possess more intelligence. Although such an idea, at first sight, seems to have a basis of truth, it is nevertheless wholly erroneous. The unintelligent not only do harm to themselves, but they do harm to the intelligent also, and the damage they cause to the latter is much greater than the profit brought in by their want of intelligence. How delightful it would be to live in this world if there were no longer unintelligent people, who, because they do not understand their own interests, hurt the interests of the community in general.

The most deplorable mistake of all times seems to me to have lain in the fact that the *well-to-do* classes have not only held poverty and misery as natural things, which, since they do exist, must exist always, but because they feared that they themselves would become the poorer as the poor became the richer. Nothing could have been more erroneous than this idea. The wealthier a man is, the more opportunity does he give to others to earn money, and the easier does the struggle for life become for everybody. It follows from this that the community in general has a direct interest in the earnings of everybody, that the material loss to a private individual affects the community at large, that the true interests of every one are not at all oppoesd to the interests of the community, but that they always move in the same direction.

Adam Smith, 125 years ago, in his *Inquiry Into the Nature and Causes of the Wealth of Nations* (Book I, Chap. VIII.), wrote as follows—viz.:

> "The common complaint that luxury extends itself even to the lowest ranks of the poeple, and that the laboring poor will not now be contented with the same food, clothing and lodging which satisfied them in former times, may convince us that it is not the money price of labor only, but its real recompense, which has augmented.
>
> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconvenience to society? Servants, laborers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconvenience to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their

own labor as to be themselves tolerable well fed, clothed and lodged....

The liberal reward of labor, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the laboring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards."

If, in spite of these principles, as beautiful as they are true, Adam Smith could not indicate other means of increasing the wealth of nations than by working and saving, we may attribute the fact to two causes: In the first place Adam Smith considers the liberal reward of labor as the *effect* instead of the *cause* of increasing national wealth. secondly he under-rates — as well as all his followers — the importance of the consumption.

If farmers, merchants, manufacturers, artists, savants acquire riches, is this anything else than an increase of the reward of their labor? Is it then possible that a nation becomes rich, without increasing the reward of the labor of somebody? Perhaps Adam Smith was of the opinion, that to become rich, the farmers, merchants, manufacturers etc. should have their turn before the workmen. But I cannot find any reason to support such an opinion. On the contrary, I find, the richer the workman becomes, the greater will be the gains of the farmers, merchants, manufacturers, artists and savants. The raising of the reward of labor is the foundation of all wealth.

The consumption of goods, in economical life, is of the same importance as is their production. As well may we say that the more goods a man produces, the more useful is he to society, so it is right to say, the more goods a man consumes, the more useful is he to society. The consumption of goods indicates not only the measure of the rank of civilization of a nation, it is also the factor, which has the greatest influence on the value of the goods produced. Without production there is no consumption, without consumption, all production would be valueless.

The higher the figures of consumption, the higher the value of production.

The consumption of goods must not become extravagant or wasteful, because the damage which the prodigal causes to himself by weakening his purchasing power, re-acts upon society in general. A lavishing principle would be as false as is the savings principle.

All economists agree that the division of this world's goods is too unequal and they call in the help of charity. (*System caritativ*). Is it not wonderful that nobody suggests the sole means existing of alleviating the present distress among the working classes, viz: The raising of wages, which would enable the poor to *purchase* the goods they require for their daily needs.

There will come a time, perhaps, when we shall be fortunate in seeing free competition universally established. This will be, when all the people of this earth have sufficient wisdom, neither to work themselves at too low a rate of wages, nor to expect their fellowmen to do such a foolish thing. Until we shall have reached this ideal state, free competition will be nothing else than the infallible, inexorable exploitation of the weak — in the economic sense of the word — an exploitation which will profit nobody and which will hurt everybody.[1])

The theory that a loss, arising from a too cheap sale, profits the community at large, is false. The agriculturist or corn merchant, who sells his corn under cost price, lowers not only the value of his own production, but that of all other agriculturists and corn merchants; the economic damage suffered by the community, through the decrease of purchasing power of agriculturists and of corn merchants, bears no proportion whatever to the small profit brought to the community by cheaper prices. If the professors are right in this respect, it would be of no impor-

---

[1]) The axioms of free competition have been established as false in a striking manner by Ad. Wagner. Compare "Grundlegung" 1893 1. Band P. 804/5.

tance whatever at what value the goods were exchanged. The loss of the one would be the profit of the other. The basis of well conducted economy is that nobody who works should lose, but that every one should earn.

