

Senator SMITH. You also are charged by the law that in case any grades are certificated that are not up to standard, to eliminate them, are you not?

Mr. PALMER. Yes, sir.

Senator SMITH. In case there is a difference of price in settlement on any grades below or above, between buyer and seller, you are the arbiters of the standard as to what will be paid, the price upon which you will settle, from 10 bona fide spot markets?

Mr. PALMER. That is correct.

Senator SMITH. I think we clearly understand, now, that the futures market determines and governs the level of prices from day to day and from season to season.

This resolution alleges that during this year, in view of the consumption of American cotton by the world and the production of American cotton in the season of 1927-28, the price has declined rather than advanced, in the face of a short supply and an unusual world's demand for American cotton, which seems to contradict the law of supply and demand.

I want to know if you have any facts, as administrator of the cotton futures act, to indicate to the committee the reasons for this condition in the cotton market. We must look to you as the head of the cotton marketing division to post us, to keep us advised. Whether we have given you that power or not, you elected to do it, and therefore we have the right to ask you to explain to us to-day why that anomalous and abnormal condition has obtained from August until now. If we find out that it is perfectly normal, we want to know it, and if it is abnormal, that is our business also.

Mr. PALMER. Would it be taking the time of the committee unnecessarily if we went back just a moment to a little further consideration of the futures contract and the functions of the futures market and the relationship between the futures market and the spot market, and then to the provisions of the law, so that I might show to the committee just what the duties of the Department of Agriculture are and what the relation of these duties is to the proper functioning of the futures markets?

Senator SMITH. We called you here because, primarily, we would want to know just to what extent the administration of this law would have any influence in stabilizing the market as far as we hoped the law would; but in view of the fact that a prediction was made by your bureau that the trend of prices would go down for a certain number of months, you certainly had a good basis upon which to make that prediction, for it certainly followed; and the committee would like to know all of the facts that you had upon which to predicate in September that in view of the fact that the ravages of the boll weevil were terrific the probability was that the amount of cotton produced in 1927 would be 5,000,000 bales less than produced in 1926, and in view of the further fact that the consumption of American cotton was perhaps as great as or greater than ever before, that cotton would decline. It was such a remarkable statement that the whole world seemed to be paralyzed, and cotton certainly went down.

Representative RANKIN. Before he returns to that question, if it is satisfactory to the committee, I have some questions that I would like to ask him bearing on his duties in his official position that lead up to this proposition.