BOSTON UNIVERSITY

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THESIS

A

COMPARATIVE STUDY OF THE

MARKETING OF COTTON

IN

India and America

by

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CHAPTER I

INTRODUCTION

Ever since Adam tasted the forbidden fruit, the need for covering one's body has been felt. And by divine dispensation the cotton plant sprouted forth to fulfill this basic need. The Indian Scriptures composed as far back as 3000 B.C. make mention of this most useful plant and the benefits it can bestow on mankind. The story of progress of cotton since then has been a story of a miracle realized through human achievements. Ever since then, whether it be for the loin-cloth or the toga, the cotton trade and textile industry have been plunged in this great task. In spite of synthetic fibres that have raised their puny heads, cotton will reign supreme for centuries to come.

We will be concerned in this thesis not so much with the size of the cotton crop or its curtailment, but
with the manner of disposal of whatever crop is grown by
the farmers. It is intended to supply as much information
as possible on the problems of Marketing of raw-cotton in
India. An attempt is made at various stages to show how
far American methods of marketing of cotton can be profit­
ably adopted by India. Hence, this thesis will include
the marketing of cotton in India as well as the U. S. A.

Marketing cotton covers a wide range of
activities and may be defined as including all processes
and transactions involving cotton from the time the seed
cotton leaves the field until it is delivered to the
mill and paid for. The processes in the cotton marketing
will be our concern here.

The whole thesis is divided into two broad
sections. The first section deals with the spot markets
while the second section deals with the futures market.
The first six chapters are devoted to the study of the
subject of spot market while the last chapter i.e.
chapter 7 includes the study of the part played by the
futures markets in the marketing of cotton.

The aim of the next chapter is to give as
briefly and comprehensively as possible, the origin,
utility and history of cotton. It is essential for all
those who are interested in the subject of cotton to
know something about its early history. The importance of the problem of marketing of a commodity like cotton in India is also explained in this chapter.

In Chapter III, a study has been made of the various problems in the marketing of cotton. Marketing is a comprehensive term covering a large number of functions viz. picking of cotton, ginning and pressing, methods of selling kapas (unginned cotton) etc. It is interesting to study the causes for the existence of various typical and traditional methods in the marketing of cotton. Certain traditional customs are economically best suited to the Indian farmers, taking into consideration the social and economical conditions prevailing in India.

Descriptions of operations in primary, secondary and terminal markets, methods of sale in each of the markets and a discussion of village - market sale versus town - market sale are the main features of Chapter III.

This chapter also refers to the methods of "price - fixation" in the marketing of cotton. Topics such as under - cover method, private - treaty method and auction - method for fixing the price of cotton are studied at length.

The succeeding chapter i.e. the fourth chapter
of this thesis contains the most important problems which have remained unsolved even today in the organization of marketing of cotton in India. Some of these unsolved problems are mixing, watering, price information to farmers, disputes and deductions, storage and warehouse, indebtedness of farmers, high land revenue, weights and measures, multiplicity of middlemen, false packaging, defective ginning and pressing, grading and finally the problem of crop insurance. The cumulative effect of all these shortcomings of the existing system is that the Indian cultivator have to suffer considerably.

In the fifth chapter, reference has been made to the different agencies for agricultural or production finance and the trade finance. The relative importance of money-lenders and charges against them are examined in this chapter. Transport facilities in cotton markets and the part played by the Government in relation to marketing of cotton are at the end of this chapter.

The following chapter i.e. the sixth chapter contains an intensive study of cooperation and regulation in the marketing of cotton. Cooperation, as we know, has come as a "Godsend Gift" to India. But all the same the rapidity of its spread and the gladness with which this
gift has been received, prove that at length, after a long and laborious research for India's great need, has been found.

In the latter part of this chapter, another step towards the improvement of agricultural marketing i.e. the regulation of markets in India on the western style is studied. It can be seen that "Regulated Markets" are desired for removing the existing obstacles in the organization of marketing.

Thus the first section of this thesis is completed at this stage.

The topic of marketing of cotton will be incomplete, if forward market for cotton is not referred in it. Cotton is the only commodity in India for which the forward market is highly developed.

Part played by futures-markets in the marketing of cotton and their utility to the buyers and the sellers of cotton are mentioned in chapter 7 of this thesis.

The writer acknowledges his indebtedness to Anderson Clayton & Co. (Boston & New York Offices) for supplying first hand information on the subject. He also utilizes this opportunity to thank Dr. K. D. Hutchinson Phd. (Harvard) for his guidance in completing this thesis; and to Miss Equils for typing it very diligently.
CHAPTER II.

COTTON AND ITS IMPORTANCE

Early history:

Cotton has now become an important commodity in the world trade. Over one thousand known uses of cotton goods have been listed and cotton yarn and clothes are used for a wide variety of purposes in every land and in every climate. Today, it may be truly said, cotton is the universal servant of mankind.

Cotton has properties possessed by no other textile fibre. At a relatively low cost it produces a vast variety of articles for human needs. India is the accredited home of the cotton plant. There is written evidence to show that cotton used to be grown in India as early as 3000 B.C.  The writings of Marco Polo in the 13th century A.D. and of Tavernier in the 17th century stand testimony to the degree of excellence and perfection achieved by textile production in India. The

1. In Hindu literature book called "Rig Veda" hymn.
2. "Cotton"--by Brown
world undoubtedly owes a debt of gratitude to India for the pioneer work in the cultivation of cotton.

"Indian Cotton" in international cotton nomenclature is more or less a synonym for short staple cotton. It is paradoxical that with raw cotton so short in length and so low in grade, India produced yarn of counts as fine as 300½ and exported the finest fabrics to different parts of the world until the beginning of the 19th century.

Such in brief is the history of cotton, the only crop for which nature has no substitute. Even if corn or wheat should perish from the earth, we could grow enough of other crops supplemented by rice, maize, oats, etc. to feed both men and beasts with comfort. But there is no substitute for cotton which can be cultivated on a large scale, no substitute, animal or vegetable production with which civilizations present demand for clothing could be supplied. Nor is there any plant with a history more marvellous or more romantic--more suggestive of the legend and mythology of its Oriental home where it first began to serve mankind.

It is quite true to say that from time immemorial, India was the only country known for its

1. Cotton--by C. R. Burkett
cotton fabrics, the rest of the world being clad mostly in wool.

This will give us an idea about the origin of cotton and its utility to the world. It is, therefore, decided to study the marketing of such an international commodity like cotton in India. Some other reasons for selecting the marketing of a commodity like "cotton".

Cotton is one of the principal crops of India and forms the major item in her foreign trade. The marketing of a commodity which has a big foreign market must necessarily be very efficient and well organised. The foreign purchaser must have a high regard for the system of Indian business. The absence of these factors gets discounted in the price, and the grower of the commodity ultimately has to suffer.

It is only in the case of commercial crops like cotton that all the modern aspects of marketing become fully visible. Only a few commodities have speculative markets, which is the apex of modern marketing system. And it is here that problems of marketing become highly complicated.

1. This is not the case after the partition of the country in August 1947, still it's a biggest cash crop in India.
Speculation is often thought of as belonging to the domain of vulgar, and the elite in society avoid speaking about it in public. But the speculative market or the futures market, if properly regulated, has certain very important economic functions to perform in the present economic system. It is, therefore, imperative to study the position of futures market for whichever commodity it exists.

It can be said without fear of contradiction, that there is no agricultural commodity in India, for which the speculative market is as highly developed, as is the case of cotton. Its comparative importance in the world market is second to no other crop in India.

It is our intention in this work to examine the stages in the marketing of raw cotton from the time it leaves the farm and reaches the exchange (the ultimate buyer). We will describe the various stages in cotton marketing, consider their economic significance and try to find out how efficiently and economically various marketing services are performed. This will also include improvements where ever possible. Thus the study will be more descriptive in nature.

The methods of marketing have grown up during the past half century, keeping pace with the development
of modern means of rapid communications. The mechanism for moving cotton from the plantation to the mill is highly organised in comparison to any other commodity. A study of cotton marketing is interesting in itself and is also important in throwing clear light upon the dealings on the great organised exchange transactions which are not clearly understood by many people and which are erroneously supposed to be largely speculative in character. Cotton is not a perishable commodity. Although there may be some slight weakening of the fibres from long storage, cotton may be kept indefinitely in proper warehouses. There are authentic instances of cotton stored thirty years or more, being brought out and sold in competition with the new crop. Question of refrigeration or other special forms of storage or marketing will not be covered in this thesis.
CHAPTER III.

PROBLEMS IN MARKETING

The entire process of bringing a commodity from the farm to the final market, is termed marketing.\(^1\)

The need for proper distribution of produce is of as much importance as its proper production, and so the facilities with the agriculturists prosperous and happy are based on increasing and improving the quality of the produce, but little attention was paid to the fact that production has no utility when there are no proper means available for its disposal. With the result that a lion's share of what the consumer pay for the commodity may be absorbed in various processes of marketing. We are therefore interested in knowing as to how the agriculturists should get the maximum return for their crops.

\(^1\) "Marketing of Agricultural Products" by Hibbard
In India, markets for the agricultural products are unregulated. Even today, the markets for several agricultural products are unorganised. The transactions or dealings between the buyers and sellers in such markets take place on the strength of mere conventions and local customs prevailing in different markets. Consequently there is no absolute uniformity in the modes of marketing throughout the widely spread out cotton markets of the vast country.

In places where there are organised institutions for the marketing of produce viz. Cooperative Sale Societies or the Regulated Markets, the Local traditions and conventions are less in existence and they are governed by the rules and regulations of the "Market Committee".

**PICKING:**

Marketing of cotton begins with its picking. In India, the picker carries a cloth bag which is hanging on his shoulder and so the weight carried by him is felt heavy by him. In America, the bag is touching the soil (ground) and the strain caused to the picker is less. There is another peculiarity in America that each picker is given two bags, one for clean cotton-balls and the other for slightly dirty cotton. Thus better prices are
received for good cotton and much time is also saved which would otherwise be required for separating clean and uncleaned (excessive outside dirt, half opened, etc.) cotton-bolls after the picking. In India, no such practice is followed and so the price obtained is the price for the unclean cotton. Hence the Indian cotton is a mixture of both the types of cotton. American mode of hand picking viz. use of two bags while picking cotton-bolls have been made in the past, but have not attained any degree of success.

Sometimes, there may be a picking of unopened bolls of cotton. In China and Russia, cotton bolls are picked in unopened stage and are broken with hard substance and cotton is taken out for the bolls. This naturally involves extra labour but in this method much care can be taken with much ease. In this method, exposure to moisture can be prevented. In India, for a particular variety of cotton named "Wagad" (of Viramgam), whose bolls do not open automatically though they are fully matured, is picked in this fashion.

The method for picking which is followed in India is crude and much evil is associated with it. Much of it is due to the ignorance of farmers, some no doubt, is due to deliberate fraud. Cotton should not be picked
in the early morning as the bolls are considerably wet by the dew.¹.

Generally, women are employed for picking work and they are paid on piece-work basis. Hence, pickers are more particular about the quantity they have picked or opened, irrespective of its cleanliness. In certain villages, openers of unopened picked cotton-bolls, take cotton-bolls to their homes and bring them after opening them. It was found that they were dampening the cotton inorder to increase its weight as they were paid on a piece-work basis.

Removing these defects is not easy for the farmer and the expenses involved in cleaner picking may far outweigh the premium paid for cleaner cotton.².

Mechanical Pickers:

In India, due to the abundance of cheap labour, cotton picking is done by human labour. In America, where labour rates are extremely high, the cost of cotton-picking with the help of human labour is naturally high. Hence, mechanical methods of picking cotton were evolved there.

1. Instances are known of cotton losing 10 lbs. in a mound after such picking.
2. Indian Central Cotton Committee's Report--Evidence Volume V.
Besides cheap labour-rates, there are other economical factors which account for the existence of hand-picking in India.

(a) Small size farms make all the mechanical implements uneconomical.

(b) Machines have to be imported from foreign countries and the import prices are beyond the means of the agriculturists.

(c) Even if mechanical pickers are supplied by the Government, then also the skill and knowledge for operating them and repairing them in case of breakdown, are extremely difficult to be found in rural areas.

(d) Oil is also imported from other countries and the price is very high. There are hardly a few villages equipped with electric facilities.

