

**OKLAHOMA  
AGRICULTURAL AND MECHANICAL COLLEGE  
AGRICULTURAL EXPERIMENT STATION**

**C. P. BLACKWELL, DIRECTOR  
STILLWATER, OKLAHOMA**

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**RESULTS OF  
The Regulation of Cotton Gins  
as Public Utilities  
IN OKLAHOMA**

**ROY A. BALLINGER**  
Department of Agricultural Economics  
Oklahoma Agricultural Experiment Station

## TABLE OF CONTENTS

<b>Introduction</b> .....	3
<b>Characteristics of Cotton Gins as Public Utilities</b> .....	4
<b>Results of the Regulation of Cotton Gins</b> .....	8
<b>Ginning Rates in Oklahoma and Neighboring States</b> .....	8
<b>Differences in Ginning Rates for Picked and Snapped Cotton</b> .....	11
<b>Effect of Ginning Rates on Prices Paid for Cotton by Ginners</b> .....	14
<b>Other Effects of Regulation</b> .....	15
<b>Conclusions</b> .....	16

# RESULTS OF THE REGULATION OF COTTON GINS AS PUBLIC UTILITIES IN OKLAHOMA

ROY A. BALLINGER<sup>1</sup>

## INTRODUCTION

Oklahoma is the only state in the United States which regulates cotton gins as public utilities. While certain other states have passed laws which apply particularly to cotton gins, none has gone nearly as far as Oklahoma in regulating this business. During the past few years, the Federal government in particular, and also to some extent the State government of Oklahoma, have attempted to increase their regulation of businesses. Because of these developments and because of the importance of the cotton ginning business to the farmers of Oklahoma, it seems that an examination of some of the effects of this regulation may be worth while.

The law which provides for the regulation of cotton gins as public utilities in Oklahoma has been in effect since 1915. The more important features of the law are the same now as when the legislation was originally enacted, although there have been various amendments at different times. The State Corporation Commission is the regulatory body which administers the law and ginners are required to secure a license from the Commission for each new gin before it is built. Such a license can be issued only when the existing facilities are considered inadequate and there appears to be a need for the operation of a gin at the proposed location. The law also instructs the Commission to consider the competency and desirability of the applicant as an operator of a gin before deciding whether or not to grant a license. The original act provided that gins already established should receive licenses without the necessity of showing that there was a need for the gins. The owners of all gins built since that time have been required to show that a need existed for the facilities before the gin could be built. A possible exception to this statement exists in case certain types of cooperative gins should be established. An amendment to the original law provides ". . . that on the presentation of a petition for the establishment of a gin to be run cooperatively, signed by one hundred (100) citizens and taxpayers of the community where the gin is to be located, the Corporation Commission shall issue a license for said gin."<sup>2</sup> The Supreme Court of the United States has held this provision unconstitutional when applied to a gin organized under the 1919 Capital Stock Cooperative law of Oklahoma, although the Court stated, "As applied to corporations organized under the 1917 Act, we have no reason to doubt that the classification created by the proviso might properly be upheld."<sup>3</sup> However, it appears that all of the existing cooperative gins in Oklahoma are organized under the 1919 capital stock law so that the exception is of no practical significance at the present time.<sup>4</sup>

<sup>1</sup> Mr. R. C. Soxman of the Bureau of Agricultural Economics, United States Department of Agriculture, assisted the author in preparing the statistics on which parts of this study are based.

<sup>2</sup> Section 3678, Compiled Oklahoma Statutes, 1931.

<sup>3</sup> *Frost v. Corporation Commission of the State of Oklahoma, et al.*, 278 U. S. 5k5, 495 Sup. Ct. 235 reversing decision of trial Court 26F (2d) 508.

<sup>4</sup> The 1919 cooperative law of Oklahoma provides for the formation of cooperatives with capital stock, and does not limit the amount of business the cooperative can do with non-members. The 1917 cooperative law of Oklahoma provides for the formation of cooperatives without capital stock, and provides for strict limits on the amount and character of business the cooperative can do with non-members. While all of the cooperative gins now in operation in Oklahoma appear to be organized under the 1919 law, it is easily possible for others to be organized under the 1917 law and for the present cooperatives to change their methods of operation, their articles of incorporation and by-laws so as to come under the terms of the 1917 law.

The Commission requires gins wishing to cease operation to secure permission before doing so, except in case of emergency, and ordinarily can compel the maintenance of facilities at any point where they exist, if it wishes to do so. The Corporation Commission also requires the ginners to file an annual report for each gin giving a detailed record of its operations during the past fiscal year. The report includes an itemized statement of the nature and amount of all expenditures, total revenue received, volume of ginning, and various other items. The ginners are required to equip their gin properly for the ginning of cotton, including bollies or snapped cotton. They must also keep a complete record of each bale ginned.

No doubt one of the most important matters over which the Corporation Commission has jurisdiction is that of regulating and fixing ginning charges. The law provides:

That the Corporation Commission shall have the . . . power and authority and be charged with the duty of regulating and controlling such cotton gins in all matters relating to the performance of public duties and the charges therefor, and correcting abuses and preventing unjust discrimination and extortion . . . and shall have the . . . power to fix rates, rules, charges, and regulations to be observed by such person or persons or corporation, operating gins, and the affording of all reasonable conveniences, facilities and services.<sup>5</sup>

Legal recourse by gin operators against orders of the Commission concerning rates, charges, and rules may be had by appealing to the Supreme Court of the State.

