The Observation Post

By Eric Staight

(Editor's note: The following article is the first of a regular series by Mr. Eric Staight. The articles will cover the foreign field for our readers—with special emphasis on financial matters—in the same manner that the articles and graphs furnished the JOURNAL by Mr. Clifford A. Greenman will keep our readers posted on the local financial picture.

Mr. Staight writes from a broad background as a practical economist, financial writer, and student, gained in some 16 years' experience in Wall Street. He was, a general partner in the firm of Boettener Newton & Co., which merged with Harris, Upham & Co., one of the largest wire houses in the U. S. For seven years he wrote the daily market letters sent out by those firms, and supervised issuance of market information and advice sent out to its clients. Besides this work, Mr. Staight found time to write financial articles for the New York papers, and to review books on economics and finance.

In Mr. Staight, therefore, the JOURNAL has an economist and financial writer of considerable experience. He will write articles for us interpreting the financial and economic significance of world events as he sees them. He receives no remuneration.

Mr. Staight is a Director, Vice President and Treasurer of Syndicate Investments, Inc., a Director and Treasurer of Mine Operations, Inc., and Director of the Southwestern Engineering Company of the Philippines, Inc. He is no stranger to the Philippines, having lived here from 1917 to 1921.

Mr. Staight's articles will appear in the **Journal** under the heading, "THE OBSERVATION POST.")

FOREWORD:

These articles are presented with one object in view; an impartial discussion of world affairs. They are written from the standpoint of an economist, with no political leanings, and the writer's one endeavor will be to present existing conditions, the causes thereof, and the probable course of future events. Such a series must have a beginning, and the beginning must, of necessity, contain much of past history. In this first article, therefore, and at the risk of being tedious, the writer has done his best to lay the proper foundation for more topical efforts in months to come.

In October of 1929 occurred a general price collapse in the United States. This collapse was the aftermath of an orgy of credit inflation begun in 1923. It was the forerunner of a bitter deflationary period, searing the souls of the hardiest and culminating three years later in a price level that left business gasping for breath and the average man wondering when, and not if, his job would disappear into thin air.

Into this atmosphere was injected a national election. Drowning men grasped eagerly at the straws of common sense proffered by the opposition party and decided that a new Moses had arisen. Existing conditions were insupportable and the new broom promised a "New Deal" based on the conservative and intelligent principles of democracy.

Early in 1933 the New Deal was translated from words into deeds. At first these deeds were "emergency measures". As such they were sensible and received the united backing of business executives and the general public. There was a banking panic in progress—answer: close the banks and let the country realize it was in the grip of blind, unreasoning fear. This was done. People were starving by the thousands: grant them immediate Government aid. Corporations were falling like leaves: create a virtual debt moratorium and let pressure subside. These things also were done, as well as others of a similar emergency character. The country breathed again and sober-minded men, realizing the mistakes of the past, prepared to build for the future, feeling that through strong but temporary legislation they had been given the opportunity.

But the New Deal chose that time to really make itself felt. "Emergency measures" became permanent laws; gentlemen appeared at the seat of Government who had for years been nursing pet theories on the monetary system and its relation to the price level, and before the country realized what had happened, the gold standard was in the discard, the dollar unanchored, and the first steps taken along a path which was to lead directly and irrevocably to the situation existing today. The gold standard was not abandoned for the reasons behind the French action, nor, for that matter, for the reasons existing in Great Britain in 1931, but the action was taken deliberately and in accordance with an untested theory of managed money.

Naturally the general price level rose, and rose almost perpendicularly in those hectic spring and summer months of 1933. Dollars were out of style and the things to have were goods and commodities. Prices were to be raised by monetary manipulation to a point where unemployment was virtually eliminated and the wheels of industry were turning at a rate guaranteeing all a satisfactory living.

Not surprisingly, the rise was accelerated by violent speculation, and equally naturally, this brought in its wake a severe market break. But the New Deal had just begun, and fresh measures were promptly introduced. If the creation of new money was not sufficient in itself, then let production controls be set up. Let minimum price and wage agreements be arrived at and at the same time let speculation be curbed. These things also were done and after nearly a year's backing and filling, prices rose again. Fundamentally, the answer was still money—money created by virtue of the devalued dollar and the constant inflow of gold from every producing country in the world. As the reach of prices toward the skies continued, costs also rose, but this was of no immediate concern. The price level was the thing, and what if the United States was attracting all the gold in the world in exchange for natural resources? Meanwhile, regulation and reform, some of which was unquestionably needed, became more and more in evidence, but still pump priming kept the wheels turning. Government largesse kept many millions at work and by the spring of 1937 prices approximated the level desired by the men at the helm. So far, so good, and the builders of this structure began to sit back. They were satisfied with results accomplished. Prices had been raised to the desired shelf and they were now prepared to remove the props and turn their attention to purging the nation of "unsound business practices" and the introduction of further social reform.

Unfortunately, natural laws were waiting just that opportunity to assert themselves, and the tumble from that artificial shelf will have repercussions for many years to come. For unadulterated violence, the recent decline in business and the general price level has put 1929 entirely in the shade.