On the social grounds, mechanical pickers are unsuitable for India because it would throw out many hands out of their jobs unless there are any cottage industries to absorb them.

Considering that mechanical picking is suitable from economical and social aspects, then also from the consumers point of view—hand-picked cotton fetches better value than machine picked cotton. The following statement made by the manager of a leading cotton firm
in the U. S. A. bears testimony to it. "Cotton picked by hand on family farms usually is of higher grade than machine picked lint, bringing a better price from the Cotton merchant." Mechanical-pickers are found unsuitable for the following reasons:

(a) Cotton requires 2 or 3 pickings as all the cotton-bolls do not open simultaneously. Mechanical pickers are unable to trace opened and unopened bolls. Only human minds can decide this factor.

(b) Cotton bolls are spread over the whole plant, and while the machine-pickers pick the bolls, we see considerable damage to the plant being done.

American Scientists have found out various types of cotton-pickers by which these handicaps are minimized but they are not altogether removed. American farm owners are forced to use mechanical pickers because machines are not displacing labour (as they do in India) but replacing labour which is no longer available.

Suggestions:

Cooperative Societies or the Agriculture Department of different districts should suggest systems of picking suited to their climatic conditions and rural economy. It is not possible to make a single plan practicable for the all on account of the considerable
variation of conditions in various cotton growing districts.

Mechanical-pickers are able to collect 1500 lbs. of see cotton in three hours. The speed of human pickers cannot be so great and hence the introduction of mechanical-pickers in India is advisable and is sure to be appreciated by the farmers.

Cooperative Societies should keep such mechanical equipment for the use of their members who can borrow the equipment for them (societies) at very reasonable rates.

GINNING:

Ginning is a process by which the seed is removed from the cotton-bolls which are picked from the plants. Ginned cotton is termed as "lint-cotton" while unginned cotton is called "kapas" in India. Most of the cultivaters dispose of their cotton before it is ginned. This is not the case in America. So ginning marks a stage in marketing in which the cotton grower in India ceases to take any part in the further onward journey of his produce. The farmer does not think that it is his business to be concerned about it. This indifference has resulted in a system of marketing that came to be controlled by a non-agricultural class.
In America, the growers have organized their own ginning and pressing and the Indian growers could have organized their own ginning and pressing, but the poverty and small holdings with little out-put have refrained them from doing so. The management of marketing functions by a separate class of people logically results in their being performed much above the cost price. The very purpose of the Cooperative movement is to replace this system, by performing these services at cost price on behalf of the farmers.

While most of the cotton in India is today machine-ginned, it still continues to be roller-ginned. Attempts to introduce the American Saw-gin were made by the East India Company, but were not very successful, except in the southern part of India. Even there, their success was short lived. The reason for the failure of the Saw-gin in India is to be found in the basic fact that Indian cotton is too fine to bear the action of the Saws, which damage its staple.

PRESSING:

The necessity of pressing Indian cotton into bales arose originally with the growth of exports. Pressing then, was done by screwing presses, installed at ports, where cotton used to come from the interior
in loose condition. Now, power driven hydraulic presses are installed all over the cotton growing districts of India.

METHODS OF SELLING KAPAS:

The following are the usual practices adopted by the cultivators in disposing of their produce. It has been mentioned previously that quite contrary to the system followed by American cultivators, the cultivators in India, market their crops in the unginned stage, i.e. in the stage of "kapas".

(A) Selling of Standing Crop:

This method is resorted to only under rare circumstances e.g. when the cultivator is hard-pressed with money or when the dealers want to speculate. Money is advance at a fixed price per mound of an estimated crop of kapas before harvesting (sometimes at the time of sewing.) After harvesting, whatever the outturn, kapas is brought out and sold at that fixed price. The risk of price lies with the buyers.

There is no exact information about the statistics of such type of sales. It is interesting to note that these advance sales are not in any way connected

with the principle of hedging as the holdings are too small and the cultivators have no knowledge about hedge-sales like the cultivators of America. The dominating motive of the seller is the urgency of funds or a mere speculative motive.

(B) Selling in the Village-Market

According to the survey carried out by the Indian Central Cotton Committee, it was observed that excluding the Berar area, where the markets are regulated, the total percentage of cotton sold in village-markets came to 72\% while that sold in town and other markets came to 28\% only.

Buyers in the village-markets are village merchants, small traders, agents of big firms, agents of mills, etc. There is no middleman between these buyers and sellers but these buyers themselves are not the final consumers\(^1\) and are therefore just like the middlemen between the cultivators and the final consumers of cotton.

Such buyers go to different villages on horseback or in bullock-carts and purchase cotton from the farmers who deliver it at the nearby ginning

\(^1\) Except agents of mills--who are negligible in number
factory. Village merchants predominate as buyers in village-markets as they finance the cultivators at the sowing time with the condition that the cotton will be sold only to him. Such village merchants after buying the produce in the village, bring it to the town market and sell it as it is or sell it after making it into lint-cotton. Town market is generally in the premises of ginning and pressing factories. A town market is sometimes 20 to 25 miles distant from the villages and if the prices in the villages compare favourably with those in the town market, why should a cultivator cart his produce to such a long distance?

Reasons for predominance of Village-Sales:

(a) Total crop of each farmer is too small and hence not worth his while to carry it to the market.

(b) The idea of taking to the market is dropped on account of the market being so very far.

(c) Farmers are afraid to take their crop to the market because they are ignorant about the market customs and chances of being cheated are many.

(d) Farmers usually take loans from village merchants and then are obliged to sell their crop to them.
Factors which contribute towards making cultivators to prefer village-sales to market sales:

(1) Considerable time is spent in effecting the sale in the market, e.g. taking the crop in bullock carts, waiting for the buyers, etc. The whole operation sometimes taking as many as two days. Small extra sums which farmers obtain by carting his produce to the town market is not worth the time and energy spent.

(2) Reasonable uncertainty exists as to the demand in the markets and the price which would be obtained.

(3) There are no adequate storage facilities in most of the markets so that cotton taken there must be sold even though the price may not be favourable to the sellers. Taking back the crop to the village and rebringing it is uneconomical and difficult.

(4) There are various customary and market charges which cultivators are forced to pay in town-markets.

(5) It is necessary to engage a broker at the market. Though the seller bears the brokerage charges, still brokers chiefly act in the favour of the buyers.

Certain decided advantages of Village-Sales:

(a) Due to a strong local demand from the village

1. Studied in detail in the next chapter.
merchants, agents of big firms and mill's agents who tour in the villages during the season and who are ready buyers of all the stocks of kapas which is for a sale in the villages. Owing to this keen competition, rates in the village compare favourably with the prevailing market rates.

(b) Disputes are rare and there are no customary and market charges.

(c) There is no waste of time and energy as there is no question of what will have to be done with the kapas if rates are unsatisfactory. Cultivators have long standing relations with the village merchants (who predominate in village-sales) who are more considerate than from unknown buyers in the town market.

Rates--Village and Market--Compared:

It was a common belief that market rates were much higher than those in the villages, and it was clearly of an advantage to the cultivator to sell, in the town-markets. This belief was on the grounds that farmers in the villages are unable to ascertain the ruling prices in the central markets. Buyers are informed about the prices in the central markets, through their main office by telephones and telegrams, but they do not disclose them (prices ruling in central
market) to the farmers.

Price in the village market cannot be equal to the price ruling in the central market because the purchaser in the interior (village or town) markets has to incur transportation, handling, insurance, warehouse, etc., expenditures and hence he will pay a slightly lower price than that ruling in the central market. Sellers are usually paid much lower prices than their crop deserves.

One of the ways to remove this weakness of the farmers is that they should be well informed about the prices ruling in the central markets. Such facilities are found where there are Regulated Markets, and Cooperative Sale Societies in existence.

Ignorance of Farmers in the Village Markets about the Prices Ruling in the Central Markets is not a Serious Handicap:

There is a keen competition amongst the purchasers and on a close study¹, it was found that spot prices in the village markets depend upon the purchasers and not on the fluctuations of the price in the central markets.

¹. One the basis of information supplied by experienced men who are in the cotton trade for over twenty and some fifty years.
In the villages, besides farmers, there are village merchants who are the sellers of kapas. These village merchants are shrewed and are aware of the ruling price of kapas in the central and other markets. Even if farmers are informed about the prices in the central market, then the calculation of "Local Parity Price" would be very difficult for the farmers. Only clever merchants can calculate this parity price.

Conditions in the U. S. A. are quite different because of better means of communications and vehicles to carry the produce and the farmers are aware about the important information like the crop-estimates, prices, etc. by means of radio facilities. Some of the criticisms against village-sales are mentioned below and are studied at length in the next chapter of this thesis.

Disputes and deductions,
Weighment System,
Payment of price, etc.

(C) Sale in Town Market:

The outstanding feature of this method is the host of middlemen intervening between the buyers and the sellers.

1. Who have bought kapas from the farmers.
Most of such markets are unregulated and there are no rules and regulations except the local traditional customs for trading in them.

Methods of Sale in Town-Market:

(a) Selling directly to Buyers:

In very rare cases the cultivator disposes of his crop directly without the help of a commissions agent or a broker.

(b) Selling through a Commission Agent:

Most of the cultivators engage brokers who are responsible for all further transactions (complications) of the sale. Cultivators are not free in choosing the commission agent as they are generally compelled to sell through the commission agents who have financed them during the season. These commissions agents secure best prices for the cultivator's cotton and they deduct their commission charges from the value received for the produce. In many cases, it is customary to deduct interest amount for the loans from the value received and the balance is paid to the farmers. Such commission agents also provide the storage facilities for their clients produce for a day or two.

Cultivators bring kapas to the commission agents place in the town-market where his lot is
marked with specific signs and for which they are given a "chit" (receipt) with the weight of kapas and its description on it. Commission agents are responsible for all transactions from delivery till its final sale to the buyers and procuring the payment for them.

(D) Selling in Regulated Markets:

In regulated markets, the market charges and formalities are laid down and are regulated and controlled by market-committees which are represented by growers and traders. This subject is studied in detail later on in Chapter

(E) Selling in Cooperative-Sale-Societies:

This is a recent development which took place in the organization of marketing during the past twenty-five years. Under this method of selling kapas or lint-cotton, the cultivators, who are the members of the Sale-Societies of a particular area, hand over their produce to their respective Sale-Societies, which in their turn pool together the produce of different members and arrange for its sale either in the town-markets or sometimes in the central markets. This topic is also dealt with at length in Chapter of this thesis.

Selling of Cotton in the Central Markets:

The other name for central markets is terminal
markets, which are situated in port-towns. The only well established terminal market for cotton in India is in the city of Bombay.

The sellers in the Bombay market are the big cotton-merchants who have ample stocks of raw-cotton in their warehouses. They buy cotton from the interior cotton growing regions through their agents and employees.

There are another class of sellers known as "jethawallas" in the Bombay market. These types of sellers do not keep their own cotton but they act as selling agents for:

1. big merchants of the interior cotton growing regions.

2. cooperative sale-societies which send their entire lot for sale

3. sometimes, (very rarely) even individual farmers may send their entire crop to be marketed in the Bombay Market. These jethawallas have salesmen in their firms who have good influence with the buyers and hence can procure best price for the cotton.

The buyers in the Bombay Markets are the mills, which require cotton for their consumption and they buy cotton from cotton merchants or jethawallas.
Some big mills directly buy cotton from the interior markets, but sometimes it is considered economical by the mills to buy cotton from the Bombay Market rather than to keep an entire department to buy cotton from the interior.

Advantages for Mills to Buy Cotton from the Bombay Market

(a) Prices are reasonable because of keen competition.
(b) No capital is locked up in storing cotton.
(c) They can buy in whatever quantity they like and more over they get credit in buying cotton from the merchants or jethawallas.
(d) As there are large numbers of sellers in a terminal market, mills have a wide choice in selecting the cotton which would meet their requirements.
(e) Bombay's market being an international market, some mills which use foreign-cotton can also buy it at the same place.

