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IF INFLATION COMES

IF INFLATION COMES

*What You Can
Do About It*

By

ROGER W. BABSON



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DEDICATED
TO
ONE NOTED FOR HIS
FRANKNESS AND TRUTH
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PREFACE

Let me say that no one *knows* when the United States is headed for some form of violent inflation. The chances are six to four that the nation's voters periodically will *head in that direction*; but for me to make a long-range forecast, would be foolhardy. Furthermore, if such an event is to happen, no one knows how it will occur. I merely now say that only a spiritual revival can prevent it from becoming a catastrophe.

I began this study with some sympathy for inflationists and with a feeling that any form of inflation surely could help certain groups of people. The study however has opened my eyes to possibilities of which I had never dreamed. These you should know. This is especially true as inflation grips a nation without its knowledge,—as cancer grips an individual, or as a thief comes in the night.

Another thing:—Before writing this book I was sure it is possible to shape one's personal affairs in advance so he need not suffer financial loss from even violent inflation. I now am not sure of this. Some hedges are far better than others; but the inflation disease takes different forms. A hedge for one form will not serve as a hedge for some other form. *Read this book and decide for yourself.*

Permit me to acknowledge my indebtedness to Dr. Wal-

PREFACE

ter S. Landis, who provided me with valuable data, both directly and through *Trust Companies Magazine*. I also received direct help from my associates, Clarence N. Stone, E. L. Querin, Henry H. Stafford and Creighton J. Hill. I am indebted to Miss Rosemary Ahern who helped upon the typing while I was "riding the range" here at my Florida ranch.

ROGER W. BABSON.

*Babson Park, Florida,
January 20, 1937.*

.IF INFLATION COMES

CHAPTER I

ELECTION OF NOVEMBER 3, 1936

Friday morning November 6, 1936, was a crisp autumn day with the early sun a gleam on the Capitol dome in Washington. A city, unaccustomed to early rising, sees a hundred thousand people lining the streets between the Union station and the White House! Eight o'clock and the crowds have packed the sidewalks and windows along Pennsylvania Avenue until not a space for another single human being seemed possible.

Bands along the route played stirring march music. There was an air of excitement and good humor, a holiday spirit existed everywhere. Suddenly from the massed thousands in the Plaza near the Union station a shout went up. It grew in volume as a small cavalcade of automobiles began a slow passage down Pennsylvania Avenue. The sound became a steady roar keeping abreast with the leading automobile,—an open car which was the object of all eyes. One would say that this terrific volume from human throats was automatically touched off by this single car as its occupants moved slowly along the broad avenue. As the car swung into the White House driveway, the crowd broke over the fences and stormed the very portals of the Executive Mansion. Franklin Delano Roosevelt had come home.

It was an amazing tribute. For this was Washington,

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the city where nobody votes, where the citizens see Presidents come and see them go. Here is evidence of something remarkable, something beyond the ordinary in the fanfare of American political life. More than a politician, more than a President, came home. A great popular idol was being cheered by his people. It was not a partisan greeting to a successful aspirant for office. It was the popular acclaim that few men have received in the nation's history. It constituted a tribute of gratitude of four years that have passed and an expression of confidence in four years that lie ahead. Thus Franklin Delano Roosevelt entered Washington after his reelection to guide the nation's destiny through 1940.

A distinguished French observer and critic of our American way of life sailed for Europe a few days after that November election. Eager reporters cornered him on an upper deck. What did he think of President Roosevelt? What place in world affairs, what place in history would he have? This able and wise foreigner smiled quietly and said: "I shall return here and answer your question in four years." This trenchantly expresses the situation in which President Roosevelt found himself in 1937. He was at a point where his ultimate reputation rested on what he was to do during his second Administration. He had seen the nation through the period of depression and the early aftermath of that depression. He then entered upon the real test of his ability.

In 1937 we were in the tide of a new period of prosperity. How long any period of prosperity will last no man can say. This depends upon spiritual, rather than

economic or political forces. It may go well through and into the Administration that follows, it may not. This is impossible at any time to predict. I shall discuss later why I do not find it possible, as a statistician, to be sure of what may happen before President Roosevelt completes his second term. For the moment let me emphasize that in 1937 Mr. Roosevelt was at once in both a most advantageous and difficult position. He started on top of the heap. The United States was his oyster. He could travel whatever road he chose. It was possible that he could stay on top. It was also possible that he would find events sweeping upon him which would wrest control from his hands. He could be hurled in a whirlwind of chaos down to a lamentable obscurity,—or even worse. In subsequent chapters, I shall point out these dangers that beset him and indicate what I consider to be the probable turn of economic events.

In order, however, that my readers may have a proper background for these views, I want first to consider the New Deal in terms of the four years which began on March 4, 1933. They constitute one of the most amazing, one of the most fascinating, documents in our national life.

RECOVERY THE FIRST CONCERN

Our memories are woefully short. When we are in an intense period of distress we feel sure that every aspect of the crisis will indelibly be imprinted on our minds. We think that we will never forget. Yet let the emergency pass, our normal life be restored, and we are only too prone to forget. We forget not only the lessons of what

we have been through, but even the very facts of the emergency itself. So it is well if we first refresh our memories as to what happened during those early months of the New Deal. Let us observe the broad bases on which not only the recovery program, but even more importantly the reform measures were established.

The financial crisis which coincided with the President's 1933 Inaugural Message is disputed as to origin. Naturally, the bankers do not care to assume the blame. Naturally, also, other groups are prone to shift responsibility. It is fair to say, however, that the crisis had several contributing factors. The fall in prices was primarily responsible. Unsound borrowing practices, which were of long standing, was another. Then too we had no basically sound banking policy.

Now I want to touch upon perhaps the most remarkable and important achievement of the entire four years. I refer to the quick way in which Mr. Roosevelt restored public confidence. Crazy legislation, mistaken policies, bad judgment,—lots of things can be laid at the door of the White House in these past four years. But one thing cannot be taken away from the President by his most hostile critics. He gave the people hope; he restored their courage; he averted a panic in the markets of human morale.

This restoration of public confidence was in measure a reflection of the personality of the man himself. He knew how to take things in stride; he was intrinsically an optimist; he did not worry. Hence, since he acted with a sure and confident manner, the people followed. They had no way of knowing whether the New Deal, which

swiftly began to spread out over the country, was wise or foolish. But they did believe that the man in the White House was capable of action. Action was the imperative need of the hour. So the banks slowly opened late in March, 1933. They were forbidden to pay out gold. All of us holding gold, as private citizens, were asked to turn it in to the Government. First considered as an anti-hoarding measure, it soon became apparent it was part of a deliberate plan to depreciate the dollar. Rising prices became the one sole goal of the Administration's every step. We abandoned support of the dollar in the field of foreign exchange. Finally in January, 1934, the President announced the stabilization of the dollar at 59.06 cents' worth of gold.

Many were disappointed in the results. There was an immediate and sharp recovery of prices, but not in proportion to devaluation. When we went off gold, the Bureau of Labor Statistics Index of Wholesale Prices was 60. When the dollar was devalued, the Index stood at 73, a rise, it is true, but a modest one under all the circumstances. After devaluation the Index went further upward. Actually, prices should have risen during 1933 through 1936 by about 69% to match the devaluation. Instead they rose only about 37%.

The President still held the power to devalue further. In 1937 he asked Congress to extend this power to him for a longer period. It carried a key to inflation. I have mentioned the monetary situation first because it is the very touchstone of the dangers that may beset the Administration—and the nation—in the period ahead. A most dangerous consequence of a devaluation policy is

that it inevitably stimulates an influx of gold. This is the stuff on which inflation feeds. The snowball may roll on, becoming larger and larger, after business recovery has made credit expansion undesirable.

THE FARMER AND THE AAA

To the farmer the Administration turned as with a pulmotor. Gross farm income had sunk from \$13,500,000,000 in 1920 to \$5,300,000,000 in 1932. The AAA set out to increase prices by limiting production in certain basic crops including cotton, wheat, corn and hogs. The farmer agreed to curtail his production by a fixed percentage. In compensation he received a bounty on a unit basis. Processing taxes made these bounties possible. They were levied against distributors although in most cases they eventually found their logical way back to the consumers.

By 1935 total farm income had been upped to over \$8,000,000,000. But let us stop right here and underscore one fact. Nature, not the Administration, stepped in and had a dominant hand in this development. A series of disastrous droughts over several years—the worst of which was in 1935—wrought havoc throughout the Mississippi Valley and in the northwest. This cut into agricultural output. To many this “act of God” seemed a direct rebuke to the puny efforts of man to plow crops under and to kill off hogs in a land where people were hungry. These same people also looked toward inflation as a “way out.”

THE BLUE EAGLE SOARS

“Greater purchasing power for labor through higher wages and shorter hours”, this was the aim of the NRA. Collateral purposes included the control of cut-throat competitors and “chiselers” who employed the weapons of child labor, low wages and long hours to undersell decent manufacturers. There was, of course, a paradox in the NRA setup. To get out of a depression by working less and demanding more money was a strange sort of economic policy. Labor should receive an increasing share of the fruits of industry commensurate with its productive achievements. But to launch a program of fewer hours and higher wages in the depths of a depression—and to implement that program by a rigorous network of laws—seemed to my Yankee mind a fundamental impossibility.

Consider the further inconsistency in the NRA’s tendency to raise prices of industrial products and the efforts of the AAA to close the gap between prices of crops and industrial prices. You will then see how the New Deal was fast getting into a morass from which it was finally to be saved by the fortunate intervention of nine men. I refer to the decision of the Supreme Court which invalidated both of these recovery measures at a time when they were beginning to turn on their creators and plague them. The codes, the very core of the NRA setup, were in some cases reasonable programs, simple and understandable. But in most instances they attempted to yoke an industry into a most amazing and unenforceable muddle of confusion. The big industries

came off best. Where organized labor was strongly entrenched—as for example in the American Federation of Labor unions—the workers were gainers. But the consumers on the whole had no voice, which could adequately represent them, raised in their behalf.

The frantic effort to “beat the gun,” during the weeks before the NRA went into effect in July of 1933, resulted in a jump in the indices of employment, payrolls, production and prices. Then as the codes took hold, the results at first seemed in some ways valuable. Wages went on upward,—pushed from the lower bracket levels by the minimum wage clauses of many codes. Employment also moved further up; but even at this early date it was apparent that the chief failure of the New Deal was right here in the making. Unemployment has been exaggerated in terms of totals. We have no really accurate way of knowing how many employable idle there are at any given time. But apart from this it is perfectly clear that the New Deal’s efforts to reduce unemployment did not succeed.

The NRA was sincerely intended. Its administration under General Johnson was as successful as perhaps might have been expected. It played an important part in restoring the morale of both employers and workers. Remember the enthusiasm and even the street parades which greeted the inception of the program! But it soon began to bog down. Business men say its failure to increase production and employment was due to the rise in labor costs. Organized labor insists that it was the increases in prices and the restrictions in production, embodied in the codes, which gummed the machinery. In any event

—thanks to the Supreme Court—the experiment passed out at the very moment when it had ceased to be of value. Certain fundamental aspects of the NRA undoubtedly have been or will be salvaged. Nobody wants child labor. Nobody denies that some of the codes, implemented through new voluntary pacts wherever possible, can be salutary to the industries which observe them. But every student of the situation feels that the control of industry naturally leads to the control of money which in turn leads to inflation.

THE RELIEF PROGRAM

Never did an Administration have more power placed in its hands to build a political machine through the disbursement of taxpayers money in the shape of relief billions than had the Roosevelt government. To expect so gigantic a program to be without at least some graft and corruption is, of course, absurd when we consider the nature of our political controls. I think, however, when the final history is written on the epochal relief projects of Harry Hopkins and his aides, these measures will be found to have been singularly free of downright corruption. As to waste,—that is very much another matter.

There is no doubt but that President Roosevelt, early in his Administration, was under the influence of the English economist John Maynard Keynes. It was Keynes who enunciated the doctrine that public works should be undertaken on a lavish scale during depressions. This was the “priming the pump” theory whereby purchasing power would be distributed at a time when private enter-

prise is unable to function sufficiently to this end. Later we saw some of the results of these frantic priming programs. Public buildings, roads, sewers, parks, playgrounds, dams, reservoirs, airports, forestation work—were built ad infinitum. If the Keynes theory had any validity, it was one in which speed was of the essence of the program. Here was one failure of the relief setup as it actually functioned. The blueprints were laid out, the plans were agreed on; then months often passed and nothing happened. When the project in question finally got under way, it was often pushed with a complete disregard of costs and purposes.

There is the common story of the passerby who, seeing a group of men feverishly tearing up the street, asked the foreman what was going on: "I dunno. Maybe oil, maybe gold, maybe sewers. The PWA just said 'Dig.'" Conspicuously lacking, in other words, was any fundamentally integrated program. Local politicians, in certain sections, further hamstrung efficiency. Surely there is something better for young men to do in any properly functioning society than raking up leaves.

Even the Civilian Conservation Corps, a special relief enterprise for young unmarried men with dependents, cannot point to much constructive achievement of a permanent sort. There is no question about the good that this outdoor, healthy life brought to these boys—the total of whom reached at its peak, 600,000; but we are discussing the possibilities of inflation. Yet this is one wing of the WPA program which may extend indefinitely ahead. An average of over 300,000 men may continue in these CCC camps to work on reforestation, drain-

age, erosion control and other like conservation activities. There is little tendency to criticize this angle of the relief program. It has done more than provide relief and it has given the government some measure of valuable manpower in return. It has served to build strong bodies and to turn men from the social evils collateral to unemployment. A host of young men are better citizens as they return from CCC camps to private life and industry.

The PWA was fundamentally the affirmation of the President's belief that work relief is better than a dole. Haphazard and inequitable, the PWA program stumbled through a maze of difficulties. Once a group of workers got onto the WPA rolls, it became next to impossible to pry them loose. This prying loose constituted one of the first major tasks of the second Roosevelt Administration. Beginning 1937, Mr. Hopkins hoped to lop off about 20 per cent a year. But many of the states and cities were frankly without adequate funds to carry on any burdens, thus shifted. It took all the skill of which the President was capable to meet this problem. It is one thing to build up an army of relief workers who in many cases are permitted to take their ease on projects often synthetically improvised. It is quite another thing to pry that huge crowd loose from the Treasury payroll later.

I consider the President's request to private industry to increase its employment totals by a deliberate, concerted drive, to have been extremely sound. This made his task of pruning the relief payrolls lighter. At the pit of the depression I offered a suggestion along this line which I still believe would in great measure solve this problem of unemployment and simultaneously attack

the task of getting relief parasites loose from the public treasury.*

CREDIT AGENCIES HAVE FUNCTIONED

Ex-President Hoover came in for much abuse after he left the Presidency,—abuse which for the most part was unwarranted. There is, however, one monument to his efforts to meet the problems of the depression from which the New Deal has been a beneficiary. The Reconstruction Finance Corporation, established in February, 1932, to salvage distressed banks, railroads and insurance companies, did do a splendid work. Its powers were extended somewhat under the Roosevelt Administration so as to embrace credit aid to industries, states and government agencies. It was thus made a huge financial conduit through which was syphoned the total sum of over seven and one-half billions before the end of 1935. Of this total five and a half billions went to banks, over a billion dollars for relief, and the rest to other governmental agencies. The banks largely repaid the loans before 1937; but most of the rail loans were then outstanding.

The Home Owners Loan Corporation was likewise an important credit agency during the first Roosevelt Administration. A total of 1,000,000 loans to home owners were made totaling over \$3,000,000,000. Most of these were outstanding in 1937. This caused the Home Owners Loan Board to "crack down" in cases where it had become apparent that the borrower had no intention of paying but believed the Government would never dare

* See Appendix of "Washington and The Depression," published by Harper & Brothers in 1932.

foreclose. This is one more instance of the basic danger of Government getting too deeply involved in the mortgage loan business. The borrower somehow thinks the Government is a limitless reservoir of wealth and that it does not really matter very much whether one individual meets his loans or not.

The Farm Credit Board was another New Deal lending agency whose principal function was to make loans on distressed mortgages, to finance coöperatives, to extend short-term credit and to make emergency loans for drought relief. Its total loan activities amounted to well over three billion dollars. About 500,000 mortgage loans had been made up to 1937. Foreclosures may steadily lessen as recovery proceeds; but if not, paper currency may be used to float loans without interest.

THE VETERANS' BONUS

Easily hurdling the President's veto, the 1936 Congress finally accomplished what many previous sessions of that body had failed to do. The veterans' bonus bill was actually the first measure of major importance enacted by the 1936 Congress. It handed 3,500,000 World War veterans, in all parts of the United States, the huge sum of two-and-a-half billion dollars. The pay-off was not made in cash but the bonds were quickly translated into money by the bulk of the veterans. Ready money in 1936—after the lean years of the depression—was a greater lure than matured bonds in 1945.

This insistence on cash with its apparent implication of hasty, careless spending was partially offset by the use to which the veterans put the money when it became

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available in June, 1936. My Organization made an informal survey among typical veterans and found that a surprisingly large portion of the bonus was being spent wisely. Some were building houses, threats of inflation having here had a salutary effect. Savings accounts were being opened, debts were being cleared up. The salesmen of luxury and installment lines met to some extent a resistance they had not expected. The answer is obvious. The veterans of 1918 were no longer young and unattached men in 1936. They were men approaching middle age,—and most of them had families. Hence, while the bonus from a Federal budget viewpoint was unsound economics, yet when the proceeds reached the veterans' pockets there was no crazy spending spree. Nevertheless, this entire bonus gift was one more step toward inflation.

MEETING THE FINANCIAL PROBLEM

The closing years of the Hoover Administration saw the Federal budget unbalanced. The New Deal—despite Mr. Roosevelt's impossible promises to the contrary during the campaign—proceeded to tear the lid right off the Treasury. The President at once separated the budget into two parts,—regular expenditures of government and recovery expenditures. The President promised to pay all ordinary expenditures, as well as interest and amortization of the public debt, out of current revenues. He frankly met the "recovery expenditures" out of an expansion of the principal of the public debt, financed by borrowing. In April, 1933, the Federal debt was \$21,441,000,000. By April, 1936, it had increased to \$31,-

425,000,000. This dizzy jump of a cool ten billion in three years made thinking people fearful of dangerous inflation.

The situation had, however, as yet none of the earmarks of the kind of inflation which some tried to forecast. I am not so much worried over our ability to bite into this debt structure which the New Deal created. As far as the national debt is concerned the problem is serious but solvable. The proportion of the debt burden in the United States to population or national income was still much smaller than in either Great Britain or France. So if we as a people are willing to tackle the job of honest finance, I am not worrying about the job's size. The danger, implicit in certain portions of the New Deal program, of undermining the character of large masses of our population is far more serious than the amount of the national debt. One of the first ways such undermining of character would show itself is to urge "inflation" as a way out.

NEW DEAL'S SOCIAL PROGRAM

Organized labor claimed that a great many of the benefits which were secured to workers through the enactment of such measures as the NIRA were later largely lost. The Supreme Court is blamed in great measure for its invalidation—with further defeats possibly still ahead—of important New Deal legislation in which labor was tremendously concerned. What seems to have been lost sight of in this connection is that the New Deal galvanized the labor movement into life more than any single force had done in a generation. Labor union

strength leaped upward. The entire labor movement surged with a vitality it had not shown since the war period. Section 7A of the Recovery Act—despite its cloudy terminology and ultimate fate—advanced the cause of collective bargaining in nearly all major industries. During the first half year of the New Deal, membership in the American Federation of Labor mounted rapidly. Over 1300 new union charters were issued.

It was at this point that the New Deal gave John L. Lewis his big opportunity. Lewis, with a sick organization of Mine Workers on his hands, saw the possibilities which the NIRA furnished him. He did a swift and amazing task of labor salesmanship. He had strengthened his union by thousands in a week's time. He practically told the miners that the President wanted them to join up with the United Mine Workers. In this way he fashioned the weapon, and secured the flow of funds into the union treasury. This made possible later his bold bid for the unionization of the steel industry under the newly unfurled banners of industrial unionism.

Lewis was the big man in labor during New Deal days. He was close to the President as a result of his active support of the New Deal in the reelection campaign. He delivered the labor vote—with the less enthusiastic assistance of President William Green of the A. F. of L.—to the Roosevelt Administration. During the next four years he naturally expected to reap his reward. It is true that as time went on, business and management, recovering from its first stage fright of the spring of 1933, began to strike out at certain portions of the New Deal program which it did not consider con-

stitutional. Court cases followed and ultimately the United States Supreme Court wrote history in a series of epochal decisions.

The mediation power of the Government lapsed back to where it could no longer "crack down" in the fiery person of a General Hugh Johnson. Labor found that it must fall back again upon its own powers. Hence, we entered the new Roosevelt term with labor troubles gathering on the horizon. It was clear that the period 1937-1940 was to be one of growing industrial unrest. Organized labor, emboldened by the friendliness of the Administration, tried to gain more and more power. In a period of prosperity labor is normally in the saddle. The checking of labor leaders and inflation advocates became the President's chief tasks during his second Administration.

THE SOCIAL SECURITY PROGRAM

To those who consider that we took a tremendous step forward in the New Deal's Social Security Program let me say that this step has served only to bring us to the level of practically every other civilized country in the world. The new Act is still in a most putative form. It must sharply be amended by Congress before it is in even approximately good working order. It has many pitfalls ahead of it which must be circumvented by both legislative and administrative skill. It is, however, a tremendous and revolutionary achievement, one which will go to the credit of the New Deal when history is written. "Social Security" is here to stay. I have long been deeply interested in such forward-looking provisions

for the economic security of the workers. I am happy therefore to have seen this legislation written onto our nation's statute books at last.

Under the Act provisions are made for unemployment insurance, old age pensions and assistance to indigent mothers, the blind and a few other special groups. The law in its original form was a sorry miscellany in which forty-eight separate problems were contained. This arose from a liberal application of the doctrine of states' rights. Hence, no real Federal program was set up, but aid was given to those states which had their own plans. However, ultimately the situation will be resolved into a clear-cut program. Its basic tenets are as follows: There are two old age pension plans. The chief one acts on a compulsory, contributory basis, payments to beneficiaries beginning at age 65. Employer and employee both contribute. The unemployment insurance law provides for a Federal excise tax, ultimately 6 per cent of payroll. Of this sum 90 per cent is remitted in the case of states that create their own unemployment insurance systems. The other plan is simply an opportunity to take out insurance voluntarily. Both plans tend to lead to inflation.

BANKING REFORMS

Banking reforms have concerned the New Deal from its earliest days. A central banking system has long been forecast by many Washington observers. It was an open question how far the President would go in this direction. He was always much concerned with structural improvements of the system. Control of the Reserve

System itself has been revised and centralized. Control of the important elements of credit policy has been increased by allowing the Board of Governors to raise minimum reserve requirements at their discretion. This has been accentuated by the formation of an open market committee to rule the action of the Reserve Banks in the purchase or sale of government securities.

One other piece of New Deal legislation, of sound and constructive value, was the establishment of a deposit-insurance system, covering accounts up to \$5,000. This should protect small depositors and prevent runs and losses in normal times. The formation of the Security Exchange Commission with its accompanying control of stock exchanges should also be commended.

WHAT ABOUT OUR FOREIGN POLICY?

I said at the opening of this chapter that there were several unpredictable factors which might determine the extent of the period of inflation upon which the United States was embarked in 1937. I have in mind as one of them the possibility of a European War. Frankly, I am not as pessimistic on the subject of war as many of my friends. I recognize the situation is always fraught with danger. I realize that under certain conditions the peace of the world may be at the mercy of an incident. But the more I study the situation, the more I am convinced that there is absolutely no need always to assume that a general European War is irrevocably coming. If there is one department in which I believe Mr. Roosevelt was more fitted to assume the Presidency than Governor Landon, it is in this field of foreign relations.

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President Roosevelt was always internationally-minded. His training under President Wilson as an Assistant Secretary of the Navy—which was the period when I knew him best—gave him a broad perspective on the problems of our peaceful relationships with the rest of the world. His first Administration reflected this fact. While the sudden withdrawal of the United States from the London Economic Conference in 1933 puzzled many of his supporters (including Mr. Moley who subsequently withdrew from active connection with the Administration) his attitude was on the whole straight-forwardly clear to friend and foe alike.

Following his reelection his prestige in Europe rose sharply. He then stood in a most strategic position to aid in keeping the peace of that sadly disturbed continent. His South American trip in December, 1936, was shrewdly timed. It gave the Pan-American conference a real significance and purpose. It was bound to have a favorable effect on Europe at the very moment when saber-rattling had reached a new high—and war-torn Spain was providing a cockpit for German, Italian and Russian animosities.

In Cordell Hull the President had a man admirably fitted for the important years ahead. Mr. Hull's reciprocal tariff program was beginning to show results. Schedules were in operation with Canada, Cuba, Belgium, Haiti, Sweden and Brazil by 1937. Others were being worked out. The results are undeniably good. Of course, Mr. Hull's simple democratic principle of *laissez-faire* may find itself doomed in an ultra selfish economic world. It is too early to know definitely on this point. But one

thing is certain. We have rarely had in one Administration a President and a Secretary of State who together have combined certain very vital qualities. These qualities, in a period of international jealousies and suspicions, proved extremely valuable in helping delay that expected war. Let us hope they will if necessary combine to check undue inflation.

THE NEW DEAL AND THE UTILITIES

Just as the Supreme Court took the AAA and the NRA out of the President's hands, at the very moment when they were beginning to present serious future problems, so too the Court had a hand in shaping utility trends over the next few years. Despite uncertainty, however, the general fundamental policy which marked the Roosevelt attitude toward utilities from its inception will remain. It is true that the utilities were the "whipping boy" of this Administration. It is true that Mr. Roosevelt followed at times an almost vindictive policy of reprisals against an entire industry because of the admitted excesses and abuses which existed in certain phases of the utility field during the lush days of the 1920's.

As a result, the attitude of many utility leaders became one of uncertainty toward the President. Extension by him at various times of the olive branch in connection with TVA Conferences were good omens. I believe he has made good on this promise of a more friendly attitude. The TVA existed in 1937 by a very limited decision of the Supreme Court. It received no blanket endorsement. Other court cases involving like issues were pend-

ing in 1937. Hence, it was time for the publicly owned utilities and the private companies to make peace among themselves. They should have come to some decision whereby they can cooperate in rendering a much needed joint service to the American people.

Our nation in 1937 had scarcely scratched the surface of utility possibilities. There was ample room for such projects as the TVA and at the same time ample room for the hundreds of private companies, each in its own operating sphere. The President, in his basic philosophy on this subject, was much influenced by the Brandeis-Frankfurter school of economics. This viewpoint is one of opposition to those monopolistic trends which crush small units and spread an octopus of control over production and distribution. He wanted to prevent any group from getting a stranglehold on any industry or group of industries vital to the economic life of our people.

From a New Deal standpoint the utilities during the 1920's were in the same position as the railroads were when Theodore Roosevelt, as President, got after them with the Big Stick of control. The President was never in any sense against the man who had invested money in an operating company where that money had been used to dig holes, set up transmission lines and build power stations. He *was* unalterably opposed to the man who frankly gambles through the medium of pyramided holding company activities. Hence, I looked to see the New Deal square away toward a more constructive policy in Mr. Roosevelt's Second Administration. The utilities in 1937 were emerging from one period of development.

They were on the threshold of another period. This coming period will mark their tremendous contribution to the task of raising the American standard of living. Mr. Roosevelt knew this perfectly. He did his best, in my opinion, to implement this fact in terms of giving the utility industry an opportunity to show what it could do during the years ahead. In fact, I believe that operating utility companies have far less to fear from the legislation of 1935, than they have from coming inflation.

A HARDBOILED LOOK AT THE RECORD

President Roosevelt introduced several phases of inflation, but by 1937 he had not taken the last basic step of issuing unsecured paper money and forcing it into circulation in the payment of government debts. Authority to issue paper money—under a revival of the “greenback” law—was given him by Congress in the inflation actions of the Farm Act, but that authority had not then been exercised.

During the nation-wide bank holiday (March 6-11, 1933), the President placed an embargo on gold shipments abroad and stopped the redemption of U. S. gold certificates in gold. On April 19, 1933, he announced that all gold obligations of the United States, including government bonds, would be met in current dollars and not in gold. This brought the first real drop in the foreign exchange value of the dollar and a definite rise in wholesale prices in the United States.

The Farm Act (May 12, 1933) authorized the President to devalue the gold dollar by stating that it would represent not 25.8 grains of gold 0.90 fine, but some

smaller quantity of gold. This power to devalue the dollar was not used during 1933, but it introduced a strong element of uncertainty and helped to push down the foreign exchange value of the dollar and to raise prices.

As a preliminary to devaluation, the government began, in October, 1933, buying gold at an officially fixed price. When the Gold Reserve Act of 1934 was introduced, this official gold price had already been pushed up to \$34.45 an ounce, equivalent to a 40% reduction in the gold value of the dollar.

On January 30, 1934, Roosevelt signed the Gold Reserve Act and the following day, by executive order, he fixed a new gold content for the dollar at 15 $\frac{1}{8}$ th grains of gold 0.90 fine, a devaluation of 41% from the former standard. The new dollar was, in gold, equal to 59 cents of the former gold dollar. At the same time Roosevelt fixed the official price of gold at \$35 an ounce.

The Gold Reserve Act authorized the government to take title to all the gold formerly held in the Federal Reserve Banks, giving in payment for it a new type of "gold" certificate which was to serve as the "gold" basis required for Federal Reserve notes. Gold and the former gold certificates were definitely and legally withdrawn from circulation. The U. S. Treasury may, at its discretion, ship gold bullion to foreign Central Banks for settlement of international balances, but no gold was to be available for shipment by individuals or privately owned banks.

