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Babson: 1941 to be Best Business Year in History

War to Continue Through Fall

Noted Economist-Columnist Forecasts

Trends in United States for Coming Year

(By Roger W. Babson)

BABSON PARK, Mass., Jan. 1.—A question to discuss before making a forecast for 1941 is: "Will World War II continue throughout the year?" My answer is that it will surely continue at least until the fall. For the purposes of my forecast, this is equivalent to the entire year of 1941.

Germany is storing up huge quantities of arsenic to be used in an attempt to destroy the crops of Great Britain next summer or next fall. If England is also storing arsenic and succeeds in destroying the crops in Germany, the war may end next fall. It is evident that both sides will attempt destruction by arsenic, fire, or otherwise. I say this because the effect of such a crop-killing campaign would be more serious for Germany than for England. England is dependent to the extent of only 35 per cent on her home crops, while Germany's dependence is 90 per cent.

Germany, moreover, is unable to import except by robbing adjoining nations, and hence, must conserve all her own crops. People are not frightened by bombs, as only one person out of many thousands suffers from them; but the fear of starvation will throw a nation into panic. Hence, statisticians believe that the ending of the war in favor of England depends upon the success of the British blockade supplemented by the destruction of German crops.

Let's Look at the Record

Let me say that 1941 should be the best business year this country has ever witnessed. Everything from cradles to coffins, including dividends and pay envelopes, should show a fine gain over 1940. We hear much howling about taxes. When you consider, however, that the excess profits tax on firms with large invested capital does not begin until they earn 8 per cent net, even taxes are not so serious.

Industrial activity directly related to defense will also aggregate about 10 per cent. Thus, in 1941, 20 per cent of our total business activity will come from armaments. I expect the Businesschart index of business to average about 10 per cent higher than in 1940. Notable gains should take place in textiles, shoes, mining, foods, printing, publishing, shipbuilding, building, freight traffic, and many other industries. By spring, business volume will be recording a new all-time high.

It would be foolish to put a definite figure on what the Businesschart index will show in 1941, but I should not be surprised if it averages 125. Estimating the country's income for 1940 at \$74,000,000,000, I forecast a rise to well above \$80,000,000,000 for 1941. The 1939 figure was \$70,000,000,000. The greatest national income to date was in 1929, when it was \$82,885,000,000.

This calls for a reduction in unemployment of 50 per cent, an increase in building of 20 per cent, and an increase in retail trade of 5 to 7 per cent. This means that sales of physical volume of merchandise will show moderate gains, as retail prices will average only slightly higher than they were last year.

Business Will Be Better

I believe that we should have a prosperous 1941 irrespective of our defense program. The big business backlog, the great shortage of

houses, and the unprecedented supply of idle funds are bound to lead to a return of good times. When we add to this fact the tremen-

dous effect of the defense program, the result is staggering.

Not only will the demand for goods be greater during World War II, but our industries are in far better position to handle the business. The automobile industry, for instance, has built approximately 76,000,000 cars since 1918. It is now prepared to build airplane engines and machine guns, as well as trucks and tanks.

The electric-power industry, thanks to President Roosevelt, has covered the country with a vast network of transmission lines, furnishing today power at rates 40 per cent below those of 1918. Our generating capacity is from four to five times that of Great Britain or Germany. Experts say that the war will be won by oil. If so, we are fortunate in having three-fifths of the annual world's production, distributed by over 95,000 miles of pipe lines to all parts of the country.

We have over one-third of the railroad mileage of the world. The physical condition of our railroads has improved as money, which heretofore has been spent on interest, has been put into maintenance. Let us not forget our telephone service which connects 40,000 communities by nearly 100,000,000 miles of wire. All of these items show tremendous increases from every point of view. Whatever may be the truth as to the nation's preparedness for war, it is certainly true that we never before were so well prepared for a great industrial expansion.

What About the Railroads? We have never recommended railroad securities since I spent two years as assistant to the secretary of labor at Washington, from 1917-1919, and fought with leaders of the railroad unions. I came back from there saying that even if any credit should rise from the railroad milk, it would be skimmed by labor and never reach stockholders. Railroad security owners are further faced with severe competition by the truck, the bus, the airplane, and the automobile. Even today approximately 10 per cent of the nation's freight and 25 per cent of the nation's passengers are being transported on rubber. These figures, moreover, are increasing at the rate of about 20 per cent a year, while the percentage of freight and passengers hauled by the railroads is constantly declining. When railroad earnings look good in 1941, this will be the time to get out and stay out. Do not be fooled on the long-pull outlook for news items of rising carloadings and earnings.