The other buyers in Bombay markets are known as slippers, who buy cotton for export purposes. They buy cotton on the basis of orders received from foreign countries. There are the offices of the foreign-firms in Bombay Markets which sell cotton of their respective countries and buy Indian Cotton e.g. Volkart Brothers, Anderson Clayton & Co., etc.
Bombay's market is highly developed and very well regulated. All the transactions and other formalities are carried out according to the rules and regulations of the East India Cotton Association, which has its own building known as "Cotton Exchange Building" in the city of Bombay. Hedging facilities were also readily available to the traders in the Bombay market.\(^1\)

**METHODS OF SALE (Price Fixation)**

**In the Village Market:**

The crop is usually sold outright to the purchaser and the price is fixed at the time of the sale. In some parts (East Khandesh), there are known as "Mogham" sales, under which the cultivator delivers his crop to the buyer who is generally a village merchant and the rate is left unfixed. The rate is to be fixed as that prevailing on any subsequent day that the cultivator selects.

**In the Interior Markets:**

(A) Under Cover Method;

This method operates in a large number of interior markets. The farmer is represented by a broker who enters into transaction with the purchaser or his

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1. Futures Market in India is closed since 1947.
broker. They fix the price of the lot. While fixing the price, they do not speak anything about the price openly, but they both place their hands (one hand each) under a piece of cloth or under the wall of their long jackets (coats) and by secret signs and codes, they fix the price.

Drawbacks of Under-Cover Methods:

Farmers are unable to follow the price fixed by his broker with the purchaser or his broker. Farmers are forced to sell cotton at a price fixed by their brokers.

The price is fixed between two brokers under a secret code. The broker of the farmer may not tell him the true price at which the actual transaction took place. The true price may be slightly higher, thus the broker pockets the margin which was the legitimate share of his client who is quite ignorant about it.

Benefits of Under-Cover Methods:

Purchasers in the interior markets are mostly the agents of the big firms and they are subjected to certain limits as regards the maximum price at which the cotton should be purchased. As there is no open competition of price prevailing in this method because it is fixed under-cover, the purchaser or his broker is likely to offer or pay the maximum price which he has
been permitted due to the fear that kapas or cotton would be bought by other competitors. Except in the regulated markets, this method of sale is universal method in India including the Bombay's cotton market.

(B) Auction Method:

The price is fixed openly under this method. Purchasers are assembled at a particular place (market) at a particular time, where they make open bids for various lots of cotton. The highest bidder gets kapas ultimately. Due to the open price-competition, the sellers (farmers) are likely to receive better price for their crop.

Farmers have to pay some commission to the auctioneers, but they know the price at which their produce was sold.

Drawbacks of Auction Method:

Though there is an open competition among the buyers, still many bonafide buyers may not be able to attend the auction. It so happens that the bidders may unite together and decide not to bid more than a particular price.

This method is followed where there are Cooperative Sale-Societies.

(C) Private Treaty Method:

Under this method, every purchaser or his
broker goes to the sellers, who are in the market place, and announces openly the price which he intends to pay. Sellers receive such offers from various buyers for certain periods of time (usually one day) and finally the lot is sold to the buyer who has offered the highest price.

In Auction Method, buyers are required to be present at the auction time, but in this method it is not so.

The purchasers—in the hope of striking the business and also due to the fear that their competitors may offer a little higher price and take away the cotton, themselves offer the maximum price to the sellers.

This method is followed in Gujerat region in India.
"PROBLEMS IN THE MARKETING OF COTTON"

It is an important problem to study the shortcomings in the organization of marketing of cotton, which is the principle commercial crop of India. The Government desired to improve the standard of living of the farmers who are the backbone of the nation, and the traders desired to improve the efficiency of the business methods to the international standard. Both these have made the problems of marketing very popular and of great utility.

Generally speaking, marketing facilities in the cotton growing districts are very unsatisfactory. Everything is carried on under the old customs and traditions. In recent years, the marketing system in the interior markets is undergoing a process of evolution which has resulted in the establishment of better organized markets (e.g. Regulated Markets and Cooperative Sale-Societies).
It would be necessary to mention here that a body known as the Indian Central Cotton Committee which was sponsored by the Government has done and is still doing various efforts in improving the marketing of cotton in India. The same body said that marketing under supervision of strong local bodies would solve the problems of hap-hazardmess and irregularity in it.

Mixing:

It is a widely prevalent practice of mixing different varieties of cotton at the time of its ginning and pressing. As the farmers in many places market the unginned cotton (kapas), they are not directly responsible for this evil but it is mostly done by the middlemen (village merchants or local buyers). When the final purchaser of cotton learns this, on the unpacking of the bales of that cotton from the particular is mixed, he will stop buying it from that area and will prefer to buy it from other areas. Hence, the growers of cotton in the former areas are at loss on the whole.

Mixing of different grades and staples of cotton reduces its spinning value, bringing it almost to that of the lowest variety, which has been mixed into it.

The merchants mix different grades and staples of cotton in order to make more profits. It has been
observed that the final consumers of cotton (spinners) who strongly complained of this evil, take up large quantities of mixed cotton, knowing it to be mixed, because every buyer takes care to discount for the fraud.

Steps taken by the Government:

Early government legislations were passed with the dominating motive of procuring cotton in pure and unadulterated form for the Lancashire spinners. They had very little effect in educating farmers to market their cotton in pure form. No appreciation was shown for clean picked cotton and always the price of lower grade cotton was paid by the buyers with the result that farmers neglected to market different grades of cotton separately. Sometimes, a farmer has various small plots of farms, situated at a distance. The crop on each plot will naturally be of different grade and varied staple, but it is uneconomical for him to market these crops separately and so he takes the entire crop from all his scattered holdings to the market for sale.

As early as 1829, an Act called the Bombay Frauds Act, was passed under which penalties were laid down for mixing of cotton. Since then, several other legislations were passed by which the ginning and pressing of factory owners was licensed and supervised by the
government inspectors. Each bale was to be numbered with a serial number and the license number of that particular pressing factory, so that the factory where it was pressed can be located in case of fraud. Even after these efforts, the mixing of cotton is still continuing in some markets.

Suggestions:

In order to remove this evil, it is necessary to introduce "grading" system in the primary (interior) markets. Also, a proper seed distribution of uniform and standard quality to all the farmers will standardize the quality of cotton in various districts. The cooperative marketing methods touches these aspects to some extent.

Watering:

This is another evil similar to that of mixing. There is useful damping as well as fraudulent damping and it is very difficult to draw a line distinguishing them.

Reasonably damped cotton will make it soft, thus it strengthens the staple and lengthens it and makes the pressing easier.1 But, as it is seen, cotton is being damped for not to ease the pressing, but to increase its weight.

1. It is for this reason that the spinning room in textile mills are kept around 70 humidity by artificial sprinkling of water in that room.
Water is being sprinkled through a hose-pipe while it is awaiting for pressing in the yard of the factories. The correct way of damping cotton to ease pressing is to dampen the ground on which the heaps of cotton are lying for being pressed into bales.

Farmers benefited by Watering?

As mentioned before, farmers sell unginned cotton and ginning and pressing is done by the merchants who occasionally resort to the practice of watering the cotton. Such merchants offer a slightly better price for unginned cotton to the farmers on the strength of recovering it by watering it. Thus farmers get a slightly higher price and a vicious circle is formed. Merchants are forced to water the cotton in order to make good the high price paid for the cotton. Though this evil has an immediate advantage to the farmers, still on the long run they are at a loss. Final consumers (spinners) will be very careful while offering the price for cotton from such areas in future and this will depress the price of cotton.

Price Information:

This topic was slightly mentioned in the previous chapter (page 24) but it would be worthwhile to study it more carefully.
It has been already pointed out that the absence of day-to-day price and fluctuations in the price of cotton in the central market is not a serious handicap for the farmers who sell their produce in the interior markets. Owing to the keen competition in these markets, farmers generally pay a fair price for their produce.

It has also been mentioned before, that farmers employ brokers in the interior markets, and these brokers are bound to safeguard the interest of their clients (i.e. farmers) otherwise their services would be discarded by the farmers.

Inspite of the above mentioned natural advantages there are instances when the farmers have to suffer due to the absence of ascertaining the price of the central market. When there is a sudden rise or fall in the price of cotton in the central market, the farmers have to suffer as they are not aware of sudden fluctuations in the price of cotton. Such occasions, however, arise very rarely.

During the last few years, the farmers have begun to realize their weak position in respect of the price informations. By the establishment of Regulated Markets and Cooperative Sale Societies, an arrangement is made in the interior markets to spread the price
which is ruling in the central markets. The Government is also making efforts to spread the market rates in rural areas by means of radio-broadcasting system. In regulated markets, prices ruling in the central markets as well as other statistical informations—viz. total acreage, estimated crop forecasts, ginning position, yield, etc.—are written on a black-board which is kept in front of the market premises.

Disputes and Deductions

After a transaction is concluded in the interior market and the price is settled, cotton is taken for weighment and here disputes generally arise between the seller (cultivator) and the purchaser.

Weighment in the interior market is done by an old fashioned scale and it is a lengthy and tiresome process. When half the produce has been weighed, the purchaser or his broker tries to find out or pick-up a dispute with the seller on the ground that the quality is inferior or is not according to the samples shown. It was personally observed by the writer in various interior markets in India, that purchasers purposely pick up a quarrel in order to get some reduction in the price. Such reductions vary from 2¢ to 12¢ per maund (28lbs.) of cotton.
The sellers, under such circumstances have two alternatives in case they don't want to give reduction in the settled price to the buyers.

One is to accept the lowered (reduced) price and the other is to cancel that bargain altogether. The sellers usually are satisfied by accepting the reduced price because of the following two reasons:

1. Absence of storage facilities for the crop which they have brought to the market for sale.

2. It is difficult to find another buyer at the original price after the dispute because the new purchaser will think twice before purchasing from such sellers.

In some interior markets, it is customary to pay a slightly lower price than that fixed (settled) in the market at the time of the bargain. The reduction being a concession or a refund from the seller. It was observed personally that purchasers in such markets offer a slightly higher price than the actual parity price on the security of getting a rebate on such a settled price. It is because of these deductions from the price of cotton and other disputes in the interior markets, farmers prefer to sell their crop in the village markets.

The traders justify for reduction in price on the following grounds:
The very fact that farmers accept lowered or the reduced price indicates that they have no objection to such disputed and deductions by the buyers. Farmers do realize that buyers offer slightly higher prices because of the competition and they (farmers) know that they have received a fair price inspite of such deductions. If deduction is unjust, then farmers would not take their crop to the market at all and sell it in the village itself, but the arrival of cotton in such markets have not stopped which proves justification for deductions.

During the active season, it would be very easy to find new buyers for clean and pure cotton in the market, but farmers are to some extent guilty of their crop and hence they accept the reduced price which proves that deductions by the buyers are fair.

In business, the importance of spoken words is so great that they are even more respected than written documents. Traders are justified in claiming deductions if the cotton is really bad, damp or not equal to the sample shown.

Deductions in Kind:

This is another practice which prevails in many of the interior markets. Farmers (sellers) are required to give certain quantity of cotton to the weighmen, sweepers and the cleaners, water-suppliers, etc.¹.

¹. This is over and above their gregular charges.
Generally, such charges should be born equally by the buyers and the sellers but in actual practice, they are fully born by the sellers alone.

Apart from these charges, a certain percentage of the price is deducted for charitable works, public-works departments, etc. All these customs are traditional and hereditary in nature.

In some markets, there is a custom that purchasers can pay within a certain specific period the price of cotton to the sellers. Usually, buyers are supposed to pay the amount on the receipt of the cotton, and they do pay it in the same way at the above mentioned markets, but they deduct a small amount by way of "payment before the due date."

The cumulative result is that after deducting all such charges, the farmers (sellers) receive a negligible amount for their cotton. These unfair deductions are controlled and partially removed by the introduction of regulated markets and cooperative sale-societies.¹

Storage and Warehouse:

There are no adequate and cheap storage facilities in the interior markets for storing the produce of the

¹. Studied in greater detail in Chapter VI of this thesis.
farmers. They can store their produce in their own farms or in the compounds of the ginning and pressing factories. The factory owners allow the storing of the produce in their factory-yards because they get ginning and pressing business from the owners of the cotton.

Considering the importance of storage facilities in the organization of marketing, the existing facilities are hopelessly inadequate. There are no warehouses or godowns where farmers can store their produce safely.

The problem of warehouse and storage is closely related to the financial conditions of farmers. If they are not in a position to wait till they get favourable prices for their produce, then, up-to-date modern warehouses will serve no purpose. In spite of having huge storage facilities, farmers may not utilize them as they are hard pressed with debts and therefore are compelled to sell their crop immediately after the harvest.