While the Commission's regulatory authority over the actual business of ginning cotton is reasonably complete, it has no special authority over certain related business activities commonly engaged in by cotton ginners in Oklahoma, except that the ginners are required to keep separate accounts for their ginning business. The most important of these related activities is the purchase of cotton and cottonseed from the farmers who patronize the gins. Many ginners also sell cottonseed to farmers for planting purposes, and engage in various other business activities which are supplementary to the ginning of cotton. In most of these activities the ginners appear to possess certain advantages over their competitors who do not operate gins. This is particularly true of the purchase of cottonseed from farmers who patronize the gin, since the ginner can unquestionably handle this product more cheaply than anyone else. The Commission's lack of authority over these supplementary activities of cotton ginners has resulted in certain difficulties which will be discussed later.

#### CHARACTERISTICS OF COTTON GINS AS PUBLIC UTILITIES

In general, public utilities are thought to possess certain characteristics which are not common to other types of business and which justify their regulation by the government. A list of some of the more important of these characteristics, prepared by students of public utilities, contains the following:<sup>6</sup> Public utilities are natural monopolies; they furnish an indispensable service; the capital requirements are usually large; they normally enjoy steady revenues; labor costs are low in ratio to other expenses; they tend to encourage customer and employee ownership of securities; and because of these factors they are subject to thorough-going regulation by governmental agencies. It has also been pointed out that the ratio of annual gross income to investment is ordinarily much lower for public utilities than for other types of business.<sup>7</sup>

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<sup>5</sup> Section 3716 Compiled Oklahoma Statutes.

<sup>6</sup> Jones and Bigham, *Principles of Public Utilities*, Chap. II, MacMillan and Co.

<sup>7</sup> Lincoln, *Applied Business Finance*, p. 34. McGraw-Hill Book Co.

An examination of the business of ginning cotton shows that it does not possess, to any important degree, many of the characteristics of public utilities which have been mentioned. For instance, cotton gins have not tended to become monopolies, either under regulation in Oklahoma or in other states where they have not been regulated. The business of a single cotton gin is confined to a small area, comparable in size to that served by a grain elevator or a village store. In important cotton producing regions practically all farmers have access to more than one gin and it is unusual for a single individual or company to own all of the gins in a ginning community where several gins exist. While there are some large corporations which operate a considerable number of gins in Oklahoma in line systems, they do not appear to have achieved any significant monopoly powers, at least so far as the actual ginning of cotton is concerned, because competing gins exist at nearly every point where they have plants. It is possible that twenty years ago, when the law making them public utilities was passed, gins possessed more monopoly features than they do now. At that time the use of trucks for hauling seed cotton had not developed, and, consequently, farmers were more restricted in the distance which they could haul their cotton to have it ginned. However, even under such conditions, it is doubtful if many gins possessed a great deal of monopoly power; and past conditions surely do not greatly affect the present circumstances of the gins in this respect.

The Corporation Commission appears to have taken a rather unusual position with respect to monopoly conditions in the ginning industry and the regulation of the industry as a public utility. At least statements in some of its orders indicate that at times lack of competition has been considered a reason for permitting another gin under a different ownership to operate at certain points.<sup>8</sup> The Supreme Court of the State of Oklahoma has upheld the rights of the Corporation Commission to grant licenses for the operation of cotton gins at points where the physical facilities for ginning were sufficient to handle all the cotton available but where there was a lack of competition between the existing gins. In a case which illustrates this point the court said:<sup>9</sup>

It is next contended in substance that, inasmuch as the uncontradicted evidence is that there were already four licensed gins at Pauls Valley with capacity to gin approximately twice as much cotton as came to Pauls Valley on an average for a period of five years, another gin, and especially two other gins could not be needed utilities at that place.

This is perhaps true if capacity of existing gins is the only thing that the Corporation Commission can take into consideration in determining whether or not another gin at a given locality is a needed utility . . . If the Commission can consider only the question of existing facilities at a given point in determining whether or not another proposed gin at that point is a needed utility, then the very purpose of the law may be defeated. . . .

If by common understanding among commercial ginners already licensed at a given point, the price paid by them for seed cotton and cottonseed may be continuously kept below the fair market price at that place and below the prices paid at nearby points, and no other ginners are permitted to engage in the business, the effect would be to evade the rates fixed by the Commission for ginning by the simple method of paying the patron who is without means to store or house his cottonseed, a price below its fair market value, and thus force him to sell at a sacrifice or seek service at a more distant place. The expense of hauling to a more distant market would in many cases be prohibitive, thus forcing the cotton grower to sell his seed below the fair market value and in effect permit the ginners to charge higher rates for ginning the cotton.

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<sup>8</sup> Corporation Commission of Oklahoma Order Nos. 5264 and 5265, both issued August 4, 1930, listed in the Commission's Annual Report, 1931.

<sup>9</sup> *Southwestern Cotton Oil Co., et al., v. Farmers' Union Cooperative Ginning Company, et al.*, 165 Oklahoma 31, 24 Pac. (2d) 658.