This compromise standard is far removed from the pre-crisis gold standard in the United States, when all

gold certificates issued by the Treasury were redeemable in gold on demand and when gold coin or gold bullion could be shipped abroad by any bank at any time. But such a genuine gold standard has not been effective in Great Britain or in France since the World War.

By devaluation of the dollar, the total gold reserves in the United States which were represented by about four billions became equivalent to about seven billions. From the "profit" derived from the difference, the President (under authority of the new act) set up a two billion dollar "stabilization fund" which was secretly administered by the Treasury for two purposes: First and chiefly, to buy and sell foreign exchange so as to keep the foreign exchange value of the dollar close to its new gold content; and, second, to buy government bonds and treasury notes when necessary to keep up the market prices of these securities.

INDIRECT INFLATION

Other phases of the Roosevelt program were indirectly inflationary: For example, the liberal use of government credit to sustain weak banks and to prevent bankruptcies in other areas; increased purchases of government bonds by the Federal Reserve Banks; the increased use of these bonds, instead of "prime commercial paper," as the supplementary backing for Federal Reserve Notes; the increased use of silver, etc.

The Silver Purchase Act (June 19, 1934) declared it to be the policy of the United States to increase the amount of silver in the monetary base of the country with the ultimate objective of maintaining one-fourth of its mone-

tary value in silver and three-fourths in gold. In August, 1934, an executive order nationalized all silver then held in the country, requiring that it be deposited with the Treasury on terms yielding the depositor 50.01 cents per fine ounce. The monetary value of silver was established at \$1.29 an ounce. The object of the Administration was to drive up the market price of silver to this figure,—although the price in June, 1934, was 45 cents per ounce.

Silver purchases under the Act drove the price of silver up to a peak of 81 cents in April, 1935, but by December 9 the price had dropped to 64¾ cents. The following day, December 10, the sudden withdrawal of United States silver buying in London caused an international panic in the silver markets. By the end of 1935 the price of silver in New York dropped to 49¾ cents, although the Treasury was paying 77.57 cents per ounce for domestically mined silver.

Contrary to the expected increase of the international use of silver for monetary purposes, the operations under the Silver Purchase Act actually accomplished the opposite. Although the Treasury had more than doubled its stock of silver during 1934 and 1935, the huge increase in gold stocks during the same period kept the Treasury far from its objective of accumulating silver stocks to the point where they mounted to one-fourth of the combined gold and silver stocks.

BANKING TRENDS

I estimate that on January 1, 1937, more than one-half the entire Federal debt amounting to over thirty billion dollars was then held by banks, such investments con-

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stituting about one-third of their combined deposits. Further, that government and government guaranteed securities held by member banks in 100 leading cities on said date were 2.7 times their combined capital funds. Since total investments of these banks were about 3.5 times their capital funds, it seems quite probable that a moderate decline in government bond prices would have a disturbing effect. By 1937 there was a profound uncertainty as to the future of government credit. The dollar could collapse sharply the moment the government faced any serious difficulty in meeting the then expanded obligations. Furthermore could the Administration continue to carry out indefinitely its promises of aid to all groups without resorting to the printing presses?

CHAPTER II

WHAT IS INFLATION?

It is easy for people in comfortable circumstances to decry inflation. We all look down upon patent medicines when we are feeling well. After, however, we have been sick for a long time, and the doctor has failed to cure us, we turn to patent medicines ourselves. We are willing to try anything as a last resort for physical recovery. In the same way voters are willing to try anything as a last resort for economic recovery. This is one reason why experiments in inflation are periodically tried. It is hard for us to put ourselves in other people's places. As a rule, however, we would think and vote as other people do, if we were in their shoes.

REASONS FOR INFLATION

Inflation appears absolutely necessary when people have not the money to pay taxes and when public expenditures must continue and government bonds cannot be sold at a decent figure. Further, I say that those of us who are in comfortable circumstances cannot appreciate that millions of people are at times unable to pay their taxes. When, however, it is considered that only seventy per cent of the people who die leave property enough to pay for probating their estate, it is evident that tax money is often unavailable to great numbers. Indi-

viduals may raise enough to feed, clothe and shelter themselves; but there have often been times when great groups of people have not had money to pay taxes. Individuals cannot manufacture money. As government functions must continue—especially in case of war or other emergencies—the only thing left is for the Government to manufacture money by printing currency in case government bonds cannot be sold at a fair price.

Our Government was unable either to collect sufficient taxes or sell its government bonds during the Revolutionary War, when Continental currency was issued. This country again got into a similar difficulty during the Civil War when greenbacks were issued. There is no reason why such an unfortunate situation could not again occur. I emphasize this because we are apt to be too unsympathetic with the inflationary movement. If we were in the condition of unfortunate families, we ourselves would want the government to print currency instead of selling our property for taxes.

During the depths of the recent depression, people in certain sections resorted to barter. Some very interesting experiments along these lines were tried in southern California. Unemployed workmen, heretofore employed in furniture factories, started to make furniture at home. Unemployed workmen, heretofore employed in shoe factories, started to make shoes at home. Other persons made clothes and miscellaneous articles. All these people brought these things to a central market to which the farmers brought their surplus products. Then they began to exchange shoes for eggs, furniture for clothing, and various other things for different commodities. It is

IF INFLATION COMES

only natural that under such circumstances people feel that if they only had some money, to serve as a means of exchange, it would be so much more convenient. The issuing of such money under such circumstances does not seem at all harmful to such persons. Instead of decreasing the wealth of the country, they believe that it would cause more commodities to be manufactured and hence increase the wealth of the country. This situation is a latent and powerful force for inflation.

INFLATION HELPS DEBTORS

The desire for stable money is another potent argument for inflation. If a farmer borrows \$5,000 when wheat is a dollar a bushel, he feels that he has been robbed if wheat is only fifty cents a bushel when the time comes for the payment of his mortgage. He is perfectly willing and able to pay his mortgage in the equivalent of one-dollar wheat, but he is absolutely unable to get twice as much wheat. Hence, when the price drops to fifty cents, he is unable to get enough dollars to pay his mortgage. He visualizes everything in the terms of commodities. He is honest and he is willing to pay back, on the basis of commodities, all that he borrowed. When, however, he must pay back double what he borrowed, together with a high rate of interest, he feels that the bankers or someone has gouged him. Bankers retort that the farmer does not pay more when commodity values work in an opposite direction. This is true. The farmer is human like the rest of us. None of us appreciate our blessings, but complain as soon as we suffer. When prices are going up, we do not appeal for stable

money; but when prices go down, against our interests, we do appeal for stable money. As money has never been stabilized, there periodically is a call for inflation whenever the price level becomes too low.

Difficulty with the money situation developed in the days of Cain and Abel. It has continued through the centuries as a conflict between the "Haves" and the "Have Nots." Those who have money, want to keep it valuable by making it scarce. Those who do not have money, want to make it cheap so they can get it. Hence throughout the ages the pendulum has swung from deflation to inflation and back again, according to whether the "Haves" or the "Have Nots" were in the saddle. Furthermore, this can always be expected. After prices have remained abnormally low for a certain period, the inflationists start to preach their gospel. When once started, the inflation propaganda never dies out until prices get back on a profitable basis. Then we hear nothing more about inflation for awhile. I cannot over-emphasize this fact that the inflation movement is a fundamental movement due to this conflict between classes. It has always existed under certain economic conditions and continued so long as those bad economic conditions continued. When the economic situation righted itself, no more was heard of inflation until bad conditions again returned.

INFLATION IS HABIT FORMING

Neither inflation nor depression comes suddenly. Both work quietly, elusively, and slowly. It takes time to get the inflation movement under way, and it takes time to

eliminate it. In view of this fact a *credit* inflation often develops which serves in many ways the same purpose as a *currency* inflation. On the same principle as fever really is the cure for some physical ailment, so credit inflation is often the cure for the currency inflation bug. Perhaps I can give you another illustration that is clearer. A person is sick and takes whiskey to carry him over the crisis; but instead of quitting the whiskey when he gets well, he continues to drink it and becomes a hilarious drunkard. Without doubt, a certain amount of inflation, during business depressions, is justified. It helps carry a nation over an emergency the same as a stimulant will help a patient during a crisis. The difficulty comes when people become accustomed to the stimulant and do not quit it when they should. In the same way they become accustomed to inflation. They see its stimulating effects. They become intoxicated with enthusiasm. As a result, they over-borrow; they over-speculate; they over-build and they over-buy.

It therefore will be seen that those who argue for inflation are not necessarily ignoramuses or unpatriotic citizens. There are emergencies in the history of every country when a certain amount of inflation is a good thing. Furthermore, under a democracy, inflation is bound now and then to come about inevitably. Nothing can stop it. The danger from inflation is the intoxication which it causes. This results in violent abuses. Therefore the question: "If inflation is a good thing, why not repeal the laws against counterfeiting?" When you read this book inflation may be prevalent, or it may not be. Personally, I do not care much which way the pendulum

is swinging at that time so long as the clock is wound up. I know that the pendulum will continue to swing in both directions. Furthermore, I am trying to write this book so that it will always be useful under all economic conditions. Inflation is a periodic disease. If we are in inflation when you are reading this book, you can be sure that the people will repent and get sick of it. On the other hand, if no one is interested in inflation when you are reading this book, you can be sure that a violent dose of it is awaiting for sometime in the future.

WHAT ABOUT CONTROLLED INFLATION?

There is a lot of talk about controlled inflation. Political leaders point with pride to what has taken place in Sweden and certain other countries under a supposed controlled currency. Stable money leagues exist to give our country the basis of a controlled currency. There are many followers of the commodity dollar, which in theory appeals greatly; yet when worked out in practice, becomes impossible under a democracy. People will vote to increase their profits; but they will not vote to increase their losses. Yet any commodity dollar, or any stabilized dollar, depends on a fearless and courageous execution of the law of rewards and punishments. If we are to be helped when things are going too far against us, we must be willing to be punished when things are becoming too easy for us. This latter the people of a democracy are normally unwilling to do. As a result, stabilized currency either must be forsaken or it will inevitably lead to an economic dictatorship. There is no half-way ground. Either the pendulum of the clock

must be allowed to swing naturally, or else the clock must stop.

I sometimes amuse myself by thinking how we would have been made physically if our creation had been left to a democratic Congress. One thing I am sure of, namely, that such a democracy would have created our stomachs so that we could over-eat without being bilious, or could under-eat without being starved. From a biological point of view such a stomach would have been far simpler to construct than many of the intricate powers of the eye, the ear and the brain. But what would have happened under such conditions? We know that if we were not bilious when we over-eat and were not starved when we under-eat, there would be no people in existence today! Another thing:—the pleasure of taste is the reward for working; while the pang of hunger is the punishment for idleness. Biliousness from over-eating is the natural result of indulgence, luxury, and ease. As maximum and minimum limits are necessary for a healthy physical system, so a maximum and minimum gold standard now appears necessary for a healthy monetary system. Intrinsically gold is not worth as much as copper or wheat. Gold is good only to fill teeth and gild picture frames. If it were as common as steel, it would sell for the price of putty.

The weaknesses of the gold standard are not as bad as the weaknesses of no standard at all. It is true that the Constitution gives Congress the right to regulate the value of money; but the Constitution might give Congress the "right" to make water run uphill or to make two and two equal five. Because Congress has the right

to do something, under the Constitution, does not make such a thing advisable. I sometimes think that if the inflationists could operate a horse race according to their own wishes, they would make it unnecessary for the horses actually to race and thereby risk their lives as well as the lives of the jockeys. Instead they would have the horses parade in front of the spectators and have the spectators vote on which horse should have the first prize! This is a homely illustration, but it illustrates the difficulty of operating a "stabilized" currency in a selfish democracy. Under a dictatorship a stabilized currency could successfully be operated, but I fail to see how it could be operated by a democracy with a selfish and unintelligent electorate. The need usually is not more democracy, but for more religion. A stabilized currency is the ideal goal for which to work; but we can accomplish it only as the purposes, motives, and ambitions of our people are changed. The United States needs a spiritual revival before it can afford to experiment with a stabilized currency.

WHO BENEFITS FROM INFLATION

I shall later discuss in detail the effect of inflation upon different groups of individuals. For the benefit, however, of those who have the patience to read only this one chapter, let me say that a limited amount of inflation may temporarily help the following groups:

1. *Many of the farmers.* The *percentage* that a farmer spends for labor, seed, et cetera, is comparatively small. His interest charge is fixed and his crops are largely the results of the efforts of himself and family. Hence a

farmer is greatly benefited by a sharp rise in crop prices. Inflation tends to raise crop prices.

2. *Some of the debtors.* Those who have not too great debts and are able to pay them and cannot be foreclosed may benefit from inflation. Moderate inflation reduces the burden of one's debts. A debtor is obliged to pay only so much money. Hence as the value of money depreciates, it should be easier for one to get it.

3. *Successful business men.* As a rule, *sales* in dollars increase faster than *costs* in dollars. Therefore a business man who formerly operated at a profit, may see his profits expand under inflation. This especially applies to those who have large inventories on hand when inflation begins. With the unsuccessful business man, however, it works the opposite. If he is operating at a loss, the inflationary movement tends to increase his losses.

4. *A few wage workers.* I have in mind those out of employment. Inflation tends to give more jobs temporarily. On the other hand, wage workers who have jobs, before the inflationary movement gets under way, suffer from inflation. Wages always lag behind prices. This means that the cost of living goes up more rapidly than wages.

5. *The government prospers for a period.* It is possible to increase taxes as inflation progresses. Furthermore, income taxes, corporation taxes, et cetera, automatically increase. On the other hand, under violent inflation the government becomes bankrupt.

As inflation does not increase the actual food, clothing and shelter of the country, this means that for any people to benefit from inflation, *other people must be hurt by*

inflation. The people who get hurt most are the thrifty citizens, bondholders, holders of mortgages, lease holders, and others in the sole creditor class. Such people will receive less in the terms of commodities for the interest and principal of their loans. On the other hand, it must be remembered that this applies especially to those who are *not* in active business. It applies to the money changers and the money lenders rather than to the industrialists or merchants. As a group, the rich often prosper by inflation far more than those in humble circumstances.

Wage workers suffer from inflation far more than employers. The active business man can mark up prices faster than he marks up wages. This means that the best hedge against inflation is to continue in active business and not depend on interest, bank accounts, rents, pensions, life insurance, annuities, or any other fixed income. Under inflation, wage workers who are depending on the National Security Act would be disappointed. Salaried people and all employed wage workers—especially honest ones who have kept out of debt and saved a little money—could suffer tremendously by inflation.

INFLATION MAY BE DISHONEST

Inflation consists simply of manufacturing money. This changes the value of outstanding money. Unless the intrinsic wealth of the country in the terms of useful commodities, such as farms, homes, factories, stores, railroads, steamships, public utilities, and other forms of useful enterprises, are increased proportionately, inflation results in cheapening the value of the existing money

which you have in your pocket. Changing the value of money is just like changing the size of a bushel basket, a gallon measure, or a wooden yardstick. By so doing it is easy to increase the *number* of bushels, or gallons, or yards, but there is no more food, clothing or shelter.

The simplest form of inflation is for the government to print money with which to pay its bills when its income from taxes is less than its expenses. Some inflationists go so far as to say that the government should issue no government bonds but, whenever it needs money for new public works, it should print the same and thus keep out of debt. Of course, this would not result in keeping the government out of debt as outstanding currency is as much debt as outstanding bonds. Such a process would save the government interest charges. Such a program, however, is dishonest as well as dangerous. Besides, interest serves as a valuable check. It is absolutely essential to "controlled" currency.

In view of the fiasco under inflation in Germany and other countries, the printing of currency and the issuing of greenbacks was unpopular in the United States during the depression of 1930 to 1936. Consequently to make up its deficit, the government printed bonds instead of printing currency. Bonds, however, differ from greenbacks only by the fact that the bonds are printed on larger pieces of paper with different colored ink and bear interest. As above stated, the fact that they bear interest, serves somewhat as a check on their issuance. Also, when the government debt gets too large, people refuse to buy the bonds. This calls the public's attention to the fact that inflation has become serious. A country is safer

financially when bonds are printed, rather than when currency is printed. On the other hand, from an inflationary point of view, there is little difference. Therefore the question facing the American people in 1937 was not whether the United States should enter a period of inflation. The United States was already entering a period of inflation on January 1, 1937. During the preceding four years many billions of inflationary "money" had been issued. For political reasons this phony money was printed in the form of bonds and sold, rather than printed in the form of currency and passed out.

CREDIT INFLATION DESCRIBED

During the few years previous to January 1, 1937, very few bonds, mortgages, notes, et cetera, had been issued by individuals. People were frightened. Responsible business men were unwilling either to loan money or to borrow money. When signs showed that the depression had passed, courage took the place of fear; banks became anxious to loan money; while responsible business men became willing to borrow money. As a result, notes began to circulate, issued by corporations, partnerships, and individuals. These had the same effect in augmenting inflationary processes as has printed currency or government bonds. By 1937, the country had become accustomed to an artificial stimulant and, instead of discarding it, they determined to use more of it. It is dangerous to forecast the future in a printed book that is always available for reference. Most economists are agreed, however, that, irrespective of when the Federal Government budget is balanced, the intoxication of infla-

tion can continue for awhile. The government may not print money nor bonds, but corporations, partnerships and individuals can bring about inflation by printing stocks or bonds, by typewriting mortgages and by passing out notes written by longhand.

In the United States more than 95% of the business in terms of dollars, is transacted by checks. A large volume of the new currency, issued to alleviate the banking crisis of 1933, was returned to the banks soon after the emergency passed. Even though the government might shut down and padlock every one of its "printing presses," runaway inflation would still be possible. We do not need fiat money, so-called, to embark upon the wildest inflation. It can be implemented by bank credit and checks. This kind of inflation may be even more insidious because the wolf is wearing sheep's clothing.

Under our banking system, the Federal Reserve Banks can buy government bonds, as they did buy them by the billions during the past depression. Against these bonds, the banks can issue Federal Reserve notes (the most important form of currency in the United States). This would be a resort to the printing press. However, the Federal Reserve notes printed in 1933, for example, did not enter into circulation on a big scale. It is true that when business activity revived later, some of the bonds which the banks bought were new bonds. During most of the time, however, the purchases were chiefly old bonds. The seller thereof usually chose to receive not money but a credit to his account at the bank. Thus the effects of fiat money can be masked under a make-up of bank credit. Inflation can result through an increase of the

reserves of member banks of the Federal Reserve System, or by a lowering of reserve requirements.

A raging fire can be fanned by various causes,—a gust of wind, a dash of inflammable fluid, or stoking with fresh fuels. Likewise inflation can be fed in numerous ways. For example, suppose that devaluation puts the dollar down to a fifty cent basis. In such a situation the question arises: As stabilization occurs, what might happen to gold in the vaults of banks? The Federal Reserve Banks are the property of member banks, which are themselves the property of their stockholders. In 1933, the government commanded our citizens to surrender their gold. By forcing surrender of Federal Reserve gold, the Treasury could control enough free gold to back billions of new dollars in treasury notes. Behind such notes would be the same gold which would have backed Federal Reserve notes.

All of the above is supplemental to the tremendous basic development of credit facilities between 1932 and 1937. The re-vamping of the Federal Reserve System under the control of politicians, the devaluation of the dollar, and the attempt to inject a large amount of silver into our currency, all formed a basis for tremendous expansion. Never in the country's history was the stage set so perfectly for a period of credit inflation as in 1937. It is very possible that little more will be heard for awhile about printing currency. This country may even enjoy a balanced Federal budget. Possibly our government debt may be reduced. Yet with our banking system in the hands of politicians there can be a tremendous, subtle and powerful inflationary movement.

Only an emergency can prevent a period of inflation following a long business depression. The inflation which threatened the United States at the beginning of 1937 was a credit inflation, which was fanned by confidence. This is in contrast to a currency inflation which is stimulated by fear. Whatever, however, the form of inflation, all forms work in a similar manner. They increase by currency, bonds, mortgages, notes and even open accounts the amount of outstanding "money." Thereupon money becomes cheaper and prices become higher. This movement continues until finally the high prices retard business and the pendulum swings the other way with depression and unemployment following.

Yet I want to be fair to the inflationists. I therefore state definitely that at certain periods of an inflationary movement, employment is increased and more people are put to work. The profits of corporations which are already operating in black, increase during certain inflationary movements. Consequently the prices of most stocks advance rather rapidly. As people see their rents advancing, they turn to purchasing homes; or better still, to buying land upon which to build a home. This is especially true when the interest which they are receiving on their savings bank accounts is being cut down. All of this tends for a certain period to increase the price of real estate. For a time a country gains in foreign trade by depreciating its currency. Inflation acts as a temporary barrier to imports and a temporary stimulus to exports. Most everybody feels better when the price level is rising. The economic situation is greatly affected by how people feel. Although I have given my life to

the study of statistics, I truly believe that people are ruled far more by feelings than by figures.

VELOCITY IS AN IMPORTANT FACTOR

No discussion of inflation would be complete without mentioning the velocity of the circulation of money. Let me give a very rough illustration. Imagine ten men in a room, with one man having a one hundred dollar bill in his hand and each of the ten owing one hundred dollars to the one sitting next to him. So long as fear reigned, the man with the hundred dollar bill would tightly hold it, while the other nine would sit trembling in the fear of bankruptcy. As, however, confidence takes the place of fear, the man holding the one hundred dollar bill gradually relaxes and finally uses it to pay his debt to the chap at the right of him. Then this second man uses the bill to pay the third man, and so on. The one hundred dollar bill then passes through the hands of the ten men and each man uses this one hundred dollars to pay his debt. Thus this sole one hundred dollars results in paying up an indebtedness of one thousand dollars. I understand that holes can be punched into this illustration and I am not offering it as one hundred per cent correct. It, however, does illustrate the importance of having money in circulation.

There is no power in stagnant water, however great the quantity of that water may be. The power from water comes through its circulation or movement. It is the same with money. Consequently the invested interests, who violently oppose inflation, point to the fact that there is money enough,—the difficulty, if any, being that the

money is not properly circulating. They are correct in theory. Yet, perhaps only by generating confidence, through the issuing of a certain amount of inflationary money, does the money itself begin to circulate. This process is commonly called "priming the pump." Whatever may be said against the Roosevelt Administration, it did have the courage to prime the pump. As a result, confidence in the pump was gradually restored. Then people were willing to work the pump; then water began to flow from the pump; and by 1937 the depression was over. Money once more began freely to circulate, although this circulation was very slow at first. The velocity of circulation was low, when studied statistically, even on January 1, 1937. The inflationists were correct that priming the pump was necessary; but water sometimes drowns people instead of merely quenching their thirst!

I especially mention this because, when the velocity of circulation, with the tremendous amount of water available, ever reaches former rates of circulation as, for instance, in 1929, the possible results are stupendous. Previous to 1937, people talked of inflation only in the terms of the *quantity* of money or bonds. Little thought was given to the *velocity of circulation*. As a result, the quantity of money or bonds has been greatly increased. Furthermore, irrespective of what the government may do, the quantity of actual circulating medium will still further increase during the years following 1937. When the rate of circulation speeds up as well as the actual quantity of money, the inflationary possibilities become apparent. Under such conditions it is not a question of

how we can stimulate prosperity, but rather how we can retard prosperity. A democratic form of government is useful in providing stimulants and crutches, but it is very difficult for a democratic form of government to take away stimulants and crutches. Based upon previous history, nothing can prevent this country from having an inflationary fling following 1936 although such an inflation may not consist of printing currency. It may even take place under a balanced budget, with a constant reduction in government debt.

INFLATION IS A STIMULANT

What is inflation? Inflation is a stimulant. What is a stimulant? A stimulant performs a useful function in an emergency, but it is not of permanent value. There usually is a bad reaction from a stimulant. To the extent that general business justifies increased prices, such prices hold; but otherwise they re-act. Those who are depending on inflation should realize this fact. Any benefits that come from inflation are like benefits from borrowed money;—they must be paid back again. Let me repeat, I am not violently opposed to inflationary remedies. I believe that inflation is often a useful method of temporarily re-distributing wealth. But here again, wealth distributed by inflationary measures usually flows back again to its original owners. Water can be pumped uphill, but sooner or later works its way back again. It is the same concerning prices, debts, profits, rents and wages when raised by inflation. Sooner or later they return to their natural levels. On the principle of the pendulum, when falling again, they go as much below

their normal level as they were risen above by an inflationary movement. This means that a great deal of distress often follows an inflationary era.

How is inflation administered? I have already answered this inquiry, but to continue my illustration let me say: There are different ways of administering stimulants. Some stimulants are taken into the stomach; other stimulants are injected with a hypodermic; other stimulants are given by gas, or in other ways. Therefore let me repeat that there are many ways of bringing about inflation besides the printing of currency. As stimulants may be taken without the person knowing it, inflation may take hold unconsciously in the same way. The great danger in connection with all stimulants is that they are habit forming. This especially applies to the use of inflation to correct economic evils. The more one depends on inflation, the harder it is to quit depending upon inflation. Controlled inflation is a splendid theory, but it does not work out in a practical manner. Stimulants have their uses but also their abuses. Unfortunately, abuses seem to be a natural reaction from uses. This is the danger of inflation.

Rising prices normally should come through increased demand or lack of supply. The law of supply and demand is fundamental. When, however, these rising prices come through inflation, it means through the destruction of dollars. Someone has defined inflation as when purchasing power is made available to the people at a faster rate than goods are made and brought to market. The important thing to keep in mind is the measure of your monthly income in terms of food, cloth-

ing and shelter. Forget the dollars and cents involved, but consider only what your monthly income will buy. If you are working just as hard and faithfully as you have always worked and find that your monthly income is not buying as much as formerly, then you may know that inflation is already at work. In the early stages, inflation is hardly perceptible. Like a cancer, however, it ultimately destroys everything in its passage. In a later chapter I will show what happened to various groups of people under inflation in Europe. It is difficult for one to realize that such conditions can happen in this country and yet they can just as easily. In this connection let me quote from a statement issued in 1936 by Hazel Zimmerman in connection with her work for women investors.

1. Creeping inflation is a term used to denote the slow, subtle, insidious and constantly encroaching progress of inflation as it stealthily undermines the purchasing power of your money. During inflationary periods such as the present, the public thinks that prices are rising; what is really happening is that money is becoming less and less valuable as inflation progresses.

2. We do not mean that currency inflation is here. Credit inflation is as different from currency inflation as confidence is from fear. The period from 1921 to 1929 was one of credit inflation based upon confidence and characterized by the expansion of credit; but the post-war inflation in Germany was currency inflation based upon fear.

Credit inflation is an expansion of loans. These include the commercial loans of banks; the loans made by the banks to the Federal and local governments and to corporations through the purchase of bonds; the loans made by governments to individuals; by corporations on real estate; etc. Credit inflation permits increased purchasing, and one of its results is a constantly widen-

ing cycle of borrowers. Business recovery, increasing loans, increasing confidence, and increasing borrowing are summed up in one term—Credit Inflation.

3. The bank deposits of the nation have reached a high peak. These deposits represent more capital than all the stocks of all the corporations listed on the New York Stock Exchange. As recovery progresses, these funds will slowly but surely turn from stagnation to activity. Because these funds, which are now overflowing our commercial banks, are lendable and because the Federal Reserve banks stand behind the commercial banks with unprecedented power to increase available credit, the banks become important potential earners during a credit inflation period.

4. Only when inflation is reaching the bursting point does it cease being "creeping" inflation and become violent inflation—only when the government printing presses have turned from the printing of government bonds to the printing of paper money does inflation become apparent to the unwary, and this only occurs at the PEAK of inflation, long after the time for protective action has passed.

The vast scheme of inflation hurts, and grievously hurts, every wage-earner, every owner of a bond or mortgage, every owner of cash, of shares in building and loan associations, every owner of a bank deposit, every owner of a life insurance policy, every person who has to buy food or clothing, as well as the widows, orphans and others living upon fixed and approximately fixed incomes.

5. It should be apparent, even to the layman, that the very best refuge for inflation lies in the best stocks. To the wise the only word needed is this:

Inflation is *here* and will brook no delay. The logical policy now is to buy and hold *carefully selected* stocks against the almost certain development of further inflationary tendencies. With such a prospect in view, the wise investor *SHUNS*

Bonds,—both government and corporation

Mortgages

Annuities

Bank accounts
Savings accounts
Cash
and *SEEKS*
Common stocks
Real estate
Farm lands
And other forms of investment NOT payable in fixed terms
of dollars.

INFLATION NOT ALWAYS WRONG

When inflationists show me that there is an actual shortage of money in a definite community so that people cannot pay their taxes or are forced to barter, I believe that currency should be shipped into that community. The community should then be helped by the Federal Government with emergency currency the same as it would be shipped food and clothing by the Red Cross in case of an epidemic. It is unsound to say that inflation is always wrong. When, however, people begin to talk about "the value of money," I become very impatient. The theory that a rise in prices means a rise in the value of goods, or a fall in prices means a fall in the value of goods, is erroneous. This tells us nothing as to what is the cause or the effect. Prices can rise without a change in the value of money, or even gold. This has been demonstrated many times in the history of commodity prices in different countries.

Those interested in checking the above should read an article by Benjamin M. Anderson, issued by the Chase National Bank of the City of New York May 9, 1933. Mr. Anderson shows that over short periods it is rarely

the value of gold that changes, but rather the value of goods. Over long periods, however, changes in the value of gold are a factor in prices. There was a real rise in the value of gold from 1873 to 1893 because during that period gold production was not keeping pace with business expansion. William Jennings Bryan had a legitimate argument for his demand for a more extended use of silver. If he had not gone so far, he would have been successful. I go further and say that if the radio had existed in Bryan's day, he would have beaten McKinley by millions of votes.