Advantages of good storage:

It makes the financing of marketing the cotton very convenient. In the absence of authorized godowns, the finance of marketing is made difficult, because the farmers do not possess any warehouse receipt which could be used as collateral security.

After the produce has been assembled at the
market centres, proper storage facilities would increase the holding capacity of the cultivators and they can obtain better prices for their produce.

Licensed Warehouses:

This system has been introduced into many countries. Under this system, the produce is delivered by the farmers to the licensed warehouses, where it is graded and a "Warehouse Receipt" describing the quality and the quantity is handed over to the depositor.

The work of establishing such warehouses was first entrusted to the Indian Railways, but they have done nothing in that direction. Under the present circumstances, due only to finds of sporadic efforts made here and there for constructing warehouses for cotton.

Suggestions:

Warehouse-Receipts given by such warehouses will be good securities for any financial agency, specially because they will enable it to calculate fairly accurately the amount of credit that can be given.

(1) Railway companies should build warehouses at important railway stations and junctions.

(2) Farmers should themselves form cooperative

1. Railways in India are owned and operated by the Govt.
societies for running of warehouses.

(3) Private individuals should be given licenses by the Government to operate "licensed warehouses" in the country (India).

(4) Big banks should be asked to give warehouses facilities and services not only to their clients but also to others.

(5) Cotton Exchange and other trade organizations should establish modern warehouses for the use of their members.

**Warehouses in the U. S. A:**

Apart from storing and protecting cotton from physical damage and theft, the warehouses in America perform several other services.

(1) Inspect, weigh and make records of condition of bales and recondition bales;

(2) Convert ownership of cotton into desirable collateral for bank loans through the assurance of an insured, negotiable warehouse receipt;

(3) Furnish accurate, dependable cotton sampling and weighment services to merchants and other owners and buyers of cotton;

(4) Assemble, sort and concentrate cotton in even-running lots for shipment at the direction of the merchants,
(5) Under instruction from merchants, compress, patch, tag, mark, load cotton into cars and execute necessary documents for shipment;

(6) Insure cotton in their custody;

(7) Under arrangement with railroads, cotton warehouses serve as their depots and the warehousemen as their limited agents to receive, unload, store and hold cotton for the account of the railroad, pending surrender of the original endorsed bill of landing.

In India, only in the terminal markets (in port cities), the warehouses perform functions 1 & 6. They should try to expand their activities on the American lines as mentioned above. In the U. S. A. warehouses have played a much more important role in that they have become agents for the Federal Government in handling and insuring cotton for farmers who wish to secure a loan or who wish to sell the cotton to the Government under the purchase program.

In India, some big banks have their own warehouses in which they keep the goods on which loans have been granted. Service of such banks are available to their customers only. Encouragement should be given for the establishment of private warehouses which should be
licensed and regulated by the Government. This would also relieve the banks from maintaining their own warehouses and thus devote their energies in other banking activities.

Indebtedness:

Indebtedness of Indian cultivators is a well known fact. It has been proved in many cases that in a number of cases, loans are advanced on the condition that the produce is to be sold through the creditor or to be handled over to him at a specified price.

As studied previously, most of the local markets are unregulated and there are no fixed market charges, e.g. weighment, ginning and pressing, brokerage etc.

In some markets, certain charges are borne by the sellers and the same are borne by the buyers in other areas.

Due to a very keen competition amongst the ginning and pressing factory owners, their charges are competitive except in a few areas where they have monopolistic positions.

High Land Revenue:

The burden of tax on the farmers is really heavier as compared to the richer class and this is more true in a
country like India. The Government has realized this fact and is doing needful in the matter.

Weights and Measures:

In India, there are thirteen major languages and similarly the system of weights is very confusing. Weights and measures differ greatly from one area to another and from one market to another.

There should be a uniformity of weights and measures throughout the country in the place of current complexities so that the cultivators may not be defrauded by the intermediaries in the process of marketing. Before 1947, there were several private states in India, who had their own currency, weights and measures. Now, there is an All India Legislation which has mostly standardized weights and measures throughout India. The Government is still considering to bring more standardization of weights and measures by introducing a decimal system of weights and measures. The policy of the Govt. is that the change over should be attained gradually and that acceptance of the principle of decimalization for the purpose of standardization should not necessarily mean the adoption is to be of themetric weights and measures and that in specialized traders or profession where for technical reasons the
acceptance of the decimal system would involve practical difficulties that the existing system of weights and measures should be allowed to continue.  

**Multiplicity of Middlemen:**

As mentioned previously, the middlemen organization predominates in the marketing of cotton. It has become a subject of both just and unjust criticism. To some, middlemen appear as gloating at the cost of the producer and the consumer while to others, they appear as an inevitable and useful link in the chain of marketing services.

**Charges against Middlemen:**

1. Each new link involves an additional sale and purchase. Naturally each member increases the selling price and each increase is made up of the total expenses, that is, the remuneration of his labour and profit as a return for his task.

2. Middlemen sometimes act as money-lenders and through the means of advances, induce the cultivator to sell the produce to them or through them for less than the fair price.

2. In Chapter III of this thesis, under "Sale in Town-Market"
(3) Some middlemen in the market assist in false weighment with a view to getting some more of the illegitimate profits from the cultivators.

(4) They do not work with interest in the bargain and that they extract, deductions in the name of charity, though producer (seller) is not willing to give.

(5) The organization of middlemen does not assure a premium price for the better quality of cotton raised by the cultivators.

(6) Middlemen often resort to adulteration, damping and other malpractices whereby the grower ultimately suffers.

Madras Banking Inquiry Committee in their report describes micclemen "as a class, they zealously guarded the position from encroachments by other types of marketing agencies which jeopardises their profit margins. Their efforts to maintain status quo has been a retarding influence in the development of a more effective system."

Should Middlemen be Removed?

The aim of better marketing is achieved not by removing any links in the existing machinery but by enabling them to function more systematically. Middle-
men fulfil essential functions in the economic organization of the modern world and neither in India nor else where is it possible to eliminate them. ¹

Two Types of Middlemen:

(1) Commission agents or brokers

(2) Merchants who intervenes between the farmer and the spinner.

In other words, we must distinguish between a sale to a middleman and sale through a middleman. The services of the two are quite distinct. The middlemen of the first type perform visible services which are essential to the farmers and can never be reduced or avoided. There cannot be any question of their elimination beyond their substitution, and in their charges there is little profit and much of wages.

The second type of middlemen--merchants or a series of merchants intervening between the farmer (seller) and the spinner--is the only one whose services are not so visible as to be appreciated. The problem of elimination or reduction exists, if at all, only with regard to it.

In spite of the existence of the middlemen, cultivators are not at a disadvantage. Due to the keen

¹. Royal Commission on Agriculture, Report p. 383
competition existing in the interior markets, middlemen are unable to make very large profits. They work on a narrow margin. Second type of middlemen do not perform any useful services beyond shouldering the risk of market fluctuations, and their existence does not operate as harmful to the cultivators. This shouldering of risk can be taken up by the farmers themselves if they make some cooperative efforts and hence the portion of the price can be saved.

Services Rendered by Middlemen:

In the modern complicated organization of marketing processes, the middlemen have a definitely legitimate and useful role, and it is not possible in the present circumstances to eliminate the middlemen altogether for the following reasons:

(1) An average individual grower has a small lot of cotton while the buyer wants to purchase big lots. Middlemen are, therefore, necessary to collect small lots from the farmers to meet the needs of the wholesale demands of the buyers.

(2) Most of the growers are illiterate and ignorant of business intricacies.

(3) They advance money to the cultivator during his
agricultural operations, thus imposing an obligation to sell the cotton through them.

(4) They advance other facilities like use of their godowns for a short period, sacking and hessians on the condition that the produce will be sold through them.

Taking into consideration, the above services rendered by the middlemen organization, it can be said that from the point of view of cultivators, they provide many useful facilities especially to those who have small produce for sale. It is found that in many cases, the cultivator realizes better prices, when he sells through a commission agent. Middlemen cannot be avoided unless some other better agency is introduced into the current marketing system.

Suggestions:

Middlemen organization give no prosperity nor efficiency. Inspite of their hige numbers, they cannot afford to give us an efficient system of marketing. They also cannot manage to market the cotton unadulterated or unwatered. Indian cotton goes to the market (interior) ungraded and ill-stored and we have no licensed warehouses. The financing of marketing is inadequate and costly. If such private enterprises (middlemen organization) is substituted by cooperative effort, it will give
these very men better economic security with dignity.

Trading Undercover:

It has been already studied\(^1\), the advantages and disadvantages of this method of trading which is followed in most of the markets in India. Even for other commodities like tobacco and jute, similar types of peculiar and traditional methods of trading are practiced. On the whole, it may be concluded that this system is not so injurious to the cultivator-seller as it is believed so by many people. This method is followed as a matter of tradition and convenience rather than of deceiving the seller.

False Packaging:

This is another evil in the marketing of cotton but it is of no great importance. This is of very rare occurrence in India, but it is very common in America. Uptill now, there has been no official news regarding the rejection of Indian cotton-bales by the Lancashire and Manchester spinners on account of their false packing\(^1\), but there are many instances when they have rejected American cotton-bales only on account of its false packing, though American cotton was better in quality

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1. Of course, Indian cotton was rejected many a time by Lancashire spinners for various other reasons.
than the Indian cotton.

Defective Ginning and Pressing:

Ginning, in India, leaves too much dirt and trash in the lint cotton during the process of separation from the seed. The ginning machines cut the lint badly thereby seriously damaging it for manufacturing purposes.

Some factory owners, intentionally use old machinery in order to play certain unfair practices. While in some cases, the machinery is too old and so does not work efficiently and smoothly thereby causing damage to the cotton.

In Egypt, where long staple cotton is grown, after the ginning process, cotton is required to go through another process of "opener" before it is pressed into bales. By this additional process of opener, the ginned cotton is more cleaned and therefore fetches a better value in the foreign markets.

In India, certain varieties of long stapled cotton is Sind and Punjab\(^1\) cotton where in those areas they are going thru this process of opener before it is pressed into bales. It is also advisable that this process should be followed for other long stapled varieties of cotton in India.
Another shortcoming which is found in many ginning and pressing factories is that in many places they are situated at a great distance from each other. While transporting ginned cotton from ginning factory to the pressing factory, outside impurities like dust, dirt etc. are added to the cotton. Also it adds to the cost of transportation. Even in places where both these processes are done at one place, ginning and factories are not built side by side (adjacent to each other) hence cotton is required to be transferred from ginneries to the pressing factories by human labour. This is quite contrary to the ginning and pressing factories in America, where they are so built that cotton from the ginneries, passes directly to the pressing factories by mechanical conveyors. Hence there is no problem of actually transferring ginned cotton from gins to the presses and so there are less chances for the cotton to get dirty and mishandled. Also transportation charges are saved in such type of factories. Another additional advantage for such factories is that the loss of cotton while transferring from gins to the presses is avoided.

Structural Requirements of the Ginning & Pressing Factories:

Since the passing of the "Ginning and Pressing
Factories Act of 1925, there was some improvement in the structural form of the factories built after that time, but still there are many other points to be considered which have been mentioned before.

It should also be noted that the factory owners should not be allowed to use machinery which has been under use for more than a certain number of years.

Grading:

It is a process of sorting out commodities according to some uniform specifications relating to quality, color, staple, etc. There is very little grading in the marketing of agricultural produce in India. The farmer does not grade his produce, not because he does not know the benefits derived from grading but because he is not paid sufficiently for the trouble involved. The producer who grades his produce for marketing it, is never able to realize better price, hence naturally grading is avoided. When the market system is well organized, it would be possible to ensure the grower proper prices for the different grades of produce.

1. Structural requirements like separate entrance and exits for cottons proper floorings, etc.
In India, peasants themselves do very little grading because they are not aware of the system of grading. Whatever little grading is done in India is done by the wholesale dealers who purchase the cotton from the farmers and then separate the lots into different grades. A large part of the cotton in India is sold ungraded in the interior markets.

Steps taken by the Government:

In order to protect the interest of the farmers and to raise their standard of living and also to safeguard the interest of the consumers, the Government in India, has taken several steps in the direction of standardization and grading of Indian Agricultural produce.