This attitude is precisely the opposite of the one usually taken with respect to public utilities, where it is considered that the regulatory powers of the government are sufficient to protect customers from the evils of monopoly. It is also important to note that the Corporation Commission lacks the power to compel competition in ginning where it does not exist, except as laws against monopoly may provide such authority. It would hardly be possible for the Commission to order someone to operate a gin at some point for the purpose of providing competition, although it does have the power to prevent a ginner from ceasing the operation of a gin without permission and can control to some extent the transfer of ownership of gins. These powers might partially serve to maintain competition where it already existed but they would not create competition where it did not exist.

When the law making cotton gins public utilities was originally passed it was apparently expected that it would make possible the limitation of the number of gins in the State in such a way that ginning costs would be reduced and cotton producers benefited. The right to refuse a license for any additional gins at points where adequate facilities already existed might be expected to produce some such result. However, it seems questionable if there has been any effective limitation of the number of gins. In the first place, the law required that all gins in operation at the time the law became effective should receive a license. Consequently, whatever excess number of gins there was at that time tended to be perpetuated, except in communities where the production of cotton increased. In communities where cotton production has declined, the Corporation Commission has had no effective way of reducing the number of gins more rapidly than they would have been reduced by competitive forces. Also, it has sometimes been claimed that the Corporation Commission has altogether too frequently granted licenses for the operation of additional gins when no real necessity for them existed. Of course, it is difficult to prove whether such statements are true or not, because the necessity for additional gins at any point usually cannot be known positively from the written evidence available. However, it does appear that in most years the Commission has granted a large majority of the requests it has received for licenses for new gins. In this connection the opinion of a former chairman of the Commission is informative. He said in part:<sup>10</sup>

. . . It must be admitted, however, that the large number of gins in Oklahoma makes it impossible for all these gins to secure what may be reasonably considered adequate amount of cotton to keep the gin in profitable operation, from a ginner's profit standpoint. The big trouble is the State is surfeited with gins. In 1924, for the season 1924-25, and over the protest of the then Commissioner Frank Carter, ginning rates were at the instance of the ginner's association, or those speaking for the majority of the ginning interests of the State, placed so high that the ginning business appeared to be an exceedingly attractive and lucrative one. There followed as a result of this increase, what may be termed a saturnalia of gin building. People were anxious to get into the ginning business while the opportunity of reaping profits presented itself. The ginner thereby 'cut their own throats,' so to speak, because by the rate which they asked for and got they encouraged excessive building of gins.

In view of all the circumstances it seems doubtful if the regulation of cotton gins has been justified by any monopoly situation in the industry, or that regulation has tended to create a monopoly situation of benefit to the general public or any other important group in the State.

<sup>10</sup> Dissenting opinion of Chairman Paul A. Walker to Order No. 5598 of September 15, 1931, setting ginning rates for the season 1931-32. Published in the 1932 Annual Report of the State Corporation Commission, p. 255.

Consideration of cotton gins in relation to some of the other common characteristics of public utilities yields interesting results. Most utilities are presumed to furnish an indispensable service to the public. In one sense cotton ginning is undoubtedly an indispensable service. Lint cotton is commercially valueless unless it is separated from the seed by ginning. However, most economic activity is more or less necessary or indispensable to the maintenance of present standards of living, and this characteristic loses much of its significance when monopoly conditions are not present in a significant degree.

Contrary to conditions prevailing in most public utilities, the capital requirements for an independent unit of the ginning industry are not unusually large. The average net investment per plant in Oklahoma in 1932 was only \$18,378, according to reports made by the gins to the Corporation Commission.

Neither do cotton gins enjoy reasonably steady revenues, as do many public utility businesses. Wide fluctuations in the revenue of cotton gins occur because of the highly seasonal nature of the business and the occurrence of variations in the acreage and yield of cotton in the territory served by individual gins, as well as because of changes in ginning rates and competitive conditions. The average gross revenue per gin for approximately 400 gins in western Oklahoma declined from \$11,738 in 1929-30 to \$7,790 in 1930-31. The variation for many individual gins was, of course, much greater than this.

The labor costs of operating a cotton gin form one of the principal items of expenditure. In 1933-34 the average labor costs of 95 cooperative gins in Oklahoma amounted to more than one-third of their total operating expenses. Labor costs, instead of being low relative to other expenses, actually constituted the most important class of expense.<sup>11</sup> One reason for the relatively large importance of labor costs in cotton gins is the relative unimportance of investment expenses. It has been stated that the annual gross income of public utilities is ordinarily not more than 20 to 25 percent of the investment and is frequently much lower.<sup>12</sup> Studies of cotton gins in Oklahoma show that for the four seasons 1929-30 to 1932-33 gross revenue averaged about 35 percent of the original investments in the cotton gins.<sup>13</sup> This is considerably above the figure mentioned for public utilities generally, although doubtless much below the ratios for many types of businesses.