So much for past history. There is no disgrace in honest effort, however misguided. No man can find too great fault in the attempts of his chosen leaders to better his lot, but he does demand a change of plan when those efforts fail. That is the vital question in the United States today. Is the failure recognized, and is the course being recharted accordingly? It is not yet possible to answer that question. There are straws in the wind, but they are still blowing helter-skelter. Business is invited to confer at one moment, and dictated to as to wages, hours of labor, and prices, at the next. Modification of damaging tax laws is proposed in one week, only to be succeeded by bitter attacks on capital in the week following, and inflationary gestures follow hard on the heels of budget balancing talk. So it goes, and as it goes, it is impossible to escape the conclusion that the New Deal, like Danny Deever, "is fighting hard for life".

Through it all, there is one thing to remember, and it is a comforting ray of light for those who feel that the American way of living is in permanent danger. The United States is one of the three great democracies left. She still boasts of a democratic constitutional government and in this writer's opinion, the basis for this is far stronger and far more permanent than any particular administration. In the American scene, there is no essential difference between Government and business. Despite Washington remarks to the contrary, the people of the United States, and not a select "60 families", own the business of the United States. The people of the United States also elect the Government, which is a trustee having no powers not granted through the will of that people, and should have no interest save in giving a satisfactory account of stewardship. To lead, not to dictate, is the function of the American Government, just as it is in the other two democracies of the world.

As long as the country's ownership rests where it does (and of 101 of the nation's largest corporation 86% of the total outstanding shares are owned by holders of 100 shares or less), there is no vital danger of permanent dictatorship or, for that matter, communism, collectivism, or a corporate state.

The foregoing deals with the indeterminate future. It may well be that before adjustment occurs, the present circumstances will give rise to still further disruptions in the national economy. The labor angle alone is one which can not lightly be dismissed, and it is not possible to predict how much more sand labor upheavels will throw into the business machine before national commonsense comes to the rescue. Making all allowances for the world-wide changes in labor-capital relationships which have undoubtedly been taking place, there is little question that the present administration has erred as much in its encouragement of labor as some previous governments failed in the opposite direction.

This is merely one of the uncertainties of the more immediate picture. There are many others, but once again, it is necessary to point to the monetary background as the most vital. The greater part of the developments of the last four years could not have taken place had it not been for dollar devaluation and the inflation of Government credit. Many billions of dollars have been created by these means and pumped into circulation. Furthermore, it seems safe to say that the first signs of a slackening of this flow were the signal for the present depression. It is, therefore, a paramount question whether the Government intends to resume this artificial stimulant, or to rely on other means for a revival of business activity.

As pointed out earlier in this article, there are no clear indications of a considered

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plan, and it is a fair guess that at the moment there is no such plan, but there does seem one definite premise, and that is that the New Deal is still determined to use all means at its disposal to avoid a collapse which will throw its most cherished experiments permanently in the discard. For this reason, economists the world over are closely scanning the slightest gesture in connection with the nation's monetary and banking system for signs of a revival of inflationary measures.

A few weeks ago one such motion was made. It consisted of the release of a small portion of the inactive gold fund and the stipulation that from now on, all gold acquired up to one hundred million dollars per quarter would be used directly in the Federal Reserve system, rather than added to the inactive fund. While this did not constitute inflation of the greenback printing, or the WPA pump priming variety, it nevertheless resolved itself, first, into an admission that inflation psychology might again be necessary to keep the tottering structure from complete collapse, and second, a hint that if necessary the entire one billion two hundred million inactive gold fund would be used for the purpose. It is not a far cry from this action to a drastic reduction in reserve requirements and an aggressive open-market purchasing policy for Government securities. There is an active section of Congress only too eager for such measures and, more, for further dollar devaluation and currency inflation of the most direct type. This section is held in check for the moment, but it would be folly to imagine that another six months such as those just past, would not see them in full and powerful cry.

Mention has already been made of the aggravation world affairs have been to the United States' political and economic structure. There can be no gainsaying that conditions across both the Atlantic and Pacific Oceans have had no little to do with the rapidity of the American price decline.

Still another French effort at internal stabilization has fallen by the wayside and the Tripartite Agreement, while remaining in force, is proving no more than a temporary alleviation of France's external difficulties. Her internal affairs are in sad shape. There was a desperate effort by the Chautemps Government at price adjustment both by means of economies and of wage and hour agreements, but this came too late and the fall of that regime resulted in a chaotic condition. France's public debt is staggering and the future of the franc is doubtful in the extreme.

The balance of Europe has been milling around in the grip of dictators who, realizing the shaky condition of their own households, have been using every effort to distract attention therefrom and utilize as bargaining or bluffing assets the war machines they have built up. Fortunately, these efforts have so far, and perhaps of necessity, been confined to bargaining and bluffing, but they have had their unpleasant repercussions throughout the world. This much is now recognized by thinking people: Dictatorships breed war. Fortunately for the world, the balance of power still lies in sober hands, but those hands are far too occupied with the delicate business of keeping the peace, making concessions here, taking a firm stand there to pay proper attention to reconstruction of the disrupted world economic situation.