"Grading Centres" are opened at various places where cotton is graded according to the government standards. The government has also appointed some private organizations to grade cotton on the basis of their (government) standard and issue necessary certificates for the same.

Various Provincial Governments in India have taken interest in the matter of grading, but their schemes were not very successful. This does not mean that the scheme

1. Government graded products are labelled with "Ag-Mark" seal on the package.
has failed but it must be given a further trial.

Grading in Egypt:

Egyptian cotton is supposed to be of the best and uniform quality. This is due to the keen interest taken by the Egyptian government to improve the quality of cotton by a proper grading system. In order to get uniform quality of cotton, the seeds sown should be of uniform type. Nearly 99 per cent of the cotton is derived from the seed given by the Ministry of Agriculture. The government was forced to issue a law prohibiting the propagation of any new variety before it was officially tested and its merits accepted and passed by the Special Committee. This was done to protect the farmer and also the general crop of Egypt from undesirable types boasted by false propaganda.

Blending in Egypt:

When a sufficient quantity of cotton which is in loose packed bales comes to Alexandria for export, the loose country bales are blended and pressed into full-pressed bales. Alexandria graders are very skillful and can detect the variety of cotton almost at a glance. Great importance is attached to the work of blending in order to see that all the bales in a delivery are of the same quality and hence the spinner will get the cotton of
uniform yarn strength.

It is suggested that the Government of India and the U. S. A. should work on the lines of Egypt in order to guarantee their cotton about its quality and uniformity in it in the world markets.

Crop Insurance:

No occupation is so liable to the risk of heavy losses through sudden calamities beyond man's control as agriculture. Crop may be totally or partially destroyed owing to the operation of numerous factors such as scarcity or excess or unevenly distributed rain, hail and frost, cyclones, floods, insect pests and plant diseases.

Crop failure means not only the loss of a season's income of the cultivator, but also the loss of the capital invested in the crop, which may represent the life's savings of the cultivator or even borrowed capital. In agricultural distress, the State undertakes various measures of relief but such measures touch only the fringe of the problem and the real remedy lies in helping the cultivator to help himself through schemes of agricultural insurance.

The system of crop insurance has been administered on an extensive scale in European and American countries by public institutions, private companies and cooperative organizations, often with considerable State assistance.
Indi's Difficulty:

Crop insurance provides an alternative method of meeting the impact of calamities which the cultivator is facing even today, and the main difficulty is therefore not so much the poverty as the ignorance and conservatism of the cultivators.

Premiums could be adjusted to suit the ability of the farmer to pay them by adjusting benefits. Nevertheless, educating the farmer into habits of self-help by saving a fraction of his meagre income must clearly be a difficult process under a subsistence economy.

The operation of such a scheme will be more expensive because of small and fragmented holdings. The task of assessing losses will be more intricate in these conditions. The Revenue-field machinery in India with its ramifications extending to the remotest village should help to overcome this difficulty.

Absence of adequate statistics on which to base estimates of productivity and degree of crop-risk is another difficulty. Hence American system of crop insurance is not practicable under present situation.

A preliminary pilot scheme under direct auspicious of the Central Government may be considered as the only approach to the problem of crop insurance in India.
It would be very desirable to associate the cooperative movement with the administration of crop insurance. Crop insurance is ultimately beneficial to the government as it will obviate the need for remission and suspension of land revenue and a part of famine relief operations.
CHAPTER V.

"MARKET FINANCE AND TRANSPORTATION"

The topic of market finance can be divided broadly into two sections viz. (1) Agricultural or the production finance and (2) trade (internal) finance. Each one of these can be further split up into various topics and it will be interesting here to study them.

I. Agricultural or Production Finance:

(A) Money-lenders
(B) Middlemen
(C) Gin Owners
(D) Cooperative Credit Societies

1. Financing of foreign trade is not included in this thesis.
II. Trade Finance:

(A) Indegenous Bankers
(B) Joint Stock Banks
(C) Reserve Bank of India
(D) Exporters
(E) Warehouses

I. Agricultural Finance

Reasons for Borrowing:

Agriculture being an industry of slow turnover, the grower requires financial assistance to bridge over the gap between the sowing and harvesting of crops. There is very little statistical information available on this topic i.e. the economic position of a cotton cultivator; moreover in many parts of India there is nothing like a cotton cultivator, meaning a farmer who sows nothing else but cotton.

According to a survey conducted by the Indian Central Cotton Committee in Bombay State, it was found that the cost of cultivating one acre of land comes to Rs. 25/ ($5.00)\(^1\). It has been estimated\(^2\) that the cultivator will get Rs. 100/ ($20.00) per acre when the price of cotton is Rs. 600/ per candy (28¢) a lb. Taking

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1. A study of Rural Economy of Gujerat—J. N. Mehta, p.97
2. Personal inquiry with various farmers in various cotton growing areas in 1951.
20 acres as the average size of the holding, the cotton cultivators annual income would be about Rs. 900 ($180.00) provided there are no natural calamities.

On the basis of other informations published by the same committee, it was concluded that on an average nearly 70 per cent of the cultivators were borrowers and only 30 per cent were non-borrowers.

As mentioned in the beginning of this chapter, we will now study and discuss the relative merits and demerits of each of those agencies and to study their utility to the agriculturists.

(A) Money-Lenders

This class of people are known by different names in different parts of the country, but the nature of their business is the same everywhere. There are hosts of objections and criticisms against them. Their interest rates are very high, they do not keep proper books of accounts, they follow unscrupulous ways to deceive their clients, etc. As the Government failed to provide a machine for suppling credit facilities to farmers, the money lender class grew much powerful.

1. Eight investigations into Marketing and Finance etc.
   I. C. C. C. p. 31.
Methods of Advance by Money-lenders:

(1) Against the standing crop, before the cotton is harvested; and

(2) Against the actual kapas when marketed.

A more detailed study of the usefulness of money-lenders is made in the later part of this chapter.

Money lenders have a definite function to perform and have a place in society. Any amount of cooperative credit or Government lending or banks financing will not cover the entire field and they will still have to be there. Private money lending should not be abolished, but it should be corrected, modified, improved and allowed to carry on in a proper manner and fulfill the large function that it alone can do.

(B) Middlemen:

This is another source of finance to the cultivators of cotton. They advance money to their constituents just before the harvest time. The credit is given on the personal basis and there is no legal obligation to sell cotton through the lender but

1. Studied in Chapter III of this thesis
2. Please refer to page 76 Chapter V under the heading "Cooperative Credit Societies vs. Money-lenders".
generally as a rule (tradition) the farmer sells his produce through the lender because of the several facilities given to him by the latter. Middlemen know the borrowing farmers for years and have an idea about his assets (land) and the average crop that he will bring to the market.

It is to the credit of some of the money lenders that they have so built their reputation as regards honesty in work and sincerity in accounts that there are hardly any chances for the farmers of being cheated. There is a keen competition amongst this class of people in the interior areas and those who are once suspected by the farmers for their unfair means and the manipulations, are boycotted by the farmers who are very conservative in nature. Hence middlemen mostly act in the interest of their clients (farmers)

(C) Gin Owners:

This class of people are the third source of credit. In some cotton-regions, they are the cotton-merchants and do the merchandising of cotton while in other areas, they are bonafide gin-owners, doing no other business except that of ginning cotton of their clients.

Due to a very keen competition amongst the
gin-owners, they lend money to the farmers who would bring their kapas to them. The motive behind this type of business by the gin-owners is to induce the farmers to bring their crop to them inorder to keep their factories running during the season.

Gin-owners who also are the merchants of cotton advance money to the cultivators as follows:

Farmers enter into a contract with the gin-owner or his agent at the harvesting time, to deliver all their cotton (kapas) at the factory of the gin-owner at a certain price, and on the basis of this, they borrow, in advance, a sum of money from the contractor (gin-owner or his agent). When kapas arrives in the ginning factory, the weighment is done, and the balance of money, if any, is taken away by the farmer. Under this method, the merchant and the financier is one and the same person, it is looked upon with suspicion and is not free from abuse.¹

Risks involved in such lending are many and gin-owners have to suffer especially when late rains or droughts cause a crop failure.

¹. Marketing of Raw Cotton in India--M. L. Dantwalla, p 117
(D) Cooperative Credit Societies:

This is the fourth source for obtaining credit facilities by the farmers. Due to the drawbacks in the previous three agencies of credit which are available to the cultivators, this new agency of credit which has been proved to be of utmost use in the western world is becoming more and more popular in India. During its operation for the last thirty five years, it can be said that cultivators are realizing the benefits from its operation. The number of such societies increased from 12000 in 1914 to 160,000 in 1944 and the number of members from 500,000 to 7,700,000 during the same period. Considering the vast size of the country and majority of agricultural population, this progress cannot be said to be satisfactory. It can be concluded that cooperative credit has not yet fully penetrated amongst the agriculturists.

Rates of interest will be high in rural finance by other sources than the cooperative credit societies for following three reasons:

(1) Risk involved is great, and there is always an uncertainty of crop and its yield which depend upon rainfall and other natural factors.

(2) Rural credit has always been a personal credit which is bound to be dearer than that based on a tangible security.
(3) Private lenders—whose source of income for their living is the interest received from the advance made by them—would not like to decrease their rates and hence there cannot be cheap credit from them.

Defects in Cooperative Credit Societies:

Even though cooperative finance is very suitable for marketing of cotton, it is not widely used on account of defects in the organizations which finance on the cooperative basis.

(1) Rate of interest is high: On account of shortages of funds and difficulties in recovering loans from debtors, the societies are required to charge a little higher interest which is lower than money-lenders' rates but it is not up to the level which would induce or attract the members to patronize them.

(2) Insufficient Loans: An average cultivator is not able to secure sufficient funds for financing his productive and marketing activities from such societies. Hence, he is forced to have recourse to money-lenders or private bankers.\(^1\)

(3) Unnecessary Delays: It is said that the cultivator does not get the required money right in time

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1. Central Banking Inquiry Committee, Report, P. 792
i.e. at the time of harvesting and picking, when he is badly in need of it. \(^1\) By the time his loan is sanctioned, the climax of his stringency has passed away.

(4) Undue Formalities: Private money-lenders or bankers are easily approachable by the cultivators and their ways of lending are known by them. In co-operative finance, cultivators are required to undergo certain formalities viz. application for the loan, signing a pro-note, to be the member of that society, to go during certain hours, etc. which are completely absent in the private-lenders financing method.

(5) Morale of the management: The employees of the society are themselves large borrowers. The regular members have less chances of getting a loan. More the influence, the better the chances.

(6) Auditing was defective and in actual practices there were little effectiveness in the control over the societies.

(7) Overdue: Large numbers of loans exceeding 50 per cent of the working capital remain unpaid year by year.

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1. Agriculture Finance Sub-Committee--Report, Govt. of India. p. 49
Remedies for Improvements:

(1) Paying capacity of the borrower (farmer) is to be properly investigated, so that the amount of overdue loans will be lowered.¹

(2) Instead of either writing all overdues as bad debts or instead of trying to recover every dollar of them, they should be scaled down by 40 per cent and thereafter all attempts should be made to recover the reduced debts.

(3) Properly educated and courteous staff should be employed and they should be induced to take personal interest in the work.

(4) The Central Cooperative Bank should scrutinize the needs of its member societies and it should enable them to maintain a sufficient cash reserves.

(5) Members should not be allowed to borrow from more than one society at a time.

(6) Societies should aim at to finance all the short-term needs of their members and also, subject to certain limitations, their intermediate-term needs.

¹ Agriculture Finance Sub-Committee—Report, Govt. of India p. 48.
(7) Advances should be made on personal basis but the society should have a statutory charge on the crop as an additional security for all its seasonal finance.

(8) Delays in clearing a loan-application should be minimised.

Cooperative Credit--failed or succeeded in India?

This movement was started for:

1. Wiping away rural indebtedness;
2. Supplying cheap finance to cultivators;
3. Improving village life in general, and
4. Developing a spirit of mutual help amongst villagers. These objects have not been fully achieved by the cooperative method of finance. This does not mean that cooperation has failed altogether and has not justified itself and should therefore be wound up. The truth lies midway between.

