Technical Market Action

Quoted below are excerpts from an editorial in Life Magazine. It is from the issue of September 13th. The editorial is entitled "Fear of Plenty" and speaks for itself.

"In the year of the first Thanksgiving in 1621 the little band of Pilgrims who had lived through the starving time must have had their first inklings of good fortune along about this time in September. Whatever went through their minds, it could only have ranged from humble gratitude to surging happiness. The modern fear of plenty had not yet been born, the word 'deflation' with all its connotations of bread lines and mortgage foreclosures, was not in Governor Bradford's lexicon. And there was no worrying about the rediscount rate on Massasoit's wampum.

This year, two months before Thanksgiving, we have another excellent harvest. It is probably the best in the 341 years of our history. Our 3.5 billion-bushel corn crop, the lineal descendant of the Pilgrims' 20 acres, is the largest ever, our wheat crop is just under the all-time record. We have raised more rice and soybeans this year than ever before, and little Louisiana is actually exporting rice to China. Soon the cattle in the feed lots and dairies will be champing on the corn; meat, milk, butter and cheese will increase accordingly. As for cotton, the 15 million-bale crop is the largest in a decade, it tops last year's yield by more than 3 million bales.

But do we give whoops of joy because of all this? Do we even give sober thanks in the manner of the Pilgrims? We do not. City dwellers, mindful of agricultural price supports that run into 1950, can't really believe the whopping harvests will make much dent in the food bill. Farmers, on the other hand, are in a damned-if-we-do-damned-if-we-don't mood.

With the nation mulling about in an economic brown study, the newspapers feed the popular mood by displaying a schizophrenic morbidity. The front pages are splashed with lamentations about the probability of continuing inflation. Prices on the front pages are going up, up, up. Steel is short, General Motors has had to raise wages to keep pace with the cost-of-living index. But on the financial pages of the newspapers one can find an entirely different set of woes. Here the murmurs of deflation grow louder each passing day. The price of yellow pine is off at the mill. Real estate dealers complain that houses in the $10,000-and-up brackets aren't moving with any speed. Cotton textiles are cheaper and soap is down.

What we have, then, is a mixture of inflationary and deflationary portents, and the mixture has everybody mixed up. Like the donkey of antiquity who was immobilized between two equidistant bales of hay, we are immobilized between our equal fears of continuing high prices and of a down-spiraling deflation in the economy.

Granted that it is no fun to pay through the nose for things, it still remains true that the last few years have been relatively good years for the U.S. citizen. The utopian concept of '60 million jobs' has long been a sober reality. Income has been distributed more equitably among the various segments of the population than ever before. If steak has been high, that is partly because more people than ever have been eating steak. So we can't really cry over the recent past.

But, apart from the international situation, have we any more reason to cry over the future? In the face of the bountiful 1948 harvests, it strains credulity to believe that the grocer's bill can go higher in 1949. The politicians are asking us to vote against inflation this November, but by the time the next president assumes office inflation will, barring war or a crazy increase of paper money, be a dying issue. Deflation will at last be on the front pages.

How much of a bogie must it be? The GI who fought at Anzio or Okinawa, remembering his father on WPA, may fear it more than he fears another war. As a nation we have a psychological trauma left over from the '30s, when deflation meant unemployment, lost homes and 'Brother, can you spare a dime?' But, like generals who make the chronic mistake of preparing for the last war, we may be making a mistake in getting ourselves mentally prepared in 1948 for the depression of 1932.

Our economy has changed a lot in 15 years. Wages, held in place by new social mechanisms, will not drop suddenly, which means that certain industrial prices will fall only as man-hour efficiency permits. And, since the farm parity principle is here to stay for a while, with agricultural prices linked to industrial prices at a point deemed equitable by Congress, the coming retreat from high crop supports will be a graded one. Anyway, the main point to be made about deflation is that it is particularly unbearable to the individual only when he is badly in debt. A person can digest a loss of income when he has to pay out less to live. But if he has interest charges, then it is another matter.

Well, just how badly are we in debt in 1948 as compared with 1929? We haven't gone into elaborate skull practice with the experts, but some things would seem to be pretty obvious. Take the farmer, who would feel the first brunt of falling prices. In 1929 farm mortgage debt was $9 billion plus; in 1947 farm debt was only $5 billion. So this time the farmer can't be scissord quite as easily as he was in the '30s. Nor will the financial community be caught napping by falling prices. The stock market has discounted the coming 'depression' long ago. As for brokers' loans, they were a mere $375 million in July of this year. In 1929 brokers' loans were $8 billion and over. A deflation in 1949 would hardly be accompanied by panic in Wall Street, for the financial community has not been going into debt either to buy tokens of ownership or to bet on continued high prices.

Farmers and brokers don't make up the whole nation by any means, but our recent rate of general instalment buying is below that of 1929 in relation to national income. And, where falling prices in the early '30s brought out few 'cushioning' purchasers, falling prices in 1949 would tempt those individuals among us who still have wartime savings in the bank.

Aside from the problem of the national debt, which is a special story, the U.S. economy is in far better shape to weather the change from one price level to another than it was in 1929. This time a deflation might turn out to be one of the traditional boons of capitalism: more goods for less money, with people still at work earning the money with which to buy."

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Closings

Dow-Jones Industrials	180.62
Dow-Jones Rails	60.43
Dow-Jones 65-Stock	67.81