Following Bryan's campaign new methods were developed for extracting and new deposits of gold were discovered. Therefore gold became more plentiful and hence became less valuable. Largely as a result of this, commodity prices rose. It was due to this decline in the value of gold which put a quietus onto the use of silver and various other inflationary movements for which Bryan was the missionary of his day. To such an extent it would have then been wise to increase or decrease the amount of gold in the dollar. Inflationists are justified in stabilizing the dollar in accordance with the change in the value of gold. These changes, however, are long-range changes. They extend over periods of from twenty to forty years. Such changes are not the remedy that the people want. Farmers and business men who are howling for a "stabilized dollar" want something which will cure them immediately. A stabilized dollar will not give such relief. They talk glibly about the change in the value of gold, but they are talking about things that do

not apply. Besides, gold production increased tremendously from 1933 on.

THE BASIC SPIRITUAL PROBLEM

It is not the purpose of this book to give remedies for existing conditions or to suggest substitutes for inflationary stimulants. I will, however, suggest a few things. First, we should not allow the buying power of the public to increase artificially through abnormal borrowing or installment purchases. The depression of 1930-1936 was primarily due to the over-expansion from 1924 to 1930. All classes were then living beyond their means. The wealthy were speculating in hotels, office buildings and factories. The middle class were buying homes and automobiles on a scale of which a few years previous they never dreamed. The wage workers, although entitled to much more than they were getting, were likewise over-extended trying to keep up with the Joneses. All, from bank presidents to elevator girls, were speculating in the stock markets. There was a craze to get something for nothing. Thinking people knew that such a condition could not continue and sounded constant warnings. These warnings were not heeded. Finally the balloon was expanded to such an extent that it burst. As already suggested, when prices become abnormally high, instead of falling merely to normal, they fall as much below normal as they had previously risen above normal.

As prices fell, there was no further profit in raising crops or manufacturing goods. Business men found that they could buy existing goods cheaper than they could make new goods. Therefore factories were shut down and

people were thrown out of employment. As soon as people became unemployed, their wages stopped. This reduced their buying power. This still further decreased the demand for goods and threw more people out of employment. Hence things went from bad to worse. It was a vicious circle. It always has been and it always will be. Only as we grow spiritually and develop integrity, self-control, thrift, and unselfishness can we expect to eliminate booms and depressions. The idea that this situation could be corrected by the stabilization of the dollar is rot. Panics and depressions occur just the same whether the value of gold is increasing or decreasing over long periods. People profit through rapidly rising prices and suffer through rapidly declining prices. Such rapid price changes, however, are not due to changes in the value of the dollar. They are due to our selfishness, avariciousness, foolishness and wastefulness.

EFFECT OF FOREIGN TRADE

The falling off of foreign trade was another factor that caused the depression of 1930-1936. People say glibly: "What does foreign trade amount to? Only less than ten per cent of our manufactured products go abroad." This is very true, but let me give you an illustration. Let us assume that the city in which you live requires twenty carloads of potatoes every day to feed its people. These come in rather regularly by boat or railroad. Now, there are two factors affecting the price of these potatoes. One factor is the condition of the crop. As it is recognized that potatoes are to be scarcer, the price gradually works upward. As it is recognized that pota-

atoes are to be more plentiful, the price gradually works downward. There, however, is another factor; namely, *the exact number of potatoes that enter your city every day*. If some day one or two extra cars of potatoes enter your city and are thrown on the market, the prices for *all* potatoes sold that day fall. On the other hand, if there is a shortage of only two carloads, the price of all potatoes entering your city that day rises. It is the same with our foreign trade situation. Although our foreign trade may be less than ten per cent of our total trade, yet the loss of foreign trade, coming quickly, wrecks the price structure for the entire nation.

In connection with this question of inflation, let me say that I see no necessary justification for returning to the 1926 price level. I seriously dispute the claim that a return to the 1926 price level is desirable. According to the Bureau of Labor statistics, prices during the depression fell to about 60% from the 1926 price level. This 1926 price level, however, was largely caused by the great World War. It was an artificial price level. Of course as this country goes into a period of inflation, we will come back toward the 1926 price level and may go considerably beyond it. There, however, is no need of doing so. The country needs a balanced and dependable production, then balanced prices will naturally follow. The dollar can be stabilized in a practical and safe manner by cutting out speculation. When people buy and manufacture and sell goods only for use, the value of the dollar will take care of itself.

BEWARE OF PEGGING PRICES

As an economist I am very sympathetic with the conclusions of the Brookings Institution. Exhaustive studies by this Institution show that the nation is in need of lower prices rather than higher prices. The lower prices are, the more goods people can buy and hence the greater will be employment. As employment increases, purchasing power increases and so on. It is well known that all attempts to peg prices artificially have been mistakes. Attempts to peg the price of coffee, copper, rubber and other commodities have resulted in a tremendous loss for all concerned. The way out of our difficulties is through lowering prices over long trends rather than through increasing prices. This means that inflation in certain communities and at certain times is of value in an emergency, yet its value lies not in its ability temporarily to raise prices. This means that all labor-saving devices, automatic machinery and new processes, although temporarily hard on certain families, yet are good for the nation as a whole.

Most important of all, remember that we can not get out of debt by getting into more debt. A depression that primarily has been caused by over-borrowing, cannot be cured by borrowing more. When using inflation to cure our economic troubles, we are really extending our borrowing. It may be Federal borrowing, or corporation borrowing, or individual borrowing, but the result in all cases is the same. Inflation is almost a synonym for indebtedness. As inflation increases, indebtedness increases. As indebtedness increases, inflation

increases. Inflation means that a nation is getting into debt; while deflation means that a nation is getting out of debt. A man cannot get cured of the whiskey habit by drinking more whiskey. A nation cannot be cured of the borrowing habit by indulging in inflation. The solution of the problem will come about through the restoration of the balance between production and consumption, the opening up of foreign trade, the restoring of confidence, and the return to normal building and purchasing. This requires the constant development of new industries to absorb the labor released by automatic machinery. Hence money spent on research work and the development of new industries is all to the good. In short, our economic status depends on increasing the food, clothing and shelter available. Money is useful as a common denominator of trade and to avoid the necessity of barter. This, however, is its only usefulness.

IMPORTANCE OF REALIZATION

The opportunities for inflation are so great and the dangers thereof so serious, that I hesitate to contemplate the possible consequences. To avoid such a catastrophe, the following facts should constantly be kept in mind:

The population of the United States has grown tremendously since 1860, but the cost of Federal government, on a per person basis, more than doubled between 1926 and 1936. These figures do not include the cost of State and local government,—they cover only Federal expenses. Public debt has skyrocketed. On January 1, 1937, it was at the highest level it has ever been in peace time or in war time! Yet people did not seem to be wor-

ried about the situation. Few voters comprehend the magnitude of the sums pouring out from Washington. When I say that the Government is spending nearly ten billion dollars annually as I write this book, it scarcely registers. Similarly, when I say that the Federal Government's annual deficit is around five billions, it makes no impression. But when I say that the Government is spending at the rate of roughly \$20,000 every minute and going into debt at the rate of about \$10,000 every minute, you should begin to get some inkling of these vast sums.

It is true that we, as corporations and individuals, can stand a lot more spending and much bigger debt, especially with the reduction in interest rates for which we must give the Roosevelt Administration credit. What frightens me is when the public debt is rising *faster* than taxes and revenues, and these items are rising fast enough. When every dollar spent is being matched by a dollar in tax revenue, I am not so alarmed. When this is so, the voters soon take care of the spending problem. But the politicians are afraid to tax the *majority* of voters. That is where the real weakness lies. Hence, a country is taking a definite step toward some kind of inflation when the Government, after a period of steadily swelling deficits, is afraid to impose sufficiently heavy taxes to meet even its current expenses. When a direct tax bill—broad enough to secure the necessary revenue to balance the budget—is passed, a great cry for economy and housecleaning is raised throughout the nation. When the Government can no longer borrow to pay its current bills, then real inflation will begin, financial chaos will

follow, and the life savings and family protection of the great middle class American people will be wiped out.

WHY INFLATION ALLURES

a. Because its proponents argue that inflation would put the prices of commodities and services back to the average level at which most of the long term debt and other agreements were contracted.

b. Because the claim is made that it will stimulate business activity, spur employment, and add to profits.

c. Because of the plea that it will restore solvency to distressed savings banks and insurance companies, whose assets have been damaged by deflation.

d. Because it is assumed that inflation will prod hoarders of cash and credit to put their idle funds into use.

e. Because inflation appears like a government's last hope of raising revenue to balance budgets.

WHY INFLATION ALARMS

a. Because it seems like jugglery designed to cover virtual repudiation and default.

b. Because it is anticipated that creditors may balk at extending further loans; they may choose to use their resources in speculation with hope of recouping their own deflation losses.

c. Because another alternative of creditors might be to withhold lending until prices have reached fresh peaks. Whereupon we then might get a new class of debtors, created under precarious conditions and presenting still graver economic and social problems.

d. Because industrial payrolls tend to lag behind cost of living, thus menacing the workers with dwindling purchasing power despite soaring prices.

e. Because inflation fires sometimes kindle slowly. By the time prices start up, deserving debtors may have lost their properties to speculators. Such speculators may capture gains which were intended to succor the distressed, instead of filling the pockets of gamblers.

CHAPTER III

HEADING OFF INFLATION

You can take your pen in hand and boldly write these words: "In any year of desperate depression the public will be bitten by an inflation bug." You can make this statement of any period of economic distress. Where stalk the twin diseases of Depression and Debt, you always hear the shrieks for the cure-all of Inflation. This is true of all times and climes. Ancient Athens, when harassed by the inroads of competitors and prostrate beneath landslides of indebtedness, howled that her coinage of staters and drachmas must be debased. Rome, in her hours of decadence and debt, sought a way out through debauching the quadrans. Time and again, the governments of Europe, under stress of economic collapse, have taken the broad and easy path. More than once it has lured America. Long after every present inhabitant of the earth has passed away, future generations, jammed in the vise of hard times and heavy debts, will turn toward inflation. It is the monetary Glory Road that has ever detoured the world into disaster.

ROOSEVELT AN INVOLUNTARY INFLATIONIST

In the first blush of the Roosevelt Administration, along in 1933, large sections of the country were caught in the jaws of the debt trap. In some of the farming

regions, for example, attempts to foreclose on mortgaged property met with desperate reactions. Sometimes when a family was about to lose its home, the enraged neighbors sought to bid in such farm for a paltry amount. They would turn it back to the distressed debtor, thus circumventing the legitimate claims of the creditor. In some instances, foreclosure proceedings were threatened with forcible resistance. That was one of the storm clouds that closed down on the picnic mood of the incoming Administration in 1933.

President Roosevelt was well versed in history and wide awake to the perils. He knew that those who lead a nation into ruinous inflation can never return. Their careers are ended and their reputations blasted. The President was willing to make inflationary gestures as a stimulus, somewhat like a physician administering a heart stimulant to tide a patient over an emergency. He was prepared to stand like a rock against any attempts to sweep him into an outright program of printing press currency. Playing with inflation, however, is putting a match to a train of powder that leads to the magazine. Once the powder is touched off, even though you hurry to blow out the match, the explosion is fired. Or to take a different illustration, an inflationary trend resembles a fire smoldering and creeping beneath the floor of the forest. For a long interval, there is little smoke and smell,—then it bursts into conflagration.

From his first day of inauguration, the Roosevelt administration was accompanied by the smoke and smell of inflation. There was a chance that the underground embers might be smothered. Fires in the forest some-

times die out. Recovery of business to normal volume, in 1936-1937, took some of the edge off inflation talk. Nevertheless, despite the normal volume of business, the government budget must be balanced to avoid a conflagration. Despite good resolutions and fair words, every step which a government takes deeper into the red, is a stride toward inflation. Such danger is heightened by the savage taxation imposed on business interests and by their hostility to New Deal programs. The deeper peril, however, is the corrosion of American character. Large numbers of our people were first shell-shocked by panic and depression. Then they were further weakened by government bounties. These alms brought physical relief but spiritual relapse. Debasing of character is a perfect preparation for debasing of currency. Therefore until there has been a widespread and deep-rooted moral awakening, this country is susceptible to inflation. Not only are Americans naturally extremists, but Washington is usually a gas-soaked kindling pile. My view of any brain-trust is that it is a mighty incendiary, but a feeble fireman. Hence, if inflation comes, it may come on the wings of the hurricane.

If all the attempted forecasts of when inflation will come were gathered together in these pages, they would burst this book from its bindings. They all, however, elaborate a simple idea. Question: When does inflation come? Answer: When the amount of cash and checks traded increases relative to the volume of goods and services traded. Then inflation comes. The reverse process describes when deflation appears. It seems strange that so plain an action should be the cause of bitter con-

troversies, family rows, legislative tumults, broken fortunes, shattered homes, suicides, homicides, and general hellfire.

One reason why people are infatuated, confused, and often destroyed by inflation is because they cannot or will not take the time to dig into the subject. When a widow holds in her hand a life insurance policy which has shriveled in buying power to half its former size, she groans. Yet if a few years earlier, you had spoken of "balancing the national budget" she would have yawned. People rave when they lose their jobs or the price of shoes jumps to \$40 a pair. But if ahead of the event, you had mentioned such a thing as "bank credit," your audience would have walked out. A peculiar curse of inflation is this fact that it has dramatic and terrific human *effects*, but its *causes* are dull and tedious.

INFLATION STRIKES HOME

Hence in plunging into this great problem of inflation, I can only ask you to read between the lines. Translate such words as circulating media into your own pocket-book, bank-book, and check-book. Interpret commodity hoarding in terms of your own cellar and pantry. From a faithful study of previous inflation in the United States and abroad, I can promise you one thing: The so-called "dry" statistics, which I shall present, may some day blow up in your face. If you find it hard to listen to my "heavy" discussions, remember there may come a night when you will awake to listen to the sound of men running in the streets. You may care nothing about

inflation; but believe me that inflation cares a whole lot about you!

Inflation can be understood more readily by assuming first that all trade is transacted by cash; namely, by gold coins. At one period, let us say, a ton of coal is sold for \$5. At a later period, a ton of coal is sold for \$10. That is, the amount of money traded has increased relative to the volume of goods traded. Hence, to that extent, inflation has occurred. It affects you practically through the increase of prices. *Strictly speaking*, most price increases are results of inflation. As the word is commonly used, however, we call it inflation only when the increase of money is deliberate, forced, artificial, or stupendous. When money increases by the so-called normal processes of business, we speak of the resulting price increase as a natural advance. The idea of inflation implies some kind of manipulated, abnormal, or unusual increase of the amount of money traded. Plainly a certain type of inflation would result from the discovery and operation of new gold mines. Discovery of the Rand mines was inflationary. Similar effects would be caused by more efficient methods of operation. The invention of the cyanide process of gold extraction was inflationary.

We can now proceed to our second assumption; namely, that in addition to gold coins, we may use silver coins. This of course would increase—perhaps double—the amount of money traded and hence would be decidedly inflationary. Notice that as long as a nation's money is confined to metallic coins, the supply thereof is more or less limited by the bounty of nature and man's

success in mining and refining. This is why people feel instinctively that metallic money has a reality and intrinsic value not possessed by other mediums of exchange. Nevertheless, even a gold or silver coin can be clipped, sweated, adulterated, debased, and devalued. We can define our "dollar" as a certain weight of gold of a specified fineness. We can quote prices and make contracts in that "dollar." But a government by decree can alter the definition. This will debase the "dollar" just as effectively as if the coin were shrunk in diameter or plugged with lead.

The point to keep clearly in mind is that when a builder quotes you a price to build a house, the structure is covered by specifications. The money, however, is usually not covered by specifications. It is described merely as "dollars." The same applies to contracts and agreements. It applies to wages, salaries, bond and mortgage interest, preferred dividends. It applies to the face value of a bond, to fire insurance and life insurance. All these things are well specified as to the goods or service involved. But as to the money involved, that is left up in the air in the vague word "dollars." Hence under our present system the dollar is nothing in the world but a blank check which from time to time the law-makers fill in at their own sweet will. Bankers sneered at Mr. Roosevelt's rubber dollar. But ever since the birth of the nation, our dollar has been rubbery and elastic as the conscience of a politician.

LONG-TERM CONTRACTS INTENSIFY INFLATION

Inflation is economic and social dynamite. If all transactions and agreements were performed within twenty-four hours or less, inflation need not be a menace. Even so, it would still have its dangers. There have been instances during inflation crazes, when the money supply and the price level changed every hour and every minute. However, the longer a transaction or contract runs, the graver is the problem of a money unstable in buying power. If you are playing baseball, you assume that the rules are going to hold throughout the entire game. If right in the midst of some close play, it was announced that the rules had been changed and that you were "out," you would want to kill the umpire. Nevertheless, that is precisely what happens in the game of life when the government changes the definition of the dollar or otherwise manipulates money.

I repeat that inflation is a matter of relativity. It results from increase in amount of money *relative* to volume of goods. As I have previously indicated, we could cause inflation without making the slightest change in the dollar. All that would be needed would be to change our units of physical volume. By enacting new legal definitions, we could change the size of the bushel basket, change the length of the yardstick, change the weight of the pound, change the duration of a day's work or any other unit of goods and services. Thus would result an orgy of inflation resembling in all essentials the inflation that follows devaluation of the dollar. The only reason the inflationists always try to debase the

dollar, instead of exalt the bushel, is because monetary manipulation is easier. Also our physical units are more venerated. Anybody who suggested monkeying with the yardstick would be tarred and feathered. There is historical precedent for tampering with the dollar.

Although the inflationists lack the audacity to attempt revision of the legal definitions of our physical units, there is a similar move which they have not overlooked. Just as inflation can be caused by *increasing* the supply of *money*, so it can be caused by *decreasing* the supply of *goods*. It is a truly inflationary step to curtail acreage, plow under crops and slaughter brood stock. From the angle of political strategy, there was shrewdness in this method of attack. Thousands of good citizens who would have been aghast at proposals to nick the coinage, were willing to wink at destruction of products as a kindly move to aid the farmer. Yet the AAA campaign was pure inflation, both in theory and in practice. A smart inflationist is as skilled in the art of make-up as any screen star of Hollywood.

WHEN MONEY-MAKERS GO MAD

We now proceed to the assumption that in addition to metallic coins, a nation uses paper money. Immediately this opens the possibility of runaway inflation. It may practically be impossible to get huge increases of gold, but paper money can be increased without limit. All that is necessary is to keep the printing presses running. As long as supplies of pulp and ink hold out, money can be created world without end. I myself have sufficient pulpwood holdings, if put on the printing presses, to

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create an inflation that would shatter the country. People have sensed the peril of the printing-press. They have usually sought to limit the paper money which a government lawfully can issue by fixing the permissible ratio of same to the amount of metallic or bullion money available. France once tried to use as a limitation the value of real estate. It was decreed that paper money could not be printed in excess of the specified backing of real estate.

More important yet is the fact that, in addition to metal coins and paper money, a nation can also use checks! This opens up a tremendous avenue to inflation. A bank having in deposits \$100,000 can loan \$1,000,000. The discrepancy is supposed to be covered, in theory at least, by capital and collateral in the form of real estate and security holdings. But this capital and collateral is neither perfectly liquid nor perfectly stable. It may not be adequate to protect deposits. We may sometime have checks against deposits backed 100% by liquid assets. Some economists advocate that banks should be held to this 100% reserve requirement. Actually, a bank is permitted to loan something like ten dollars for every dollar it possesses of cash or equivalent. These elastic loans, these banker-made dollars, are largely created out of thin air at the stroke of a fountain pen. Of course, back of every banker-made dollar is supposed to be *some* form of actual value. It may not be cash or government bonds. It may be the merchandise in the handling of which the borrowing corporation needed the loan. It may be the borrower's other property. It may be the bank's own premises or other capital. Somewhere in the

background there are supposed to be real assets. However, too often those assumed resources have proved to be inadequate or unstable.

Finally, in addition to private credit, there is government credit. The government can go ahead—for a time—and spend more than it receives. It can incur heavy deficits, run deeply into debt, unbalance its budget. It can issue bonds far beyond its ability to pay either interest or principal. It can get into a mess which it can meet by confiscatory taxes. Or it can default. Or it can issue more bonds and thus pass the buck to unborn generations.

To recapitulate: There are progressive steps toward a situation where inflation becomes increasingly a potential danger. These steps are as follows:

Money Supply

1. Gold coins.
2. Gold coins, silver coins.
3. Gold coins, silver coins, paper money.
4. Gold coins, silver coins, paper money, checks.
5. Gold coins, silver coins, paper money, checks, private credit.
6. Gold coins, silver coins, paper money, checks, private credit, government credit.

Another thought:—So far as inflationary effects are concerned, it makes no difference whether we have two coins or use one coin twice as efficiently. Hence we must classify as inflationary any influences which make money more efficient. Such influences include: The sending of money by fast mail, air-express, or telegraph; the payment of salaries at more frequent intervals; the purchase of goods on open account, or consumers book-credit; part

payment plans. *The airplane may become a very important factor in bringing about inflation.*

CYCLONE WARNINGS

Pushing further into the subject, we meet two outstanding points. There is first the *mechanical* side of inflation. Above we have discussed this, listing the conditions and trends which create inflation. Second, however, there is the *human* side of inflation. When fruit is spoiling, growers rush it to market. When real estate is running down, owners hurry to sell it. When a stock is slumping, holders throw it overboard. Now the same instinct operates when money is spoiling, running down, and slumping: People are frantic to get rid of it! The moment people lose confidence in the purchasing power of money, they rush to swap it for goods and service. They are anxious to spend it while it is still worth something.

As a result of this stampede to spend, there is an increase in the amount of money traded. This causes further inflation. This in turn, adds fuel to the flames and people become madder than ever to dispose of their money. Thus we have a vicious circle, or better a vicious spiral. In view of the violence of the movement, we may well call inflation a vicious cyclone. Simultaneously, a like process is taking place with respect to goods. When commodities and merchandise are soaring in price, people tend to hoard them. This hoarding of goods decreases the volume of goods traded,—and this is the companion cause of inflation. Thus there is this vicious cyclone in

duplicate,—on the *goods* side as well as on the *money* side of the equation of exchange.

It is highly important to recognize this automatic or self-perpetuating character of inflation. In the engineering phrase, the pressure "builds up." A nation embarking upon inflation rarely if ever has set forth with the avowed intent of getting drunk. In fact there are always the solemn assurances that this is to be "just one little drink." But that little drink puts the nation in shape to succumb to "just one more." With every additional shot, the craving is increased and the resistance is lessened. Why is it then that people do not shrink from this evil as they would from the plague? How can anybody who proposes inflation ever get a hearing for his proposals?

Answering the above questions, the idea is not sold as inflation but as *re*-flation. There can be no denial that the crashing prices of panic and the deadly low levels of depression work intolerable injustice. What are you going to say to a farmer who has contracted to pay a fixed number of dollars per annum in interest on a mortgage,—and then he faces half-prices on his own products? Or what are you going to say to widows and orphans dependent upon a portfolio that has evaporated to a third of its original appraisal? To repair the damages and right the ferocious injustices resulting from deflation, why not use *re*-flation? That is the selling talk.

Proposals to restore prices to par, usually name as their goal "that level at which the majority of existing contractual obligations were incurred." This means that the prices of farm products are to be pumped up to where

they were when the farmer mortgaged his property. It means that prices of securities are to be restored to where they were when the original owner bequeathed them to his heirs. It means first to ascertain and second to attain that position of the general price level where (*on the average*) wrongs will be righted and injustices corrected. Such wrongs and injustices of course refer to those resulting from fixed obligations amid changing conditions.

MEAT FOR SOME, POISON FOR OTHERS

Inflation looks like meat for you when you are under obligation to pay a fixed number of dollars, and those dollars become easier to get. Inflation looks like poison for you when you are entitled to receive a fixed number of dollars and those dollars decay in buying power and may become worth less than a dime apiece. Inflation looks like meat for you to the extent that you own saleable goods or real estate; it looks like poison for you to the extent that you must buy food to eat and a roof to keep over your head. Most of us are simultaneously debtors and creditors, buyers and sellers, consumers and producers. Therefore to the majority the effects of inflation are hopelessly tangled. For every credit it promises you, inflation threatens you with a debt; for every blessing, a curse.

Those who bring a suit in equity, says the Law, must come to court with clean hands. Do the politicians who shout for inflation in the name of justice, come to court with clean hands? They sob about the plight of the farmer whose products have fallen in price. Are they equally keen for justice for consumers when inflation

skyrockets the prices of the necessities of life? Are the politicians prepared to accept responsibility for justice to creditors when soaring costs of living inflict ruin upon investors, bank depositors, and all who have interests in life insurance?

Justice is not a one-way street. The only logical sequel of a dictatorship over *inflation* is a similar dictatorship over *deflation*. It would have to be the dictatorship of an iron hand in a sandpaper glove because the public has never yet voluntarily submitted to the purge of deflation. Inflation is a wild adventure into which people can be led by demagogues inflaming the mob spirit. Deflation is a drastic sobering up, it is paying the fiddler on the morning after. Moreover, as pointed out above, the average individual in modern life has a variety of interests. If we all were earmarked and pigeon-holed in clean-cut economic and social groups, a dictatorship over inflation and deflation might pretend to manipulate a rough sort of justice. In the actual snarl of conflicting interests which each one of us represents, promotion of justice by manipulating money would be a task, not for men, but for angels.

CURBING BOTH INFLATION AND DEFLATION

A system of managed currency need not be a dictatorship because the changes in the value of the dollar under a managed currency need not be arbitrary and capricious at the nod of a ruler. They can be automatic and tied fast to an impersonal index of commodity prices or an impartial index of the cost-of-living. Managed currency may be described as a system whereby inflation and de-

flation are being constantly administered in small doses in strict accordance with a set of rules.

It may be long before America is ready to experiment with managed currency or with a commodity dollar. There is one way, however, in which the nation at any time could work toward a more stable level of commodity prices. It would be a long step toward stable prices and a stable dollar, if we could iron out the business cycle. Everybody is doing his part to steady conditions when he acts to check the recklessness of a business boom, or to cushion the severity of a business slump. You are not a profiteer but a patriot when you sell land, commodities and securities as the market is kited up to unwarranted heights. You are not a public enemy but a public benefactor when you buy land, commodities and securities as they are sacrificed in a senseless panic. The same principle applies to those who curb business enterprise before it runs into over-expansion and show courage and initiative at the bottom of depression. Such a policy brings large personal gains. These are earned rewards for service rendered. They are far exceeded by the gains to the nation.

The whole country benefits when business expands steadily and naturally along the line of normal growth. For sound and lasting activity, for a prosperity shared by everybody, it is necessary to keep business on an even keel. One of the surest ways to escape both the miseries of deflation and the frenzies of inflation, would be for everybody to study fundamental conditions, work in accordance with the Law of Action and Reaction, and thus lessen the violence of our booms and slumps.

The above is not the kind of thing that can be put across in a stump speech. To be good stuff for the demagogues, a proposition should first curse out somebody as the cause of all our troubles and second propose something to be done by the government. Hence this recommendation makes two tactical mistakes. It does not curse anybody for the evils of inflation and deflation, but confesses that we ourselves as individuals are largely to blame. Still worse, it suggests that instead of some scheme to be carried out by the government, it calls for individual intelligence and individual action. Therefore I have no illusions that the above plan for avoiding inflation and deflation is likely to sweep the nation. About all I can hope is that it will appeal to exceptional men and women. To them I can promise exceptional rewards for their efforts to solve the problem.

Apologists for inflation sometimes put up the following argument. They reason that even apart from the material values involved, there is a profoundly bad psychological reaction from repudiation and default. At all costs, they contend, we should try to avoid an actual forgiveness of debt or substantial scaling down of claims. Hence they have a soft spot in their hearts for inflation because it does not pin the stigma of default upon any individual debtor. Under inflation, the disgrace of repudiation is smeared indiscriminately over the whole population of debtors. No blacklist of individual bankruptcies goes into the records. This school of thought attaches so much importance to saving the face of the individual debtor, that it is willing to risk the neck of the whole nation.

BEST INVESTORS WORST HIT

One of the groups most severely imperiled by inflation are investors. This applies especially to the very investors who have been most careful to safeguard their capital by putting it into high grade securities and entrusting it to debtors who are strong and in good standing. The explanation of this paradox is simple. For the high grade obligations of sound companies, interest rates and market values are near par. Hence if inflation comes, the investor finds himself in a two-fold predicament. First, he has only a meager yield with which to meet rising living expenses. Second, his particular bonds, since they were bought near par, have little chance to show him a price appreciation which might console him for the limited return in interest. In comparison a better showing may be made by certain first mortgage bonds bought in default at bargain prices; some of these issues might advance with rising commodity prices and prove a hedge against inflation.

It may be that you are one of those who pass off the foregoing remarks with the comment: "That could not happen to me, because I am not a heavy holder of high grade securities." Perhaps you are not a heavy holder *directly*, but what about your indirect interests? Millions of people have invested their money in savings bank accounts and in life insurance policies. Such institutions in turn have *their* funds extensively in highly rated bonds and preferred stocks. That is but one example of how inflation reaches around with the insinuating tentacles of an octopus. It is a bold man who boasts that inflation

cannot touch *him*. He speaks with the bravado of one who has never cut the pages of history.

It is indeed tragic to recall the dilemma with which investors in savings banks and life insurance companies were threatened in 1933. Because of the slashed assets of these institutions, investors were asked: "If these banks and life insurance companies were wound up, would you be content to get fifty cents on the dollar?" Of course this question drew howls of grief and anger. "We want one hundred cents on the dollar," said these depositors and investors. Next question: "With inflation, you *might* get 100 cents on the dollar,—but would you be satisfied with dollars worth in buying power only fifty cents each?" That is the spot on which many of our people are sometimes put. Then people begin to realize that their only financial choice is between hanging and shooting.

It is not long before rising costs begin to climb up on rising prices, and the margin of profit is pinched thinner. Moreover, the purchasing power of those profits is likewise dropping. In a word, the effects of the first dose of the stimulant are beginning to wear off. Business staggers and people once again feel hard pressed. They clamor for another shot of inflation. The fatal sequence is repeated. At each jab the response is more feeble unless the dosage is increased; and each time the effects wear off sooner. Ultimately the crisis is reached, when business no longer responds even to the most terrific jolts of inflation.