Objects Achieved by Cooperative Credit:

1. Low interest rate: Societies rate is lower than that of the private bankers and money-lenders and agriculturists have been able to procure finance at a low rate cost. Moreover money-lenders have reduced their rates because of their competition.
(2) Redemption of Old Debts: Agriculturists are assisted in relieving old debts, borrowed at high interest rates. Their debts were also reduced in the course of redemption.

(3) Control over Credit: Money-lenders generally encourage a borrower to increase his borrowings so that ultimately he can take possession of the borrower's house and land. This is a "fascile credit." Cooperative credit societies prevent the borrowers from borrowing maximum amounts. They are thus taught the economy of funds.

Cooperation has no doubt failed to fulfill the ideals for which it was started, but that is not due to the defects in the organization itself but due to its faulty application in India. It is commonly believed that if cooperation fails, there will fail the last hope of rural India.

Cooperative credit stood foremost as the commodity needed by the majority of the people and the Government took initiative in giving a start to the movement which is aimed primarily at freeing the poor ryots from the thraldom of the ages, from the crippling grip of the money-lenders.¹ The problem of agricultural credit

¹ Cooperative Movement in India. P. Mukerjee. p 11.
has also been looked on as more urgent than that of industrial credit, and the efforts of the Government have been mainly devoted to the relief of the agriculturists.

Cooperative Credit Societies vs. Money-Lenders

Agricultural finance is attracting greater attention in modern ways. The main difficulty in the way of the working of cooperative credit societies is the existence of deeply rooted and powerful money-lenders in the marketing organization. They must be either eliminated or absorbed, but both of the ways are difficult. An "official scheme" was suggested, under which the funds of money-lenders, the prestige of the government and the system was organized banking are combined in one. This scheme was impracticable as it expects too much from the existing money-lenders, who are conservative in nature and who hesitate to budge an inch from their traditional method of business.

The other alternative is to have a proper control over the activities of private bankers and money-lenders. The Government has taken legislative actions from time to time but they have proved to be of no substantial use to

the farmers. Money-lenders are the main source of the supply of credit to the agriculturists and if they are to be stopped or controlled, there should be another competent agency to take their place. In absence of such an agency, cultivators would suffer if money-lenders are controlled by the state.

The best way is to allow both the money-lenders and the cooperative credit societies to compete with each other. But free-competition between the two is very difficult in actual practice. The cultivator is already suppressed by debts under the hands of the money-lenders and unless he repays the debt in full to them, he is not allowed to make use of their rival finance agencies and the poor cultivator has to resort to the only available agency of credit viz. money-lenders. The best way to induce the cooperative credit movement is first of all to free the farmers from their previous debts by mortgage banks or by some debt-redemption scheme. Then the farmers can make a free choice between the money-lenders and the cooperative credit societies.

Reserve Bank of India & Cooperative Credit Societies

Very high expectations were entertained when this bank was established in 1935. Accordingly, Agricultural Credit Departments were started by this bank, but the financial help that it can give to cooperative
institutions is limited.

It was suggested that Reserve Bank of India should widen the scope of its Agricultural Credit Department and a closer contact between it and the Provincial Cooperative Banks, should be established, so that the latter may become more useful to cooperative credit societies.

Trade Finance

Trade and finance are vitally connected with one another and often, one shapes the other.¹ An efficient system of financing the trade was imported gradually from highly developed countries. But the trade methods have not changed very much as compared to the finance methods; hence the old trade methods and the new (imported) method to finance it, ill-suit one another. Some economists have suggested that coordination of the indigenous banking system with the western one is essential for India. As long as trade methods are faulty, neither indigenous nor foreign banking system or their combination will achieve the end.² The magnitude of the internal trade of India is ten times larger than her

¹ Central Banking Inquiry Committee, Report Volume IV.
² IBID p. 34
foreign trade and hence financing the internal trade is a very important problem.

There are five main agencies which are listed in the beginning of this chapter for the financing of the internal trade of cotton in India. The relative merits and demerits of each one of them will be considered in the following pages.

(a) Indigenous Bankers

This is the most important agency that finances the internal trade.

Methods of their actual business:

They are of two types: The one does purely banking business while the other does banking as well as cotton merchandizing business. The previous type gives long-term loans and some of them also do bills of exchange business. The long term loans are on personal credit and are given for the full season.

No elaborate formalities are to be gone through for getting a loan. Indigenous bankers are readily accessible at all time and accommodate the needy merchants at great risk. They have no elaborate counters, no regular banking hours, no attractive staff

1. "Their doors are open till mid-night" Bombay Provincial Banking Inquiry Committee, Report. p 196
is required and no accounts are published and no audit is necessary.

The cooperation of this type of bankers in rural areas would prove beneficial because they are the only educated persons knowing something about banking and if their services are enrolled in the cause of cooperative credit movement, it will not only result in the elimination of a dangerous competitor and rival but will also bring the aid of their expert knowledge to a just cause.

In recent days, there are various restrictions placed on the activities of indigenous bankers but they have not willingly accepted these restrictions. It would be necessary for the Government to temporarily relax the restrictions while indigenous bankers should be prepared to submit themselves gradually to more rigid restrictions of the Government.

(b) Joint Stock Banks:

Unlike America, the Indian Joint Stock Banks do not play any important part in financing directly the agricultural pursuits and activities connected with agriculture.

1. Present Day Banking in India, by Rao. p. 255
2. Ibid.
Indian joint stock banks are mainly confined to the trade in large towns and big cities. Unless they are prepared to extend their activities into smaller towns and rural areas, they are not likely to play any vital part in the process of cotton marketing. Due to various reasons, branch banking has not developed in India. Much of the trade is financed by personal resources and on personal security. An efficient system of banking will create more resources for further business by the existence of credit-system.

Role of Modern Banks;

They have to depend on the resources which they get by attracting deposits from the people. Bulk of these are payable on demand and so it is necessary for them, from the point of view of solvency, to maintain a fair margin in cash or in liquid form.¹

Banks advance money to cotton merchants and traders on the security of the produce pledged. Besides this, many other conditions like credit, respectability and etc. have to be fulfilled by the borrowers before obtaining loans. Nearly 70 percent of the value of the cotton is advanced by way of loans.

¹ Bombay Banking Inquiry Committee Report Paragraph 83.
Indigenous Bankers vs. Joint Stock Banks

They both operate their business side by side but more or less independently of each other. Modern banks facilities are not available in many cotton districts and so indigenous bankers occupy the predominant position in those areas.

The main advantage of these indigenous bankers over the joint stock banks are the great risk in the present day commercial finance which they undertake and the intimate knowledge which they possess of their clients.¹ The penetration of big firms into the interior markets has diminished the scope of indigenous bankers as these big firms preferred organized banks for financing their business.

Imperial Bank of India;

Amongst the joint stock banks which render services to agricultural finance, the position of the Imperial Bank of India is prominent. It would be interesting to see how far this Imperial Bank has helped the financing of the cotton trade of India.

The bank renders no direct assistance to agriculture but it helps in an indirect manner. though

¹ Bombay Banking Inquiry Committee Report p. 382
its through cooperative banks or big indigenous bankers. The bank has shown its willingness to give loans on the hypothecation of cotton. Generally speaking few cotton merchants in the mofussil avail themselves of this opportunity, because hypothecation of goods with the bank is supposed to lower their credit in the eyes of the business community. The bank however plays an important part in the Bombay market.

(c) Warehousing

Under this system, the cotton which is deposited by the merchants in the warehouses, is represented by a "Warehouse Warrant (Receipt)". The advantages of this system in the marketing of cotton are many, which have been studied previously.¹

Warehousing greatly systematises the whole marketing and financing of any commodity. The banks are also willing to advance loans on the hypothecation of authorised warehouse-warrants. There is more safety in advancing on produce in warehouses. Indigenous bankers' rates of interest are high because of the risks they undertake by lending against ungraded cotton. Constructing such warehouses is beyond the means of individuals but the Government can conveniently face this problem.

(d) Reserve Bank of India

¹ Chapter IV of this thesis p.43
It has a special "Agricultural Credit" department for studying all problems pertaining to agriculture and to give advice to the Government accordingly.

The bank is very conservative in its policy and has severe restrictions before giving any help to the other banks. The bank works on the footsteps of the Bank of England as a Central Bank, but special problems of agricultural finance cannot be lost sight of. It is suggested that the scope of the Agricultural Credit Department should be widened.

(e) Exporters

This consisted of foreign firms (mostly European and a few Japanese) operating in India. They purchase cotton and assist it to the ports out of the funds received from the sale of imported commodities by these firms.

After the end of the II World War, many of such foreign firms were voluntarily wound up and due to the exchange-control restrictions, the exporters play a minor role in the financing of trade.

Transport Facilities

The first railway in India was started in 1853 in the Bombay province. Since then, more and more railway lines were constructed. The main object of constructing
railway lines in the cotton district was to secure larger and rapid supply of cotton for Lancashire mills and also to facilitate the distribution of their manufactured goods in the interiors of India. Road transportation facilities are very poor because of the lack of good roads and trucks in India. There is water-transportation facilities along the coast line and this agency offered competition to the Indian railways.

At present, railways have mostly monopolised the entire traffic in goods because no other alternative forms of transport were developed. The communication from the farms to the markets and towns are hopelessly poor. Cotton is carried in bullock carts to the market.

In recent years, the railways have spread mostly all over the country and have made the movement of goods more speedy and have reduced considerably the risk of damage in handling or transit.

Defects in the Railways:

Wagon shortage is a great hindrance to orderly marketing particularly during busy seasons. Hundreds of pounds of cotton lie in open place (yard) in the station

1. Royal Commission on Agriculture. Vol II P. 510
compound for want of wagons, at the mercy of rain and subject to theft of fire.

It is highly advisable that small stations in the cotton areas should be facilitated with sheds and well constructed platforms which enable bullock carts and trucks to come close to the wagons (railways) and thus reduce the cost of handling the cotton.

Proper supervision should be kept on the personnel in charge of wagons to see that they supply the wagons to their clients in the busy season without taking any bribes from them.¹

Water-transport:

Along the coast line of India, there are many well built ports, especially in the territories of the private-rulers. These ports were purposely not allowed to operate by the British Government, just to keep the Governments railway to operate at profit. If these ports are allowed to operate freely, a considerable savings in the transportation charges can be made by the farmers as well as traders.

¹. It was personally observed that during the busy season, it was very difficult to get a wagon for transporting the cotton unless you please the station master who is in charge of alloting wagons.
The improvements in the existing railway lines and roads are made; the construction of new additional railway-lines; and building new roads and introducing motor transports where there are no railways or sea-routes in existence; are the few items on the agenda of the Government of India.

State and Marketing

Since the eighties of the last century, the problem of agricultural development has arrested the attention of the Government and from time to time several steps were taken by the Govt. to improve the conditions of peasants in India. One of the ways of doing that was to improve the marketing of their (agriculturists') produce so that they can realize better prices for it.

In 1934, Marketing Advisors to the Government were appointed and a Central Marketing Board was formed with expert marketing personnel in its staff. Considering the special importance of cotton, an institution called the Indian Central Cotton Committee was established in 1921— which studies all the questions connecting improvement of quality, marketing and yield of cotton. Various legislative measures are taken by the Government on the recommendation of this body.
Regulated markets were inaugurated at various centres, licensed warehouses, standardization of weights and measures, grading and etc. shows the interest of the Government in improving the marketing of cotton. In 1950, a special committee was appointed to study the question of Marketing of Raw Cotton in India, and its report may prove beneficial to all those who are interested in the subject.

It is suggested that the state must take initiative in solving various problems in connection with the marketing of cotton. In every case, attempts should be made to take the cooperation and consultations of experienced businessmen before taking any concrete steps.

At present the Government has concentrated its attention on the increase of yield due to the serious shortage of cotton felt by our country after the partition in 1947.
"CO-OPERATION AND REGULATION IN MARKETING"

Co-operation:

In the proceeding three chapters, it was very often mentioned at various stages that the application of the principle of cooperation will improve the organization of marketing in India. Co-operation has been known and practiced in various forms since ancient times in India. The joint-family system, the panchayat, the chit-funds and the nidhis are instances of indigenous cooperation. India, therefore provides a natural soil for the development of cooperative institutions. The experiments in advanced western countries have convincingly showed that both the farmers as well as consumers are benefited, if marketing services are performed by the organization of farmers
themelves.