The business of ginning cotton has not shown any particular tendency to encourage customer or employee ownership of securities. Indeed much of the industry in Oklahoma, as well as elsewhere, is controlled by individuals and partnerships rather than corporations. While many of the individuals who have financial investments in gins also are interested in cotton farming, there is nothing to indicate that their investments in gins were incurred because of their farming operations, except in the case of the cooperative gins in the State. Cooperative gins are fairly numerous in Oklahoma and in some cases their establishment may have been encouraged by the fact that gins were public utilities. However, cooperative ownership and operation is not what is commonly meant when customer ownership of public utility securities is discussed.

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<sup>11</sup> However, labor costs for railways in the United States were relatively more important than in the case of cotton gins.

<sup>12</sup> Lincoln, *Applied Business Finance*, p. 34. McGraw-Hill Book Company.

<sup>13</sup> Data secured from the records of the State Corporation Commission.

## RESULTS OF THE REGULATION OF COTTON GINS

The foregoing discussion would seem to indicate that cotton gins do not possess in any important degree many of what are commonly considered the more important distinctive characteristics of public utilities. Accordingly, it is difficult to justify their regulation as public utilities on what might be called theoretical grounds. It is probably more important, since cotton gins have been treated as public utilities in Oklahoma for a considerable period of time, to examine as closely as possible the actual results of regulation and to judge the wisdom of the course followed according to the benefits or injuries which have resulted.

## Ginning Rates in Oklahoma and Neighboring States

One of the possible benefits which might be expected is that of lower ginning costs to the cotton farmers in Oklahoma. It is difficult if not impossible to measure directly the effect of regulation on rates within Oklahoma. Probably the most satisfactory way of arriving at reasonably significant conclusions is to compare ginning rates in Oklahoma with rates in adjoining counties in Arkansas and Texas where ginning conditions, except for the factor of state regulation, are sufficiently similar to those in Oklahoma to make possible significant comparisons.

Data are available showing ginning charges in certain counties in Arkansas for the years 1928 to 1933, and for certain counties in Texas for the years 1928 to 1932.<sup>14</sup> The charges in Oklahoma are available from the records of the Corporation Commission for all of these years. Table I shows the charges for ginning seed cotton, which had been harvested by picking, in eastern Oklahoma, northeastern Texas, and western Arkansas. The data for Texas and Arkansas have been divided so as to show the rates in the border counties, and also in certain interior counties which are separated from Oklahoma by one or two counties. Rates in these interior counties of Arkansas and Texas are not likely to be influenced materially by the Oklahoma rates, while rates in the border counties may be influenced to a significant extent by the proximity of the territory to Oklahoma.

TABLE I.—Ginning Rates per One Hundred Pounds of Seed Cotton, Harvested by Picking, in Eastern Oklahoma and Adjacent Areas in Arkansas and Texas

Area	1928	1929	1930	1931	1932	1933
Eastern Oklahoma	\$.35	\$.35	\$.35	\$.25	\$.25	\$.20
Northeastern Texas						
Border counties	.29	.29	.29	.20	.19	---
Interior counties	.30	.29	.29	.20	.22	---
Western Arkansas						
Border counties	.30	.30	.26	.21	.23	.22
Interior counties	.27	.28	.25	.19	.23	.26

SOURCE: Calculated from data furnished by the Division of Cotton Marketing, Bureau of Agricultural Economics, United States Department of Agriculture.

Each year, from 1928 to 1932, ginning rates for picked cotton in the border counties of northeastern Texas were lower than the rates in eastern Oklahoma. The difference amounted to six cents per hundred pounds of seed cotton each year, except in 1931 when the difference was only five

<sup>14</sup> These rates were secured from the Bureau of Agricultural Economics, United States Department of Agriculture. The ginning rates for the Arkansas counties represent a weighted average based on the volume of cotton ginned by individual gins. The ginning charges for the counties in Texas represent simple averages of the rates charged by individual gins.



cents. It takes approximately 1,500 pounds of seed cotton to produce a 500-pound bale of lint. Six cents, therefore, amounts to about 90 cents per bale, which is equivalent to 24 percent of the Oklahoma rate in 1932. Rates in the interior counties of eastern Texas were not appreciably different from rates in the border counties, except in 1932 when they were three cents higher.

Rates in the border counties of western Arkansas were lower than the rates in eastern Oklahoma each year except in 1933 when they were two cents higher. The rates in Oklahoma in 1933 were the lowest ever established by the Corporation Commission and were apparently below competitive rates in Arkansas. Rates in the interior counties in Arkansas were below the rates in the border counties each year from 1928 to 1931. In 1932 the rates were the same, while in 1933 they were four cents higher. Apparently, during the early part of the period, the higher rates in Oklahoma enabled the ginners in the border counties of Arkansas to charge somewhat higher rates than the interior counties charged. In 1933, however, the situation was reversed, and the low rates in Oklahoma caused lower rates to prevail in the border counties of Arkansas than in the interior counties.

