

CONGESTED PRICES

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Congested Prices by M. L. Scudder

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By the title "Congested Prices," I intend to describe prices made in certain unhealthy conditions of trade. There are times in the existence of our best organized commercial systems when the streams of exchanges, usually flowing quietly and evenly, become clogged by mad rushes. At such times, like the agitated blood in the human body under abnormal conditions, the excited efforts to effect transfers of property become too strong for the customary channels. There is a heaping up, a congestion of prices at weak points, and, unless speedy relief is afforded, the prostration or destruction of the commercial system follows.

As the knowledge of the cause and cure of disease is the proper direction in which to seek the preservation of health, so the study of the nature of commercial crises is the best method of preserving a sound condition of trade. For this reason the investigation of prices in a state of congestion leads to the prevention of panics, and cultivates that intelligent and sober state of mind which confines business ventures within prudent limits.

It may be noted in the outset that the subject of prices is largely within the bounds of mental science. The desire for possession, the comparison of desires, the fear

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of deprivation, the far-reaching effort to apprehend by analogy the desires of others—all these mental phenomena are manifested in the making of prices, and, political economists to the contrary notwithstanding, are better worth investigating than the amount of labor expended in production or the extent of the wage-fund.

Prices are values expressed in money terms; but there is also, I think, a more restricted meaning to the term in common commercial use which is not noted in the dictionaries. Price, I think, implies that a transaction has actually been effected; at least this is true in markets where transactions are effected by offerings and bids. A merchant may mark the prices on his goods at which he hopes to make sales, but a dealer in grain, provisions or stocks would hardly make use of the term in the same way in regard to his commodities. He might possibly speak of it as the "seller's price," but the word price alone would mean for him only the money value of a commodity as determined by an actual transaction. This distinction is important. There are in common use the terms "bidding price" and "asking price," but neither is regarded as the real price established by an actual exchange.

With this meaning clearly understood, the term "congested prices" becomes more significant, and the importance of mental conditions is more definitely brought out. The opinions of men, their desires, their needs, are the elements to be studied. How comes it that for long periods, by diligent comparison of their multiform

wants and wishes, having succeeded in accomplishing by exchange a very satisfactory state of existence, men all at once unite in desiring one thing intently, and direct all their efforts, without consideration or judgment, to attaining it? This is the problem of panics. On September 23, 1873, spring wheat sold in Chicago at 1.04½ per bushel; on September 24 it sold at 89 cents per bushel. Why was this sudden change in its value? Political economists assure us that value is determined by cost of production. Yet we are quite sure there was no great change in the cost of production of wheat within these twenty-four hours. The reason for the decline is to be found in the opinions and desires of men, and the laws of the opinions and desires of men are the chief laws of prices.

It must be conceded that this subject hardly admits of logical treatment. The data are so widely scattered, so numerous and so minute, that their classification in anything like a connected theory is impossible. One in treating this subject conscientiously can only pick up an interesting fact here and another there, point out the peculiarities of each and cast them away again. If these observations seem to teach any valuable lesson, it must come from a previous mental agreement between listener and speaker, for there is no well placed solid foundation amongst these facts upon which a reasoner can build so as to command the agreement of all mankind.

From the ungraspable nature of this subject, it is at once the easiest and the most difficult to treat. The

easiest, if one is willing to dogmatize or to prophesy, for in this uncertain field a dogmatic assertion or a prophecy may possibly prove correct; but the most difficult, if one sincerely and by sound method strives to reach a positive conclusion. The effort to compass and comprehend the infinite number of facts is as yet too great for the mind. We cannot get a satisfactory hold on the particulars which will warrant us in working up surely to the general law.

In the mechanism of prices, stock and grain exchanges have prominent places. They are organizations for the chief purpose of determining and recording prices. They are developments from the demands of trade, but not the less is the ingenuity remarkable which has constructed them and fitted them with well established customs and carefully drawn rules, so that prices with uniform conditions are made momentarily, hourly, daily, for the guidance of all the trading world. The advantage of prices made on these exchanges is their mathematical certainty. Compared with outside trading they are as the demonstrations of Euclid to practical surveying. They have a certain quality of abstractness, which makes one inclined to call them "pure prices."

These exchanges are undoubtedly the developments of the fairs of the middle ages. But they have totally changed their characters. The merchants and farmers who attended the fairs of Stourbridge or Winchester brought their goods and produce, made their exchanges

and took away their purchases. But a very small percentage of those who buy or sell on the exchanges of the great commercial centers desire to possess the property which they purchase, or are in possession of the property which they sell. The fixing of the price is the main object of nearly all transactions on these exchanges. For every transaction there must be a purchaser and a seller, and the price once fixed is made the basis of a contract. To the fixing of this price each party to the contract brings his widest information and his best judgment. One of the two parties must be in error in his judgment, as to the supply of, or the demand for, the commodity concerning which they contract. In the course of time it is apparent on which side the error of judgment has been made. But it rarely happens that either party waits for the other to complete his contract. The loser takes his loss when he pleases by making another contract for the purchase or sale of the same commodity with another party, and the winner takes his profit in the same way. It is customary to set off one contract against another. Thus there are always a large number of contracts always in existence between the members of every exchange, and these contracts are almost always for a very much larger quantity of commodity traded in than is in existence within easy reach of the contracting parties.

This is roughly the method by which these great exchanges are conducted. It is not strictly accurate as to the details, for every commodity is subject to peculiar conditions, and it is a recognized principle of all

exchanges that delivery and payment, according to the terms of the contract, must be rigidly enforced if either party desires it. If it were not for this principle the prices made on the various exchanges would be without value to commerce; with this principle they become the guide of all transactions within the civilized world.

I wish here to bring out prominently this point, that these exchanges and boards of trade are mainly occupied in determining prices. It is a sort of division of labor. The members of these exchanges are not greatly employed in handling or using the commodities whose prices they develop. Their business is to determine the prices, and in the economy of employments it falls to others to possess and enjoy the property.

It is not to be understood that the members of any of the prominent exchanges determine prices solely according to their own desires. Every such exchange is the center of general attention; many thousands of interested men are listening to the click of the telegraph instruments which report its doings, and every quotation made is the result of innumerable and widespread influences, as far beyond the control of a board of brokers as are the clouds or the seasons.

It is hardly worth while to discuss here the morality of speculation in the various exchanges. That is a subject very much misunderstood, and neither the opinions of learned judges nor the statutes of Illinois have served to make it plainer; but, whether it is right