Protection of labor enables the employer to raise wages without doing an injury to himself; it enables a civilized state to do away with poverty. The elementary moral rule, and the raising of the value of production, give us the key to the solution of all actual social problems.

Here first of all is Social Democracy. The endeavors of social democrats to improve their own economic condition, are absolutely justifiable. But when the workman seeks to attain this end by the destruction or by the levelling up of the other classes, he violates the elementary moral principle of economy. The simple axiom as to the value of production, based on the consumption of goods, strikingly refutes the doctrine of Marx on the value of goods, as well as the whole social democratic system. Working power is a commodity like all other goods; the employer is a merchant who buys this power and sells it again with the production. The wages paid, no more come out of his pocket than does the price paid for the goods, come out of the merchant's pocket. This entirely upsets the simple views of those professors, who endeavor to calculate according to the profits made by the employer, whether or not he can raise the wages-rate; and it also upsets the greater simplicity of view of the social democrat who claims that the profits of the employer should be shared by the workmen. That which has more weight than this scientific reasoning is the important fact that it is easy to double wages and ultimately still further to raise them. If every workman can become a capitalist, the struggle with capital will cease. When the economic position of the workman shall be improved without injury to the interests of any one; when it is an accepted truth that a battle for separate interests is an absurdity, simply because the interests of all are identical, then will disappear not only Social Democracy, but all other class rivalry and hatred.

The vice of alcoholism, as almost everybody to-day acknowledges, is best combated by a healthy, strengthening, stimulating diet. Wages must be high enough to allow this diet to everybody.

Then again there is the question of woman's rights. If knowledge be nothing else than capital, and if the increase of the income of every individual be for the common good, can there be any doubt how this question is to be settled? Of course the cheapening effects of female competition must be removed. This would be done by placing upon woman's labor as high a price as upon that of a man.

Prison-work should never be allowed to come into competition with free labor, whenever it cheapens this latter. The aim should rather be to turn out criminals into useful citizens.

Then again there is the question of cheap co-operative stores. Everybody knows that the small trader cannot resist their competition, that he will be ruined unless the State come to his aid. On the other hand, it is said that the transformation of the small trader into a large one is a sign of the times, and that one should not protect the small trader against the competition of the larger one, this latter by reason of his larger capital and greater business capacity being able to sell his goods at a cheaper rate than the former. How to decide cannot be a doubtful matter for any one who pauses to consider the interests of the community at large. The use of capital is to cause human labor to bear fruit and to produce further labor, not pitilessly to destroy the existence of numerous small traders. A serious trader does not try to beat his competitors by selling cheaper than his neighbors. Such a thing can be done by any tyro in trade. Jealousy, envy and incapacity alone adopt the principle of spoiling a neighbor's trade. A capable merchant injures nobody in business; neither does he seek to ruin his competitors; he acts always according to the moral elementary rule; that is to protect his own interests, without injuring the interests of any one else. The knowledge that it is impossible to injure other's interests without injuring his own, and the application of the rule, shows his ability. The total suppression of cheap co-operative stores would be possible without any prejudice to anybody. For the existence of capitalists is not compromised by the fact that they are prevented from acting against the common interest, in order to lead them into the right way.

There is in Germany a scarcity of agricultural laborers; all parties formulate ideas for remedying this evil; it is remarkable that nobody suggest the simplest and easiest one, and one which is in the interest of everybody. One should turn the agricultural laborer into a house-holder and a landowner, by paying him better wages. If Agriculture of itself cannot afford to do this, it should be enabled to do it by a proportionate increase of customs' duties. Agriculture itself has the greatest interest in seeing an increase of all wages, for it would be the first to profit by the better demand and the consequent rise in value of agricultural produce. "When the farmer has money, everybody has money" is one of the truest of proverbs. But instead of the farmer, one can just as well quote any other class which, numerically is as strong or even stronger. The proverb only confirms the whole theory which is based on the production of value: "If one earns nothing, one can consume nothing; where nothing is consumed, there is nothing to be earned."