Table II shows a similar comparison for western Oklahoma and western Texas. In 1928, 1929 and 1930, ginning rates for picked cotton were lower in western Oklahoma than in the eastern part of the state. However, the rates for snapped cotton in western Oklahoma were higher than the rates for picked cotton in the eastern part of the state during these years. Since 1930 the rates have been uniform throughout the state, although the rates for snapped cotton have been higher than the rates for picked cotton. Contrary to the situation in Oklahoma, the rates for picked cotton in western Texas have been higher each year than the rates in northeastern Texas or western Arkansas. Rates for cotton harvested by picking were higher in the border counties of western Texas during the first three years shown in the table than they were in western Oklahoma. In 1931 they were the same, while in 1932 they were one cent lower. Rates in the interior counties of western Texas were higher than in the border counties in 1928 and 1929; they were the same in 1930 and 1931, and were one cent higher in 1932. Apparently, the lower rates for picked cotton in western Oklahoma in 1928 and 1929 caused ginners in the border counties of western Texas to charge lower rates for ginning this type of cotton than were charged in the interior counties of Texas. In the other years, the Oklahoma rate was apparently more closely adjusted to the competitive level in western Texas.

TABLE II.—Ginning Rates per One Hundred Pounds of Seed Cotton in Western Oklahoma and Adjacent Areas in Texas

Area	1928	1929	1930	1931	1932
<b>Picked cotton</b>					
Western Oklahoma	\$.30	\$.30	\$.30	\$.25	\$.25
Western Texas					
Border counties	.38	.37	.32	.25	.24
Interior counties	.42	.41	.32	.25	.25
<b>Snapped cotton</b>					
Western Oklahoma	.37½	.37½	.37½	.30	.30
Western Texas					
Border counties	.42	.39	.33	.25	.24
Interior counties	.43	.45	.33	.27	.25

SOURCE: Calculated from data furnished by the Division of Cotton Marketing, Bureau of Agricultural Economics, United States Department of Agriculture.

However, most of the cotton produced in western Oklahoma and western Texas is harvested by snapping rather than by picking. Consequently, the rates for snapped cotton shown in Table II are of more importance than the rates for picked cotton. Ginning rates for snapped cotton have always been higher in Oklahoma than the rates for picked cotton. During the first three years of the period shown in Table II they were seven and one-half cents per hundred pounds of seed cotton higher, and in 1931 and 1932 they were five cents higher. These differences are all much larger than those that prevailed in either the border or interior counties of western Texas. Since most of the cotton in this part of Oklahoma is snapped, the higher rates for snapped as compared with picked cotton have, no doubt, been of more significance to ginners than the lower rates for picked cotton in western Oklahoma as compared with similar rates in eastern Oklahoma.

In 1928 and 1929 the ginning rates for snapped cotton in the counties of western Texas were higher than in western Oklahoma. In 1930, 1931, and 1932 they were lower. The rates in the border counties of western Texas declined each year from 1928 to 1932, so that the rate in 1932 was 43 percent less than the 1928 rate. In the interior counties of western Texas the rate for snapped cotton declined each year from 1928 to 1932, except from 1928 to 1929, and the 1932 rate was 42 percent below the 1928 rate. There was only one reduction in rates in western Oklahoma during the five-year period, which took effect in 1931. The rate for snapped cotton in this section of Oklahoma in 1932 was only 20 percent less than the rate in 1928. Until 1932, the Corporation Commission had not lowered ginning rates for this type of cotton as rapidly or as much as they had been reduced under competitive conditions in western Texas.

TABLE III.—Charges per Pattern for Bagging and Ties in Oklahoma and Adjacent Areas in Arkansas and Texas

Area	1928	1929	1930	1931	1932	1933
Oklahoma <sup>1</sup>	\$1.45	\$1.45	\$1.45	\$1.15 <sup>2</sup>	\$1.00 <sup>3</sup>	\$1.00 <sup>3</sup>
Western Arkansas						
Border counties	1.69	1.62	1.49	1.23	1.03	1.18
Interior counties	1.61	1.57	1.40	1.13	1.09	1.20
Northeastern Texas						
Border counties	1.45	1.40	1.30	1.10	1.09	---
Interior counties	1.38	1.34	1.27	1.09	1.07	---
Western Texas						
Border counties	1.45	1.50	1.37	1.07	1.10	---
Interior counties	1.68	1.71	1.30	1.13	1.07	---

SOURCE: Calculated from data furnished by the Division of Cotton Marketing, Bureau of Agricultural Economics, United States Department of Agriculture.

<sup>1</sup> The charge for bagging and ties was uniform throughout the state each season.

<sup>2</sup> Two pound jute; light sugar cloth was \$1.00 per pattern.

<sup>3</sup> Two pound jute; light sugar cloth was \$ .90 per pattern.

The ginning rates which have been discussed do not include the charges for bagging and ties, which are used to cover the bales of cotton. Table III shows these charges for Oklahoma and the sections of Arkansas and Texas for which comparisons of ginning rates were made. In 1928 and 1929 the charges for bagging and ties were lower in Oklahoma than in the other states, with the exception of eastern Texas. In 1930, charges in Arkansas and Texas had all been lowered, while the rate in Oklahoma was the same as in the earlier years; consequently the charges in Oklahoma were higher than in the other states, except for the border counties in Arkansas. The

Oklahoma charges were lowered in 1931, but not sufficiently to make them as low as most of the charges in the other states. However, a further lowering of the charges in 1932 brought them below the charges in the other states.

These differences in the charges for bagging and ties are generally of much less importance than the differences in ginning rates. For instance, a difference of five cents per hundred pounds in the ginning rates amounts to about 75 cents per bale for picked cotton and \$1.00 per bale for snapped cotton. These are not unusual differences in ginning rates, while the largest difference in charges for bagging and ties shown in Table III is 36 cents per bale.