Under this system, the functions of middlemen are not eliminated but their profits are eliminated. It means the substitution of private enterprise by an association of farmers working on a non-profit basis and service principle.

The progress of cooperative marketing in India depends upon the progress of the cooperative credit organizations. In fact, cooperative marketing is a logical corollary of cooperative credit, and the one without the other is incomplete and imperfect.¹

Advantages of Cooperative Marketing:

It strengthens the farmer's position as seller, assures him of a regular trade outlet, and enables him to obtain higher prices.

It integrates marketing and productive operations, reduces waste by preventing duplication of agencies and provides facilities for improvement in the quality of the produces.

It further attempts to eliminate those undesirable forms of speculation in which the motive is profit from

¹. Marketing of Raw Cotton in India--M.L. Dantwalla. p 64
price manipulations.

The very attempt on the part of the farmers to solve their problems teaches them basic economic truths.

Importance of Cooperative Marketing to India:

India is the land of small holdings, small capital and small home industries. As mentioned previously, buyers are strong and intelligent while the sellers (cultivators) who are weak and illiterate, are exploited by the former.

Purchasers require cotton in big lots in the markets. The organization of farmers, by assembling (pooling) cotton from various farmers can provide to the bigger purchaser with big lots.

Pooling:

It is an arrangement by which the cotton belonging to different cultivators but of equal grade is mixed (pooled) together and sold together. The income of sales is divided amongst the contributors to the pool according to their share. Instead of handling the produce of each cultivator separately, it is positively economic to market together a large quantity of cotton of similar grade. It is very difficult to get cotton of one grade and staple in India where the holdings are too small and standard-
ization of crop has made little progress. If, cooperative sale-societies by scientific grading and systematic pooling -- are able to meet this requirement, their bargaining power can surely be greatly increased. The purchaser too, is saved the trouble of assembling similar grades from different cultivators.

The question of warehousing becomes easy when produce of all the cultivators is pooled together. It would be almost impossible to stock the produce of all the cultivators separately because the expense involved in that will far outrun the benefits of warehousing. It is also more easy to finance a pooled stock.

But the pooling of the produce of different farmers, assumes them to be intelligent enough to allow their produce being mixed with similar produce of others. Whether it will be allowed by the conservative farmers of India or not is doubtful. The cotton Sale-Societies in the Bombay State have succeeded in pooling the produce by propaganda, and it is hoped that this will be done in other parts of the country.

Unless the society is assured of a reasonable volume of business, it will not be able to perform the marketing services with any great economy. Provisions
for grading, pooling and warehousing facilities, presupposes a sufficient volume of business, and the cooperative organizations which do not provide these facilities are no better than ordinary commission agents shops.

Membership Contracts:

It is an instrument that legally binds a member of a sale society to deliver for sale—all the produce that he may grow during the year—to the society. He is not allowed to dispose of it in any other way, under penalty of liquidated damages. On one hand, the membership contract restricts the freedom of a farmer in the disposal of his produce while on the other hand, there are sound economic reasons for its enforcement. The contract, however, can be so drawn as to minimise the danger involved in the curtailment of freedom.

Co-operative Sale Societies and Middle-Men:

Before looking forward to the possibilities of achieving success by cooperative sale-societies over the middlemen organization, it would be worth to study the reason why farmers prefer to sell their cotton through middlemen (agents). Farmers entirely put themselves into the hands of middlemen (agents), because they have no other alternative due to the following reasons:

(1) Ignorance of business methods
(2) Incapacity of checking weights and weighments
(3) Very few are capable of calculating prices
(4) Individual lot is small and buyers want in big lots.
(5) Middlemen advance money to farmers on conditions to market their cotton through them and
(6) Middlemen also advances sacking on the same condition.

It is therefore clear that in the absence of any other agency to perform the work done by middlemen, the latter are indispensable to farmers. There is no doubt that an efficiently managed cotton sale-society would undertake all these duties, could put cotton on the market in the condition in which the users require it, and could establish a reputation for honest dealing and for high class graded produce.

Indian and American Cooperative Sale-Societies Compared:

(1) In America, the society consists of cotton growers only while in India, it is not necessarily so.
(2) Legally enforceable agreements are entered into between members and the society, defining their mutual obligations and binding each member to deliver a certain minimum amount of cotton to the society for sale.
In India, membership contracts are not strictly legal but they are considered as one of the necessities for becoming a member of the society.

(3) Complete pooling of a produce is done in America while very few societies do it in India.

In America, cotton growers cultivate larger areas than is the case in India. At present, in India the cotton sale-societies should handle improved (govt. certified) varieties as far as possible, since they could offer a definite inducement to substantial buyers and would not come into collision with vested interests prematurely.

Reasons of the Shortcomings and Obstacles in the Way of Cooperative Marketing in India:

(1) The total membership in each society is very small, hence the societies do not have enough produce to handle economically.

(2) The indispensable requirement of skilled management has been overlooked.

(3) Sale-societies sell cotton of non-members also as a propaganda measure. But it is not true in real sense. They are compelled to do non-members' business on account of insufficient business from members.
(4) Sale Societies do not follow the principles of cooperative-methods in a strict sense e.g. some societies have no grading while others have no pooling, some sell kapas (unginned cotton) while some in lint (ginned) cotton.

(5) Bye-laws of the societies are not strictly observed and a nominal fine or punishment is levied in case of disloyalty.

(6) Some small societies in order to show immediate profits indulge themselves into speculative dealings and working on a very narrow margin with the result that they have no cash reserves and chances of break-downs are many.

(7) Lack of general education is another handicap in the way of the cooperative sale societies.

(8) Cooperative marketing is closely related with the problem of credit. Due to the limited resources of these societies, their members have to depend upon money-lenders because the societies are unable to meet the requirements of their members fully.

(9) Obstacles are thrown in the way by vested interests who are affected by the cooperative movement. Such persons take advantage of the mistakes made by the cooperative societies to arouse discontent amongst the members and induce them to withdraw the support.

(10) Societies carry on their business spasmodically
viz. no regular stock is maintained, lack of interest on
the part of the members and etc.

(11) Members expect too much even the impossible
and unreasonable and when these expectations are not
realized, disloyalty develops.

(12) Some other miscellaneous causes are the
absence of capable, earnest and strong leadership, un­
willingness to make present sacrifices for future gains,
etc. Members must be willing to spend time, money and
energy for the good of the group, and be foresighted
enough to remain loyal when competitors offer special
inducements for the purpose of breaking up of the society.

Remedies and Suggestions;

(1) Management should be qualified and efficient.

(2) The movement should make a cautious start
and should undertake the functions which are economically
possible.

(3) There should be a marketing society for
roughly each group of about 200 villages.

(4) The main function of the SalesSociety will
be to arrange for the sale of the members' produce to their
best advantage. Functions of pooling, grading and pro­
cessing may also be undertaken.

(5) Every society should have at least one
godown.

(6) The Government should give subsidy to the marketing societies for the first five years of their establishment to meet the cost of the staff employed.

(7) Experiments should be made in including the middle-men (agents) or local merchants to join co-operative movements so that their practical knowledge and experience could fully be utilized.

(8) Societies must give reasonable advance against the produce pledged with them.

(9) Auction-sale methods should be abolished where no buyers are attending.

(10) Membership contracts and the agreements should be properly enforced with the members in case of necessity.

(11) Besides giving advances to the members for the expenses of cultivation and for marketing their produce, the society should take interest in the improvement of the methods of cultivation, introduction of better varieties of cotton and in the grading and pooling of cotton. As a cooperative society, it should be more interested in the welfare of individual members.¹

(12) Produce of the members should not be held over in the hope of a rise in prices, except under extraordinary circumstances.

(13) Government should make use of such societies as a distribution-channel while supplying seeds, fertilizers and manures to the farmers.

The surest way to material and moral advancement of the people of India, lay through cooperation. In a poor country like India, the primary need was to raise the standard of living of the rural population, there should be the widest application of cooperative principles on the production side. The ancient village economy was essentially based upon the principles of cooperation. It was India's misfortune that centralized administration, under the British regime, has badly damaged that economy.¹

The attitude of the National Government (in India) has been of encouragement to the cooperative movement, because they believe that the cooperation is a sort of compromise between capitalism and socialism.

Regulated Markets:

Another step towards the improvement of agriculture in marketing is the regulation of the markets in the interior.

¹ From the speech of Dr. K. N. Katju, while inaugurating the State Cooperative conference at Calcutta on 10-9-1950.
It should be seen that farmers who sell their cotton in the interior market, do not meet with any difficulty in realizing the maximum price for it. The problem of regulating the interior markets became very important after looking at the present organization of marketing and the various malpractices that have crept into it. As long as the farmer is not sure of getting a fair price for the improved variety which he may grow, the chances of improving the quality of cotton are not very bright. Business cannot grow in an atmosphere of suspicion and distrust. The regulation of markets is desired for removing obstacles in the existing organization of marketing, yet some traders are of the opinion that such regulation puts restrictions on the freedom of business and restricts the market. This is due to the fact that people of India almost instinctively resent any idea of official interference, before examining the merits of the issue dispassionately.1

Objects of Regulated Markets:

The chief object of such organizations is to provide a suitable place for the purpose of market and to forbid transactions at any other place.

It should try to simplify the method of transaction and keep—or make it compulsory for merchants to keep—a regular record of each transaction.

It should also provide adequate and impartial machinery to settle all possible disputes between the seller (cultivator) and the buyer.

It should license brokers, weighmen, enforce the use of standard weights and the scales. As far as possible, it should try to abolish all undue formalities and traditional customs which are now harmful to the trade and the traders on the whole.

Movement of Regulating the Cotton Markets in India:

As early as 1897, cotton markets, in Berar were regulated, and they were proved to be better than the existing unregulated markets. Large numbers of farmers in that area are taking their produce to the markets which are regulated and they hesitate to dispose their produce in the villages.

In 1927, the Bombay State's Government took some legislative steps to regulate the cotton markets, in their state. The defects of the Berar Market Act was not repeated by the Bombay Government.

Operations in a Regulated Market:

The Government declares a particular area, as a
"Regulated Market" area. Once this is done, a market committee consisting of 12 to 15 members representing agriculturists, traders and government is appointed. The Committee frames rules and regulations and carries out all the functions like collecting of the members' market fees (subscription), issuing licenses to the brokers, laying down rules and regulations for weights and measures and settling disputes by arbitration method.

The committee announces the prices for different articles dealt on the market and it has powers to prevent adulteration of produce.

Benefits Derived from Regulated Markets:

(1) Market charges are clearly defined by the bye-laws of the committee. Unauthorized deductions are prohibited.

(2) Farmers are assured of correct weighing, prompt payment of the price and arbitration for disputes.

(3) Farmers are informed about the price ruling in the central market.

(4) Trading methods are standardized and regularized.

(5) Statistics of stock, crop, etc. are made available.

(6) Facilities and conveniences are given to the
farmers e.g. provision of water, space for parking carts, etc. 1.

Organized markets are a sure remedy to release the producer from the dependence upon the private money-lenders, by allowing him to exercise more freedom in the sale of his produce.

Points to be borne before regulating a market:

Regulation, if applied only to a particular area will divert the business to unregulated areas. This actually happened at many places in India. Farmers, instead of bringing their produce to the regulated markets, took it to the neighboring areas where markets were unregulated. So, the utmost care should be taken in fixing the area for regulating the markets.

Decentralized markets are difficult to be controlled and supervised.

Suggestions:

It is necessary to secure cooperation of local traders before a market is regulated, otherwise the market will not prosper.

There should be all round regulated markets for

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1. On the basis of personal observations at Bawla-market—which is regulated—near Ahmedabad in Bombay State.
all the commodities\textsuperscript{1} in a particular area where the market is to be regulated.

The Provincial Government should take initiative in the movement rather than the Central Government.

Properly trained and educated personnel should be employed. The head-personnel must have freedom and should not be liable to be dismissed by the Committee.

Producers should be adequately represented on the market-committee.

\textsuperscript{1} And not for cotton or any one commodity alone.
Introduction:

Cottons future market, called cottons future exchanges, associations, or contract markets, are distinctly different from spinners (spot) markets, already described in the previous chapters. They are different in form of organization, functions, and services in the merchandising system and in trading procedures.

