Vol. XII, No. 8 HUMAN EVENTS February 19, 1955

MONEY MUST GO SOMEWHERE

By FRANK CHODOROV

THE BIG QUESTION of the day, the one that looms larger in more minds than even the Administration's enigmatic foreign policy, is this:

Is the stock market in for "another 1929?"

The steady rise of the values of common stock during the last eighteen months is reminiscent of the boom that preceded the famous crash which heralded the Great Depression. That depression found a solution in World War II. Hence, those who remember are quite apprehensive, not only because of the real or paper losses they might suffer in the event of a stock market bust, but more so because of a possible recurrence of the post-1929 economic and political pattern.

The economists are digging hard for an answer in the oracular wisdom of comparative figures, charts and opinion polls. As usual, they are making predictions of the "if" kind, which will prove them right no matter which way the market goes. The one factor that might explain the current rise in values is conspicuously absent from their computations. But, more of that later.

To be sure, the politicos are in on the act, for it would hardly do for them to ignore a situation of such explosive possibilities. The Federal Reserve Board, assuming that the boom is of the speculative variety, raised the margin requirement from fifty to sixty percent, on the theory that the more money the buyer has to put down the less he can speculate. But, something went wrong with the theory. The market did not respond as expected, except for a few days, and then it resumed its upward course. It seems that marginal buying is not much of a factor these days; most people are buying shares outright, for cash.

Enter Senator J. William Fulbright with a call for an investigation. Even before any witnesses are called, one can foretell the character of the report the Arkansas Senator will present and the kind of preventive legislation he will suggest. The premise of the investigation will be that speculation is the main cause of the rise in the market. Hence, the speculators must be curbed, possibly by the threat of punitive measures; laws must be passed making the buying of stock on credit more difficult, if not impossible. Again, the one factor that might explain the current rise will be assiduously avoided; the Senator probably would not even think of it.

THE QUESTION IS — is this a speculative market? To some extent it is. The yearning for a quick dollar is with all of us all the time, and there is no doubt that many a housewife, after the market evidenced a tendency to rise, began emptying her piggy bank to buy ten shares of XYZ with the hope of selling on a quick rise.

Published weekly at 1835 K Street, N.W., Washington 6, D. C.

But, it takes a lot of such purchases to make a turnover of two to four million shares a day, and there is considerable doubt that the nation's housewives are the cause of such activity. In the big boom of the 1920's, when what you could save on your lunch money was enough to put you in the market, the "penny ante" buyer was a factor of some importance. That is obviously not so today. Brokers, to be sure, are trying to entice the small saver, by way of radio, newspaper and pamphlet advertising, and have even introduced installment buying as a means of getting the "public" into the market. This is some indication that "public" buying is not yet as stock-conscious as it was in the 1920's.

It is a well-known fact that the little gambler crowds the broker's offices only after the market has been on the rise for a long time, and that then he puts his money in the lower-priced stocks, those that have not yet made spectacular gains; he figures — assuming that there is any rationality to gambling — that the "blue chips," which are out of his reach anyway, do not have the same appreciation possibilities as the "two dollar" shares. The brokers point out that activity in the lower-priced stocks began only recently, that the "blue chips" predominated in the spectacular climb that began in the fall of 1953. And this, they maintain, is evidence enough that the "public" has not been a factor in this boom.

Therefore, if this is a speculative market, it must be that the big operators have been bitten with the get-rich-quick bug. No doubt some of them were; they too are human. But, the rules of the game have been changed since the 1920's, and in such a way as to make the big gambler do some tall thinking before he plunges. In the first place, the capital gains tax is discouraging to the quick turnover impulse which characterizes speculation. The need of holding the stock for six months before one can net an appreciable amount of the gain compels the speculator to take a long-term view and become an investor. In a half year from now, will there be enough in it "for me?" And, maybe the market will take a downward turn in the meantime.

If the so-called speculator is in the higher income tax brackets — which must be assumed if he can afford to buy a block of "blue chip" shares — there is the further consideration that the net income for spending purposes would hardly be worth the risk involved. He is rich enough now, and a quick haul from which he can keep very little is hardly an inducement. He cannot afford to be an in-and-outer, as he was in the 1920's.

THERE IS REASON, then, to believe that speculation has played a minor role in the current market rise, and to accept the opinion prevalent in Wall Street that this is essentially an investment market. That is to say, most buyers of common stocks are interested mainly in their yield, not their appreciation. Their preference of securities of companies that have been consistent earners over the years and seem likely to continue earning — the "blue chips" — supports this conclusion.