In general it appears that the charges for ginning a bale of cotton frequently have been higher in Oklahoma than in comparable areas in Arkansas and Texas, especially in 1930, 1931, and 1932. This was probably not true in 1933 because of the unusually low rates set by the Corporation Commission in Oklahoma that year, and important exceptions also occurred in 1928 and 1929. However, these facts do not necessarily show whether the Oklahoma rates were higher or lower than they should have been. It is usually considered that public utilities should be permitted to charge rates that will yield a fair return on the necessary investment, when the utilities are operated as efficiently as possible. There is no available evidence to show whether such a rate for cotton ginning would have been lower or higher than a competitive rate. The principal significance of the comparisons which have been made is in indicating something concerning the relative cost of cotton ginning to cotton farmers under conditions of state regulation as compared with free competition. It appears probable that at least in 1930, 1931, and 1932, Oklahoma cotton farmers paid more for the service of having their cotton ginned than they would have if the ginning rates had not been regulated by the state government.

#### **Differences in Ginning Rates for Picked and Snapped Cotton**

In connection with Table II, it was pointed out that the differences in rates for picked and snapped cotton were much larger in western Oklahoma than in western Texas. An analysis of the costs of ginning cotton in Oklahoma during the years 1931 and 1932, which was prepared from the annual reports submitted by the ginners to the Corporation Commission, yields some significant information with respect to an equitable differential in rates. Since cotton gins in Oklahoma are public utilities, the differences in rates for the two kinds of seed cotton presumably should be based on differences in ginning costs. Table IV shows the costs per bale of ginning cotton in Oklahoma in 1931 and 1932 for gins which handled 20.0 percent or less of snapped cotton and for gins handling more than 80.0 percent of snapped cotton. The costs are shown separately for gins handling between 1001 and 1500 bales and between 1501 and 2000 bales so that the results cannot be seriously affected by differences in the volume of business. In every case the costs per bale of cotton ginned were lower for those gins which handled very little snapped cotton than for the other gins. However, the revenue per bale was also lower, so that the net income realized by the gins was much less in every case for the gins which handled 20.0 percent or less of snapped cotton. The percentage figures given in the last column of Table IV are one measure of the importance of this difference. It was obviously more profitable to the ginners to gin snapped than picked cotton. In both years the ginning rate for snapped cotton was 5 cents higher than the rate for picked cotton.

**TABLE IV—The Effect of Ginning Snapped Cotton on the Book Value, Revenue, Costs, and Net Income of Oklahoma Cotton Gins in 1931 and 1932.**

Percent snapped cotton was of total seed cotton ginned	Number of gins	Book value per gin	DOLLARS PER BALE		
			Revenue	Expense	Net Income
<b>Plants ginning between 1001 and 1500 bales</b>					
<b>1931</b>					
0.0- 20.0	71	\$16,052	\$4.28	\$3.50	\$ .78
80.1-100.0	62	21,269	6.06	3.95	2.13
Percentage difference <sup>1</sup>		33	42	13	173
<b>1932</b>					
0.0- 20.0	68	18,547	4.30	3.24	1.06
80.1-100.0	46	20,415	5.93	3.74	2.19
Percentage difference <sup>1</sup>		10	33	15	107
<b>Average</b>					
0.0- 20.0	139	17,273	4.29	3.37	.92
80.1-100.0	108	20,905	6.00	3.86	2.16
Percentage difference <sup>1</sup>		21	40	15	135
<b>Plants ginning between 1501 and 2000 bales</b>					
<b>1931</b>					
0.0- 20.0	32	16,128	4.28	2.82	1.46
80.1-100.0	35	24,546	5.96	3.53	2.43
Percentage difference <sup>1</sup>		52	39	25	66
<b>1932</b>					
0.0- 20.0	32	18,672	4.34	2.71	1.63
80.1-100.0	35	24,200	6.02	3.10	2.92
Percentage difference <sup>1</sup>		30	39	14	79
<b>Average</b>					
0.0- 20.0	64	17,400	4.31	2.76	1.54
80.1-100.0	70	24,373	5.99	3.32	2.68
Percentage difference <sup>1</sup>		40	39	20	74

SOURCE: The data in this table are derived from the reports of cotton ginners to the State Corporation Commission of Oklahoma.

<sup>1</sup> The percent which the book value, revenue, expense, and net income of the plants which ginned from 80.1 to 100.0 percent of snapped cotton was greater than these items were for plants which ginned from 0.0 to 20.0 percent of snapped cotton.

