

Cotton Through a Distant Mirror

By Hilary Till

ON OCTOBER 16TH, 2010, the front page of the Wall Street Journal (WSJ) carried a story entitled, “Flashback to 1870 as Cotton Hits Peak”.¹ It included a graphic of the iconic Edgar Degas’ 1873 painting *The Cotton Exchange at New Orleans* (pictured). The article noted that cotton prices had not been this high since at least 1870.

Since this WSJ article was published, cotton prices have continued to approach US\$2/lb. So we will continue to see the Degas cotton painting in illustrating the present cotton bull market.

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If one looks through the distant mirror of the 1870s, one can spot other parallels to our current circumstances beyond the similarly explosive cotton price rally. As a result, one can find some very interesting, and potential useful, historical lessons on which to draw on from that era.

The book, *Degas and the Business of Art: A Cotton Office in New Orleans*²

provides a contemporary account of Degas and his family when Degas painted this portrait. At the time, Degas’ extended family had been prominent in the cotton business of New Orleans. The historical context of the painting is not encouraging, so there may be an unintended irony in using this painting to illustrate historical analogies to the present time.

Degas completed this painting in 1873, which was the year of a significant stock-market crash and an ensuing economic depression, which by some accounts, was much worse than the depression of 1929, according to *The Real Great Depression*.³ Author Scott Reynolds Nelson describes the complex financial engineering of the 1870s that preceded the 1873 crash and draws an uncomfortable parallel to the financial engineering that preceded the 2008 financial meltdown. “As in 1873, a complex financial pyramid rested on a pinhead,” writes Nelson. He also recounts the stresses to social cohesion that occurred in both the United States and Europe after this financial crash.

Returning to Degas’ iconic painting, the portrait is actually of an office owned by Degas’ relatives and is not a proper market exchange. An additional irony of the portrait is that around the time of its completion, the family business dissolved, likely because of the dislocations in finance at the time. Amongst other reasons, the family business was already fragile because of important changes in competitiveness that resulted from various communications improvements. These included the “progressive expansion of ... telegraph systems” and the successful “laying of the Atlantic telegraph cable”.⁴ This meant that various market inefficiencies were no longer the case, and one could not operate in such a complacent fashion, as illustrated in the painting. We may conclude that our era of “disruptive technologies” definitely has a long tradition.

Other authors who have noted lessons from the 1870s include Babson⁵ and Mixon.⁶ Babson used insights from the Panic of 1873 as well as other “great panics” to make financial predictions. By 1911, Babson had constructed financial-and-economic-indicator indices as barometers of the health of financial markets so that investors could be “fully prepared for the next period of [financial] readjustment.” He later used these insights to successfully predict the 1929 stock-market crash. “Economic indicator dashboards” are now a common way of condensing fundamental information.

Recently, Mixon combed through 1870s financial data and found that one could have used both option prices and bond spreads of the time to anticipate the 1873 stock-market crash. This is analogous to how numerous financial

Figure 1: Rolling Front-Month ICE Cotton



Source: Bloomberg



Degas, Edgar, "The Cotton Exchange at New Orleans," 1873

Musée Municipal, Pau, France

participants had advance warning of the fragile state of various financial institutions by viewing their credit-default-swap-spread levels in 2007 and 2008.

Returning again to Degas' painting, it includes portrayals of Degas' uncle (Michel Musson) and two brothers (René and Achille DeGas). Brown provides further background on Degas' relatives. We find out about the disastrous foray into cotton futures trading by René DeGas as well as the family's ill-fated investments in Confederate bonds (of the US Civil War era.) In present terms, one might refer to the latter speculation as a disastrous foray into sovereign-credit trading.

Brown describes how the DeGas and Musson family responded to their financial misfortune. After the 1873 Panic, Degas' extended family attempted to settle outstanding debts in order to preserve the family's reputation and honour, which included striking personal sacrifices.

Degas himself had difficulties in finding a buyer for his completed cotton painting. It may have been too literal a portrayal of commerce to fit into what buyers of Impressionist art were

interested in at the time. But Degas did eventually succeed in selling it five years later, seemingly against the odds, despite the prevalent fashion and financial dislocations of the time.

We still may have much to learn from the 1870s, whether it is:

- How to anticipate financial dislocations, as explained by Babson and Mixon; or
- How to avoid social disruptions that have historically followed financial dislocations, as a lesson from Nelson; or
- How to individually persevere amidst adverse economic conditions, as shown by Brown in recounting the lives of Degas and his extended family.

That's what I see when I look into the distant mirror provided by Degas' cotton painting. •

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Footnotes & References

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2. Brown, Marilyn, 1994, Degas and the Business of Art: A Cotton Office in New Orleans, University Park, Pennsylvania: Pennsylvania State University Press.
3. Nelson, Scott Reynolds, 2008, "The Real Great Depression: The Depression of 1929 is the Wrong Model for the Current Economic Crisis," The Chronicle of Higher Education: The Chronicle Review, 17 October.
4. Brown (1 above).
5. Babson, Roger, 1911, "The Recovery from the Great Panic of 1873," New York Times, 9 April.
6. Mixon, Scott, 2008, "The Crisis of 1873: Perspectives from Multiple Asset Classes," The Journal of Economic History, Vol. 68, No. 3, 2008, pp. 722-757.