A Page from Time

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BUSINESS & FINANCE

Shorts

Since the stockmarket has been rising without a single major setback for more than two years short-sellers have had a pretty sorry time. The last real inning for Bears was the great crash in whiskey stocks in 1933. Last week the New York Stock Exchange reported that its monthly tabulations showed that the short unterest at the end of January was the heaviest since June 1933, just before that summer's big break. Relatively, the present short interest appeared more important than in 1933, because the volume of trading at that time was twice as larte. Since then the short interest has hovered around 1,000,000 shares, hitting a low of 712,000 and ending last year at 1,136,000. By the end of January it was up to 1,314,000 shares.*†

Spinner's Treaty

It is no tribute to the lucidity of cotton textile spokesmen that during the last two years the studious New York *Times* failed to acknowledge that the Japanese import menace about which William Randolph ("Buy American") Hearst seemed perennially over-excited, might actually materialize. One of the first alarms sufficiently well expressed to convince laymen was written for the *Times* last August by President Claudius Temple Murchison of the Cotton-Textile Institute. Last week President Murchison arrived in New York from San Francisco, marched modestly into the Hotel McAlpin to tell a gathering of U. S. textile men how an excellent formulation of their problem had led to a solution both surprising and superb. In Osaka on Jan. 24 Dr. Murchison and a deputation of U. S. manufacturers signed a two-year quota agreement with Japanese spinners, ending the Japanese menace just as it began to rumble.

U. S. imports of Japanese cotton goods in 1933 were only 1,115,713 yd. In 1934 they were 16,000,000 yd. In 1933 they were 36,000,000 yd. and in 1936, 75,000,000 yd. Compared to the total volume of Japanese exports, 2,725,109,000 yd. in 1935, this tidy increase was negligible. It was also negligible compared to the total annual U. S. production of about 7,000,000,000 yd. But underlying these figures were two facts which gave U. S. mill owners cause for uneasiness. The first was that Japanese exports to the U. S. were concentrated in one major cloth classification and two or three minor ones. Japan accounted last year for about half the U. S. consumption of bleached goods, cotton rugs and cotton velveteens. The second fact was that invalidation of NRA had left U. S. mill owners high and dry on a plateau of permanently raised labor costs without the commensurate tariff protection provided in NRA's Section 3E. Result of this was that there was nothing, either in Japan or in the U. S., to prevent the trickle of cheap Japanese cottons from becoming a horrid flood.

Few men could have been so happily qualified to do something about Cotton's prospect as was Claudius T. Murchison when he succeeded George Sloan as president of the Cotton-Textile Institute in November 1935. North Carolina-born, he understood King Cotton as only a Southerner can, knew well that the U. S. sells more raw cotton to Japan than to any country in the world. After teaching economics for 13 years at the University of North Carolina, he was appointed director of the Bureau of Foreign and Domestic Commerce by President Roosevelt in 1934. He sat in with State Department officials on the drafting of reciprocal trade treaties with Cuba, Belgium, Brazil, Haiti, Sweden, Colombia. Gentle, pipe-smoking President Murchison saw clearly the impossibility of damming Japanese cottons with further import duties. Restrictions strong enough to affect the Japanese would be absurdly unfair to European exporters, and U. S. policy forbade a sharply discriminatory tariff.

CLAUDIUS TEMPLE MURCHISON
. . . triumphant from Osaka.

Last spring it was evident that a reciprocal treaty with Japan would take a long time to arrange, yet it might not be long before the problem of Japanese imports became feverish. President Murchison left his house in Georgetown one day to smoke a pipe with his old friend, Assistant Secretary of State Francis Bowes Sayre, onetime trade adviser to the King of Siam, later a criminal law professor at Harvard. Level-headed Mr. Sayre and long-headed Dr. Murchison agreed 1) that the Japan Cotton Spinners' Association, whose members own 98% of Japan's 11,000,000 spindles, was powerful enough in itself to make a binding agreement; 2) that both the Japanese and the U. S. Governments would be delighted by a private settlement in which the pomps of diplomacy were not involved. Mr. Sayre talked it over with Ambassador Saito at the Japanese Embassy. Dr. Murchison proceeded to organize a committee. At high noon the day before Christmas, President Murchison, Manufacturers Harry Bailey of New York, Donald Comer of Alabama, Casson Callaway of Georgia and *Cotton's* Editor Bob Philip sailed from San Francisco for Japan.

"The boat upon which [we] stood was riding the waves buoyantly enough," said Dr Murchison last week, "but I suspect that in the hearts of each one of us we had a feeling of being already sunk. . . . We saw in perspective a nation committed to a social and economic program which made its costs of manufacture emerge from the level of world costs as the tip of Pikes Peak emerges from the surrounding Rockies. . . . Yet it was a nation engaged in the promotion of trade liberalization . . . We did not know at this time that, within a few days, we would be informed that the Japanese bookings of American business for 1937, had reached a sum total of more than 150,000,000 yd. by the time the year was three weeks old. It is not unreasonable to suppose, on the basis of the most conservative possible estimate that the 1937 Japanese imports to the United States might have reached the colossal figure of 500,000,000 yd. had nothing been done. . . ."

What Dr. Murchison and colleagues did was done with Occidental rapidity in less than ten days. Between entertainments of feudal courtesy and visits to the great clean mills of Osaka, they persuaded the Japanese textile barons to call an immediate halt on U. S. business, establishing as the quota for this year just 155,000,000 yd. of cotton piece goods, exactly the amount of business booked for U. S. delivery three days preceding the agreement. The surprisingly tractable Japanese further agreed that the situation in 1937 was abnormal, accepted a quota of 100,000,000 yd. for 1938 with the option of transferring not more than one-fourth the 1938 quota to 1937. Having thus triumphantly established quantity limitations as the basis for Japanese-American trade in cotton textiles, the U. S. mission, before sailing for home, agreed to appoint members to a joint standing committee before April 1 to set similar quotas in manufactured goods such as tablecloths, bed-spreads, handkerchiefs.

Last week elated President Murchison summed up the accomplishment thus: "The American side now has security and stability where formerly there existed the threat of immeasurable and overwhelming competition. They are likewise saved from the expense, the discomfort and the misinterpretations, the recriminations, the bickerings and hazards involved in a campaign of political action. . . . On their side, the Japanese will have for the years 1937 and 1938 a volume of business greatly in excess of any previously enjoyed in the American market . . . They are also freed from the danger of tariff increases or other forms of restrictive legislation. . . ."

Furthermore, Japan had gained a potent friend in hostile business territory. How valuable this friendship might prove was indicated last week when Dr. Murchison urged U. S. importers to handle Japanese quota goods "without hesitation."

†***Were these shorts expecting some action about gold?***—Japanese textile imports into the U. S. tended to growth rapid enough to up prices, costs, etc., affect world freighting, and business in other markets where Japanese textiles were dependably established. The U. S. uses about 9 billions yds. of cottons a year.—Ed.

*The Federal Reserve Board announced last week that its adjusted index of U. S. industrial production (calculated on a 1923-25 "normal") dropped from 121 in December to 115 in January. Yet except for December, when business was abnormally high for that time of year, the Reserve Board index stood at its highest point for any month since October, 1929.