Customs' duties must protect home labor; how high they must be, in order to effect this, is a matter of easy calculation, in every case. And just as customs' duties protect the home labor, so export bounties have for their effect a decrease in the value of the work of other countries, whilst prohibitive duties entirely exclude the competition of other nations. But, for the economic relations between States, the same elementary moral rule is valid as for the individual. If one wishes to treat his neighbor as he wishes to be treated himself, export bounties, as well as prohibitive duties, must disappear. The political aim of trade treaties is thus clearly indicated.

Syndicates may be good or bad, it wholly depends on whether or not they take into consideration the elementary moral rule. If a syndicate have for its object to prevent unintelligent or weak competitors from decreasing the value of merchandise and so injuring the interests of all, so is this syndicate of undoubted economic advantage. The coalition of workmen is nothing else than a syndicate, an organization having for its aim the preventing of the weak or unintelligent workman throwing away his working force, in order not to depress the wages of his fellow workmen. It is quite beyond doubt that to the right of coalition, we owe a higher wages rate and, consequently, an increase of economic prosperity.

The introduction of a minimum wages rate, such as is claimed here for all trades, is nothing else than the attempted organization of a syndicate of the poorest and most wretched class of workmen, with the help of the community at large, for the purpose of improving its economic situation. Everybody has an interest in seeing that this object is attained.

He who knows his true interests and act accordingly, fulfils his duties to himself and to society at large. Also it is society's duty, to give every individual the education necessary to enable him to attain the knowledge of his true interests. Only the progress of civilization will lead us to the exact solution of social problems.

CHAPTER XV.

Conclusion.

If we apply to the economic principles, such as they have been set forth in the preceding chapter, to the production, trade and consumption of cereals, we find that the following is the necessary results:

1. Agriculture and trade must be rewarded for their activity, in other words, they must make profits.

2. The consumers of cereals must be protected from famines and famine prices.

There is but an apparent contradiction between these two obligations. No doubt the price of cereals increases in proportion to the profits made by agriculture and trade, but this increase is an economic necessity, which does not cause famine prices, but which prevents them. Indeed, if, after a good harvest, crops are not sold at too low a price, there will, with bad crops, be a supply in hand sufficient to prevent the occurrence of a famine or of famine prices. It is the old problem of the seven fat and the seven lean kine.

During the last five years, wheat prices have fluctuated on the world's market, from eleven to thirty francs per 100 Kg. When the wheat cost eleven francs, the agriculture and the trade of the whole world lost an enormous amount of capital. Who profited by this loss? The consumers? Certainly not! They no more profited by it than did users of umbrellas profit by the reduction to one shilling and six pence a dozen, of the wages paid for the covering of umbrellas. Who, on the other hand, profited by the wheat price of thirty francs? Agriculture but for a small part only; the corn trade in a still smaller way, because, owing to the panic which followed the rise, the trade lost, on an average, more than it had previously gained; whilst consumers were disagreeably affected by the rise in prices of 100 per cent. If it would have been possible to maintain prices, for instance, between sixteen and twenty francs, instead of depressing them down to eleven francs and pushing them up to thirty, is it not evident that everybody would have lost less, and that agriculture, the corn trade and the consumer would have been the gainers?

Breadstuffs differ from other articles, notably in one point, the figures showing the consumption being, so to speak, invariable, for one cannot eat more than hunger requires. Indeed, we have seen that a decline of wheat prices down to eleven francs could not increase the consumption by five per cent., whilst, on the other hand, a rise up to thirty francs could not diminish the consumption by five per cent. It follows herefrom that it is absurd trying to force the increase of consumption; the only result of such a proceeding would be a depreciation of prices, without any utility whatever. It follows, moreover, that the importation of grain can only be put in full activity when the consuming countries have bad crops at the same time as the exporting countries have good ones, and that grain importers must reduce, more or less, their activity when the consuming countries have good crops.