It is impossible to state what extent of inflation is "mild and beneficial" or to name the point where a "harm-

less stimulus" becomes a habit-forming stimulant. If asked to name a good degree of inflation, we might reply that there is no good inflation. It is simply that some are worse than others. Historically it can be asserted that any debasement of coinage by more than fifty per cent is fairly sure to lead to disastrous consequences. Short of fifty per cent devaluation, there *may* be a chance that a nation will come to its senses and backtrack to sound money before it is too late. Beyond that fifty per cent deadline, the structure of business and finance soon becomes disrupted and demoralized. It no longer has the moral fiber to mend its ways. It can only go over the brink into chaos,—and then rebuild itself all over again.

RECEIPTS AND REMEDIES

Once a population becomes inflation conscious and its government becomes inflation minded, anything can happen. Bear in mind that currency inflation and credit inflation, in their practical results, tend to merge in a twilight zone. The credit inflation of 1920, for illustration, had many of the effects of a cheap money movement. Regardless of the tendency toward high interest rates—a feature following credit inflation—swollen credit may act as the equivalent of cheap money, until the day of reckoning. Eventually the hour strikes when leniency gives way to wholesale efforts to force collection of debts; and then the difference between credit inflation and currency inflation is thrown into sharp relief. Temporarily, however, the ballooning of credit may work as much havoc as the whittling of coin.

Sometimes a government will realize the pitfalls of inflation and set up precautions. Thus in the Farm Adjustment Act of 1933, certain provisions were inserted empowering the Federal Reserve System to increase the reserve requirements. Against this precautionary legislation can be set the power conferred upon the Reconstruction Finance Corporation, to bid up the price of gold. Under the banking laws then existing, there was another inflationary possibility: For every \$1,000 bond bought from member banks by the Federal Reserve banks, there is a potential \$8,000 of credit which could be extended by commercial banks without change of reserve requirements. In short, many and broad are the turnpikes to inflation; while few and frail are the barricades.

One fact, however, cannot safely be ignored. There is an invariable hook-up between an over-load of debt and a clamor for inflation. Therefore it is well to conclude this chapter with a glimpse at an amazing angle of the present debt situation. A story of John D. Rockefeller relates that early in life he loaned \$100 and received interest of \$6. He then discovered that he could loan the \$6 and get interest of 36¢. Whereupon—according to legend—the young man leaped high in the air shouting "I have found it." This secret which burst upon Rockefeller's alert and pecuniary mind was the power of compound interest. Beyond question it is one of the solid foundations of personal financial success. Nevertheless, statisticians continually are arising to denounce the institution of compound interest. According to their figures, it is a national menace more widespread than

drought, more stealthy than erosion. Their arguments are as follows:

At 6%, compounded let us say semi-annually, how does debt build up? The process is deceptively gradual at the start. Debt—when compounded—at first grows gently like the emergence of a snail from its shell. Then the curve tilts up slightly. The upward slope steepens. Then with a rush the pitch becomes sharper, and soon the chart is pointing straight up to the stars. That is the pattern and picture of “the rake’s progress” of compound interest. It swirls aloft. When compounded to its logical conclusions, debt soars into astronomical dimensions.

Meanwhile, what about the corresponding growth of wealth,—the wherewithal for meeting debts. What a different diagram! Production and industrial income tend to expand by simple arithmetic increase. Power to pay debt does not compound. It may grow,—but not with debt’s accelerating speed. The tortoise of corporate income is out-distanced more and more by the hare of corporate indebtedness. When two lines (debt and income) are diverging, the further out you go the more staggering becomes the spread.

RAKE’S PROGRESS OF DEBT

What happens when indebtedness becomes overwhelmingly impossible to discharge? Plenty happens: Cumulative arrears, defaults, foreclosures, repudiations, reorganizations, “debt holidays,”—and a roar for inflation. The whole structure breaks down, the toppling pyramid of debt collapses, law and order themselves dissolve. Finally

the slate is wiped clean, sometimes amid the violence of shot-guns and pitchforks. Then the process starts all over again, this building up of debt to the awful let-down of default. Was it perhaps this inevitable drama of debt which led to the Hebrew institution of a clean-cut forgiveness of debt at periodic intervals? Did ancient economists intuitively sense—as some of our modern scientists are trying to prove with statistics—the dilemma of compound interest? Did they feel that cancellation is less dangerous than inflation?

I do not undertake to sponsor the statistics of the alarmists which purport to show the inherent and inevitable perils of *arithmetic* income and *geometric* debt. They have made out a plausible case both mathematically and historically. The trouble is that at present we lack complete and reliable records. In the absence of adequate data, the question is still a hot controversy. Practical business men and investors will do well to suspend final judgment,—but let us watch our step.

One aspect of the situation, however, even the alarmists seem to have overlooked. It is the uneven distribution of investment income. This can be presented best by a practical illustration. Take three investors with security holdings of \$10,000 each. Let us admit that, because of the balloon-like expansion of debt (through compound-interest progression), it is well-nigh a physical impossibility that all three investors can continue indefinitely to get 6%. Now what happens in actual life? It is probable that out of the three investors, One has the sagacity and energy to make his bonds and stocks give him an average return of better than 6%. Then it fol-

lows that investor number Two may have to be content with no return, while investor number Three may lose some of his capital.

The school of thought which warns us that continuance of 6% compound interest is a mathematical impossibility, appears to assume that investors are going to share and share alike. That assumption is a violation of the facts. Taking year in and year out, some investors manage to average a return of something like 15% compound semi-annually. For example that is just about the average rate of appreciation that results from buying and selling stocks in accordance with the long-pull swings of the so-called business cycle. In this same program bonds also have a place when managed in accordance with long-pull swings.

NATIONAL INCOME COULD BE DOUBLED

The debt theorists sound gloomy when they threaten that industrial production is not a big enough pie to pass around to creditors. Now I am going to deepen the gloom by questioning the fate of careless, lazy, and stupid investors who may not get even a slice of the pie if their smarter brothers help themselves first. However, do not sneer at skillful investors as selfish profiteers. Long-pull investment, in accordance with the Law of Action and Reaction, is a most valuable balance wheel for the business cycle. Were it not for the operation of long-pull investors, orgies of borrowing would be even more riotous and the resulting debt crisis would be even more violent. By their program of selling securities when business is above normal and buying when business is below normal,

such investors help to normalize and stabilize. They put a brake on booms and a shock-absorber on panics.

In this whole baffling but extremely practical conundrum, one fact stands out like a light-house. It is the blunder of putting production in a strait-jacket. It is the necessity of increasing rather than curtailing output. I still take a pinch of salt before swallowing the modern theories of debt and damnation. However, here is something we can pin down: IF the fatalists are right, and IF debt *must* outstrip production, then the very least we can do is to try to enlarge industrial output. New industries and new processes will do the nation—debtors as well as creditors—ininitely more good than will inflation do for the nation.

The debt-danger howlers are arguing on the basis of present production. This present production (I speak in terms of an average year) is usually exactly one-half of what it ought to be. By elimination of waste, income could virtually be doubled, any day we decide to do this. Therefore, BEFORE we complain about the impossibility of debt payment, BEFORE we whine for a debt holiday, and BEFORE we shout for the Glory Road of inflation,—let's cut down the waste! To double our national income, we would not have to abolish the expenditures for national defense. Nor need we concern ourselves with the exceptional extravagances of the abnormal rich. What is required for a 100% increase of sound income is merely a commonsense attack on common evils. Fully half of the sweat and wrinkles of life represent sheer waste of human energies. It is worse

than waste. Such activities are no real good to anybody and work harm to most.

All we need to duplicate our present income is deliverance from the wastes of futile and vicious gambling; from avoidable fire losses and preventable automobile accidents; from unnecessary sickness and industrial accidents; from excesses of drinking and smoking; from injurious eating, degenerate dosing, and miscellaneous quackery; from insidious movies, broadcasts, books, periodicals, and press; from devitalizing noises and needless nervous fatigue; from adulterations in diet and apparel; from destruction of real values to uphold false prices; from the ugly aspects of the beauty rackets; from baneful recreations; from prodigalities of burial expenses; from numerous other squanderings that sap humanity from cradle to grave.

MY PERSONAL CONCLUSION

A nation to avoid inflation should discourage debt. The foregoing method of debt payment by elimination of waste, is the most practical, but the least popular. At the other extreme is the inflation plan, which is the least practical, but the most popular. Between these two extremes come a quartet of other plans of varying utility and popularity. For example, there is the traditional plan of letting bad enough alone. Under this policy, the debt pyramid is left to rise in unrestrained recklessness and then to crumble into ruin and reorganization. This is letting nature take its course; but the day may come when *human* nature will likewise take its course.

This course may be a rebellion against a policy that tolerates such wreckage.

Another plan which has been proposed for dealing with debt, is to set up a dictatorship over the legal rate of interest. Possibly, such legislation might be forced through Congress. The response, however, would be immediate: Capital would flee the country. Could a ban be put on capital exports? Conceivably, but this would be far along toward financial regimentation of a type this nation should never tolerate.

Again, in the depths of depression there is heard the proposal to chisel and prune all indebtedness a quarter or even a half. Another proposed plan is to abolish debt. This scheme would convert existing obligations into income bonds or preferred stocks, which henceforth would be made the only legal form of corporate obligation. It is significant that the foregoing and other proposals for treating the debt dilemma, are the fruits of depression. They are debt-bed repentances.

If we used our heads, the discussions of debt problems would be loudest in periods of prosperity. Then indeed our worrying might amount to something,—in a time when the indebtedness was being incurred and could be controlled. In debt, as in disease, the most effective treatment is preventive. Somehow you can never get the country to take its obligations seriously until it is head over heels in debt. Then it is too late to tackle the trouble at its source. I state it this way: The real heart of the so-called debt problem is not getting *out* of debt, but not getting *into* debt. That, however, is exactly

the idea which is hardest to sell to the average American citizen.

So the conclusion reached is this: The public will probably continue to crave inflation, as the victim of any other habit-forming drug snatches at his dope. The shout of "We want inflation" is likely to arise whenever the burden of debt becomes pressing, whether because of hard times or from other causes. The public will be twitching for its pet dope and will accept no substitute. So again I say that the problem fundamentally is spiritual, rather than economic.

CHAPTER IV

HOW INFLATION AFFECTS DIFFERENT INDUSTRIES

When considering this subject we should recognize four fundamental principles. These are as follows:

(1) *Prices of themselves mean little.* Prices can be reduced by reducing the size of a bushel box, or of a gallon measure, or of a yardstick; but this does not give you any more wheat, gasoline, or cloth for your money. The same principle applies when the value of the dollar has been mutilated by inflation. Dollars may be increased by various methods, but this does not help one in providing food, clothing or shelter. We cannot eat dollars; we cannot use them to shingle the roof; and we cannot make them into clothes. We become richer only as we have more food, clothing and shelter. Only as more is produced, is there more to divide. It is very possible for prices to go up and the cost of living to go down; while it is also possible for prices to go down and the cost of living to go up. Only when currency is fixed in value does the cost of living go down as prices go down, or does the cost of living go up as prices go up.

(2) *In all discussions of inflation and the cost of doing business, one must also consider wages.* If wages fluctuated immediately up or down, with prices, the wage factor would not need seriously be considered. As a practical matter, however, wages lag behind prices,

especially on the up-side. Therefore, when prices go up, due to inflation, they go up more rapidly than do wages. This means that the wage worker is usually the greatest sufferer during a period of wild inflation. In a way this same principle also applies to manufacturers and merchants. In a run-a-way commodity market, it is very difficult to mark up prices of manufactured goods to keep pace with the rising price of raw materials. Rising prices further tend to retard purchases. Contractors who take jobs at a fixed price, which jobs may not be completed for six months or a year, especially suffer due to this lag.

(3) *To the extent that farmers and others utilize their own products, they are not affected by inflation.* If we could imagine a situation where one outright owns only property which he uses, who is entirely independent and needs to buy nothing, not even labor, that person need not be helped or harmed by inflation. *This means, then, one suffers from inflation proportionately* to the extent that he must go out in the market to purchase and is dependent on outside investments. I remember, as a small boy, my grandfather saying: "The quart of milk which you raise and drink always has the same value." I knew nothing about inflation in those days and did not realize the great philosophy underlying this statement. It, however, registered in my mind and I have always remembered it. For this statement of my grandfather to be literally true, one must own the land upon which the cow grazes and he must take care of the cow himself.

My grandfather would have been benefited by inflation to the extent which he owned the land and did his own work, as he would receive more for the milk and it

would cost him little more. All his customers, however, who purchased milk would suffer from inflation. This means that farmers and other producers of raw materials would not suffer from inflation as would city people. A discussion of this latter point, however, involves the question of indebtedness which is treated in another chapter.

(4) *In a discussion of inflation and prices, one should remember that government interference with prices is very possible.* Ordinarily one would say that good apartment house property would be one of the best hedges against inflation. Yet as a practical matter, owners of apartment houses in European cities, which suffered from inflation, were forbidden by law to raise rents. Under these conditions the real estate was useful in carrying the owners through a period of inflation; but they received no net income on the property while inflation was on. With rents held down by law, taxes, maintenance and insurance ate up all the rents.

The same general principle applies to food products. The price of bread immediately becomes regulated by law under a period of inflation. Hence, bakers suffer directly and the growers of wheat suffer indirectly. In the case of electric power, gas and other utilities, their prices are already governed by public commissions. Although these companies have been able to get increases during inflationary eras, the increases lagged behind their costs. Of the utilities only those owning their own coal mines or water powers or other sources of supply, prospered. Hence no mathematical formula is possible for determining the effects of inflation on the cost of living, because

of government interference with prices. It, however, is safe to say that the cost of living mounts rapidly both in terms of dollars and in terms of actual food, clothing and shelter, even although it lags behind wholesale prices and security prices.

Based upon the above four fundamental principles and considering what has happened in Europe under inflation as described in a following chapter I will now discuss how a similar dose of inflation should affect different industries of the United States.

AUTOMOBILE INDUSTRY

How should the automobile industry fare under real currency inflation in this country? There is no precedent which gives us the answer to this question. It is not that simple. True, there have been post war inflations in France, Germany and other countries which greatly harmed the automobile industry in those countries. Costs soared, capital was depleted and the growth of the industry was slowed. However, what happened to the automobile industry in France, Germany and other countries, which had radical inflation, is no criterion as to what might occur under monetary inflation in this country.

Conditions within and without the automobile industry are entirely different from the post war inflation period. Nevertheless, from my studies I have arrived at some conclusion as to what might reasonably be expected in the automobile industry under real inflation. In the first place prices of steel, copper, lumber and other basic raw materials, used in manufacturing cars, would

rise closely in proportion to the inflation of the dollar. This could be very rapid or it might be slower depending upon the degree and extent of the inflation. Lagging the raw materials, the prices of machinery and other semi-finished or finished goods, used in car building, would also advance. Only those automobile manufacturers owning sources of raw materials or huge inventories or resources would weather the storm.

Other costs would rise. Wages would be advanced as the cost of living moved higher and as labor fought for more with which to meet mounting prices of consumers' goods. Rents, taxes, money rates would also go up, though lagging in the inflation rise. From the purchaser's viewpoint those in the automobile industry should attempt to have their companies own the sources of their primary raw materials. They should also build and maintain the heaviest stocks possible of all materials used in producing cars.

Automobile production would spurt in the early stages of currency inflation reflecting the public rush to convert dollars into goods. Later, the consumer's real purchasing power would radically be curtailed by the sweeping rise in prices. Then automobile sales and production would suffer. Prices of automobiles would rise less than prices of materials; manufacturers' earnings would be hit; capital could be depleted or wiped out. Companies which transferred cash into tangibles—materials—would come through the inflation storm in better shape than those which kept cash reserves.

BUILDING CONSTRUCTION INDUSTRY

The building construction industry would at first share in the general stimulation to industrial production characteristic of an inflation period. There would be a spurt in the building of houses, stores, and manufacturing plants as people rushed in to hedge themselves against inflation. Companies engaged in contracting to build would have to watch their step carefully. First, in the matter of contracts, provision should be made to protect the contractor against rising costs. Cement, brick, lumber,—all the numerous materials used in construction would rapidly advance in price. Therefore, the contractor should invest in inventories to the limit; it might even be advisable to go out and borrow money to buy. Cash in the bank would buy less and less as inflation progressed. In extreme inflation, such as occurred in Germany, cash in the bank declined almost 100% in value.

The small contractor with limited capital would suffer first as he would be unable to buy as large supplies as his larger competitors. He would soon find himself stripped of capital in the upsurge of prices. The large enterprises, which could own their source of primary materials, would come through inflation in the best shape. Not having to buy their basic raw materials, they could escape the devastating effects of radical inflation to a far greater extent than their less fortunate competitors. The building industry would have a period of false prosperity followed by a drastic decline in activity as the monetary inflation reached its final stage. Soaring prices of building materials would bring serious losses or wipe

out the contractor who had agreed to construct at a specific figure. Inflation would bring a building boom; but would hurt the building construction industry.

CHEMICAL

The chemical industry came through the post-war inflations in France and other countries with flying colors. There is good reason to believe this industry would do the same should this country have radical inflation of the dollar. Why? To a greater degree than most industries, the chemical industry owns, or controls, the basic materials required for manufacturing its products. Take the sulphur industry as an example. It would have just as much sulphur if the dollar declined to ten cents as it did when the dollar was worth a hundred cents. By owning their sulphur deposits such companies escape having to purchase their sulphur at ever increasing prices. Yet, the selling price of sulphur would rise sympathetically with the price of other commodities.

The chemical industry is more independent of labor than many other lines. Mechanization has reached a high degree of perfection with automatic machinery performing almost uncannily. Therefore rising labor costs would hit most chemical manufacturers less than those in other lines where labor plays a more important part in total production costs. Intensive research activities are constantly finding ways and means for improving processes, developing new chemicals and in other ways extending consumption and lowering costs. This would help to some extent to offset rising costs in an inflation period. The chemical industry should protect its cash

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by purchasing miscellaneous supplies required in the manufacture of its products, such as machinery, parts, etc. Costs would rise, but for the well integrated company, profit margins should not be eliminated. Inflation would tend to slow down, but not prevent, further growth in the chemical industry.

COAL INDUSTRY

Inflation should give the coal industry a new lease on life. Producers large and small should find themselves in a position far different from what they have been in for years. Instead of finding their coal selling for less, they would be advancing prices and perhaps operating at top speed in effort to keep pace with shipping orders. Coal would cost them little more,—only as much more as it was necessary to pay for the labor of mining, sizing, grading and otherwise preparing it for the consumer. In this connection vast improvement has been made in mechanizing the industry in recent years so that it is less dependent today than ever before on labor. Inflation would spur this trend.

Coal companies which had the foresight, plus the necessary capital, to place their mines and equipment in A-1 condition before inflation broke, would find themselves in a preferred position. Cash would be best invested in the latest types of labor saving machinery simplifying and otherwise lowering the costs of mining. Store houses of coal producers should be heavily stocked with the supplies needed in connection with coal mining. Producers which so invested their capital would be far better off than producers failing to convert their cash. The latter

would lose a large part of their capital held in cash. There is the possibility, if not probability, that coal prices might be fixed at some level by Government decree. However, this would hurt the industry far less than if it were obliged to go out and buy its raw material at inflated prices. Wages, taxes, any interest charges would of course go higher. Compared with most industries coal should suffer much less and come through with a good share of its capital preserved. On the other hand there would be no boom because as industry curtailed, the demand for coal would fall off.

DAIRY INDUSTRY

The dairy farmer, having to purchase the greater part of his feed, would be hard hit during a period of real inflation of the dollar. Prices of corn, oats, cottonseed meal and other feedstuffs would all push higher. The speed and extent of the price rise would hinge on the degree of inflation. However, the chances are that prices of milk and dairy products, such as butter, cheese, condensed and evaporated milk, would advance less rapidly than prices of most feedstuffs. This would deplete the capital of dairy farmers dependent on purchasing feedstuffs. Therefore, where possible, the dairy farmer should attempt to stock up on feeds as far ahead as possible. Dairy farmers, who produce their entire requirements of feedstuffs, should surely do so. In addition, they should provide for business needs by building heavy inventories of things necessary to the conduct of a dairy. A new truck, new dairy machinery, parts, repairs to the plant, etc., would be good hedges.

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Dairy companies owning their own farms would be hit less than those buying their milk from producers. Why? Because their costs would rise less rapidly than prices of the butter and other products which they sell. The Government would probably step in and set a price on their products which would squeeze dairy companies, especially those not integrated. Inflation would deal a hard blow to the majority of those in the dairy industry whether farming or manufacturing. Farmers producing all their feed requirements and those companies which are well integrated should suffer less, although they will have to pay higher wages, pay higher taxes or more rent, and pay more for anything they have to buy.

ELECTRIC POWER INDUSTRY

Currency inflation would result in a steep rise in costs in the electric power industry. Coal, oil and other fuels would soar in price given printing press inflation. Wages would follow suit but would advance less rapidly than prices of raw materials. Taxes would also advance but, should the inflation go to the extremes seen in Germany, the cost of collection would be more than the tax! There would also be a big rise in prices of all goods and machinery needed in connection with the operating and maintenance of power stations and lines. Power consumption would temporarily gain reflecting the spurt in industry; but growth of the electric power companies would finally be checked by inflation.

Not all electric power companies would be affected the same. For example, a company which generated its power from water, the year around, would be in a much

preferred position, assuming that the company owned the water rights. Again, a company owning its source of fuel would be far better off than the company which had to buy its coal, its oil or its gas. The electric power companies would be hard hit by the rigidity of power rates. Costs would rise far more rapidly than they could increase rates, with the result that capital would seriously be depleted or entirely eaten up. To hedge, electric power companies should attempt to own their sources of power, whether coal, oil or water, or else accumulate huge supplies of fuels used in generating. Cash should be converted into inventories of copper wire, machinery parts, necessary supplies for operation and maintenance.

FARMING

How would the farmer be affected by inflation? The answer depends upon the farmer. By this I mean the less a farmer has to buy, the less he is hit by any inflation of the dollar. If it were possible for a farmer to provide for his every want and consume all he produced, he could be practically immune to inflation. The extent to which a farmer has to buy or sell, determines largely how he will be affected by a declining dollar. For example, a small farmer living in New England is engaged in raising poultry. He does not keep cows nor does he bother with a garden to supply vegetables for his own use. He does not even raise a part of the corn and other feed for his poultry. Along comes inflation. This farmer finds himself caught in a vise. Prices of corn and other poultry feeds soar. He marks up his eggs and poultry,

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but can not keep pace with the rise in his costs. At the same time he has to pay more for his milk, meat, vegetables and other foods he does not raise. It does not take long before this farmer has exhausted his credit and is cleaned out.

On the other hand, this farmer has a neighbor who has always made it a practice to produce all his requirements as far as possible. He sells his surplus vegetables, milk and fruits. When inflation comes, this farmer finds that prices for his products go up about as rapidly as the prices of the few goods he has to buy. In fact he may have a balance left over from sales above his costs with which to pay off the mortgage on his farm or other debts. The one crop farmer, however, who has to buy much will be hardest hit by soaring prices. The farmer who is more nearly independent, who has to buy little but has much to sell, suffers a minimum or may even benefit from inflation.

FOOD INDUSTRY

Inflation of the currency would deal the food industry a severe blow. Especially hard hit would be those manufacturers which did not own their sources of supplies of raw materials. Food processors, large and small, having to buy all, or a part, of their raw materials would find their cost advancing by leaps and bounds. They could not mark up prices correspondingly as the Government would probably step in and fix prices at which they could sell. Of course this would mean serious depletion of capital. In many instances, particularly in the case

of small companies, it would not be long before such companies would be forced out of business.

Food processors which own their sources of raw material would fare much better. Take the average canner, for instance. With inflation this canner would be caught unless he had the foresight to have bought his needed supply of tomatoes before prices began to soar. Even then it would be very difficult to make the farmers live up to their contracts and deliver the tomatoes. However, had this canner grown his own supplies of tomatoes they would cost no more (except for labor) under inflation.

The baker would be especially hard hit. Buying his flour, or wheat from which he made his flour, the baker would be unable to pass along the increase in costs. He could not raise the prices of bread and other products as rapidly as his costs increase. Prices of bread would probably be fixed by the Government, although the chances are prices of "luxury" items like cakes and cookies would not be regulated. He would also suffer from rising wages, higher taxes and rents, together with advancing costs for all supplies and services. Poorly integrated food companies would lose heavily in inflation or be forced entirely out of business.

• GAS—MANUFACTURED AND NATURAL

In the French and German inflations of the twenties the gas industry made a poorer showing than did the electric power industry. This was due in part to the fact that the gas industry in those countries had fully grown up, so to speak. The period of rapid growth was behind.

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The gas industry was unable to effect material reductions in production costs through improved production methods; while their rates were kept down by government decree. Hence the gas companies suffered much more than the electric companies from rising costs and their capital was depleted quicker. In this country the manufactured gas companies, not owning coal mines, would fare similarly to the French and German companies. The manufactured gas industry has here long reached maturity. Its methods of production are not likely to be radically improved so that it could offset rising coal and oil prices. It would find taxes, wages and all other costs advancing, while rates would not be allowed to rise to offset the rise in costs of production.

Natural gas companies stand in a preferred position. Almost all of them own, or control, their sources of gas. While other costs would rise similarly to those in the manufactured division, natural gas companies would save materially by not having to buy their gas or the material to make the gas. Manufactured and natural gas companies which had built up inventories and had sufficient capital would best weather inflation. Long-term contracts at fixed rates to consumers would bring disastrous loss. Inflation might strike all the gas industry a damaging blow. However the natural and manufactured gas integrated companies should lose far less than the non-integrated gas companies.

LIVESTOCK INDUSTRY

Livestock producers in a position to produce all their own feed requirements would have a great advantage

over those obliged to buy a part or all of their feedstuffs. In an inflation period the livestock producer would be in a similar position to the dairy farmer. Prices of feeds would skyrocket. Wages and taxes and all supplies would advance in price. On the other hand, the livestock grower, producing all his feed requirements, might find himself benefited. Having to pay out nothing above labor costs, rent or taxes to produce his cattle, hogs or sheep, the integrated livestock producer would receive more and more dollars for his livestock. Receipts from sales should exceed the advances in costs. This money could be used to liquidate any mortgages or other debts acquired before the dollar depreciated.

Packing companies, not producing their own livestock, would be affected much the same as the bakers and other food producers which would be subject to prices fixed by the Government. Such packing companies would be caught between the millstones of rising costs and their inability fully to pass them along to consumers. Demand for livestock and its products would be heavy, especially during the earlier part of the inflation orgy when business and industry booms. Inflation would adversely affect the livestock industry, as a whole. It would bring serious losses and would wipe out many producers and processors which had to buy their feeds or livestock for processing.

LUMBER

The lumber industry should receive tremendous impetus in the rush to convert dollars into real goods,—the outstanding feature of a radical inflation of the cur-

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rency. In the early stages, real estate booms and people rush to build in a wild scramble to hedge themselves against inflation. Rents advance, although in cities rents would undoubtedly be regulated by Government decree. Many who rent would be forced to vacate as their houses are sold over their heads. Lumber would also benefit from the stimulation to other wood consuming industries during the early rush to buy and produce. Prices of lumber would advance by leaps and bounds during a period of radical inflation. Therefore individuals and lumber companies owning stands of timber would find themselves in an enviable position. Aside from the necessary labor and other costs of cutting and preparing the lumber for market, the lumber would cost the producer relatively little more than before the inflation.

As in other industries, taxes and all costs of services, machinery, tools and other things necessary in lumber production would rise. However, those not having to buy their timber on the stump should find higher costs more than offset by the rise in lumber selling prices. Lumber companies having the largest timber reserves would be in the best position in an inflation period. They would be able to conserve their capital to a far greater extent than most other industries, particularly those dependent upon purchasing raw materials for manufacture. Inflation should boom lumber production, demand and prices. It would lift costs sharply; but they should lag the advance in lumber prices. The lumber industry should come through a period of radical currency inflation in good shape with a minimum loss in capital.

MACHINERY

There would be a grand rush to purchase machinery of all kinds should we have real currency inflation in this country. Manufacturers would vie with each other in their efforts to obtain machinery to save higher replacements costs and to lower their costs of production. Machinery manufacturers would operate at capacity day and night to attempt to catch up with orders. In this connection let me say a word. A machinery manufacturer accepting orders or contracts to deliver machinery at a specific price, especially large orders which even in normal times would take several months or weeks to fill, might take a serious loss. Prices of materials used in making the machinery—the iron, steel, etc.—would rise and the cost of production could exceed selling prices.

There would undoubtedly be acute shortages of iron and steel as well as of skilled labor. Being dependent upon buying raw materials for manufacturing machines, soaring prices of the former together with inability to obtain sufficient supplies *AFTER* inflation got under way could wipe out capital. Machinery manufacturers with sufficient reserves of iron, steel and other materials, requisite to machinery production, would naturally be in a preferred position. Even here with other costs rising the chances are that capital would be depleted. In the end, the machinery industry could suffer tremendous losses during radical currency inflation periods which would drive many companies to the wall. Surely, a machinery company—due to the large orders coming

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during the early part of an inflation era—should not expand but rather refuse to take this increased business.

NON-FERROUS MINING

Mining of copper, lead, zinc and other non-ferrous metals would be given considerable impetus by monetary inflation. Prices of these metals would be quick to respond to watering of the dollar and should advance sharply and extensively. Consumers, as well as those desiring to hedge themselves against a declining dollar, would swell demand for non-ferrous metals. Production would be stepped up rapidly; but would fall short of demand. Marginal properties would be brought into operation as prices of the metals rose. There would be intensive search for new non-ferrous metal deposits as well as to improve methods of mining and recovery. Wages of miners and workers from bottom to top would be advanced as inflation progresses; but as in other industries, these should lag behind prices. The same is true of taxes and other charges including interest rates.

