

Humpty-Dumpty

By STANLEY SINCLAIR

EVERY time I think I'm going to make both ends meet, somebody moves the ends.

We all seem to be caught in the spiral of rising prices and wonder whether our dollar incomes will ever catch up with mounting expenses. So great has this problem become that the government, for its political health, is seeking a formula to keep costs from rising further. In this atmosphere, it would seem almost foolish to warn against slackening business and sales curves running down hill.

Some six months ago we warned that big inventories would meet sales resistance this spring. At that time we misguided a stabilization of the Korean affair around the 38th parallel.

Continuing military activity throughout the winter, however, has kept the pot boiling. Nonetheless, many of the elements we pointed out last fall still exist in our economy: Many businessmen still look for a repetition of the '40's. Then our war effort against Hitlerism created shortages of practically everything. Most everyone was caught unprepared.

This time, in the minds of many, it was going to be different. If we were going to fight Stalinism, they said, let's go, but let me get a warehouseful first. This has been the policy of many manufacturers and marketers. As a result, storage space throughout the country is packed with all sorts of goods. There are in fact few real shortages in this country today. There are many lines, though, in which goods are being held out of the market in anticipation of higher prices to come.

Under ordinary conditions, it would be impossible to create shortages in this manner. Other manufacturers would rush in to fill the vacuum. But with war clouds on the horizon and intermittent showers prevailing, nobody is worried about being able to sell umbrellas for some time to come.

The Federal Reserve Bank, aware of this condition, has asked banks to call a large share of their outstanding loans against warehouse paper. This request is a veiled command because if they don't call loans voluntarily, the reserve requirements will be hiked to force the banks to do so. To get the cash demanded by the banks, manufacturers and merchandisers will have to bring their goods out onto the market.

This increasing of the supply will bring prices down faster than all the bureaucrats in Washington blowing cold all at the same moment. But where will this lead? In effect a large dumping program will make supply plentiful. On the other hand, credit restrictions and higher taxes will have the effect of diminishing demand. At this rate prices for about everything except artificially supported farm commodities should go way down.

With reduced prices, buying would ordinarily be stimulated. But these are not ordinary conditions. Buying has been deliberately stifled. Furthermore, with the contraction of commercial credit, both by regulation and tacit agreement, business activity will be slowed.

From this analysis, it would seem that the government boys have found the magic touch that will reduce prices. But have they done it the hard way? Have they knocked them off their high wall like Humpty-Dumpty, and then, will all Harry's men and all Harry's horses not be able to put them back together again?