What now can be the use of the artificial Options trade? Can it increase the figure of consumption? Can it give rise to business where there is no need for it? Is it not evident that in the years favorable to corn trade it produces an exaggerated rise, owing to the participation of *outsiders*, and that for the same reason, coupled with excessive purchases in the exporting countries, it prepares and causes the reaction? Is it not evident that in times when experienced corn merchants ought to abstain from doing business, the Options trade, always attracting the goods to the consuming market, depreciates prices and ruins trade and agriculture?

The annual production of wheat alone amounts, on an average, to three hundred millions quarters; the figure representing the consumption is the same. If one take, as an average wheat price, sixteen francs per 100 kg., this figure represents a sum of ten milliard francs. The grain trade of the whole world, backed by all the credit at its command, could not furnish a like quantity of capital at one time. To pretend that the Options' Exchanges would be capable of taking upon themselves this charge is to give proof of ignorance or of boastfulness. Agriculture alone is able to hold the grain, and it is its duty to hold it until the need of consumption makes itself felt. Supply and demand are said to regulate the prices. If this be so, what is more simple than to discontinue supplying? If farmers will only wait until the merchant comes to them to buy their grain, it will be they who will dictate the prices, and they will not sell a pound the less for it, and not a single pound less than before will be consumed.

In order to prevent the grain, after a good harvest, falling to too low a price, the Options' trade must be abolished, for this abolition is synonymous with the revival of legitimate speculation. If Options' Exchanges exist no longer, the producer of cereals, the corn merchant and the miller will be forced, in order to realize profits, to sell his goods at a higher price than the cost thereof. The true interest of all moves in the same direction, they must all fight for higher prices.

This struggle can only be successful when fought out by sure and proved troops. The salvation of agriculture and trade demands the immediate removal of the disastrous influence of outsiders, who do not understand anything about cereals, who, at the least temptation, let themselves be drawn into gambling, who falsify continually the supply and the demand, who madly exaggerate all legitimate movements, and who cowardly take to flight at the first alarm. If the influence of the outsiders make itself felt so powerfully, it is because the activity of all the gamblers of the world concentrates itself on a few isolated points, the Options Exchanges, and that everybody is influenced by the quotations of the latter. There is no means to prevent gambling in cereals. But it is easy, as we have proved in chapter IX, to prevent gambling on a foreign Exchange. Let the outsiders speculate as much as they like in cereals "*on spot*" or "*for delivery*," their disastrous influence will be annihilated. We shall then see the so-called "legitimate" Options traders at once disappear, whose whole husiness is but the exploitation of gamblers, by inundating the consuming markets with cereals and depreciating the price with impunity, "because they are covered;" these legitimate Options traders, whose activity is a thousand times more fatal than that of the gamblers themselves.

One of the greatest economic aberrations of the human race is the "legitimate" Options trade. Despising the ethic fundamental rule of political economy, it finds its vital strength in gambling and trickery, at the ruin of agriculture and trade, just like a parasite plant, which twines itself around the healthy tree and threatens its very pith.

By suppressing this parasite, an enormous stride will have been taken, but all will not have been done. In order that farmers do not themselves spoil prices, when the crops are good, there should be an understanding, according to which everybody should be compelled to sell his cereals not under a minimum price. Such an obligation can only be efficient when the generality of farmers guarantee the minimum price to each individual farmer. We reserve for another essay our efforts at showing, how this *real insurance* must be organized practically, without injuring the interests or touching the liberty of anybody whatever.

In order to protect consumers from famines and famine prices, two things are necessary; there must be: 1) sufficient cereals, 2) sufficient money to buy them. It is the duty of each State to increase its buying strength. In Prussia no duties are paid on incomes lower than nine hundred marks. This is an excellent arrangement, due to the present finance minister. But the finance minister who could so manage that there would no longer exist any incomes under nine hundred marks, would cover himself with a greater glory. Then the income-tax would produce, in Prussia, at least four hundred million marks, instead of one hundred and forty millions. If, in Russia and in India, there would be no incomes under nine hundred marks, these countries would be protected from famine from all time.