Of course there would be rising prices for mining machinery and equipment, as well as for all the materials, tools, chemicals and other things used in recovering and preparing non-ferrous metals for market. Another effect of inflation would temporarily be shortages of skilled labor, not only in the non-ferrous mining industry but in most lines of activity. Inflation would therefore serve to increase the trend toward mechanization of mining in order to keep down rising labor costs. Mines which invested their cash reserves in materials needed in mining, that is in machinery, parts and other real assets, would

be in a better position than those companies which were unable or neglected to do so. As a whole, the non-ferrous metal mining industry, especially those companies owning sufficient reserves, should preserve their capital and make a splendid showing during a period of currency inflation.

PAPER INDUSTRY

The paper industry should share in the general boom in sales and production accompanying real currency inflation. In the early stages, mills would find themselves operating at capacity and far behind on deliveries. Salesmen would become merely order takers and in many instances would become order refusers. Paper prices would rise from the fine writing and bond papers to the heaviest paperboards and other paper products used in industry. Toilet tissue and paper towel manufacturers should benefit. There would be advances in wages, taxes and other services and commodities which play a part in the process of making, converting and distributing paper and its numerous products. Not all paper companies would be affected the same by inflation. For example, a company owning its timber and making its own pulp would be in a far more fortunate position than the paper company having to buy a good part of its pulp wood or pulp. In the latter case the manufacturer who had loaded up in advance with actual wood and pulp would be in a preferred position.

In other words, the integrated paper companies would make the best showing in a period of inflation while the groundwood and sulphite mills should especially benefit. The custom of many paper manufacturers of giving long-

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term contracts to consumers, such as in newsprint, for example, would prove disastrous. Costs could soar far above sale prices and might ruin the mill giving the contract. Great care should be taken by paper manufacturers to avoid such sales contracts. When selling groundwood, sulphite, or paper, mills should insist on protective clauses in their contracts providing for revisions in price in the event of inflation. Integrated companies excepted, sweeping rises in materials costs resulting from inflation, would seriously reduce and in many instances completely wipe out the capital of paper manufacturers. Hence paper companies should carry heavy reserves and not be tempted to expand. Better be satisfied with a smaller volume.

PETROLEUM INDUSTRY

Currency inflation in this country would affect various companies in the petroleum industry differently. Again it would be the well integrated company which would occupy the preferred position as compared with its less fortunate competitor. By and large the company with the largest reserves of crude oil would be protected against inflation and might profit by it. Why? Not having to buy any crude, such a company could sell its crude oil at soaring prices which should far more than offset the increase in production costs. The petroleum company having to purchase all, or a part of, its crude or refined products would be at a disadvantage compared with its integrated rival in the proportion that purchases were necessary. History shows that in a period of radical monetary inflation, prices of raw materials advance more

rapidly and extensively than prices of semi-finished and, especially, finished products. Hence the oil company having to buy all its petroleum would quickly use up its working capital. Unless an oil company had sufficient capital to weather the inflation storm, it would be run out of business.

Cash could be the worst thing to own during inflation. Petroleum companies which lacked the foresight to convert it into tangible assets could lose most, if not all, of their cash capital. Petroleum companies which had built up their oil reserves and their inventories of chemicals, machinery, parts and other things necessary in connection with oil recovery, refining and distribution would have the advantage over those which failed so to cover. It would not be surprising to see the Government step in and set a maximum on gasoline and fuel oil prices on the theory that they are prime necessities. In such an event the integrated oil companies would suffer; but their loss could not be compared with that of the large or small company which had to buy its oil. Purely marketing companies would suffer most; while purely producing and wholesaling companies would suffer least. The petroleum company which only markets its oil would be fortunate to survive inflation.

SHOE INDUSTRY

A shoe manufacturer, large or small, would feel the full brunt of any inflation of the dollar. In the early stages, the manufacturer would have more business than he could possibly take care of as the public scrambled to buy shoes before prices shot higher. Those foolish

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enough to accept sales contracts at a rigid price would receive a body blow which might put them "hors de combat." Raw material costs would soar far above selling prices so that to fill their contracts they would actually be giving away their capital. There would be labor shortages, rising wages, taxes, and prices of all the chemicals and other materials necessary in producing shoes.

The shoe manufacturer having the foresight and ability to stock up to the limit with leather and other materials required in his business would be far better off than his less shrewd competitor. The latter would not only have to pay much more for the leather and other materials, but would probably be unable to obtain them when needed at any price. If a shoe manufacturer produced the cattle and tanning plants needed to supply all his leather requirements, he would indeed be fortunate. He then would have a good chance of preserving far more of his capital; but very few are in such a position. Shoe prices, though rising, would advance less rapidly than costs with the result that weak companies would soon fall by the wayside and most companies would suffer loss. Inflation would hurt the shoe industry. It would hit the small and large manufacturer and cause high mortality. In a general way mere converters of all products would experience about the same.

STEEL INDUSTRY

Contrary to what many think, steel is not an inflation proof industry. It is more or less commonly believed that the steel industry would benefit more than it would suffer from an inflation period. As a matter of fact

this is but a half truth. It depends upon the company. In other words it is the old story of integration. The steel company owning the iron mines, coal mines and able to produce all its requirements would be better off than the steel company which must buy these basic raw materials. Under inflation the integrated steel company gains a tremendous advantage in that it has to pay for its basic raw materials only as much more as it costs to mine the iron or the coal. Its less fortunate competitor has to pay full inflation market prices for its iron and coal.

As the prices of semi-finished and finished steel products would rise less than prices of the raw materials, the non-integrated steel company would find itself in an unfortunate position. This could eliminate the margin between costs and sales, and drain off working capital. At the same time that iron, coal and other material prices are soaring, the steel manufacturer would find labor demanding more pay, taxes going up, interest rates rising and so on down through the list of costs of doing business. As far as production is concerned, the steel industry would fully share in the early general rush to get rid of dollars. Output would be at capacity with shipments delayed. Skilled labor would be short. Steel companies having large reserve inventories of materials needed in the conduct of the business would be far better off than a company which failed to so convert its cash. The well-integrated steel company should survive inflation in good shape; but the non-integrated company would be lucky if it avoided bankruptcy.

TEXTILE INDUSTRY

The textile industry would be no exception in enjoying the general boom in production which marks the early part of a period of radical monetary inflation. Mills would be taxed to capacity and unfilled orders would become very great as consumers would seek to buy tangibles before their dollars became worthless. The textile industry would find itself short of skilled labor. There would be labor troubles where wages were not advanced rapidly to keep pace with soaring living costs. All production costs would rise extensively. It would therefore be the height of folly for mills to accept contracts to deliver goods at a fixed price, as is commonly done in many lines today. Such procedure would be inviting bankruptcy. Those mills which carry the largest inventories of raw cotton, wool or silk would have a great advantage.

A textile manufacturer producing all his own needs of cotton or wool would indeed be in the most favored position. His production costs would be far below those competitors who had to buy raw materials at soaring prices. The integrated textile company would be able to conserve its capital much better than companies having to buy all or part of their cotton, wool or silk. In practice, however, this is not followed. Yet the textile producer who had built up inventories of other materials needed in textile manufacturing would gain over the producer not so protected. Installing the latest labor saving, cost cutting machinery would also stand the manufacturer in good stead. Cash should be quickly converted into real

goods to save capital which at best would be impaired during inflation. Inflation would strike hardest those companies which failed to get set for the storm. It would wreck many textile producers, weaken others. Inflation, like a scourge, takes a huge toll of victims and leaves few unscathed.

TIRE INDUSTRY

Under inflation of the currency the rubber industry should participate in the general upsurge in industrial production. Automobile companies, as well as tire distributors and consumers, would at first swarm to load up with tires. Rubber companies would be buried under an avalanche of orders during the early stages of inflation. Of course production would be geared up to top speed. Then manufacturers would wake up to find what they thought were adequate supplies of rubber, cotton and other materials used in making tires, to be far short of requirements. The situation would be all the worse as crude rubber has to be imported from such a long distance. With the dollar rapidly changing in value, the average tire manufacturer would be in a daze to know his real costs. The chances are that radical inflation would bring acute shortages of crude rubber in this country. Deliveries would be delayed. Desirable cotton, of the grade and quality necessary to making first class tires, would be hard, if not impossible, to obtain at any price.

Under inflation all products, such as chemicals and lesser materials used in tire production, would sell sharply higher. Also, wages and other costs would rise, though less speedily than prices of basic materials. Tire prices

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would move sharply higher but there would be a lag compared with rising costs. This would drain capital of the tire companies. Of course, if a tire company owned plantations capable of producing all its needed requirements of rubber and cotton the situation would be far different. Such tire companies should emerge from a hurricane of monetary inflation in fairly sound condition with much of their capital intact. The tire industry, with a few exceptions, stands to lose heavily in any period of real inflation. This is especially true as the demand for tires—after the early rush—should sharply fall off.

TRANSPORTATION INDUSTRY

This industry is in a vulnerable position when it comes to passing through a period of radical currency inflation. In the first place the rate structure is all too rigid. Railroads are in a Federal strait-jacket and would be the worst off. Steamships, busses and airplanes might have a free hand in raising rates. Competition would be a deterrent and it is possible there would be interference from the Government regulation even for these other means of transportation. At all events transportation rate structures would be far less flexible than they should be. The railroads and probably the other divisions of this great industry would be unable to offset rising costs brought about by inflation. Railroads, steamships, buses and airplanes would be hit by advancing prices for coal and fuel oil, although the two latter would be harmed least. Labor plays a big part in the cost of railroad transportation and here there would necessarily be sharp

wage increases. The industry would be squeezed in this direction.

Traffic should temporarily gain sharply in reflection of the boom in industrial production; nevertheless, rising costs would more than offset gains from this source. Rates would be advanced less rapidly and extensively than fuel, labor and other costs would rise. Companies now having a comparative high rate schedule—such as airlines—should perhaps fare best. Railroads which might produce all their own fuel would be outstanding exceptions. They should be able to come through inflation in far better shape than the average road which has to buy its coal or its oil. The same would be true of other forms of transportation. The next best thing to owning and producing its fuel requirements is for a company to have accumulated huge fuel reserves. This would soften the inflation blow and help conserve capital. Inflation would be very hard on most transportation companies, especially the railroads.

CONCLUSIONS

It will be seen from the above that the prices of nearly all products should increase under inflation. The difficulty is that the prices of some products increase more rapidly than do the prices of some others. In the last analysis, this is due to the old Law of Demand and Supply, except where interfered with by legislative action. As inflation does not materially affect the supply of goods, the real answer lies in the relative demand therefor. This accounts for the marked probable increase in the prices of certain essential raw materials, including the metals, oils,

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chemicals, lumber, etc., during the early inflationary period. Another factor in the price situation is the bulk and keeping qualities of the various products. For instance, of the metals, gold and platinum require the least space for storage, while pig iron requires the most space. Therefore, it is much easier to store gold and platinum, than pig iron. The natural result of this is that there is less apt to be a shortage in these precious metals. From the same point of view, it is easier to store cereals than to store potatoes. This means that there should be less fluctuation in the price of cereals than in the price of potatoes, certain fruits and other perishable products.

This leads me to the question of storing commodities as a speculation, preparing for inflation. One's offhand reaction is that such storage would be a fine hedge against inflation. Instead of buying stocks and bonds, it might be much better to buy copper ingots and store them in one's cellar. Certainly it seems reasonable to keep a year's supply of canned goods and other standard groceries on hand, as well as an extra supply of clothing, linen, and other household supplies. I think this latter is a perfectly safe thing to do. Such a practice is to be commended and recommended. If followed by all families, it would act as an important cushion for the good of the nation as a whole. When it comes, however, to the storing of essential commodities for speculative purposes, there is apt to be a bad reaction. If the country goes into radical inflation, with any shortage of commodities, then commodities in storage for speculation

will be confiscated, the same as our gold was confiscated in 1933.

In a democracy like the United States, no small group can bottle up the necessities of life. This should especially be true under a Democratic Administration. Therefore, although the storage of commodities should theoretically be an excellent speculation, if guaranteed a free market without government interference, I doubt whether it is a wise thing to do under present conditions. My inclinations are to follow the advice of a friend of mine who, on November 4, 1936, said as follows: "Roger, the election yesterday has many meanings, but one thing is certain;—anyone who has a nickel had better keep his mouth shut during the next four years!" This also applies to those who have stores of foods, commodities and other supplies for one's own use. Mind you, this does not prevent corporations and individuals carrying extra large inventories *for use*. This would be in the public interest and a more or less common practice amongst foresighted people. Hoarding or speculating is another matter and I fear both would be condemned.

I dislike to talk about the possibilities of revolution. It is an unpleasant subject. There are, however, three very concrete dangers always staring us in the face; namely, (1) radical monetary inflation, (2) becoming involved in foreign wars, and (3) extraordinary labor troubles. All of these are possibilities and any one of them could easily lead to a dictatorship. If both the radical and conservative forces of the country can agree as to the same dictator, there is no fear of revolution; instead simple fascism—for good or for evil—follows.

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If, however, the radical interests, who are likely to be in power, carry matters too far to the Left, a revolution might be started by the conservative interests. Whichever group started such a revolution, all groups would suffer by the destruction of values as well as life. Riots would occur and the forehanded people who had stored supplies for personal use might be fortunate. Not so with the hoarders and speculators. Under such conditions it is much better to take one's "luck" with the average person than attempt to "beat the gun." Otherwise, both the poor and the wealthy might be the greatest sufferers. The "middle of the road" people, who have enough to subsist on and yet not enough to be conspicuous, might be the most fortunate. It would be good economics for individual families to store up needed supplies of raw materials, food, etc., but it might be very poor policy to hoard or speculate. If real trouble comes to this country, it will be more important for families to save their own lives than to make money or even keep their capital intact. The way to save one's life is to get lost in the crowd and not be a conspicuous target through oratory, wealth or shrewdness!

CHAPTER V

SUPPOSED HEDGES AGAINST INFLATION

There is no sure way to *make money* from securities during a period of serious inflation. The reason is that if you sell to take a profit, there is nothing to buy which has not gone up as much as what you sell! Successful investors in those countries which have experienced inflation have been the people who got started right *and then who stayed through the inflation and stabilization periods without selling,—that is, those who went both up with the cycle and down with the cycle.* They refused to borrow, loan or sell; but just "sat pat." They then perhaps came out without a loss; but certainly they made no profits. *Securities are useful during inflation only for reducing or preventing losses.*

STOCKS AS A HEDGE

If the United States should go into a period of serious inflation, it will be very difficult to decide when it is wise to sell. When there is no fear of inflation, investors should begin to liquidate in the early part of the black prosperity areas of the Babsonchart. But if the United States should be entering a period of serious inflation, to be followed later by stabilization, it may be very dangerous to take profits. The most practical thing then would be to ride the storm and keep one's securities until the

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storm is over and after money is again on a stable basis. All that one can hope to do during inflation through securities is to help save one's capital. Even this is a very difficult thing to do. So much for stocks in general as a hedge against inflation.

When considering individual stocks, the different groups are affected differently. The utilities and rails may suffer most under inflation because it is difficult for them to mark up their rates. The industrials have been good hedges. But there again this is a very interesting thing: The average investment counselor and banker says, "Buy the essentials; buy stocks of those companies which have great natural resources like iron, copper, coal, lead, zinc, lumber, etc." The reason for this is self-evident. If we go into a period when the dollar is worth only 20¢, the Anaconda Copper Company or Standard Oil of New Jersey will not be obliged to pay much more for their copper or oil. They have their own supplies. They, however, should be able to sell their products at very high prices.

This is not true of most manufacturing companies. Their expenses will go up as the value of the currency goes down. Their managements will have to pay more for raw materials, labor, supplies, and for everything. But the few concerns that own their own raw materials, like copper, lumber or pulp, are in a very much better situation. These will not have to pay much more for ore, stumpage or pulp than when the dollar was at 100¢. The tendency is therefore for investors to buy the stocks of these essential industries,—especially companies which own natural resources. This is a correct *theory*, but it

is very possible that purchasers of stocks of the non-essential industries, like movie, jewelry, candy, and dry goods companies, have a far better hedge than the holders of stocks of companies owning essential natural resources. Governments may say: "Here, you cannot raise the price of your steel, lumber, or what not." Governments may even peg the selling prices, or else confiscate the properties, of certain corporations producing essentials; while they may give the jewelry and the candy industries perfect freedom.

Therefore when you study all phases, the commonly accepted theory does not always prove correct. The best hedges are sometimes the non-essentials. As a practical matter, I should forget about natural resources, luxuries, essentials and non-essentials but diversify to the Nth degree. Invest your funds in a large list of good stocks and in a few bonds, mortgages, etc. Instead of trying to beat the game, forget the game and diversify very broadly. I would bet on all the horses instead of betting on only one horse. By doing so I would be out only the commissions on my betting. I would lose about 5%; but I would not lose more than 5%! If I attempted to bet on any one horse, I might lose everything I had.

WHAT ABOUT MORTGAGES AND BONDS?

Coming to the question of mortgages, the people who made the money in Germany following stabilization are said to have been the Jews. They bought equities in hotels, apartment houses, etc. Then they took possession and paid up the first mortgages with "phony" money. They then became the owners of the property. That may

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be why the Jews have since been persecuted in Germany and other countries. In certain countries such transactions were forbidden,—but not in Germany. Although there was a large amount of money “made” in Germany during the inflationary period, by buying equities and paying up the first mortgage in depreciated money or otherwise getting possession of the property, the Jews were thrown out of the country as a result. That is all they gained by it!

Italy got wise in time; while France was wiser. In Paris it was impossible to work that plan so easily. Owners were forbidden to raise rents sufficiently and hence owners sometimes lacked money to pay interest, insurance, maintenance, or even taxes. The mortgagors were furthermore given protection. Were it not for such probable protective legislation, it might be well when harmful inflation threatens to buy up equities and plan to pay up the first mortgages with depreciated money. Legislation however can hold everything in *status quo* and prevent such a game. “But why buy any bonds or first mortgages?” you ask. Well we should not, if we know *certainly* that harmful inflation is coming. But we do not know this as a certainty.

Regarding buying bonds, it probably is wise to buy either very short term bonds, due within five years; or else buy long term bonds, not due for thirty or forty years, but carrying a good interest rate. I do not see why anybody is foolish enough to buy at par, long term corporation bonds yielding only $3\frac{1}{2}\%$, especially when they are callable. There is no question in my mind that later such bonds will sell at about 70. Instead of buying those

bonds, it would be much better to buy good bonds that will mature in a few years and then later use that money to buy the $3\frac{1}{2}$'s, now being issued at par, which then may sell at 70. To repeat: When buying bonds, I recommend either very short bonds carrying whatever rate you can get, 2% or anything, or else non-callable long term bonds that are not due for thirty years carrying a fairly high rate of interest. Within thirty years we will have a chance to get into trouble and get out again! Money will be inflated and the value of it will be more-or-less temporarily ruined; but then we will get stabilized again. In the meantime, money at 6% doubles in less than twelve years. Therefore income should be considered.

This is the theory of long term non-callable bond purchases:—The bonds dangerous to hold are the callable bonds,—bonds that the corporations can call whenever they wish to. If money becomes cheaper, they will call them; but if not, they will not call them. If you purchase such bonds, the corporations have got you tied to a $3\frac{1}{2}$ % interest rate for 20 years. During these 20 years you will probably see an interest rate of 6% or more. This means that a $3\frac{1}{2}$ % bond may, within a few years after it is issued at par, sell for 70. If, however, the country goes into a period of currency inflation and the dollar becomes worth 20¢, the corporations will call such bonds and pay you up in depreciated money. This is a very unfair situation.

If we knew for certain that inflation is soon coming, I should perhaps recommend the stocks of a few companies which have heavy funded indebtedness in the form of callable bonds. On the other hand, if inflation does not

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come, that would be a bad bet. Some readers wonder why some of the cheaper stocks when serious inflation threatens, have not gone up more while the high priced stocks have gone up very rapidly. There is a good reason for this. A company that normally operates in red, would gain nothing by inflation. It would suffer by inflation. If it is now losing \$100,000 annually, and the dollar should soon become worth half as much, instead of inflation putting that company from red into black, it would double its red. On the other hand, if the company is now making \$100,000 annually, and the dollar should soon become worth half as much, the profits should double. So that when you pick out a company with a large callable bonded indebtedness, you should be sure that the company is making money and has sufficient cash reserves. If the dollar becomes worth only half what it is worth today, deficits will be doubled the same as profits will be doubled.

I do not like long term government bonds as a hedge against inflation. The government will continually be refunding its short-term indebtedness into long-term indebtedness. The Federal Treasury pegs and manipulates its own securities. After it refunds its short-term indebtedness, it then removes the artificial props and lets the market seek its own level for awhile. I expect to see government bonds sell for considerably less than their issuing price. I should think that banks would sell their long-term governments before it is too late. Bankers in 1937 were just as crazy over bonds, as they were crazy over stocks in 1928. The law has said that banks cannot buy any more stocks, but the law has not changed the

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human nature of the banker. He is just as hungry for profits as ever. Instead of buying stocks for income and profit, he merely turned to buying bonds. The high grade bond market in 1937 was where the stock market was in 1928.

Government bonds can always be paid off, because the government can print paper money. The government need never default on its bonds. This is not true of municipalities, or of corporations. They cannot print money to pay off their bonds. Therefore it may be a mistake to depend upon any short term bonds but governments; but we should not bet on any one thing. If we all depend on any one industry, that industry is the one that the government is going to nationalize! If all go into buying land, then the government will nationalize land! At one time the railroads were making money; but that very fact encouraged the government to step in and regulate the railroads. Usually there is little talk about nationalizing railroads when they are not making money. As the utilities have great money making possibilities, the government tries to take over the utilities.

INTERNATIONAL OUTLOOK IMPORTANT

A world war would bring about inflation more quickly than anything else. This is a real danger. If we can get through 1945 without a world war, there may be no real currency inflation for another generation. As long as England keeps out of war, we will keep out of it. If England gets into it, we will get into it by way of Canada. We cannot afford to have any foreign country get air bases, forts, etc., in Canada or Mexico. We might be

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willing to see France or some other nation conquered; but we would not remain neutral and see England conquered. If we should be drawn into a world war, then we must be willing to see New York, Buffalo, Chicago, and other big cities bombed. When that war is all over, if it comes, we will be lucky if our money is worth 20¢ on a dollar.

Remember the difference between credit inflation and currency inflation. Credit inflation comes through excess confidence. As confidence develops, credit inflation is the natural result. People become optimistic and go to the banks and borrow. The bankers are then glad to loan because the bankers then also have confidence. A huge inflationary structure is then built on these large bank balances and loans. We had credit inflation in 1927, 1928, and 1929; and we shall have it again. On the other hand, currency inflation is based on fear. Germany had currency inflation. Italy did until Mussolini put on a ceiling. France is continually trying to head off currency inflation by various means.

Roosevelt's devaluation of the dollar to about 60¢ did not affect us domestically, at first. It affected only foreign trade. Everyone who dealt in foreign exchange or foreign trade was affected; but the individual citizens of the United States were not aware of the devaluation until 1937. A dollar bill looked just the same in 1937 as it did before Roosevelt devalued the dollar; and up to 1937 bought about as much in the United States. Devaluing the dollar however is like cutting prices in foreign commerce. If a dozen of us had shoe factories in different cities, the first one to cut the price of shoes would get a big increase in the volume of trade; but for every addi-

tional shoe company that cut the price, our trade would dwindle.

Are we headed for an international currency war? I am afraid we may be. After awhile, we will come to our senses. The first country to put on a tariff had an advantage. But when all countries have the same tariff on all their goods, no country is better off than if all had no tariffs. The same principle applies to the depreciation of currency to develop trade. It takes some time before countries get out of a "national complex." Ultimately there will be a higher commodity price level throughout the world if the dollar is stabilized at 50¢ to 60¢.

STOCKS CARRY SOCIAL RESPONSIBILITY

When purchasing common stocks, readers assume a moral responsibility. I refer to the use of proxies. It is equally wrong to sign blindly the proxy which a management sends out for its annual meeting, as it is to throw carelessly these proxies into the waste basket. The stockholder's future largely depends on whether these proxies are properly used or abused. These proxies, moreover, carry an important social responsibility. Whether or not the capitalistic system temporarily is wrecked, depends largely upon how these proxies are used. The more the control of corporations is concentrated into small groups, through investment trusts, bank trusteeships, and the trust departments of institutions, the easier it will be to attack successfully the capitalistic system. Yet danger comes equally from too great distribution of stock holdings as well as from too great concentration.

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Most of the large church denominations now have councils or committees on "Social Action." These groups are becoming important factors in the denominations,—in fact, the Federal Council of Churches have such a group. These groups are working for a more Christian attitude by corporations toward both wage workers and consumers. A very interesting address was given at Brooklyn, New York, on October 21, 1936, by Edward A. Filene of Boston on this subject. The practical difficulty facing the small stockholder concerning the use of proxies is that he does not know how to vote or what to do. He has not the information and cannot take the time to ascertain it in order to vote correctly. The thought has often occurred to me that stockholders who are church members could systematically endorse their proxies over to the Social Action group of their respective denominations, and let this group do the voting. Such a group should be in a position to get the facts, and it would do them no harm to put this responsibility upon their shoulders. They might find out then that it is easier to criticize than to take constructive action.

LIFE INSURANCE AS AN INVESTMENT

There is no question but what your heirs will get \$10,000 from the \$10,000 insurance policy which you may have; but when they come to turn that \$10,000 into food, shelter and clothing, they may be very much disappointed. Of course, one should consider his life expectancy when considering insurance. This makes a big difference. I think that a man should first own his own home and should leave that home to his wife, rather than

only an insurance policy which may be paid in devalued money. Of course, the government could decide to use some other base than gold. If gold gets too high or too scarce, the countries will get together and adopt some sort of a commodity dollar. In this case there might be a great drop in gold prices. As gold production increases, prices increase. Credit inflation could bring commodity prices back to 1924-25 levels; but perhaps only a war could bring prices back to 1920 levels.

INSURANCE STOCKS DURING INFLATION

Stockholders, employees, and policyholders of insurance companies are asking what would probably happen to these groups under currency inflation. My own opinion thereon is as follows: Fire insurance companies should fare best of all; in fact, the stocks of such companies seem to be one of the best hedges against inflation. As soon as there become definite signs of serious inflation, the fire insurance companies probably would refuse to write insurance for more than one year. Thus they are in a position to increase rates almost as rapidly as the currency depreciates. As building costs rapidly mount, property owners will add to their insurance when they renew each year. This should greatly increase the volume of business of the fire insurance companies. As the policies are for definite amounts, very few cases need be taken to court. Settlements usually are made immediately after the fires, thus avoiding the difficulties from which casualty companies suffer.

When people know that it will cost much more to replace property, increased care is taken to avoid fires.

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As a result, although the fire loss in terms of the new depreciated currency might greatly increase, yet the number of fires should materially decline. Both municipalities and private owners are also more willing to spend money on fire protection when building costs are mounting. Hence, all factors seem to benefit the fire insurance companies during currency inflation.

Life insurance companies should suffer greatly under radical inflation. Though they should be able to pay their policyholders in depreciated currency, yet even such payment might necessitate using up their capital and surplus. Although they would mark up the premiums on new business, they would get less new business. Hence, they might be compelled to operate largely on money received from premiums on existing policies. These premiums would be based on the old rates. If currency becomes depreciated these premiums might be insufficient even to pay operating expenses. Under currency inflation, therefore, life insurance companies are between the devil and the deep blue sea. In Germany, life insurance stockholders lost heavily; life insurance employees were in a pitiful position; while the purchasing power received from life insurance policies by beneficiaries was tremendously reduced.

Casualty companies come through inflationary eras much better than do life companies. They have shorter term commitments and hence are able more quickly to adjust their rates to the depreciated currency. Furthermore, the business of casualty companies increases under inflation. Casualty companies, however, suffer from one distinct handicap. This especially applies to those under-

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writers of automobile and other accident cases. When it is seen that the currency is gradually depreciating, litigants in accident cases try to prolong their cases in the courts. In view of the depreciating currency, it is believed that juries will give much higher awards than would ordinarily be granted. For instance, it is very seldom that a casualty company is now obliged to pay the maximum of an insurance policy; but under a depreciated currency juries might almost universally award the maximum. Life insurance companies have their assets invested mainly in bonds. Most casualty and fire insurance companies usually have a large list of good stocks in their portfolios. This gives casualty and fire insurance companies an advantage.

Bonds suffer severely during a period of currency inflation. This is not true of a good line of stocks. Stockholders in fire insurance companies and casualty companies, therefore, should benefit in proportion to the percentage of their company's assets which are invested in stocks. Of course, here again it makes a difference what kind of stocks are held. The stocks of certain groups of companies are far better "inflation hedges" than the stocks of other groups. In most cases, however, portfolios of fire insurance companies seem to show good diversification which gives stockholders a corresponding good protection.

BANK STOCKS DURING INFLATION

Currency inflation is likely to take place when business is not forging ahead satisfactorily. It is in such cases that Federal deficits occur. Currency inflation might also

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take place in war time, although it might become evident only after the war. Under currency inflation, therefore, banks face a serious situation. Yet bank stocks, under currency inflation, theoretically, should fare very well. Experience shows, however, that during inflation it is not always the stock of an inflation type company, or a non-inflation type company, which proves to be the best investment. It seems that the most conservatively managed companies before inflation usually are the most wisely managed companies during inflation whatever their type. In other words, wise management continues to be wise management under varying circumstances. This especially applies to banks.