There must be a lot of these buyers, and with substantial funds, to have bid the prices to their present heights. Who are they? There is no definite answer because it is

common practice for institutions, and even private investors, to hide their identity behind banks and other purchasing agents. But, it is widely held on the Street that a good part of the growing pension funds is coming into the market, and that the investment trusts have played no little part in the rise.

These investment trusts are an interesting phenomenon in the present market. There were some in existence in the 1920's, but the general public was not participating. Since the end of the war they have been proliferating. Their assets and their clientele are reputed to be enormous; even brokerage houses have gone into the business. These investment trusts are just what their name implies; most of them are not speculating trusts. The buyer of their shares buys an interest in the earnings of a selected group of stocks, and since the success of a trust depends on its record of paying dividends, the management of most of these keep their portfolios clear of securities that are speculative in character. Hence, to the extent that these trusts have influenced the rise, it cannot be ascribed to speculation.

But, if so many people are investing, why are they anxious to profit by participating stocks, rather than fixed income securities? Any housewife who has been shopping for the past ten years can furnish the answer to that question. If the price of cigarettes has doubled, why should not the price of a share in the cigarette company go up likewise? Without the slightest notion of how inflation works, the thought that it might continue suggests to the buyer of gasoline that stock in an oil company is worth having, for future contingencies. That is speculation of a kind; it is a hedge against inflation.

Why are they buying for cash? Because they have it. And here we come to the question which politicians who have advocated "social legislation" and supported the consequent deficit financing of the government, can hardly ask.

TO WHAT EXTENT DOES this market reflect the dumping into the economy of billions of purchasing power created by the inflationary practices of the government?

It won't hurt to bring in some fundamentals at this point. When the government spends more than it collects in taxes — deficit financing — it pays for the excess with bonds, treasury notes or other forms of promissory notes. A government I.O.U. becomes collateral which can be monetized. The principal form of monetization is what is called checkbook money, for by the process of rediscount, the bank can eventually loan nearly $6 for every $1 of government collateral deposited with it. Thus, the issuance of government I.O.U.'s is far more inflationary than the printing of dollars.

Deficit financing became standard government practice in the New Deal and has continued almost uninterruptedly every year since it began. The sum total is represented by the national debt which has reached the colossal and meaningless figure of $273 billion. To what extent this has become monetized it would be difficult to ascertain. But, why bother with statistics? There is proof enough in the price tags that many more dollars are competing for goods than there were before the deficit financing parade

began. What did you pay for a loaf of bread in 1932 and what is the price now?

The higher prices of goods caused by inflation theoretically should absorb the extra dollars thrown into the market. But, there is a time lag between income and increased cost of living, and some people are so constituted that saving a dollar is a psychological imperative. Besides, when increased prices drive trade away, the American manufacturer seeks ways and means of cutting costs and keeping prices within reach of the consumer. So, by one way or another, many Americans have been able to put aside a depreciated dollar or two against the uncertain future; witness the huge increase in insurance purchasing.

Far more important money than savings by individual Americans is coming into the market, according to Wall Street talk. This is the huge tax-free accumulation in union-industry pension funds. There is no way of proving this, but it is a known fact that unions have acquired blocks of stocks on their own account, also with tax-free funds; there is no law that would stop them from investing some of their pension money in the market. It is not likely that speculative considerations enter into such purchases.

And now comes the final question: Will the market continue to rise, stay put in the long run, or take a sudden nose dive, as it did in 1929? Anyone who would venture a positive answer to this question would indeed be foolhardy. Where psychology plays so big a part as it does in the action of the stock market, predictions as to its future behavior call for more than human wisdom. Besides psychology, the government plays a most important role in determining the ups and downs of the market.

The government may make purchase of stocks slightly more difficult by eliminating margin buying altogether. That would hardly affect the volume of trade. But, a big boost in taxes on corporation profits, or higher taxes on dividends, or a tax on transactions, or any general increase in taxes would discourage investment and cause stock prices to drop. Seizure of plants, not an impossibility in the event of a national emergency, would certainly change the character of the market completely.

Apart from national emergencies, the government is not likely to do anything to bring on a crash. After all, there is an election coming up in 1956, and the Administration has begun whistling the old tune, "happy days are here again." Even if it wags a warning finger at the nefarious gamblers, it will do everything to prevent that symbol of national prosperity — Wall Street — from collapsing. Monstrous make-work programs are always in the offing, and deficit financing is still with us.

An old time gambler on the Street, to whom this reporter put the question — is this a speculative market? — answered: "Hell no. This is a flight from the dollar."

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