Not only in Europe is the international scene a difficult problem, but in the Far East the Sino-Japanese "incident" is proving a source of world-wide anxiety. Japan has embarked on a campaign which is straining her uttermost financial resources, and if one may judge from past history, that campaign has no assurance of success. Meantime, however, it is definitely a breeder of trouble, for practically every large nation has some stake in the Orient and some so important an interest that its protection must be insured at all costs. Inasmuch as these interests are not all the same, there is occurring an increasingly marked division on much the same lines as that in Europe. All details are not known of the Italo-German-Japanese agreement, but it is reasonable to suppose that those details are sufficiently inimical to Great Britain, let alone Soviet Russia and France, to make anything like a rapprochement in the Far East an impossibility. From the standpoint of the outside world, and disregarding for the moment the questionable methods she is using, perhaps the most satisfactory outcome would be for Japan to batter herself into a state of financial insensibility against the yielding but resilient wall of China's defenses. Certainly, events at the moment are pointing that way.

Great Britain's price structure is not coming unscathed through the general disturbance. Aside from her active participation in European and Far Eastern diplomatic and political scenes, she is far too closely allied commercially and financially to the United States not to feel the effects of the depression across the Atlantic. British trade has definitely suffered, and while leading observers there regard the recession as temporary it is improbable that 1938 will be as good a year for Great Britain's industries as 1937.

By and large, the world picture is liberally be-spattered with gloom, and it is small wonder that the ranks of those foreseeing nothing but a long-lasting and disastrous business decline are expanding by leaps and bounds. Yet the situation is by no means as hopeless as it seems on the surface. Here again, one must turn to the world's democracies for assurance as to that point. Left to themselves, the odds are that the dictatorships and communistic states would destroy each other and in that destruction carry our present civilization to oblivion. But fortunately, those democracies, with all their internal difficulties, have nevertheless sufficient farsighted men behind the scenes to realize this danger and also to realize, what is far more important, that Utopia is not here or even "around the corner." The path to peace lies in overwhelming strength and the will to use that strength in the upholding, rather than the destruction, of freedom.

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GOLD PRODUCTION FIGURES CONTINUE TO SET RECORDS: Every month sets a new all-time high in Philippine gold production. All records were broken in February, and March, Director Abadilla of the Bureau of Mines reports, may reach more than ₱5,000,000.00. Production this year is almost certain to exceed ₱60,000,000.00 in gold alone.

Meanwhile, the stock market continues to go down.

"Oh, Oh!"

One convenient thing about some of these stock prices: they fit in so well with Tagalog and with English slang. If a stock is quoted at ₱0.00—something, the prospective seller can say, "oh, oh". The broker can, after taking his order reply with the Tagalog word for 'yes'. "oh, oh"! At that, it is a little confusing. Your broker tells you that your stock is quoted at ₱0.00.... You say, "oh, oh! Did you say ₱0.00...?" He replies, "oh, oh".

FEBRUARY 1938 GOLD PRODUCTION [1]

	February 1938		*February 1937*	
	Tons Milled	*Value*	*Tons Milled*	*Value*
Ambassador	325	₱ 3,580.00	.....	....
Antamok	19,820	367,901.04	19,634	₱ 423,984.81
Baguio Gold	7,442	127,481.46	6,038	83,453.18
Balatoc	33,891	1,009,794.26	34,461	960,653.60
Benguet Cons.	28,267	918,527.32	22,896	691,105.00
Benguet Expl.	2,556.89	20,366.00	3,641	24,826.00
Big Wedge	3,851	133,903.94	4,092	68,951.55
Cal Horr	5,105	91,651.04	5,149	92,520.52
Coco Grove	287,500 yds.	174,400.00	.....	....
Demonstration	7,992	130,683.03	6,446	122,430.56
East Mindanao	2,294	35,648.09	2,276	44,600.00
Gold Creek	1,196	20,266.19	879	13,745.39
Ipo Gold	5,411	40,289.38	4,693	50,582.38
Itogon	25,184	277,531.38	15,453	237,647.62
I X L Mining	9,153	221,327.94	6,353	152,237.88
Mindanao Mother L.	4,217	112,320.68	.....	....
Masbate Cons.	64,692	304,916.84	46,088	260,917.11
North Mindanao	182 oz.	12,740.00	.....	13,650.00
Royal Paracale	2,178.5	19,950.18	.....	....
San Mauricio	8,417	195,326.65	4,265	173,491.06
Suyoc Cons.	5,602	110,062.41	6,740	87,842.79
Tambis Gold	34,085 yds.	9,114.90	.....	19,810.00
Twin Rivers	24,221	29,370.44	.....	....
United Paracale	8,330	190,896.90	9,522	109,891.58
Total	.....	₱4,558,042.07	.....	₱3,682,356.97*

[1] Figures furnished by the Chamber of Mines.

* Including IXL Argos, ₱30,233.06, Northern Mining, ₱457.14 and Salacot, ₱19,335.74.