Often a leverage type stock which looks like an ideal inflation hedge may turn out to be a poor protection because the management behind such a stock is not of high caliber. There are so many intermediate swings one way and the other in the financial progress of a company during inflation that the reckless management usually gets caught. On the other hand, the wise, formerly conservative, management wades through the new situation, stubbornly adjusting itself to it. Viewing bank stocks in that light, it would appear that the situation depends upon the management in each bank. If a management becomes panicky in fear of inflation, then such a bank's stock might not do much; but, on the other hand, if a good management decides to adjust the bank's operations to benefit from inflation, then there ought to be a fair protection.

Banks are limited regarding their investments, and so the most important aspect may rest on their foreclosed

real estate properties. Many banks owned much property in 1937, at values written down to very low figures. A wise bank management would be slow in selling these properties. Here again, however, one must be careful to hold a stock of a bank which, when selling its properties, makes the profit in its own name. It is common talk that often banks sell previously foreclosed properties merely to get back what they had invested. Then some friendly real estate company or private investor usually takes on those properties and re-sells them at much higher figures later on. Just to what extent this is done, I have no idea.

The income from trust funds of banks should increase under inflation. This, in some cases, might be an important factor for profit. On the whole, inasmuch as banks are in the money business, it is natural that anything which decreases the value of money also decreases the relative value of the bankers' business. As far as credit is concerned, that, of course, is the backbone of banking. Under credit inflation certain bank stocks might be highly desirable until the day when real deflation sets in. The most important point about hedging against inflation is to remember that the true benefits from a good hedge cannot be obtained until long after the readjustment that follows the inflation. This might especially be true in connection with bank stocks.

CONSIDER INVESTMENT TRUSTS

Many investment trust stocks may have had a terrible record! They probably show the worst performance of any group. However, do not blame the *theory*. The trouble has come from buying investment trust stocks

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when they were issued or when especially popular. The way to make money is to avoid investments when they are popular, but carefully to consider investments when they are unpopular. That investment trust stocks should have been unpopular in 1937 is evidenced by the following table:

	High of 1929	Low 1933
Adams Express	75*	7¼
American Founders	41*	1
Blue Ridge	29	2
General American Invest.....	30	8¾
Selected Industries	31	1¼
Shenandoah	39	1
United Founders	75	½
U. S. and Foreign Securities.....	72	8¾

I was almost alone in refusing to advise buying investment trust stocks when they were popular. Likewise I was probably first to recommend them after June, 1933. My reasons for then being bullish thereon are as follows:

1. *Diversification*.—Investment trusts give a diversification which is essential to security. If there is one thing I have learned in thirty-five years of investing hundreds of millions of dollars, it is the importance of diversification. Security comes only through courage and diversification.

2. *Management*.—Investment trusts should give the benefit of able management. Of course, this has not been true in many instances. Some investment trusts have been used as mere dumping grounds for unsalable securities in which the insiders or their friends were interested.

* On basis of present stock.

Those days, however, should have gone by for the present. Most investment trusts are being operated by intelligent and conscientious men, with able statistical and advisory departments.

3. *Regulation.*—Investment trusts will some day be subject to government supervision. Insiders may balk. Some readers say they want nothing to do with anything “supervised by the Government.” Nevertheless, suppose the Government should supervise and audit investment trusts as it now does national banks and insurance companies? Public confidence would then help the stocks of these investment trusts.

4. *Inflation.*—Investment trusts should be one hedge against inflation. I believe it is unconservative to keep all one's money in either conservative or speculative securities. Gradually investors are going to see this. Conservative investors strike a happy medium between these two groups of stocks. Investment trust securities provide such a half-way ground.

5. *Capitalization.*—Investment trust securities are not limited merely to common stocks. Some investment trusts have only one class of stock,—namely, common stock, and have no bonds. Others have common stock and bonds, but no preferred stock. Others have common, preferred, and certain underlying bonds.

6. *Income.*—Investment trust stocks usually yield a fair income. Owing to their unpopularity in certain circles, they yield a better income than other miscellaneous investments similarly secured. This applies to bonds, preferred stocks, and common stocks. Many investment

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trust common stocks pay no dividend, but they may gradually be approaching such a time.

7. *Leverage.*—Finally, many investment trust stocks have “leverage.” This is a two-edged sword, because leverage stocks are those tending to move faster than the market as a whole. In a bear swing they drop faster. When in a bull market, however, leverage stocks are especially attractive.

What investment trust stocks shall one buy? I first advise, *stick to the best*, preferably those without bonds or non-callable preferred stock. Some readers make a lot of money on things not of the best,—as for instance, horse racing! Furthermore, there are good investment trusts, the stocks of which are unlisted. Remember that I can recommend only stocks which are fairly active and which can be sold when you desire to get out. It is easy enough to recommend things that will “go up.” The very fact of getting large groups of readers to buy them will of itself send them up! The difficulty is to have these readers cash in after they go up. Usually such inactive stocks *go down* just as much, when a group attempts to cash in, as they *went up* when this group purchased them on advice of some service or counselor. I am thoroughly convinced that investment trust companies will sooner or later be supervised carefully by the government and that their management contracts will be modified. The time to buy any group of securities is before it becomes popular. I anticipate that investment trust stocks will become more and more popular as the years go on.

Another purpose for calling certain common stocks of this group to your attention, is from an entirely different

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viewpoint; namely, as *insurance*, not as an *investment*. When purchasing investment trust stocks as an *insurance* one would naturally not buy those recommended for investment, but rather those common stocks which are selling at very low prices of companies without bonds. These, of course, are not to be treated as real investments, but are rather to be kept with your insurance policies. Remember that I am not recommending these stocks as *investments* from any point of view. It may be a long time, if ever, before they pay any income and they should not even be bought for anticipated profit. "Then why should I buy them?" you ask. I will give you the reason which is as follows:

As this chapter was being written, we did not hear much about inflation. The Administration claimed to have put the taboo on currency inflation. It was even claimed that the Administration could head off credit inflation with its new Banking Act. I, however, seriously doubt the latter possibility. Furthermore, I believe that there will be more stampedes for currency inflation. I, therefore, consider that sometime some kind of inflation is inevitable. Apparently the majority of investors have disagreed with me. Otherwise, high-grade bonds would not have sold at such ridiculously high prices as they did in 1937. However, my purpose is not to attempt to urge readers to purchase either bonds or stocks; but rather to have a well-balanced portfolio. I do, however, feel that there is a strong possibility during the next decade of an inflation wave of some kind sweeping over the country.

For the sake of your children and grandchildren should not you take on some such *insurance* as a hedge against

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such a catastrophe? To me these cheap investment trust common stocks, which have a considerable leverage, offer such an *insurance*. The purchase of them, from my point of view, is not *speculation* but *conservation*. With every high-grade bond which you put into your box, I believe you should add some of these cheap common stocks primarily as insurance. I emphasize the word *insurance* as I am not recommending these cheap stocks either as an investment or a speculation. When buying life insurance you do not hope that you will soon die! When buying fire insurance you do not hope (or at least you should not) that your house will soon burn down! When buying burglary insurance you still should keep your doors and windows locked. In other words, when buying any kind of *insurance* you should hope that you will not be called upon to cash the policy. Therefore, you charge up your insurance premiums NOT to your *investment* account; but to your *operating expense*. In the same way you should charge up these cheap common shares of investment trusts which you purchase primarily as an insurance against some future radical inflationary policy sweeping this country. If nothing of the kind happens, the cost of these stocks has been charged off like premiums on a fire insurance policy.

REAL ESTATE PURCHASES

The importance of real estate as a hedge against inflation has often been mentioned. I therefore here will discuss only details regarding the location, selection and character of such real estate. City real estate is not to be recommended as an inflation hedge unless you need it

for a home or business. Certainly city real estate which one rents for income is apt to be a poor investment under inflationary conditions. When inflation reaches a certain point and rents rapidly rise, legislation is usually enacted forbidding the raising of rents or the eviction of tenants. Revolutions always start in the cities. Such trouble would also spread to the suburbs, which makes suburban property subject to attack. Small farms are probably the best hedge, provided they are suitably located and fertile. A farm, however, which is too dependent upon purchasing fertilizer or other things, may not be a good hedge against inflation.

Generally speaking, a small place of from one to ten acres, within a small town, is preferable. Here again, it should not be on the main highway, but should be hidden on a side street. During the conflict between Fascism and Communism, which many believe to be inevitable, raiders would motor through the main highways and trouble the most prosperous homes. The last generation have profited from building in conspicuous places; but the coming generation may profit from building in inconspicuous places. Of course, one should be near a hard road and in a town large enough to have conveniences. Do not, however, seek prominence or a fashionable location. A small town, the name of which is unknown in social and financial circles, will be the most economical and safest in which to live. One should consider schools. It is very important to be near enough to good schools so that the children can walk back and forth. The time is coming when every family will *not* have an automobile in the garage or two chickens in the

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pot! Of course, in selecting a small town, one's profession or trade should be considered, as everyone should have part-time work in addition to raising his own food.

Real estate people tell me that large houses were still in demand in 1937, especially when they are new houses in the suburbs of cities. A builder in Wellesley tells me that in 1937 he could sell \$40,000 homes as fast as he could build them; but that \$15,000 homes and \$20,000 homes were a drug on the market. He did, however, admit that houses selling for around \$8,000 are always in demand. All of this doubtless may have been true in 1937. I am willing to stake my reputation, however, that the time is coming when the large house will for awhile not be in demand. Following an era of inflation, there comes an era of deflation, with a consequent lowering of the standard of living. People find that they must economize and do their own housework. Families must some day choose between spending money on homes or automobiles. My guess is that the automobile—possibly with a trailer—will have first consideration. If a social revolution comes, the big houses will certainly be subject to an excess tax. The inconspicuous and modest homes may be immune.

If possible, real estate should be purchased which is accessible to public utilities, such as town water, electricity, telephone, etc. These public utility conveniences are now looked upon as necessities. They ultimately will be owned and operated by the communities or states. In an emergency, however, they cannot be depended upon. During a revolution, power lines will be cut and water mains broken. Therefore, provide a place in your home

for an old-fashioned kitchen stove, and always keep a bin full of coal in the cellar. A barrel of kerosene oil, with two or three kerosene lamps, is also a good hedge against inflation. I have purchased a brand new kerosene heater, which I am storing away as insurance against the time when the electric power employees will go on a strike. These things seem unnecessary and perhaps even fantastic to readers. Yet once it would have seemed fantastic to think that in 1937 it would be illegal to carry gold in one's pocket or raise an excess of certain crops, or do some of the other things forbidden by New Deal legislation.

WHEN BUILDING HOUSES

If possible, build a small new house rather than buy an out-of-date house. The time is coming when you may have no money to spend on maintenance, which includes painting, shingling and general repair work. Therefore, I strongly advise building a brick or brick veneer house, with copper shingles and copper trimming. At any rate, plan the exterior of your house, so that no painting will be necessary. If you cannot afford to use brick, you should use shingles—preferably asbestos shingles—on the outside walls. The window sashes should be of stainless steel and the doors of weathered oak. I believe it would also pay to have some form of non-freezing sprinkler system installed to prevent fire. If the house is planned so it will be unnecessary to carry insurance, this will help on the family budget when hard times come. This means constructing your house, not only for

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convenience, but to eliminate maintenance and insurance charges.

Let me also say a word about the neighborhood in which you locate. Even in a commercialized age, neighbors are a considerable factor in determining the value of the property. Hence, from a purely commercial point of view, buy or build in a good neighborhood. This means in a neighborhood where other people own their property and are not renters. The people in your neighborhood should be in the same general economic status as yourself, thus avoiding unnecessary jealousy. If possible, they should be about your age, having children about the same age as your children. It is very important that these neighbors be of good character, church-going neighbors, who stand for temperance, right family relations, and civic righteousness. If you get into a bad neighborhood, and surely if you are the only successful and decent family in that neighborhood, you may be a special target for persecution. Architects may determine the conveniences of your home, but your neighbors will determine whether it is a joy and satisfaction. Neighborhoods are ruled by feelings,—not by figures; by your children's playmates, rather than by your builder's plans.

While talking about houses, perhaps I should say a word about the subject of depreciation. For a long period of time, money put into a home has been looked upon as an *investment*. Almost no family has systematically included a depreciation charge on the house as a part of the family budget. When one formerly bought or built a home he never expected to take a 50% loss thereon when he sold it. Yet the family psychology in connec-

tion with the purchase and sale of an automobile has been entirely different. When one spends \$1500 on an automobile, he expects that he will get only \$750 or perhaps less for it when he sells it. There are no hard feelings regarding such depreciation. One reason for this is that automobiles are bought partly on style, or rather on their "improvements." It seems to me that this is going to be a growing custom in connection with homes. More and more homes will be purchased on the basis of improvements. This means that there is bound to be a more rapid turn-over in homes.

If homes are to be built and bought on the basis of the latest improvements, it is very important that they have every known convenience when they are built. This means that provision should be made for air-conditioning, even although the actual apparatus is not installed. It is very important that the kitchen should be most modern and that the house should be insulated. There should be automatic heating, with a game room, hobby room, laundry and vegetable cellar in the basement. Garages now are considered standard equipment and a porch is essential. On the first floor people want a den, kitchen, large living room, medium-sized dining room and lavatory. On the second floor they want two double bedrooms, one or more single, two baths and six closets. Insufficient closet space is very bad; also insufficient electric outlets. Most desired feature: a fireplace. Most original desire: an aviary.

The architecture of your house should be standard,—that is Colonial, Georgian, Old English, or some other form that has stood the test of time. It may be that the

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modernistic house has come to stay and some day will be classified as a standard house. One, however, should now avoid freak houses of all kinds as one would avoid freak automobiles. There is very little difference between the latest automobile and the automobile of two or three years ago; while all companies that have built freak automobiles have gone into bankruptcy. Even the Franklin car, which, to my mind, had a great many advantages, has found it difficult to hold its own because it was "different" from what other people were driving. The same principle applies to furniture, rugs, pictures, etc. Only the best, which have stood the test of time, are safe hedges.

INDIVIDUAL BUSINESSES

Let me now write a word on the importance of being in a small active business for one's self. No stocks, bonds, nor real estate are a fool-proof hedge against inflation. Those in active business survive far better than investors who are dependent on interest, dividends and rents. In the same way, those in active business survive better than wage workers, whose income always lags behind the cost of living. Such a lag results both in lowering the standard of living and chiseling one's savings. This means that stocks in little local companies, controlled by one's self or one's families, may be attractive provided they have sufficient reserves. It is very important, when such corporations are formed or at least before radical inflation comes, that they have enough working capital to see them through the crazy inflationary period. Corporations which are short of working capital—whether large or

small—suffer greatly while inflation is raging. When commodities, wages, rents, etc., are on an inflated basis, working capital must be on a similar increased working basis.

Much more working capital is required during an inflationary period. If a corporation does not have sufficient capital, then it must go into the market to borrow it or secure it otherwise. It is very difficult to borrow during a period of radical inflation, when the purchasing power of money is constantly declining, except at an exorbitant discount. People do not want to loan good money and have it paid in depreciated currency. This means that it then is possible to secure new capital only by selling additional stock, and this must be sold at a great discount. For instance, if a company has been formed when the dollar is worth 100¢, and additional stock must later be issued when the dollar is worth only 20¢, then five times as much stock must be given to the new purchasers in order to secure the same amount of money. This dilutes the original stock to the great detriment of the original stockholders. I also repeat the warning that unless a company is operating well into the black when inflation begins, it is headed for bankruptcy. Inflation multiplies losses, the same as it multiplies profits.

When speaking of a small business I have in mind modest factories, which are catering to local trade, or at least to trade within a reasonable trucking area of the plant. Stores selling certain lines of merchandise *for cash* may also come under this category. Concerns selling service, such as laundries, window cleaners, shoe repairers, barber shops, etc., etc., are worth considering.

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Other illustrations will come to the reader's mind. People, therefore, who have little businesses of their own, *well financed*, may be in an enviable position during a period of inflation. This especially applies to businesses which sell only for cash. I, however, emphasize that one should keep out of debt. Theoretically, it should be canny to borrow good money before inflation comes with the idea of paying it up later with bad money. Experience shows, however, that few people have succeeded by this process.

COMMERCE WITH BACKWARD PEOPLES

Hard-headed bankers consider that one of the best hedges against inflation is to be connected with a company which carries on commerce with backward peoples. For instance, the stock of a company which would do trading between the United States and the South Sea Islands should be a good hedge against inflation. The point is that the natives in these distant undeveloped regions are a long time feeling the effects of the monetary inflation in "civilized" nations. Traders in the South Sea Islands would be able to use American dollars and English pounds, getting the same amount of goods irrespective of the foreign exchange value of such money. The reason for this is that the natives know nothing about currency inflation or foreign exchange. They have always received a certain number of shillings for a day's work. "A shilling is a shilling to them, now and forever,"—to quote a prominent importer.

I dislike to give any definite recommendations. The stock of a company may be attractive today and very

unattractive by the time a reader sees reference to it in this book. The price of the stock may have increased or the earnings may have decreased, between the time the last proof is corrected and the book falls into a reader's hands. It occurs to me, however, that the stock of the United Fruit Company is an illustration of what I have in mind. The stock of the Hudson Bay Company may be another illustration. Such companies would be able to purchase bananas or furs and other native products with depreciated currency at the old prices, and bring them back to America and sell them at very much higher prices. This means that the companies would pay no more for their products than before, but would be able to sell them for very much more in terms of dollars. Of course, some of the companies' expenses would go up, including cost of operating ships and the cost of distributing the products at home. The production costs, however, in such cases, should remain fairly constant.

THE ABOVE PRINCIPLE DOES NOT APPLY TO PRODUCTION AND FARMING IN THIS COUNTRY. For instance, a citrus grove in California, Florida or Texas may not be a good hedge against inflation. The cost of fertilizer, chemical sprays, labor, etc., will advance as the dollar depreciates. The farmer profits by inflation only to the extent of his consumption or sale of his own products under stable costs. Only when he, with his own labor, raises stuff to eat, does he beat inflation. In this connection, I believe that every farmer should be required to raise his own sustenance. Before the potato grower in Maine or the citrus grower in Florida receives government aid, he surely should be required to raise all

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that his family consumes, and not be allowed to confine himself exclusively either to potatoes or grapefruit. The one-crop farmer is worse than a Wall Street gambler, and even a greater menace to the economic status of the nation.

Readers should realize that when investing in a company, like the United Fruit Company, they are to a certain extent "playing with fire." The policy of such companies in foreign lands is said to be very unsocial if not medieval. These companies are tempted to gain a monopoly by securing power through concessions of different sorts, and ownership of transportation and other facilities. Not being content with economic supremacy, they tend to form small political autocracies. This means that some day they may be faced with revolution and suffer severely therefrom. "Every worm finally turns." This applies to backward people in the Caribbean countries to the south and in the fur lands of the north. The Japanese are capitalizing on such a movement. Italy expects to "cash in" on Ethiopia along these lines. In fact, the entire colonial program is based on profiting from the ignorance of backward peoples. Those interested in studies on this subject will do well to read "*The Banana Empire: A Case Study in Economic Imperialism*," by Charles David Kepner, Jr., and Jay Henry Scothill, published in New York by Vanguard Press, 1935. \$2.00.

POSTAGE STAMP AND OTHER COLLECTIONS

Many have heard me recommend at various times postage stamps, along with coins, jewelry, antique fur-

niture, oriental rugs, good books, etc., as a hedge against inflation. When I have been asked what kind of stamps to buy, I have recommended United States stamps. Today I have gone through the price record of United States stamps since 1929. These prices show almost a continual rise each year during the depression. In 1937 many United States stamps sold for several times what they sold at in 1929.

To those thinking of starting a stamp collection for investment, I advise very strongly confining oneself to a more or less limited group of one, or certainly to not more than five, countries. The general stamp collections which children start are good from an educational point of view, but seldom become of much value. One who has not followed the subject cannot realize how quickly a collection of any kind becomes obsolete. Collections require constant watching, studying and being kept up-to-date. To keep a general stamp collection, covering all countries, up-to-date would require one's entire time, eight hours a day, and considerable capital. As one neglects to keep a collection up-to-date, it increases in value very little. Therefore, it is much better for a stamp collector to confine himself to one or two countries, keeping these countries up-to-date and building up complete sets. In this lie the profit possibilities. Another thing: To have these stamps a real hedge against inflation, it is usually better to have new, uncanceled stamps.

In 1937 I was still moderately bullish on United States stamps, but believed that stamps of Great Britain and the British Colonies might be better purchases at that time. A set of Silver Jubilee stamps, from about fifty new British

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Colonies, which sold for \$20 in 1935 sold for \$100 in 1936. Yet the increase in British Colonials, particularly in the 20th Century issues, had barely begun, in my judgment. British Colonials are attractive, educational, are rarely counterfeited, and have a world market. If you have a good United States collection as a base, stick to it and do not bother with anything else. If, however, you are just starting, you might confine yourself to Great Britain and British Colonials. A second good investment is in a complete collection of French or German stamps.

There, of course, are opportunities to speculate in a wholesale way for those who are watching the situation. For instance, after the early part of 1937, there were no more King George V stamps printed. Thus a quantity of King George V stamps might be a good investment. Another illustration: There probably will be no more Abyssinian stamps. Hence, outstanding Abyssinians may be a good speculation. On the other hand, there have been instances, after countries have gone out of existence, that the stamps have been discarded by stamp collectors. This has left speculators very much out of luck. Yet one need not go outside of the United States for these speculative opportunities. In view of the special issues that were put out under the Roosevelt Administration, there were, from time to time, excellent opportunities for making money by buying a large quantity of some limited issue.

During the years 1932-1936 the most profitable investment of all came from buying full sheets of each new United States issue. Not only has the price of the individual stamps advanced, but a complete sheet of fifty

often commands a substantial premium and sells for several times the aggregated price of fifty of these same stamps individually. Of course, as more people indulge in this method of investment, the opportunity for profit tends to decrease. How long this will hold good I do not know, but thus far this method of purchasing has had an excellent record. You may get particulars from your local Postmaster.

In the final analysis, investments in stamps, coins, glass and other rarities follow the same laws as investments in stocks, bonds, real estate or commodities. The greatest opportunities for profit come from following original lines, which have not become common knowledge. There is little profit in doing what everyone else is doing or collecting what everyone else is collecting. Buy the stamps, coins, glass, etc., *before* they are generally wanted, rather than when they are popular and sought by all collectors. Buy at wholesale, rather than at retail. Most important of all, decide on *one* "hobby" and build up a complete collection in that *one* field. Then keep it up-to-date. General but incomplete collections are interesting and pretty. Do not "diversify" on collections! They are educational for children and adults. As a rule, however, they cannot be recommended as investments. Moreover, one would not want to put too much money into even the collection of silver snuff boxes, or old bottles. I of course mention "collections" only as a suggestion for a small portion of one's funds.

* * *

I repeat that there is no known hedge against inflation any more than there is a known hedge against burglary.

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Yet there are degrees of protection both from inflationists and burglars. It is only with this thought in mind that I have made the suggestions in this chapter. Moreover, these suggested hedges are not complete, but are given largely as illustrations. If one is to follow these suggestions, do not concentrate on stocks, real estate, or even a business in the South Sea Islands, but spread your money over all these hedges. Even with a 100% diversification among all the best hedges, you still will lose. But your loss should be much less than if you continued unprepared or with all your money in the highest grade callable bonds!

CHAPTER VI*

WHAT HAPPENED IN EUROPE UNDER INFLATION

When considering what happened under inflation in Europe, I will not take a bad illustration like Germany, but rather the French situation which compares more with our own outlook. In Germany, a new currency was put into effect after practically a complete loss of value in the former currency. Also, in Austria and Russia the old currency entirely lost its value and existence as currency. In France, Italy, Belgium and Sweden, where inflation was not carried to extremes, price terms and contract terms continued to remain in the same currency unit.

So long as there are no general expectations that conditions in the United States might follow the type of inflation experienced in Germany, Austria or Russia, one may confine his studies to what happened in France. There the inflation, measured on the 1913 base, and without considering the second revaluation of September, 1936, amounted to approximately an 80% loss in currency value from the pre-war parity. Let me further add that these conclusions are based largely upon the studies and tables of Dr. Walter S. Landis. To him this nation owes a debt of gratitude for his thorough and impartial work on this subject. On the other hand the conclusions are mine and he is not responsible for them.

* When reading this chapter remember that radical inflation existed in Germany from 1919-1924, and in France from 1929 to 1937 while living costs rose rapidly in both countries from 1924 for about ten years.

BUSINESS TRENDS AND INFLATION

It is well also to remember that in France the inflation followed the war. Business, therefore, could not be expected to be very healthy in terms of volume after the devastation necessarily following readjustments. In 1920, business was about 62% of the 1913 base in terms of volume; and in 1921, business was about 55% of the 1913 base in said terms. It was about that time that post-war budgetary deficits began to loom quite large. The first effects of inflation was marked by a substantial recovery in business. Business reached 110% of the 1913 base by 1924. Thereafter very little further progress was made in the business curve. As a matter of fact, in 1926 it had reached only 125%. As a check on this index, figures of monthly failures are also interesting. The table below shows by the increasing failures the difficulties to business expansion as inflation advanced.

FRENCH BUSINESS FACTORS

Year	Index of Volume 1913—100	Average Monthly Business Failures
1919.....	60	59
1920.....	62	115
1921.....	55	255
1922.....	77	420
1923.....	90	451
1924.....	110	569
1925.....	110	659
1926.....	125	628
1927.....	110	689
1928.....	125	684

It was a rather common phenomenon to see merchants close their stores and customers disappear after the early enthusiasm of inflation wore off. Yet the heavy government financing of the budgetary deficit was carried on, although at rising interest rates, up to 1924. The sales tax had been established in 1921. The later exorbitant interest rates reflected the final difficulty in placing government bonds. The failure of an attempt to issue long-term bonds in 1924 led to a heavy increase in taxation. This was a deflationary, and presumably sound, financial policy. Yet it was only from 1924 on that the price advance and generally evil effect of inflation became rampant. *In fact, in 1926 the French budget was balanced and yet it was in that year that the franc slumped rapidly to as low as 2.00 cents, before it was picked up by the coöperation of American and French banks and placed at the 3.92 cents parity. On the other hand, this slump of the franc happened some months before the budget came to balance.* Of course, this balancing of the budget marked the end of the inflationary period, *but it is important to bear in mind that business cannot count on a harmony, in point of time, between price trends and government fiscal operations.*

We can see possible similarity in the United States where the huge Federal deficits had in 1937 not yet had a particularly adverse effect on the cost of living. The latter then showed no more than what would be a normal advance in a recovery period uninfluenced by revaluation. The analogy could mean that a program of stabilization and balanced budgets might not hinder further price advances of which business would have to take account.

In France, business was faced with the sharp upward course of prices when the previous large government deficits, financed by bank credit, began to leave the banks in the form of currency. Thus, if inflation awareness should speed up spending beyond any normal boom, the increased turn-over of bank deposits and currency would begin to affect prices here, regardless of the prospective financial policy of the government.

Such increased spending, however, it must be realized, does not imply increased business volume; but increased money spent, due to higher and higher prices. If employment records are adjusted for relief work and other similar activity, one finds no evidence of boom conditions in countries where post war inflation took place. Factory employment is a good gauge in this respect. That employment figures did not advance much is not surprising since many factories were far from fully employed and hence were obliged to curtail both output and working force. It cannot be otherwise because under such conditions the average manufacturer or merchant fails to protect his working capital. Having been accustomed to measuring his progress in terms of the currency, he does not appreciate the rapidly dwindling purchasing power which it represents. Many factories and shops close because of inability to renew inventories. In France, unemployment doubled from 1925 to 1926, and in 1927 the effects of stabilization raised unemployment much further.

In Germany, business volume increased only slightly up to 1922, and during the most rampant inflation period actually slumped over 33% from the 1922 level. Agricultural production, even in Germany where the need for

it was obvious, amounted during the inflation era to only 60% of the 1913 level. Government policy is an important influence since the expansion of business in France stopped when the big reconstruction program came to an end in 1924. In other words, advancing prices after 1924 did not cause an advance in business. Some businesses, like mortgage banking, were profitable for a while in terms of money because of high interest rates, but only when forgetting adjustments for declining purchasing power.

FINANCIAL STATUS—BUSINESS FAILURES

It is obvious that the flood of money in an inflation period must not be misconstrued as an indication that businesses and individuals have plenty of money. Compared to their needs, the contrary is the case. Deposits in savings banks decreased, and demand deposits in commercial banks increased but little. In fact, most concerns continually had to raise more capital. That increases in stock outstanding took place is not so telling as the fact that funded debts, in the cases of many soundly managed companies, increased exorbitantly. This increase took place without any sign that the increase was an attempt to enlarge the leverage characteristics of the stock. This happened even though interest rates were high.

For instance, Dr. Landis reports that the Longwy Steel Company which had a fourteen million franc funded debt in 1914 found itself in 1930 with a one hundred and four million franc funded debt. The difference in the output over the pre-war years was nevertheless not more than

50%. Thus, one can see that the volume did not increase proportional to the capitalization. The Peugeot Automobile Company, with a pre-war ten million franc funded debt, found itself issuing forty-five million francs of bonds at 6% in 1920 and in 1926 another twenty-five million francs at 8%, besides the issue of common stock for cash. Thus, management must be courageous to prevent dissipation of resources, such as in excessive plant development, which many encourage in the early stages of inflation as an attempt at hedging and protecting one's assets. It should not be forgotten that a time of reckoning comes when bankruptcies can be very large. This is due to the loss of customers' purchasing power in the last stages of inflation and the financial burdens at the time of stabilization on the new basis.

New companies originating during inflation often have a difficult time because of the high cost of new capital and the dwindling of cash reserves. It was found to be almost impossible to raise prices fast enough. This reduces the purchasing power of earnings, reduces the returns to the stockholders, and makes it difficult to expect the latter, under such circumstances, to supply capital. It is particularly noticeable that companies having leverage stocks, but loaded with prior claims, frequently fail or barely survive. It appears that even companies the stocks of which have absolutely no leverage are forced to take on prior claims to expand working capital as inflation progresses. The companies which start before inflation as a leverage enterprise find few ready investors willing to take a secondary interest. The hardest shock comes upon stabilization or revaluation. This is observed in

the bankruptcy figures for France mentioned above.