However, ginning charges are calculated in terms of the weight of seed cotton rather than bales of lint. The figures in Table IV can be converted approximately into terms of seed cotton by assuming that it takes 1500 pounds of picked seed cotton or 2000 pounds of snapped seed cotton to make a 500-pound bale of lint.<sup>15</sup> On the basis of these figures the cost of ginning

<sup>15</sup> Data showing that these weights are approximately correct are presented in Oklahoma Agricultural Experiment Station Bulletin No. 227, "Relative Economic Advantages of Harvesting Cotton by Picking and Snapping in Western Oklahoma," by Clyde C. McWhorter and Roy A. Ballinger, pp. 15 and 16.

for those gins with volumes ranging from 1001 to 1500 bales was about 23 cents per 100 pounds of picked seed cotton and 20 cents per 100 pounds of snapped seed cotton in 1931. In 1932 the figures were 22 cents and 19 cents respectively. The cost of ginning for plants which ginned between 1501 and 2000 bales was about 19 cents per 100 pounds of picked seed cotton as compared with 18 cents for snapped seed cotton in 1931. In 1932 the costs were 18 and 16 cents for the two kinds of seed cotton. In every case the costs were higher for the picked than for the snapped cotton. This is a somewhat surprising result in view of the practices of the Corporation Commission. While the figures given may not be absolutely accurate because it was impossible to select gins which handled either no snapped cotton or nothing but snapped cotton, the errors involved from this source are certain to be small. It is also true that the method of calculating costs used in the reports made by the ginners to the Corporation Commission differs somewhat from the usual accounting methods<sup>16</sup> and may somewhat understate the actual costs, particularly for snapped cotton; but again such errors are probably not large.

Since it is necessary for a gin to possess extra cleaning equipment if it is to handle snapped cotton, and since it costs money to operate this extra equipment, it is important to find out why this does not result in a higher cost of ginning snapped than picked cotton. Without doubt the principal reason is the effect of volume on costs. Studies of ginning costs have shown that the costs of ginning a bale of lint or 100 pounds of seed cotton decrease when the number of bales of cotton ginned increases.<sup>17</sup> It takes approximately 500 pounds or one-third more snapped cotton than picked cotton to make a 500-pound bale of lint. Consequently a gin has its volume increased one-third whenever it gins the same number of bales of snapped cotton in place of picked cotton. In 1931 and 1932 an increase in volume of one-third caused a decrease in costs of from 10 to 19 percent. This was apparently sufficient to counter-balance the effect of additional equipment on the cost of ginning snapped cotton.

It is also true that if a gin receives any appreciable amount of snapped cotton it must have as much cleaning machinery as if it ginned only snaps. Sometimes all of the seed cotton, whether harvested by picking or snapping, is run through all the cleaning machinery. Under such circumstances it could not cost much more to gin snapped cotton even if the volumes were the same. Furthermore, the time required to gin a bale from snapped cotton may be somewhat less than one-third longer than the time required for picked cotton, although the snapped seed cotton weighs about one-third more. Usually the capacity of the gin saws determines to a large extent the speed of ginning, and the extra weight of the snapped cotton, in the form of burrs and trash, is removed before it reaches the gin saws. Consequently it may take somewhat less time to gin 100 pounds of snapped seed cotton than 100 pounds of picked seed cotton, although accurate data on this point are not available. In the case of plants operated with steam engines, the burrs from the snapped cotton are frequently used for fuel, which further reduces the cost of ginning snaps.

It would cost a farmer approximately one-third more to have a bale of snapped cotton ginned than a bale of picked cotton, even if the rates per 100 pounds of unginned cotton were the same. If the rate for snapped cotton is 30 cents and for picked cotton 25 cents per 100 pounds, it costs the farmer 60 percent more to gin a bale of snapped cotton. The differ-

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<sup>16</sup> A discussion of the accounting methods used by the Corporation Commission in these reports is contained in "Some Economic Problems of Cotton Gins in Oklahoma," a manuscript submitted by Roy A. Ballinger and R. C. Soxman for publication as a bulletin of the Oklahoma Agricultural Experiment Station.

<sup>17</sup> *Ibid.*

ences in costs per bale to the ginners, as shown in Table IV, varied from 13 to 25 percent of the cost of ginning a picked bale. Such differences in costs per bale do not appear to justify the higher rates for snapped cotton than for picked cotton which were in effect in 1931 and 1932. The smaller differences in rates between picked and snapped cotton in western Texas from 1928 to 1932, as shown in Table II, tend to substantiate these conclusions.

#### Effect of Ginning Rates on Prices Paid for Cotton by Ginners

While Oklahoma farmers may not have gained any advantage in the form of lower ginning rates because of the regulation of gins as public utilities, the state's ginners may have benefited somewhat as a result of higher rates. However, it is doubtful if this represents much real gain to them because they apparently were forced to pay higher prices for the cotton, and perhaps also the cottonseed, which they purchased from the farmers, than they would have needed to pay if the ginning rates had not been high.

That the prices which ginners have paid the farmers for cotton in recent years have been above the ordinary competitive level in various parts of the state is suggested by the fact that farmers sell a large proportion of their cotton to the ginners. According to the records of the Corporation Commission they sold 63.5 percent of it in this way during the four-year period 1929-30 to 1932-33. Types of local cotton marketing other than gin buying appear to be less well developed in Oklahoma than in many other states. A possible reason for this condition during the years studied seemed to be the desire of the ginners generally to obtain for ginning as large a quantity of cotton as possible. This increased volume tended to increase their profits and decrease their costs per unit of ginning.

Of course, ginners would desire large volumes, regardless of governmental regulation. The fixed ginning rates made it impossible for them to compete for larger volumes by lowering rates, as might be done in other states; and many of the ginners apparently resorted to the practice of over-paying farmers for cotton in order to increase their volume of ginning.<sup>19</sup> However, the practice of paying relatively high prices for cotton offset, at least in part, any advantage the ginners may have secured from relatively high ginning rates.