Chief Features of Futures Markets:

Cottons future markets are assembled markets. All transactions between members must be made on the trading floor of the exchange, across a trading ring by loud outcries, and during the time the market is officially open. Only members can trade on their account. Non-members trade through members. The member who executes
orders for non-members acts in the capacity of an agent or broker for the non-member but as principal with the member with whom the trade is made. Responsibility of the non-member extends no further than to the member whom he has employed as an agent.

Features of Futures Contracts:

It is a basis contract. The authority fixed the grade of cotton which is to be delivered by the sellers in satisfaction of their futures contracts.

It gives the seller a definite right of delivering cotton on any suitable day of the contract month. It is sometimes known as "Seller's Option Contract" because sellers are given two options as under:

(1) Delivery on any day, within the specified dates and period.

(2) Seller is to select the grade of cotton to be delivered.

The size and unit of the contract is generally prescribed by the authority.

Futures contracts are subjected to settlement terms laid down by the cotton exchange authority.

Relation between "Spots" and "Futures" Markets:

In the spot (ready) cotton contract, the purchaser goes to the spot market and purchases cotton
of whatever quality and quantity at the prevailing rates, on the basis of actual sample shown to him. The delivery of cotton purchased in the spot market is also given with in a short and the the stipulated(agreed) period. While in the futures market, the purchasers enter into "futures contract" to purchase cotton of a particular month in which they want the cotton.

A purchaser who wants cotton on a specified date and of a specified grade should not enter into futures transactions because the seller has two options\(^1\) under which the said purchaser may not get exactly what he wants. The alternative for such a buyer is to go to the spot markets and purchase cotton of the specified required quality on the required day.

The other distinction is that in the spot market, a buyer can buy in any lot while in the futures markets he can buy it only in the fixed quantity of cotton.

Futures contract can be entered upon only at a fixed place while the spot transactions can be entered into at any place and at any time.

For these facilities in the spot markets the buyer is required to pay some higher price for the cotton. Hence spot-market prices of cotton is usually higher than

\(^1\) Please see page \(\text{106}\)
the futures price. The difference in the price is the charge for the services (facilities) rendered to the buyer. Futures prices are the indicator or guidance to the spot prices.

Advantages of Forward Trading:

(1) To ascertain the proper price of every commodity which passes through the market.

(2) It enables to secure uniform prices for similar cotton throughout the whole world market; and to maintain as far as possible the stability of prices over a period of time, by smoothing out the inevitable fluctuations due to variations of supply and demand.¹

(3) The merchants and spinners can transfer the price-risk which they are unwilling to take upon themselves to the outside speculators who are operating in the forward markets.

"If such a speculator loses his capital, it is simply a personal loss, but if a shipper fails, he disrupts a merchandising organization that may have taken years to build up, and if a spinner fails, he throws workers out of employment and breaks up a valuable business enterprise. If merchants were forced to price risks by inability

to hedge their operations, they would doubtless be more
cautious than speculative traders, not only because they
would regard every purchase from a purely commercial
standpoint."

FORWARD MARKETS:

<table>
<thead>
<tr>
<th>Genuine Traders; Growers; spinners.</th>
<th>Speculators;</th>
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<tbody>
<tr>
<td>(1) Hedging</td>
<td>(1) Straddle</td>
</tr>
<tr>
<td>(2) Investment</td>
<td>(2) Teji-Mandi</td>
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<td></td>
<td>(Single or Double Option)</td>
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<tr>
<td></td>
<td>(3) Speculation or Gamblings</td>
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</table>

The above diagram illustrates the users of forward markets and the methods of how they operate in them. It is not within our scope to study in details about these operations. Hence, in the following pages we will study the most important problems which are related to the futures markets.

A farmer can make use of the forward market to secure a favourable price while his crop is growing. Usually, the farmer carries his crop to the nearest market and disposes

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1. "Cotton goes to the Market" Garside--p 335.
of it there at the prevailing price. It is also true that at the time of the harvest, prices are low because large quantities of cotton came to the market for sale, and hence the farmer generally obtains a relatively lower price than what he ought to get for his produce. The futures contract can solve this difficulty of the farmers. The grower can estimate very well about the quantity (yield) of cotton which his farm will be able to produce and on the basis of this assumption, he can take equivalent quantity in the forward markets. Prices of cotton before the harvest is slightly higher and the farmer is able to get the price which has been fixed before, at the time of delivering the cotton, even if the price has fallen down considerably.

In India, the growers have not utilized futures contract as the farmers of America have done. It is true that the unit of contract in futures market is too big for an average Indian cultivator. Moreover there are no facilities for the growers in the villages and towns for entering into the futures contract. At present, there is only one futures market of cotton at Bombay in the whole of India. If futures markets are opened in non-fossil areas, they can help the cultivators and their cooperative sale-societies for utilizing the futures contract to their
advantage.

Futures Market in India:

Even as early as 1875, forward trading was done in India. The method of futures trading was crude and unorganized. There were many organizations for controlling the futures-trading and the outstanding feature of the futures-market was the absence of a single authority to control the cotton futures trade. In 1921, the responsibility of controlling the cotton trade was handed over to a new body called "East India Cotton Association, Limited", and thus a sort of unitary control was formed in the cotton trade. Since then, it is the only organization which controls the futures trading of cotton in India.

Futures Markets In Mofussils:

The government of Bombay appointed a Committee\(^1\) to investigate the possibility of establishing recognized forward markets in mofussil areas. It did not favour the establishment of futures markets in mofussile as it would encourage speculative activities, but the Committee made several recommendations for making improvements in the constitutions of the East India Cotton Association, inorder

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1. Bombay Mofussil Forward Markets Inquiry Committee 1949-50
that mofussil traders and farmers may get an opportunity to utilize it. Nothing concrete has been done in that direction yet.

Compared with the Cotton Exchanges of Liverpool and New York, the Bombay's Cotton Exchange has a well-organized "cleaning-house" and "blind-survey" system for arbitration.

Since the partition of India in August 1947, a severe shortage of cotton was felt with the result that the East India Cotton Association was closed until very recently. It has again started functioning since Oct. 1952 and it is hoped that it will operate satisfactorily.
CHAPTER VIII.

"CONCLUSIONS"

Marketing of cotton covers a wide range of activities and may be defined as including all processes and transactions involving cotton from the time the seed cotton leaves the field until it is delivered to the mill and paid for. The process in the cotton marketing will be our concern here.

Cotton has properties possessed by no other textile fibre. At relatively low cost it produces a vast variety of articles for human needs.

Reasons for selecting the marketing of a commodity like "cotton" are as follows:

(a) It is a principal crop of India;
(b) It forms a major item in the foreign trade;
(c) It has a highly developed speculative market;
In India, markets for the agricultural products are regulated. They are mostly operated on the basis of old and conventional procedures.

Picking of Cotton:

The picker should carry two bags—one for clean cotton and the other for less clean cotton. Due to the abundance of cheap labor, mechanical pickers are not economical for India. Besides this, there are other factors as mentioned below which accounts for the suitability of hand-picking in India:

1. Small size of the farms;
2. Machines have to be imported;
3. Absence of trained operators;
4. Absence of electricity in villages and high prices for oil.

Cooperative Societies or Agricultural Departments in different districts should suggest systems of picking suited to their peculiar climatic conditions and rural economy. It is not possible to make a single plan practicable for all on account of the considerable variation of conditions in various districts.

Cooperative Societies should keep mechanical equipments for the use of their members who can borrow (rent) them at reasonable rates.
Mechanical pickers are able to collect 1500 lbs. of seed cotton in three hours. The speed of human pickers cannot be so great and hence the introduction of mechanical pickers in India is advisable and is sure to be appreciated by the farmers. Most of the cotton in India is roller-ginned. Attempts to introduce the American Saw-gins were made by the Government, but were not very successful because Indian cotton is too fine to bear the action of the saws which damage its staple.

Selling of standing crop is not in anyway connected with the principle of hedging. The dominating motive of the seller is the urgency of funds or a mere speculative motive.

Selling in the village-markets rather than in the town-markets is preferred by the farmers on account of various natural benefits which they derive by disposing (selling) their produce in the villages.

Comparing the market price in the villages and in the towns, it was observed that farmers were not seriously handicapped due to the lack of facilities about knowing the ruling prices in the central-markets. But it is suggested that farmers should be well informed about the prices ruling in the central markets, by means of newspapers, radios and
news-bulletins.

Under-cover method is universally practiced in India except in places where there are Regulated-Markets. Due to the simplicity and convenience, this method is very practical in spite of its various drawbacks. In these changing times of the world, it is better to follow a straight-forward method for price-fixation rather than a code-method on the market-premises.

Auction-method is followed by cooperative sale societies and is found satisfactory with its very few limitations. This method of sale is followed in many organized markets of the western-world.

Private-treaty method in the markets is also an outcome of a traditional and hereditary customs. It is a slight improvement on the under-cover method but it is not followed in any of the organized markets.

Marketing facilities in the cotton-growing districts are very unsatisfactory. Local traditional customs are dominating in the market-practices.

In order to remove the evil of mixing of cotton it is necessary to introduce "grading" system in the primary markets. Also proper seed-distribution of standard quality to all the farmers will standardize the
quality of cotton in various districts; hence mixing will be discouraged. The Cooperative marketing methods touches these aspects to some extent.

There is useful damping of cotton as well as there is fraudulent damping and it is very difficult to draw a line distinguishing them.

This evil offers an immediate advantage to the sellers, but on the long run they (sellers) are at a loss. Final consumers will be very careful while offering prices in the future for cotton from such areas and this will depress the price of cotton.

Unfair deductions are controlled and removed by the introduction of Regulated Markets and Cooperative Sale Societies.

Warehouse-warrants given by licensed warehouses will be good securities for any financial agency, especially because they will enable it to calculate the amount of credit that can be given.

Railway companies should build warehouses at important railway stations and junctions. Big banks and cooperative societies should build warehouses. Private individuals may be also permitted to build them.

The Government has realized the importance of
the problem of indebtedness of cultivators, high land­
revenue and marketing charges and is doing needful in
the matter.

Attempts are still made to bring more stand-
ardization of weights and measures. The policy of intro-
ducing such changes should be gradual.

Middlemen organization cannot be avoided unless
some better agency is introduced in the current marketing
system. If this middlemen organization is substituted
by cooperative effort, it will give to the society better
economic security with dignity.

After the cotton is ginned, it should undergo
"opening" process as it is in Egypt. Ginning and Pressing
factories should be built side-by-side as it is in America.
Use of very old machineries should be discarded.

When the market system is well organized, it
would be possible to ensure the grower proper prices for
the different grades of produce. Grading-schemes in India
should be given a further trial. The Government should
work on the lines of Egyptian government in the matter of
grading of cotton.

It is wise to associate the cooperative move-
ment with the administration of crop insurance. It would
obviate the need for remission and suspension of land
revenue and a part of famine relief operation by the government.

Private money-lending should not be abolished, but should be corrected, modified, improved and allowed to carry on in a proper and fulfil the large function that it alone can. In order to make the cooperative movement successful, it would be necessary to relieve the cultivators from the existing debts.

Reserve Banks of India should widen the scope of its Agricultural Credit Department and a closer contact between it and the Provincial Cooperative banks should be established, so that the latter may become more useful to cooperative credit societies.

The Government should temporarily relax the restrictions over the indigenous bankers while the latter should be prepared to submit themselves gradually to more rigid restrictions of the government.

Small stations in the cotton areas should be facilitated with sheds and well-built platforms which enable carts and trucks to come close to the wagons.

Adequate supervision is needed to see that wagons are made easily available to the traders.

State must take initiative in solving various
problems in connection with the marketing of cotton, with the cooperation of experienced businessmen.

The surest way to material and moral advancement of the people of India, lay through cooperation. The cooperative sale-societies by scientific grading and systematic pooling—should be able to meet this requirement, their bargaining power can surely be increased. There are various obstacles in the organization of cooperative sale-societies and all attempts should be made to remove them.

Regulated Markets have received a warm welcome from the cultivators. It is necessary to secure cooperation of local traders before a market is regulated. There should be all round regulated markets for all the commodities in a particular area. As contrasted with the prevailing custom in America, growers in India have not utilized futures contract. There should be an arrangement of entering into futures contracts in the mofussils and the size of the contract should be fairly small to meet the capacity of the growers.
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