In Germany, we find very low bankruptcies in 1922, and even in 1923. In fact, the latter year is the low point, although it was the time of most rapid depreciation of the currency. Considering the hectic times in 1923, it is probable that the low figure reflects inability to know whether bankruptcy existed or whether the bankruptcy courts failed to function. In 1924, 1925, and 1926, however, the revaluation forced an epidemic of bankruptcies in Germany. For the calendar year, these ran from ten to forty times the average of the period from 1918 to 1923. Business, in this case, was particularly affected by the type of revaluation in Germany where it was very drastic. No one who has not been through it can imagine the hardship which followed.

The revaluation in Germany was made at one-fourth of what one might have expected on 100% gold backing basis. If the United States currency coverage standard of 35% were considered a fair one, then the German revaluation was made at one-twelfth of what might have been considered fair by outsiders. Thus, regardless of one's conservatism, the financial policy that finally will be adopted is one of those unknown factors that makes prediction, or even wise management, appear rather hopeless. The more than drastic revaluation in Germany, in effect, perhaps forced most business enterprises to use bank credit at interest instead of the national monetary medium which might have been supported by the remaining gold reserves. The course of bankruptcies in Germany, on an average monthly basis, is shown by the table below.

GERMAN MONTHLY BANKRUPTCIES

1918.....	68	1924.....	516
1919.....	85	1925.....	948
1920.....	110	1926.....	1,003
1921.....	256	1927.....	475
1922.....	82	1928.....	665
1923.....	23	1929.....	821

WAGES AND EMPLOYMENT

The course of wages, an important item in business, invariably has tended to lag in the examples which I have studied. To what extent this can be expected to take place in this country, even when inflation-conscious (not only in the investor group, but particularly in the labor union group) is another question. In any event, the wage problem for employers often presents more difficulties than other usual business problems. A great number of business men are entirely unable to cope with the problem and must close up, increasing unemployment, and tending to make it bad all around.

Export businesses did well, but those depending upon domestic distribution did not do very well. It is notable, in this connection, that companies which used a double set of books, one on some stable foreign currency or gold basis, while the other in terms of paper money, did better than most other companies which failed to keep an eye on the course of inflation. Luxury trades, based on domestic business, found volume almost completely vanished as the purchasing power of the wealthy and retired classes, and even of the middle and laboring classes, was severely cut. In such industries more un-

employment existed and there was a less rapid rise in wages. Yet those engaged in the so-called non-essentials—apart from luxuries—fared much better.

It is an interesting point that colonial enterprise usually proved successful. This is brought out in the trend of North African mining companies of French ownership which were able, not only to protect the purchasing power of the investment, but could even declare dividends at a proportionate advance to the cost of living. "One zinc company in North Africa was particularly profitable. The share value of 750 francs, per share, in 1913, increased to 16,500 francs per share in 1926, the dividend in that latter year being thirty-two times the 1913 rate."* These companies employed labor and bought materials in countries which knew nothing about inflation, but sold at home receiving inflated prices.

How dangerous it is to bank on inflation, even when one is "right," can be shown by the experience of the Stinnes enterprises. This combination planned on a depreciating currency. Yet these Stinnes companies could not face stabilization with the accompanying adjustments and high interest rates. Although they first made large amounts of money, they finally failed. Other companies, based on careful handling of capital, especially when kept outside the country, were successful. The borrowing habit spread especially among small companies. This caused bankruptcies, or reorganizations, that left little to the stockholders. Often the workers were left without employment. In short, the tendency is for people to act only on the academic theory of infla-

* Trust Companies Magazine, March, 1936.

tion and overlook the practical side reactions. Hedging even in increased facilities, such as plant, is of little use under declining business conditions if one's working capital is so hurt that bankruptcy takes place.

ADDED TAX BURDENS

Business, besides having difficulty in maintaining its margin of profits during inflation, also has to meet added tax burdens. Social legislation in France during the course of inflation need not be attributed directly to the inflation itself. Nevertheless, some of it probably was due thereto. Whether or not the inflation of the currency is carried to extremes, this becomes a real burden. In Germany, however, the tax burden never could cope with the depreciation of the currency. Hence, in effect, taxes, even though increased, were practically meaningless. This, subsequently, resulted in municipalities being given the right to issue currency in the latter stages.

Perhaps, one of the factors which business men may overlook is related to wages. Wages lagging, as a rule, permitted business men to make apparent profits in terms of money, only to lose these later. Because of low purchasing power, wage earners reduced their volume of buying which in turn caused loss to manufacturers and retailers. While a French wage earner's pay doubled from 1918 to 1925, his purchasing power was reduced to one-half. This being a common situation, it is only natural that the physical volume of business, in defiance of the above mentioned index, must have been exceedingly low in 1925. This resulted in a continuous increase in taxes and defeated the apparent advantage which business

might, shortsightedly, think it has through the lag of wages and taxes.

Inflation also defeats progress in capital goods. This is made evident by the difficulties of such companies as were in the mechanical engineering and electrical equipment industries. One large branch of the capital goods industries, namely, the public utility field, became practically closed to new business. This is obvious from the lag in the rate structure, conflicting with the rising costs of fuel and labor. This wipes out profits and prevents financing. The same applies to railroads which, in France, were favored by guarantees of interest on the funded debt and, in many cases, by guarantees of limited dividends on the stocks.

There are many similarities between the situation in France, up to 1924, and that in the United States up to 1937. The great expenditures following the war were practically equal to the cost of the war. Much of this was from boondoggling, but primarily it was based on the expectation that it could be collected in reparations. Money rates were low and the government was able to obtain most of the funds required, either through public subscriptions or from banks. Much of the debt accumulated in that period was of a dangerous character as more than half consisted of short-term bonds and treasury certificates. In 1924, long-term refinancing became impossible. These government loans left the banks in the form of currency; that is, the banks collected from the government by issuing currency. Above all taxes continued to increase.

REAL ESTATE OUTLOOK

There is a general tendency for real estate values to be influenced by earning power, on the one hand, and by marketability on the other. By marketability, in this case, I mean the general monetary and confidence conditions within the country. While there is very meager information on this subject, we can, nevertheless, come to several conclusions. Rented residential property in cities is likely to find its earning power limited by government regulations. Thus, rentals by 1922, in France, had only doubled from the pre-war level, while food costs were at three times the pre-war level, and clothing three-and-one-half times. As in public utilities, so in residential city real estate, the true gain is felt after stabilization when complete readjustment to the new currency levels is usually effected. Commercial property is likely to suffer less from government restrictions, but it suffers more from vacancies. It, at least, is likely to benefit earlier from increase in both income and capital value as business picks up *after revaluation*.

Information on rural property has been more difficult to secure but its price movements were less erratic. Taxes, of course, lagged behind prices, but so did wages and rents. Interest rates in rural sections were not unreasonable,—in fact, not until the last stages of inflation. There appears to have been an incentive towards reduction of mortgages. Consequently, where there were mortgages on property, the real estate owner was faced with the necessity of keeping himself in a strong working capital position in order to be able to meet the mortgage terms

with assets convertible into cash before and after revaluation. A study of Dr. Landis' figures suggests that during inflation "land values may be expected to rise to a degree approximating the increase in the general price level. The rise will not be quick and will be distorted by booms caused by speculation or other extraordinary factors such as temporary real shortages."

In so far as mortgages are concerned, where currencies are not changed to a new denomination, the tendency is not to make any post-inflation adjustments to mortgage holders. Thus, the owner of a mortgage in France suffered an 80% loss in buying power of the mortgage. In the further revaluation which took place later, the same type but smaller loss was suffered. Where currencies are so far depreciated that a new one is established, there is a tendency to make a show of some adjustment to mortgage holders, bond holders, or in such cases where the debtor is a private individual. Probably, this might also be the case where the debtor is a corporation, with the exception of such types as life insurance companies. This adjustment is merely lip service to the general acknowledgment that holders of these securities suffered undue loss because of their inability to get rid of them. The reason why the readjustment is only very slight, ranging usually below 25%, is because debtors cannot afford to pay much more. Another reason is that those who had bank deposits also suffered considerable loss in the purchasing power before the scare led to its withdrawal for spending and transformation into goods.

WHAT HAPPENED TO MORTGAGES

In Germany, where the depreciation was exorbitant, there was no tendency for debtors to reduce their mortgages. After the revaluation, the artificial scarcity of money, made by the ratio of revaluation decided upon, led many property owners to get indebted to banks on otherwise unencumbered property in order to have a monetary medium with which to do business. In Italy, where the lira depreciated to 25%, the trend was for an increase in mortgaged property and not for a decrease. This bears out clearly the dire need for money in the midst of the flood of it. Even the mild Swedish inflation did not lead mortgagors to reduce their debt. Inflation leads to new mortgages being put on. Whether or not this proves a good turn for the mortgagor, depends entirely upon the circumstances of the mortgagor at stabilization and the terms of stabilization. (On the whole, the tax problem is one that can be set aside as trivial because it lags depreciation of currency considerably. In this country, because taxes are at a high rate, it deserves perhaps more consideration than it did in Europe. The dire need of working capital, however, both during and following inflation cannot be overestimated.)

It appears that in the course of inflation there is considerable talk of treating mortgage holders and bondholders, in general, "fairly." Of course, this is interpreted differently with different points of views; but in no case was the mortgage holder benefited more than in a slight degree. It makes a difference whether the government or private debtors are at the other end of the contract.

For instance, in Germany mortgages were revalued at 25% in new marks, whereas government bonds were revalued at 2½%, and with moratorium on interest. One would make a mistake in assuming that the same differentials might take place in this country on the same sides; that is, private debts being obliged to pay more than government debts. The result depends entirely on who owns what and who controls the government.

Evidence of the course of real estate values in Paris, France, as given in *Trust Companies Magazine*, are mostly of the general business type of building, with possibly some residential apartments added within the structure. In other words, the examples studied were not completely restricted in rentals. "A building in *Quai Voltaire*, for instance, was first sold on the market in 1906 for 800,000 francs." In closing an estate in 1929, it was valued at 3,000,000 francs. Thus, the item of depreciation of the building vanished in contrast with the depreciation of the currency. In *Rue de la Paix*, some property "sold at 10,000 francs per meter just before the war, and in 1929 at 40,000 francs per meter." At 69 *Boulevard Hausmann*, one was "purchased before the war for 2,239,000 francs, and was sold in 1927 for 13,030,000 francs."

Restrictive rent laws, where they affected a particular type of real estate, were not lifted until after the legal stabilization. The sale values given above, therefore, take into account the time required for restoring real estate to its proper economic status. A general study of inflation which does not take into account the restoration of usual normal economic balance is likely to be extremely

misleading. A study of real estate values, as a hedge, would be definitely misleading if one stopped the study at the point of stabilization. So it is with other business and security conditions. It must be appreciated that the tax burden on real estate in the United States, as a rule, is much greater than it was in Europe. This may be an important factor to consider if depreciation of the currency does not get very far. In that case, the lag of rentals would cause certain losses for a period of years which the final rise in values might not compensate. The situation with farm lands is much more hopeful. From many sources I learn that good farm lands and property in small communities or in a largely occupant-owned community, do offer an attractive possibility as a hedge. Such property should be considered in any problem for conserving capital.

INVESTMENTS IN STOCKS

It is only reasonable to believe that the management of companies whose securities are listed on the stock exchange should be more alert and intelligent than the small manufacturer, store keeper or farmer. Investors, therefore, should benefit from these inherent advantages. On the other hand, it behooves the investor to realize that, while prices rise on the stock exchange in most groups during the course of inflation, the trading on such an exchange has many of the features of a bear market. Probably one of the best symbols reflecting this is that in France the call money rate maximum in 1925 was 5.5% as against a low maximum of 4.6% in 1921; only in 1926

IF INFLATION COMES

did the call money rate go to 9%. These rates, considering the times, indicate no speculation.

In so far as comments might be made on stock groups, one should refer to the business discussion which begins this chapter. The best and most concise record is the following tabulation of index numbers of 300 common stocks by groups. The cost of living index has been placed alongside the date column for reference. For this table we are indebted to Dr. Landis.

INDEX OF PRICES IN FRANCE OF THREE HUNDRED COMMON STOCKS

Year	Cost of Living	Stock Aver.	North's Col- leries	Metallurg' l Co.	Chem. Co.	Ten- tile Co.	Rail Roads	Gas	Elec- tric	
1913	100	100	100	100	100	100	100	100	100	
1919	260	123	94	90	128	144	119	73	60	98
1920	371	151	106	137	163	121	135	63	57	99
1921	337	113	92	107	108	144	81	60	59	85
1922	301	119	94	108	92	132	108	71	72	96
1923	334	172	114	166	118	174	232	84	100	143
1924	380	208	119	183	105	201	482	76	142	186
1925	425	200	107	168	76	169	442	61	134	182
1926	554	233	142	207	95	213	442	72	157	208
1927	557	287	196	249	110	257	480	105	213	313
1928	560	415	323	342	197	424	861	123	332	524
1929	604	507	365	534	290	523	986	133	618	693
1930	629	437	324	510	243	412	706	141	617	673
1931	617	309	244	312	126	260	369	125	525	534
1932	572	246	190	230	85	200	234	94	484	458

In viewing the above, it is well to consider that these are events as they occurred in France. There is no guarantee that a similar situation will take place in the United States. In the utilities, for instance, there was considerable lag in the rate structure which would like-

wise occur in America. Yet, it is to be noted that after stabilization the gain was tremendous and that the electric utility stocks, aside from textiles, proved the very best hedge of all groups. To benefit from these groups it was necessary to hang on beyond stabilization until normal conditions again prevailed, such as was the case in 1928 and 1929. This assumes, of course, that the government does not take over the utilities in the meantime, and that the new rates will be profitable! Just when a sliding scale of rates would be put into effect, with inflation so much in the limelight, is another problem.

Bank stocks did not do very well. They had difficulty in investing their money in assets that would appreciate. Hence their capital and surplus was constantly being chiseled down. Stocks of mining companies which are not of a marginal type, that is, where a competitive advantage is had in costs relative to other mines, did do very well. Chemical companies did exceptionally well. Most industrials, including textiles, in France, did well in case they had a good export market which doubtless permitted the expatriation of many of their funds. The home market for textiles was also good because such products, having small bulk and keeping qualities, and being necessities, formed an ideal hedge for everyone. This latter fact must be considered also when forecasting what may happen to the industrials after stabilization when the reaction, due to excessive supplies, takes place!

Railroads showed even worse results than the electric and gas utilities up to the time of stabilization and showed practically no improvement thereafter. This, however, was the French situation, where the government and the

railroads were in close relationship through guarantees on income, etc. Private ownership of American railroads and the leverage which their stocks offer might yield radically different results after stabilization in the United States, provided rates were raised. In such an event, railroad stocks might compare with the utilities in France. Of course during inflation there is the problem of the necessary differentiation between the railroads according to whether they own their own fuel supplies.

The automobile industry did not do very well. This was partly due to the fact that it was a developing industry which, in an inflationary period, is always lacking cash. Besides, after the first rush to buy cars, the demand quickly fell off. Insurance companies show, naturally, poor results in the life insurance group; but very satisfactory results in the fire and casualty groups.

As a rule, the experience is that no advantage is to be had in the stocks of the leverage type. The dearth of working capital led the stocks of most companies to become leverage stocks as inflation progressed because they increased their debt. The difficulty is to forestall the ever increasing leverage from displacing the original stockholders before the inflation subsides. Then trouble again comes following the stabilization when the stocks, real estate and commodities, which were bought for hedges, are being dumped. French bankruptcies continued for several years after stabilization at a higher rate than during the inflationary period.

I will not go into details as to what happened to German stocks from 1918 on. The following table given me by Dr. Landis is, however, worthy of *most careful study*:

GERMAN INDEX OF STOCK PRICES

(ABOUT 350 SHARES COVERED)

1913 = 100

1924-1926 = 100

	Jan.	Febr.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly average
1918	101.98	104.12	106.70	109.35	112.61	107.00	99.71	98.64	85.92	69.57	53.46	44.82	91.15
1919	49.57	45.18	39.33	32.06	29.75	28.79	27.79	22.05	19.59	19.38	13.71	11.36	28.21
1920	10.73	8.47	9.82	12.93	14.45	17.93	19.92	17.98	15.94	15.06	14.12	15.79	14.43
1921	18.00	17.82	17.84	18.17	18.71	18.12	18.45	19.36	16.69	18.00	14.94	15.99	17.92
1922	16.27	16.98	14.57	14.69	12.63	10.89	7.63	4.28	3.61	2.72	2.96	4.97	9.35
1923	3.24	6.79	6.66	8.61	8.38	13.44	16.03	11.33	22.56	28.47*	39.36	26.89	16.15
1924	35.76	38.64	31.48	23.33	20.18	17.50	18.49	24.14	25.31	24.75	26.31	30.79	26.39
1925	36.70	36.30	35.00	33.00	30.70	27.10	26.40	24.30	25.70	24.50	22.40	21.60	28.64
1926	24.04	26.44	27.99	30.53	30.29	32.09	34.55	37.88	38.97	42.50	45.08	44.92	34.61**
1927	53.03	55.99	54.48	57.73	55.40	50.38	51.98	51.26	49.44	47.92	43.39	46.15	51.35
1928	48.55	47.33	46.70	48.40	50.10	50.60	49.40	49.50	49.60	49.00	48.90	49.40	48.93
1924	142.4	138.8	125.3	90.2	75.1	61.2	62.8	89.6	89.9	84.9	89.0	103.2	97.7
1925	124.0	120.4	114.3	108.7	100.9	88.8	85.5	78.0	81.6	77.9	71.0	68.2	93.3
1926	75.8	83.3	88.2	96.0	94.7	100.7	108.9	119.4	122.2	134.2	143.4	141.9	109.0
1927	162.7	172.5	167.5	177.4	170.1	155.2	160.2	157.5	151.9	147.0	133.2	140.9	158.0
1928	148.0	144.3	142.3	148.4	152.8	153.9	149.2	149.5	149.2	147.4	147.1	148.7	148.4
1929	146.6	141.7	141.1	141.2	135.4	138.7	135.7	134.2	132.4	124.7	119.8	115.2	133.9
1930	120.0	120.6	119.0	122.2	121.7	116.4	110.0	103.3	102.3	95.8	92.3	87.3	109.2
1931	81.8	85.6	91.1	92.4	83.0	75.9	76.8	.....	57.0	.....	.....	.....	80.5
1932	.....	.....	.....	49.6	50.6	49.7	49.9	52.2	59.0	57.2	58.2	61.8	54.5
1933	64.6	64.8	70.3	72.8	73.3	71.6	68.5	66.2	62.5	62.1	64.0	67.4	67.3
1934	70.2	73.9	77.0	75.0	73.3	76.2	77.7	80.0	83.1	83.2	80.4	79.8	77.3
1935	83.5	86.4	87.8	89.3	91.0	93.7	94.7	95.5	92.7	91.0	89.5	89.3	90.4
1936	91.8	93.8	93.3	96.2	99.2	103.1	101.6	.....	.....	.....	.....	.....	.....

* Official stabilizing announced to become effective January 1, 1924.

** All revaluing laws were effective at end of 1926.

IF INFLATION COMES

BONDHOLDERS SUFFERED GREATLY

Rising government costs, of course, lead to taxes on dividends, but these were not very serious. I say this because dividends themselves do not increase to any such degree as is generally supposed. Statistics on a typical group show that the dividends in France increased from an average of 100 in 1913, to 157 in 1921, and to 242 in 1927. This is only half as much as was the depreciation of the franc during these years.

The course of French bond prices is shown by the following tabulation for which I am also indebted to Dr. Landis.

FRENCH BOND STATISTICS

Date	N. Y. Exchange Rate (Gold)	Com- modity Index	Cost of Living	1% Gov. Bonds	4% R. R. Bonds	4% Indus- trials	3% Misc. Bonds
1913....	100	100	100	100	100	100	100
1919....	142	423	260	71	...	88	83
1920....	279	439	371	65	71	81	75
1921....	261	326	337	65	66	79	72
1922....	237	362	301	67	73	84	75
1923....	321	459	334	65	71	85	73
1924....	373	507	380	60	61	79	66
1925....	410	632	425	54	49	72	56
1926....	600	626	554	56	50	75	57
1927....	500	630	557	65	66	88	72
1928....	500	...	560	78	73	83	81
1929....	500	...	...	87	78	87	85

It will be seen that the rather high interest rates immediately after the war, and during inflation, held down the prices of bonds whose coupons were below the prevailing interest rate. It is also obvious that where no adjustments were made for the bondholder, his purchas-

ing power was almost wiped out. For instance, the holder of a government 3% bond, or of a railroad 4% bond, found himself, in 1928, with only a portion of the face value of his 1913 investment. Each franc could in 1928 buy only 18% of its 1913 purchasing power. Thus, the true loss of purchasing power was around 85%.

It should be observed that bond prices in France were low during the period of inflation, because interest rates were not under any artificial control, either direct or indirect. Had prevailing interest rates been as low as the coupon rates or lower, it is quite probable that the French bond market would have looked much better. This to some might have been a misleading cue that inflation would not take place.

It must be remembered that interest rates are very much a matter of supply and demand, as well as of opinion. A large investor may hedge his personal wealth in case of inflation. Yet a bank, which he might control, may have no other alternative but to lend money, even though, when that debt is repaid, its purchasing power will be less. If the investment field for placing the banks' funds is limited, the banks' operations and the current interest rate are no cue regarding the prospects of inflation. This, of course, applied more particularly in France than it might in the United States where commercial banks may own much foreclosed property.

WILL THESE THINGS HAPPEN HERE?

Probably, the most important topic of discussion and deliberation should be as to what is ahead, rather than what has happened. It is true that a study of the past

is absolutely necessary to look ahead. However, this can be so only to yield a stimulus for thought rather than a bland supposition that history repeats itself as to its details. It is my impression that students of inflation, or economics in general, pay too much attention to the recorded events, and too little to the pulling of the strings behind the scenes. We are, as an audience, thoroughly acquainted with marionettes or the guignol, but perfectly oblivious to the art of the manipulator in charge. Inflation is so serious in its evil effects to nearly all parts of society that one should make certain not to consider himself in a position where he thinks he would benefit thereby.

The mere fact of too many persons taking such a one-sided hedged position might well precipitate the United States into the pitfall of France or even of Germany. In the latter country, although it cannot be proved, it is said that inflation was used to destroy the young democracy and restore to power the old nobility and military class. Thus, a study of the events in these foreign countries shows the holes that must be plugged to save one's self and one's nation. The proper attitude, however, is to consider Europe's experience as showing only a few of the danger points. When such a vital problem as inflation is at hand, everything in one's power should be done to interpret political, business, and banking activities in as many different fashions as possible. From whatever source the information, one must read between the lines. During inflation the stakes in the battle for property or political control are tremendous. Nothing can be taken

at its face value without thorough scrutiny. Certainly the safest hedge is through broad diversification.

CONCLUSIONS

1. Non-convertible bonds and mortgages suffer terribly. Their purchasing power becomes greatly reduced. Callable bonds suffer the most. Preferred stocks are also a poor investment unless convertible into common stocks.

2. Real estate, properly located and constructed and *useful*, is probably one of the best hedges. Along with this should be grouped commodities and other forms of useful things,—such as good furniture, pictures, books, jewels, collections, etc.

3. A reserve of cash or *good* short term notes which will carry one through the period of readjustment, considering only a year or two at a time, is very necessary. A large working capital is absolutely essential.

4. Stocks of companies which own sufficient supplies of raw materials and have large cash reserves to supply all needed working capital during the inflationary period should be a good hedge. It was lack of working capital which “busted” so many corporations in Europe between 1920 and 1930.

5. *Diversify broadly* but beware of railroads, utilities, and corporations with fixed income. Purchase some stocks of concerns such as chain stores, movie houses, restaurants, etc., which do a cash business with flexible prices. Include some stocks of companies engaged in colonial business with primitive peoples.

6. Most important of all, one should use his time and money to prevent inflation before it comes and store up

health and courage to carry one through beyond the period of stabilization.

All the above means as follows: Invest 30% in useful real estate and commodities; 20% in very short-term bonds which are sure of payment at maturity; 60% in a carefully selected list of common stocks. Even to those who exercise the greatest care, however, the European experience is very disheartening. Inflation brings grief to everyone.

CHAPTER VII

THE ONLY SAFE HEDGES

Jesus may not have been much of a theologian. He, however, was a real economist. He foresaw, 2000 years ago, what the ablest minds are beginning to realize at the present time. Jesus accepted the theory of private ownership and assumed apparently that people would be working one for another. He also appeared to accept the practice of buying and selling, for profit or for loss. These features of the present economic system were in practice during His days and—according to the record—He accepted them. Although the early Christians later tried experiments in Socialism or Communism, these experiments were not recommended by Jesus;—at least so far as any available proof exists. Jesus believed in the *rugged life, with the good of the group as the goal*; but he surely was not a rugged *individualist*.

Jesus constantly emphasized the dangers and handicaps of material wealth. He emphasized that, beyond a very humble amount, money is a delusion and a snare. When Jesus appealed to people to give to the poor, He apparently had in mind the good of the giver even more than the good of the recipient. Jesus classed the striving for and hoarding of wealth with immorality and other sins. Surely, Jesus was not interested at all in money, *per se*. When sending out His disciples, He told them to

take no money with them and to collect none! When He was confronted with the question of taxes, remember how He asked for the coin and then made His comments. I cannot imagine Jesus making the speeches which have been made by leading currency inflationists. I repeat that Jesus feared the evils of wealth and was sorry for those who possessed wealth; but otherwise He was not interested therein. Money to Him was a necessary "nuisance," useful only as a convenient medium of exchange. Jesus would certainly never have looked upon the printing of currency or the issuing of government bonds as a cure for an impoverished or unhappy world.

In 1864 President Lincoln freed the black slaves of the South; while in 1934 President Roosevelt started a movement to free the money slaves of the North. When the North secured control of this country, following Lee's surrender in 1865, the northern people won an economic as well as a military victory. They eliminated the competition of slave labor and started to make themselves rich and prosperous. From a statistical standpoint the North was successful in this economic *coup d'état*. The northern manufacturers, merchants and bankers found, however, that "all that glitters is not gold." As a result of their desire for money and more money, they suffered from the panic of 1873, the panic of 1893, and would have had another hard knock in 1913 had not the World War come to their rescue. What happened following the World War is such recent history that I need not comment upon it. Finally came the collapse of 1929 and the seven years of depression which followed.

During these depression years a great many people

learned a lesson; namely, that money is a very uncertain asset and something upon which one should not depend. Millions of people saw their life savings wiped out. Nearly one-half of the banks of the country were closed. The economic system for which the North had fought, completely broke down. The whites of the North began to realize that they were as much slaves of the economic system of the twentieth century, as were the blacks of the South slaves of the economic system of the nineteenth century. Like the slaves of the South, seventy-five years before, these slaves of the North began to look around for a friend. They believed they found one in Franklin D. Roosevelt. They elected him in 1932, and again by a tremendous majority in 1936. President Roosevelt interpreted their desire to be free from money cares and have economic security. They were not sure that he could give these things to them; but they did believe he would make an honest effort. People were sick of the old economic system and hungered for something better.

IMPORTANCE OF CHARACTER

To have people in a repentant mood, is the first step toward recovery of any kind. The next step is to have people develop in the right way. It is not enough to get a man to knock off drinking. He must be taught to be satisfied and happy with normal food. Likewise, it is not enough to "throw the money changers out of the temple." Voters must put in their places men of character, courage and vision, who will give the people a new goal. It is not enough to form a Securities & Exchange Commission in Washington to help people in keeping

away from unsound investments. Such a movement must be supplemented by one which will lead the people to enduring investments. People also must learn that they cannot be *given* things. For one to be happy, he must strive to do things which will make himself happy. For one to be useful, he must strive to do things to make himself useful. Health, happiness and security are reactions to certain conditions. They cannot be bought or given. They come largely from the ability to sacrifice popular things for things more worth while.

All of the above leads me to say that the most worthwhile hedge against inflation is character. This applies to us as individual citizens, as well as to the nation as a whole. In the final analysis, we are happy or miserable *according to how we feel inside*. Real satisfaction comes only from a personal knowledge that we have done and are doing the right thing. "Better be right than victorious" is a very fundamental truth. The joy of innocence is a great blessing. The feeling of guilt is a terrific handicap. Sick people with clear consciences are far happier than well people with evil consciences. "The way of the transgressor is hard," whether or not he is found out or declared guilty or innocent. Riches have never made any nation successful or any family happy. Only righteousness exalteth a nation today, as it did 3000 years ago. Hence, speaking strictly as a statistician, I say that the safest hedge against inflation is the development of character. For particulars, read the Ten Commandments, especially the last! A college course in ethics or psychology is unnecessary.

Some people will honestly dispute my feelings in re-

gard to health and character. Any well trained physician, however, will tell you that there is a very intimate relationship between health and character. A large number of diseases are directly due to the undermining of character and can be cured permanently only by an improvement in character. One of the great difficulties today is that, during recent years, voting privileges have increased through universal suffrage; transportation has increased through automobiles; vision has increased through moving pictures; hearing has been multiplied a thousand times through the radio. Yet in the same period there has been almost no increase in the nation's character;—that is, in our faith, self-control, judgment and courage. A sane faith with a philosophy of life is of great worth irrespective of the value of the dollar.