Some estimate of the amount of over-payment by a few of the ginners in the state has been made in other studies reported by the Oklahoma Agricultural Experiment Station. In 1930-31 a group of gins in eastern Oklahoma paid farmers an average price for cotton which was so high that if the ginners had shipped the cotton to the logical central market and sold it on the basis of quotations there on the day they purchased the cotton they would have lost about one-fourth of a cent per pound. That is, the margin between the local and central market prices lacked about that much of equaling the minimum costs involved in moving the cotton from the local to the central market. In 1931-32 the indicated losses by the ginners were slightly larger. In 1932-33 and 1933-34 a group of ginners in western Oklahoma must have taken somewhat similar losses if judged by a comparison of local and central market prices.

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<sup>19</sup> See Oklahoma Agricultural Experiment Station Bulletin No. 219, "The Sale of Cotton in the Seed in Oklahoma," by Lippert S. Ellis, A. M. Dickson and Clyde C. McWhorter, and Oklahoma Agricultural Experiment Station Bulletin No. 227, "Relative Economic Advantages of Harvesting Cotton by Picking and Snapping in Western Oklahoma," by Clyde C. McWhorter and Roy A. Ballinger.

These facts should not be taken as indicating that all cotton ginners in Oklahoma have made profits whenever the rates they were required to charge were higher than the rates in adjacent areas in other states. Cotton ginning is like any other business in that some of those who engage in it make money while others lose.<sup>19</sup> Profits or losses vary between different ginners partly because of differences in the ability of the ginners and partly because of differences in economic circumstances surrounding the gins. Under competitive conditions ginning rates are not uniform over wide areas but vary largely according to differences in ginning costs in different places. In Oklahoma the rates as established by the Corporation Commission have always been uniform over wide areas and in recent years have been uniform throughout the entire state. However, ginning costs have unquestionably varied in different parts of the state. This situation has meant that the rates established by the Commission probably have been above the competitive level in some areas and below it in others, and above it and below it for others in the same area. An examination of the reports made by the gins to the Corporation Commission supports this conclusion. The expenses of some gins were much lower than the revenues received, while they were much higher for certain other gins.<sup>20</sup> Uniform ginning rates over wide areas seem certain to produce such inequitable results. However, this is inherent in almost any regulatory activity of government.

#### **Other Effects of Regulation**

Certain groups have claimed that the fixed ginning rates established in Oklahoma have encouraged the establishment and operation of cooperative cotton gins in the state. The rates appear to have been relatively high and profits correspondingly large, which may have encouraged farmers to own and operate their own gins so that they could secure for themselves the profits of ginning. There was a rapid increase in the number of cooperative gins in western Oklahoma from 1925 to 1929 when most of the gins in that part of the state were making what appeared to be very satisfactory profits. However, a somewhat similar increase in the number of cooperative gins in areas of Texas adjacent to western Oklahoma occurred at about the same time, so that it does not seem possible to ascribe anything like all of the increase in Oklahoma to the influence of fixed ginning rates. In any event, the cooperative gins have been of direct benefit to only a minor proportion of the cotton farmers of the state, because most of them have never been members or patrons of a cooperative gin.

The claim has sometimes been advanced that the quality of ginning furnished to the farmers of Oklahoma has been improved because of the supervision of the Corporation Commission over the equipment of the gins. The Commission has authority to compel a ginner to equip his plant in such a way that it will do work of a high quality before he is permitted to gin cotton. No adequate measure of the effects of this supervision is available and consequently no final conclusions with respect to this matter can be presented here. However, it seems reasonable to suppose that the quality of ginning has been improved to some extent by this inspection work. It certainly has not been lowered because of it.

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<sup>19</sup> Extensive data illustrating this point is contained in "Some Economic Problems of Cotton Gins in Oklahoma," by Roy A. Ballinger and R. C. Soxman, a manuscript submitted for publication as a bulletin of the Oklahoma Agricultural Experiment Station.

<sup>20</sup> *Ibid.*

**CONCLUSIONS**

The regulation of cotton gins as public utilities in Oklahoma appears to have resulted in higher rather than lower ginning rates to the cotton farmers of the state than they would have obtained under competitive conditions. Farmers may have received a higher quality of ginning because of the regulation of the Corporation Commission, but no measure of the benefit received from this source is available. The relatively high ginning rates in Oklahoma seem to have encouraged the practice by ginners of buying cotton from farmers at prices so high that the ginners must have lost money on their purchases. The buying of cotton at such prices offered a means by which ginners could compete with each other for cotton to gin. Fixed ginning rates prevented them from competing by lowering rates as could be done in other states. The business of ginning cotton in Oklahoma does not seem to be conducted under conditions of monopoly comparable to those existing in most other industries which are regulated as public utilities, although claims that such conditions existed to some degree seem to have been among the factors responsible for the passage of the original legislation which provided for the regulation of cotton gins as public utilities. The lack of monopoly conditions in the ginning industry appears to be an important reason for many of the difficulties encountered in regulating cotton gins as public utilities and for the fact that the farmer patrons of the industry appear to have received comparatively little benefit from the regulation.