HEALTH AS AN ASSET

There is no need of arguing the importance of health with those who are ill. They will tell us that it is the greatest of all blessings and the most important of all investments. Those of us, however, who are enjoying good health, usually fail to appreciate it. We are even willing to risk our health for such temporary things as money, power or fame. Our foolishness is almost unbelievable. Yet health is something very valuable, although easily lost. Even from a material point of view, carrying on a business or profession, health is a tremendous asset. Health is one of the greatest factors in material success. Yet, in discussing hedges against inflation, I have a deeper thought in mind. I am considering the immediate satisfaction which comes from a

healthy and rugged body. These blessings are something that no money can buy. A program of inflation would never add one iota to the health of the nation. Good health is a spiritual as well as a material asset. Money and time spent upon complete annual physical examinations—including eyes and teeth—is one of the best hedges against inflation.

The sheer joy of health exceeds all other joys. Working people, as well as camping tourists, will testify to the real pleasure of eating when hungry, and of sleeping when tired. The person who can relax, and stretch, and laugh, is the person for us to envy. Cold-blooded physiologists tell us that the greatest pleasures come from satisfying a hungry stomach, normal sex relations, playing with little children and the beauties of nature. One need not have a large house or much money to enjoy these four fundamental pleasures. Certainly no program of inflation could increase such pleasures. These pleasures come largely to those with robust health. The ability to enjoy these things is a real hedge against inflation. Foolish are those of us who, for temporary financial gain, lose these great fundamental powers and privileges. I am speaking merely as a statistician, weighing impartially the various assets of life.

If the facts showed that stocks or real estate were a better hedge against inflation than character or health or some of the other things mentioned in this chapter, I would gladly so state. Facts show that the purchase of equities or land may be a better hedge, to carry one through the inflation era, than bonds and mortgages. On the other hand, all material hedges are far from satisfac-

tory. No real profit can be hoped to be secured from them. They give no joy during the inflation period. When the inflation period is over, one may be too old to get any pleasure out of life anyway. The best one can expect to do in a period of inflation is to "tie down the hatches and ride out the storm," in the meantime developing one's character, health and culture. This enables one both to enjoy life, while the inflationary period is in progress, and to get in a strategic position after inflation has run its course and stabilization follows.

VALUE OF CULTURE

Character and health are not sufficient in themselves. We were created with a brain and with the power to see and hear, as well as with a stomach with the power to eat and sleep. This fact is missed even by many who are striving only to develop character and health. This is why so many educators appeal for a general and cultural education as the basis for any specific or specialized education. I am continually meeting business men who are striving hard to do right and to keep healthy, but are utterly failing in developing their cultural nature. Some of these men collect pictures or rare books or antique furniture, but they do it in a business way, through agents and professional collectors. They, themselves, usually are entirely void of the joy which comes from looking at a picture or book, irrespective of its price or vintage. Yet one of the best hedges against inflation is to learn, before inflation comes, to enjoy these things.

The best part of enjoying culture is that it is always of value. No one needs to have money in order to enjoy

a beautiful sunset or cloud effect. Notwithstanding the hideous things on the radio, it is carrying into every home the finest of music. Free public libraries abound everywhere. We can go to such a library and, by merely signing our name, take home under our arm the finest of literature. Not only this, but we can carry home in two or three volumes, the entire life work of a great writer, artist, or scientist. Public art galleries are available everywhere. Admission is free to the greatest of these art galleries. One can fairly wallow in culture without any expense. Whatever the form of government—whatever the season of the year—whatever the condition of business—this music, literature, art, and other cultural assets are at the free disposal of all the people. These cultured assets are not in any way dependent upon the amount of money in circulation or upon the value of the dollar.

My grandfather, on his farm in Gloucester, was tied closely to raising food, clothing and shelter for his large family. It was hard work from early morning until late at night. Life consisted of fighting, struggling and worrying. It is true that my grandfather did not bother much about art galleries or symphonies. He did enjoy good books and good sunsets, the songs of the birds and the beauty of fresh snow. I am sure that if he were living today he would include literature, music and art with the assets of the farm. The songs which we sing, the good books which we read, and the fine pictures which we view, have always the same value to us who *enjoy* them, irrespective of the value of the dollar. It is when we commercialize music, literature, art and the other cul-

tural things that we get into trouble. It is well to have a good piano, but how much better it is to be able to play it and enjoy it! It is well to have a good library of books; but unless we read them, we do not get much out of them.

FORGET NOT PLAY

Dr. Richard Cabot wrote a book on "Work, Love and Play." This publication is entitled *What Men Live By*. It should be read by everyone who wishes to hedge against inflation or any other foolish economic experiment. Dr. Cabot speaks from experience and with authority. He shows how these three things are real assets to be sought and hoarded. He, moreover, puts all three in the same category. Although he does not mention inflation in his book, I like to remind readers of this fact:—None of these three things—work, love or play—depends on the quantity of money outstanding or upon the value of the dollar. The truth is that these three things have been enjoyed by millions of people who never saw a dollar or heard of a dollar. They represent *enduring* investments, but more important, are within the grasp and reach of everyone.

It is said that the main difference between a normal boy and a normal man is the expense of his toys! There is a lot of truth in this statement. Children play hopscotch, marbles, hide-and-seek, and various other simple games; while grown-ups play golf, tennis and more expensive sports. The principles underlying all games are the same. The difficulty comes from commercializing our sports. When several thousand people sit on the

bleachers and hire nine men to play baseball for them, or eleven men to play football for them, they are making a great mistake. The old-fashioned country horse race was a joy to all concerned, including the horses; but the modern commercialized race track is a disgrace to all concerned. The best sports are the least expensive. These include the simple household games that we used to play winter evenings in our homes.

It is a pleasure to see the recent growth in outdoor sports. Skiing, skating, wrestling, fencing, swimming and walking are once again in vogue. This is partly due to more leisure which so many people have had, on account of unemployment and the reducing of working hours. I, however, am optimist enough to believe that it is also due to a revaluation of time, life and energy. We, ourselves, are primarily affected by how we use our *working hours*; but the nation as a whole is most affected by how we use our *leisure hours*. The proper use of leisure, including sports of all kinds, will be a most important factor in determining the future of our nation. Sports should be clean and honest; they should develop initiative, courage and quickness; and most of all, should be in the open air, so as to develop healthy and robust bodies. Learning to enjoy sports represents one of the best hedges against inflation, strengthening one to carry over until the nation again comes to its senses. One motto to remember in hedging against inflation is this: "*Let no one beat you in waiting.*"

KNOWLEDGE IS GOLDEN

I perhaps should not have waited even until at this point before discussing education. Self-education offers a remarkable hedge against inflation. When a nation is witnessing a period of inflation, it should realize that the disease will ultimately run its course and that values will some day again be stabilized. Ordinarily such a disease runs from five to ten years. It is never fatal, but it leaves many wrecks in its course. Those who best come out of inflation are those who have best used their time preceding and during the inflationary period. To use a biological term, such people are "the more immune ones." Self-education offers a splendid field and opportunity for securing such immunization.

The public schools are now free to all. One can start at kindergarten and graduate from high school without the payment of a nickel for tuition. College education is very cheap for those who have the time and are willing to work hard. Furthermore, the best education is often found at the smaller and least expensive colleges. Most state universities operate very useful extension courses which may be obtained for very small sums. In many instances these extension courses are better today than were the regular college courses of fifty years ago. They treat of cultural subjects, scientific research, and even give specialized courses on law, teaching and the other professions. Many men and women who hold high positions are graduates of these correspondence and extension courses. They not only give direct education, but also train in industry, self-control and the proper use of one's

time. All useful education serves as a hedge against inflation and will always be useful, irrespective of the value of the dollar.

It makes me sad to go into the reading room of a great public library and see the very few people who are profiting by those great resources, free to all, within the library walls. Most libraries have employees who are very anxious to help readers secure the information which they desire. They will lay out courses of reading for one to become an expert in almost any subject. Certainly, there is no reason why anyone need be unemployed or looking for a job. All that is necessary to get a position is to discover the line of work for which you are best fitted and then spend your time, at a public library, studying that work until the position comes. Employers are always looking for ambitious and studious young people. As soon as it is known that you are conscientiously using your time in this manner, you should soon have a job offered to you. In addition to the public libraries, there are the magazines, newspapers, radios and movies, all of which offer opportunities for education if you will pick and choose with discretion.

CHILDREN AS INVESTMENTS

Everyone wants security. It is said that 40,000,000 people in this country carry life insurance. The effect of inflation on life insurance has already been discussed. There should be no doubt but that the life insurance companies will be able to deliver to policy holders the "dollars" promised; but as to what these dollars will be worth, is another question. The only true security is

intelligence and courage. Until the last one hundred years, parents depended upon their children as life insurance policies. As a result, they gave most of their time, thought and energy to developing their children so they could depend upon them in their old age. Civilization has been built up on this theory; not on the theory of depending upon life insurance companies. Some day the world will return to this fundamental preparation for old age, although it may take many severe depressions to bring this about.

The advantages and disadvantages of stocks, bonds, mortgages and bank accounts have been covered in previous chapters. I will not repeat this discussion, but content myself to calling readers' attention to the frailty of them all. People feel wealthy because they have a safe deposit box filled with stocks, bonds, mortgages and bank books. Yet, what are these things good for *intrinsically*? The paper is not strong enough for use to shingle the roof; it is too stiff for use in making clothes; while it would not be relished as food even for one brought up on dry breakfast foods! By an amendment to the Constitution of the United States, all of these stocks, bonds, mortgages and bank accounts could *legally* become valueless. They exist by no intrinsic right, but due only to the suffrance of a majority of the people of three-quarters of our forty-eight states. By nature we seem to have a right to own property which we use, but only through man-made laws do we have a right to own property which we do not use.

The demanding of interest from our own people for the use of money is open to serious question. For

thousands of years this was illegal and immoral. Only since the days of Calvin has it been a respectable thing for Christians to do. The receipt of profits, originally through partnerships and later through stock companies, has always been recognized as legitimate. In such cases all who have money in the enterprise mutually share the profits and the losses. The idea, however, of dividing a community into two groups; namely, of creditors and debtors, may not always continue. A house divided against itself must ultimately fall. Stocks are a better hedge against inflation than bonds; while stocks of companies without indebtedness are a better moral risk and can be held more ethically. Next to a family of good children and a well tilled farm, a few well selected stocks may be a good hedge. It, however, should be remembered that a government can at any time seal our safe deposit boxes, preventing us from having access to them. This would be no more radical than taking our gold away from us and closing the banks, as was the case in 1933.

MORE ABOUT REAL ESTATE

After banks are closed and safe deposit boxes are sealed, *small* farms and businesses should still be protected. Large industries may be nationalized; labor unions may take over certain plants; and other revolutionary changes may take place in the industrial world. People, however, must eat, sleep and be clothed. The farm is the primary source of food, shelter, and of clothing. Most important of all, the farms provide the manhood of the nation. The people of the farms are used

by the cities for fuel to keep the cities going. The farms support the cities with people, as well as with food, shelter and clothing. I do not recommend a farm as a sole *business*. Statistics suggest that there is little or no profit in farming, in the long run, from a strictly monetary point of view. Farmers will never have much cash. On the other hand, farming is the natural life for developing independence, courage and initiative. A farm is an ideal place to bring up a family of children. *Farming for sustenance* is to be recommended, even although commercialized farming is not to be recommended. Of material things, a small self-sustaining farm is perhaps one of the best hedges against inflation.

The ideal situation is to have a profession or trade or small store in connection with one's farm. Under such a condition, one can depend upon the farm for security and sustenance in an emergency. It also serves as a splendid training ground for the children. Yet one would be able to get his cash money from a profession, trade or little store. To be a real hedge against inflation, however, such a farm should not be too near a city. If revolution comes, people would drive out from the cities in their automobiles and rob the farms in the surrounding territory. Although a suburban farm would have many advantages, yet it offers not the security of a real country farm. Another thing: The home which is wholly dependent upon electricity, water, or any other public utility which comes from a central station, is not independent. If revolution develops, these public utilities could be shut off. In view of the handy corner grocery store, it may seem foolish to store vegetables for

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the winter as our grandparents did; but such a storehouse is one of the best hedges against inflation. It is true that the world is gradually getting better; but only *gradually*. Human nature changes for the better very slowly. Civilization is only skin-deep. Hence my fear of another experiment in violent inflation.

TRADES AND PROFESSIONS

Consider what has happened in Russia since the Communists took control. The surgeons, scientists, engineers, teachers, entertainers and skilled-workers have been better off in Russia under the Communist government than they were before. Their usefulness has been recognized, and their influence is great. Bankers, real estate agents, and automobile salesmen, who formerly lived more or less by their wits, are now able to make a living in Russia only with a pick and shovel! During prosperous times, under a capitalistic system, the white collared, high pressure salesman is the envy of his community. People hear of the big commissions which he is getting. They see him racing about in his flashy automobile. They meet him at country clubs and social gatherings. If, however, this country ever experiences a radical social revolution, these are the men who will be put on the rock pile! They have nothing which they can deliver to society under a socialistic government.

In this connection there are two points which I desire to emphasize: (1) The man or woman who knows how to do some one thing as well as, or better than, other people in the community, has a real hedge against inflation. Such an ability along one special line is worth more than

stocks or bonds. (2) The art of becoming such a specialist is not expensive,—in fact, only time, concentration and persistence are necessary. The availability of books on every line of work at all public libraries puts such an education within reach of all. Most of these libraries also have trade papers on all lines of work. If, however, your public library has not the special trade papers which you wish, you can subscribe to one or more at a very small expense. In case you are already employed, they can be borrowed from some executive in some office. He would be delighted to lend them to you.

I hesitate to add another word on this subject for fear of being misunderstood. If I, however, were a young man, I would take as a trade, or as a hobby, some form of defensive warfare. I do not fear for the United States such radical inflation as was witnessed in Germany; nor do I fear such a communistic experiment as has taken place in Russia. I, however, do fear that the United States will become involved in another world war. As I have already said, if England becomes involved in war, this would automatically bring Canada and probably Mexico into the conflict. Although the same generation may never twice send troops to Europe, the United States would rush to the defense of Canada or Mexico to avoid enemy airplane bases being established on this continent. It would probably also protect its shipping. This would immediately get us into the trouble; our cities would be bombed and raided with poison gases. The most useful men and women at such a time would be those prepared for defensive warfare against such air raiding. I probably would not have the courage to be-

come an air-bird; but I certainly would become an expert with anti-aircraft guns, or know more about gas masks than anyone else in my community. I also advise young people with or without property to learn some trade and join a craft or other union. A labor-union card may be a real asset some day.

COSTLESS HOBBIES ARE PRICELESS

Perhaps I do not need to write on hobbies. I, however, shall do so in order to emphasize *costless* hobbies. Hobbies are being commercialized, like liquor, smoking, useless foods, and silly styles. The best hobbies are not the ones that are being advertised. Hobbies are exploited, not according to their value to the hobby-lover, but according to their profit to the hobby dealer. Yet there are some exceptionally valuable hobbies, which can be followed either expensively or with very little expense. Take, for instance, the cellar carpenter shop. I have in mind a busy physician who has a shop in his basement for making furniture. He, however, never takes a visitor to his "shop" to show him the furniture,—but rather the many electrical appliances and tools which are ready for him to use! On the other hand, I have a very wealthy friend who likewise makes old furniture, but *prides himself on having only the tools which were possessed 150 years ago, when the finest old furniture the country ever witnessed was made.* When asking him what these tools cost him he replied, "Somewhat less than \$10, including the whetstone and file necessary to keep them in perfect condition." This latter is the kind of a hobby one should develop as a hedge against in-

flation. The real game should be in making a beautiful and useful thing *without expense*.

Another form of hobby is the ability to give entertainment. I have mentioned that in Russia the entertainers have been moved up in the social scale and subsidized by the government. This means, for instance, that if one will learn to play expertly some musical instrument he has both a hobby and a hedge against inflation. Some who cannot play or sing, can learn to recite and read. Good talkers are always in demand! Some people enjoy becoming experts at tricks or what is commonly known as magic. Here again, I do not recommend the purchase of mechanical tricks, but rather the development of skill. I have in mind the ability to manipulate the appearance and disappearance of ivory balls. This is a matter of plain skill and those who are able to do it well never need fear starvation. Younger men can become experts in high-jumping, tight rope walking, and possibly on the flying trapeze. We laugh and sing about "the man on the flying trapeze"; but nevertheless the masses envy his courage, accuracy and freedom. None of these hobbies requires an expensive outfit. They can be developed by people in humble circumstances. They are of constant worth irrespective of the value of the dollar.

Another hobby, which at least pays for itself, is gardening. The only absolutely necessary cost is for the first year's seed, which need not amount to more than two or three dollars. It is surprising to see what little land is necessary for a wonderful garden through the rotation of crops and proper care and fertilization. By keeping a few hens (only enough to eat the garbage from the

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table) and by the collection of leaves from the street, one can secure his own fertilizer free of cost. The hobby, however, should be not in trying to see how *much* you can raise, but rather in trying to see on how little land and for how little expense you can raise your requirements. Some will say that the gardening is limited to only a few summer months. This is not so. The successful gardener carefully stores his vegetables in the winter and starts his plants in cold frames before the snow has melted. In the dead of winter, seed catalogues and magazine articles on his hobby can be studied. A three-cents stamp can bring, free of cost, from the Agricultural Department in Washington, or from the County Agent, enough reading matter to use one's spare time during the winter. If you have any further time, raise mushrooms in the cellar, or attempt to develop orchids from mere seeds! In this connection, let me add that the collection of the seeds of wild flowers is a hobby in itself very worth while. These can readily be sold or exchanged for garden seed. I believe that the average person is so made that he *must* raise the equivalent of the food he personally consumes in order to enjoy good health.

ENJOYING ONE'S FAMILY

When a man with a family of two or three children asks me to suggest an investment or hobby, I always refer him to his children. With me my grandchildren are my hobby; they may be my best investment. Surely I am glad to put money into the development of their character, health and education. I know of no better in-

vestment from a cold-blooded point of view. It is the custom of Mrs. Babson and me to invite the grandchildren for dinner every Sunday. I never let them go without telling them to make the best of their opportunities "for some day they may have to support their grandfather and grandmother." All joking aside, I honestly believe that the chances are 50-50 that my grandchildren are better social security for me than stocks or bonds or any kind of insurance. Children are Nature's insurance policies and should be a wonderful hedge against inflation. But I have already covered this feature.

Fortunate are those parents who enjoy playing with their children and grandchildren. When this becomes a real pleasure, rather than a duty, this is the normal situation. Children, however, are very quick to sense whether we are giving them time because we enjoy their company, or whether we are giving it as a sense of duty. Thankful should be those parents who honestly love to be with their children. Fortunate are those children who love to be with their parents. An existing comradeship between father and son, or mother and daughter, is something which no money can supplant. Such relationship is priceless and always has the same value, whatever the condition of the currency or the form of government. Mothers can get more pleasure out of such relationships than would be possible from bridge parties; while fathers, when once getting a taste of such comradeship, will never turn down the boy's company for a game of golf. Such friendships are real hedges against inflation. They need not be expensive. My own experience with children is that they are more interested in having me help them

build a hut from waste lumber, or a cart from a soap box, than to have me give them expensive mechanical toys.

ACQUAINTANCES VS. FRIENDSHIPS

We are apt to envy people with a large acquaintance, especially those who are nationally known. We see people praised in the newspapers and written up in the magazines. We think it would be wonderful to be famous. To be well known, however, may be a liability as well as an asset. Fame is like wealth;—the more fame you have, the more trouble you are likely to have. When the humble citizen makes a mistake, only he and his family or a few neighbors know about it; but when a prominent man makes a mistake, the whole world knows about it. A man who has a large acquaintance has the privilege of calling on many people for advice; but a great many more people feel also that they have the privilege of calling on him. Every good rule works both ways. Besides, all of us have only twenty-four hours a day, nearly one-half of which we must give to sleeping, eating and personal care of the body. This means that the more acquaintances one has, the less time he has for working, thinking, and being with his family. Neither fame nor popularity can be considered a satisfactory hedge against inflation.

True friendships are entirely different. By a friend, I mean one upon whom we can absolutely depend in an emergency,—whether we are rich or poor, well or sick, successful or disgraced. A good name is probably to be chosen rather than great riches; but a few sincere friends are worth more than both reputation and wealth. One

cannot have very many real friends. I know some famous men and many wealthy men who have no real friends at all. They realize it very keenly. Those who have real friends can probably count them on the fingers of their two hands. *True friends are a real hedge against inflation.* True friends are the best protection against revolution. True friends understand us, sympathize with us, and always trust us. Moreover, most of us never know who our real friends are until we do have troubles.

In discussing these hedges against inflation, I have been thinking of the individual. Yet a nation goes into inflation, not the individual *per se*. Often inflation is a last attempt to save the nation from some disaster. Inflation is given to a nation as a stimulant would be given to a sick patient. If this is so, why should not these qualities of character, health, culture, knowledge and friendship be the best hedges for the nation as a whole? If a nation should spend one-twentieth for helping other nations and developing friendships with other nations, what it spends on battleships and armament, how much better off the world would be. Why the United States does not do this is beyond my comprehension. The greatest crime in the world today is war. Peace will displace war only as nations assist other nations and recognize that all men are brothers, whatever the race, religion or color. In short, world peace will come only through the development of international good will and friendship.

BIRDS AND FLOWERS

The Campus of the Babson Institute is patrolled as a Bird Sanctuary. It is visited continually by people who

are interested in birds. I know, however, that for everyone who comes out to the Bird Sanctuary there are a hundred persons who watch birds from their home windows and neighborhoods. They set out bird boxes early every spring and watch the birds that come to them. They catch and tag birds in order to see if the same birds return. They get inspiration from keeping records of when they see their first robin in the spring and their last robin in the fall. They enjoy throwing crumbs and scraps of meat to the birds in winter. A friendliness develops between these people and the birds. In addition to the birds being a source of recreation, they also apparently teach bird lovers many good lessons. I say this, because you can usually trust a bird lover. Yet this following of the birds costs nothing and can be enjoyed by everyone irrespective of the value of the dollar.

In the very heart of Boston I own a building. I look out from the rear of this building into a maze of little backyards. Some are terribly shabby with rubbish and ashes, while others are beautiful little gardens. One woman has a love for geraniums. She is a charwoman and sweeps out offices, but her geraniums are most beautiful. She has them in old tin cans, setting them out in the yard in the summer and on the window sills of her house in the winter. These flowers cost her nothing; but are a source of great joy to her and to some of the rest of us. Surely one does not need to spend money to have a good garden, but one does need to love flowers in order to have flowers love her. This love and interest in flowers develops one spiritually, physically and mentally.

There are fewer birds found in the North in winter

than in summer; but those birds which do stick out the winter are particularly interesting. They may be attracted very easily to come around the house by feeding, and even onto the window sill with little trouble. We have had some birds which have learned to come into the room for food, showing absolutely no fear. The best feeding methods are the simplest: Namely, tie some large chunks of solid suet on nearby trees or posts, either binding them with string or placing them in small containers bought for the purpose. On trays, with sides a couple of inches high, may be spread sunflower seeds, millet, hemp and rice.—Sunflower seeds are the best; they are acceptable to practically all the winter seed-eaters. Peanut butter makes a splendid relish, spread on the window shelf or on the suet. The *chickadees*, *white-breasted nut-hatches*, *downy woodpeckers* and *hairy woodpeckers* will certainly find the food very soon. An occasional wintering *flicker* may come for some suet. Some *song sparrows* and *white-throated sparrows* are willing to stay near you during the winter if you will throw out rolled oats and canary seed. The brilliant yellow *gold-finches* lose their vividness in the autumn and spend the winter in a costume of olive-green;—but they are interesting to have come to your shelf. They will eat any quantity of sunflower seeds. If you are fortunate, you may get the more colorful winter birds: *purple finches*, *pine grosbeaks*, *crossbills*, *red-polls* and even the gloriously hued *evening grosbeak*.

STARS AND OCEANS

The stars are free to everyone,—whether living in the country, or in the densely settled city, or in the wilderness

itself. Moreover, we all see the same stars whatever our vocation, condition, age or nationality. Yet, I know many people who cannot point out Venus or even the North Star. The big dipper and the little dipper are mere tin dippers for them. A study of astronomy can become a real factor in one's development. If I should have a nervous breakdown, I would study astronomy to take my mind off my little insignificant self. Many newspapers each week carry a column and map on the skies; but the greatest joy of all comes from making one's own maps and one's own discoveries. What is more beautiful than a starry night to one who can recognize his friends in the sky.

Then I must discuss sunsets and sunrises. To many people a sunset is a sunset; they seldom bother to compare and study sunsets. For half a century, however, I have been watching sunsets and I have never yet seen two alike. Then there is the pre-glow of the sunset, and the after-glow of the sunset, and the reflections of the sunset. Here again these beautiful sunsets are given to the city dwellers as well as to the country dwellers. When in the city we are so busy with other things that we think the city has no sunsets; but this is very wrong. One of the most beautiful sunsets I ever saw was from a hotel window in New York City. How foolish one is to spend money for movies when a beautiful sunset can be watched for an hour in the evening. These natural sunsets and sunrises, which are free to us all, are far better than any painted pictures which may be found in the home of some millionaire.

The point I wish to emphasize is that these things are

accessible to everyone and always beautiful irrespective of the value of the dollar. Why is it that we are not more interested in them? Why is it we do not learn to enjoy them more? I suppose that the first reason is that our parents were so busy earning a living that they did not bother to train us to enjoy these things. They did not realize the wealth of nature themselves and hence it was only natural that they did not impress it upon us. There, however, is another reason; namely, that only the commercial joys are advertised. A tooth paste or a mouth wash or a new scarf or a moving picture, which brings in some profit to the producer or seller, is urged upon us through advertising. There is no way, however, for the manufacturer or merchant to make money from interesting us in wild birds, simple flowers, beautiful stars or sunsets. Hence ^{and he said} ~~we~~ ^{isn't} ~~we~~ ^{advised} ~~we~~ ^{to} ~~we~~ ^{tooth} ~~we~~ ^{paste,} ~~we~~ ^{silk} ~~we~~ ^{stockings} ~~we~~ ^{have,—and in."} ~~we~~ ^{Reader} ~~we~~ ^{as} ~~we~~ ^{store} ~~we~~ ^{books}

I was bored ^{deep} ~~impressions~~ ^{ignored} ~~this~~ ^{peace}. Never-Cape Ann, by ^{have} ~~passed~~. I about prayer, quietly and love for the rock ^{at} ~~beauty~~ ^{of} ~~many~~ ^{books} ocean's every mood. He dically "qu^{ick}. I sometimes talk to the rocks and then lis^{ten} them while they tell me their life history. It is all so wonderful and beautiful that I am content to sit on a ledge by the ocean and enjoy its friendship. Some people think I am silly; other people think I am lazy; but in so doing I am storing up reserves which will never be taken away from me. Too much of our time is wasted striving for things of no permanent value. Let us give more to making

friends with the things of permanent value,—such as no inflationary movement can harm.

Everyone cannot live by the ocean; but most everyone has access to some lake, pond or river. I had an uncle named Gustavus Babson who lived in Seward, Nebraska. He was always very good to me and would write me long letters on my birthday and at other times during the year. In these letters he would tell me about the "Blue River" which ran through his little town and which gave him much joy. Finally I visited Seward and saw this Blue River! Having been brought up by the ocean, I naturally was disappointed. It was a small, muddy, sluggish, unattractive stream,—not more than one hundred feet wide which cut across one end of the town. When my uncle saw that I was disappointed, the tears came to his eyes and he said: "Roger, remember this is the best that I know of sunset—the best is always the best." Two alike. A year there is then on me and it has deepened the after-glow of the sun.

Here again these brown some magnified colored mud puddles were as good as taken by the famous sculptor. I was busy with work and did not go to the country or to the parks to take these pictures; but they were pictures of ordinary mud puddles, not more than a foot in diameter which one would find in an alley or back street. When magnified and photographed in certain sunlights they became gems of beauty and worthy of the most careful study. After seeing these pictures, I thought a person might well devote his life to the study of mud puddles! I once took a great interest in the study of snowflakes and grains of sand. Let me remember however that this

is not a book on nature but rather a book on inflation! I am merely trying to emphasize that the best hedges and the most wonderful things are *absolutely free*. The writer of Isaiah, some 2500 years ago, summed up the whole subject when he said:

“Ho, everyone that thirsteth, come ye to the waters, and he that hath no money; come ye, buy and eat! Yea, come . . . without money and without price. Wherefore do ye spend money for that which is not bread and your labor for that which satisfieth not?” (Isaiah, 55-1.)

These words contain good advice for hedging against inflation!

* * *

A final thought: The publishers of this book warned me against “writing a sermon.” Readers, however, have already concluded that I have ignored this advice. Nevertheless, I must say one word about prayer, quietness and worship. Although I am a horrible example and perhaps a hypocrite in the minds of many, I would be much worse were it not for my daily “quiet hour.” As soon as possible after lunch each day, I take a brief nap, after which I have a quiet twenty minutes in private worship. The busier my day and the greater my responsibilities, the more particular I am to have this quiet period. I try to read a little scripture, a short prayer—perhaps from the Episcopal prayer book—and then spend a few minutes in meditation. Faith and power has come to me during these short daily quiet periods. I earnestly recommend them to every reader.

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Periods of meditation are absolutely free, like the air and sunshine, equally to everyone. There are no exceptions to this statement. This is another proof that the most valuable things, the most wonderful things, and the most beautiful things, are not the advertised, commercial and popular things. The "still small voice" which comes to one in quietness and worship is a thousand times more important than the much heralded voice which comes through the radio, the movie and the newspaper. In the last analysis, "the race is not to the swift, nor the battle to the strong," as speed and strength are generally recognized. Robust health, good judgment and spiritual faith are fundamental hedges against inflation and troubles of all kinds. These great assets are not affected by the amount of currency in circulation nor the indebtedness of a nation. They never decline in price, but are constantly becoming of more value. Of course, these assets cannot be secured overnight, nor can they be purchased at any store; but they are available to all, everywhere.

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