Idle Funds at Maximum Peak We enter 1941 with the highest known record of national bank excess reserves—about \$7,000,000,000. This means that banks are in a position to loan billions of additional credit. No such good condition ever existed in our nation before. Our outstanding bank notes are covered nearly 100 per cent by actual gold, while other countries have a coverage averaging only about 10, per cent. More money is being created

ROGER W. BABSON'S WORD'S-EYE VIEW FOR 1941

BUSINESS:	Ten per cent gain over 1940, with defense program in high gear.
TREND:	Present high levels should be exceeded before spring.
POLITICS:	No more New Deal legislation in 1940.
MARKETS:	Gradual Uptrend, but careful Washington scrutiny.
FARMERS:	Income up about 5 per cent, benefits at present levels.
WORKERS:	Employment, payrolls at peak figures.
RETAILERS:	Five to 7 per cent gain in sales; prices slightly higher.
CONSUMERS:	Less than 5 per cent rise in living expenses.
REALTORS:	Residential building up 20 per cent; rents steady.
INVESTORS:	Bullish outlook for selected stocks.
SUMMARY:	Best volume of business in nation's history.

in the pockets of the people today than ever before. The money in circulation in the U. S. as I dictate this column, amounts to \$8,500,000,000.

Dividends are popping like firecrackers. Dividend record sheets show a tremendous expansion in disbursements, equal to the balmy days of 1928-29. It is well enough to talk about the explosives which are being manufactured by the du Pont and other powder-producing plants; but surely some of the statistical explosives on my desk should be the basis of some real fireworks in 1941. I emphasize this so strongly because the defense program has hardly started. Recruit army and navy monthly expenditures have been only about 30 per cent of what they will be during 1941. Construction is just starting on so many of the plants which are necessary to produce hundreds of thousands of needed items and materials, that statisticians estimate it will be the fall of 1941, at least, before we get fully under way.

It is estimated that it cost Germany \$20,000,000,000 to arm. During the five years she was engaged in this, she paid her workers twenty-five cents per hour. If we must pay our workers three to four times this, you see what it will cost this country to duplicate the German war machine. A year from now it will be time enough to discuss 1942, 1943 and 1944; but as far as 1941 goes, nothing can stop us—not even peace talk if it should come in the fall of 1941. The world is entering a new era—industrially, economically, and socially.

Homebuilding Will Continue During World War I, the building of homes was restricted. Contractors were not allowed the necessary cement, bricks, lumber and nails for building homes. World War II, however, is an entirely different war. The building of a hundred-thousand-dollar airplane does not take much material, but rather labor, skill, and time. It is true that we must enter a shipbuilding program—both of naval vessels and merchant ships—but otherwise, there is nothing to interfere with home building. I therefore, forecast that residence construction in 1941 will show an increase of nearly 20 per cent over 1940.

Presumably, it will cost a little more to build a home in 1941 than it has in the past few years; but there is a reasonable available supply of building materials. Besides, masons, carpenters, plumbers, and painters are primarily interested in their hourly wage. Therefore, if they can be sure of finding work every day they should be content with present wages. Another thing: During World War I there was no such available funds as there are today. It was then impossible to borrow government money for the building of homes. All the conditions are entirely different now. Hence, I disagree with those who

say that homebuilding will be shut off in 1941.

What About Congress?

1941 will witness a different Congress than has ever been seen before. This is a very rash statement; but you wait until the year is over. It will be neither a brave Congress nor a rubber-stamp Congress. It just will not know what to do, or what not to do, except to spend money. It will want to help Great Britain, and yet sees so much havoc ahead for both Great Britain and Europe that it will dread getting into the mess. Certainly Congress will be in no mood to vote for declaring war against Germany, Japan, or any other nation. It will be bewildered and afraid to "fish, cut bait, or go ashore."

The new Congress is a conservative body, although it is democratic. It not only dreads war for its own sake, but believes that if we enter World War II, we really will end up with a dictator. This, moreover, is not merely "third term" campaign talk. There is a latent dread of this among the labor and farming elements as well as businessmen. All groups are beginning to see that special legislation—starting with "protective" tariffs fifty years ago—has led from one thing to another until the cure is worse than the disease. They wonder if the answer may not be to wipe all out and start over again.

Cost of Living

Perhaps the most important figures for readers to watch in 1941 are those on the cost of living. During World War I, the cost of living increased greatly; but the prices of farm products went up with the prices of manufactured goods. Since then, however, the prices of farm products have fallen 60 per cent, while the prices of manufactured products dropped only 30 per cent. Prices may increase slightly more during 1941, but need not do so if no group kicks over the applecart.

We are now asked to supply only Great Britain with food and goods; while during World War I we had to supply France, Italy, Russia, Japan, and other nations in addition. The airplanes, which England needs most, do not take a large amount of raw materials. This applies as well to many of our other exports, although not to the ships which England must build here. Concerning food products, which England will need in large quantities, we already have an excess. Certainly there is no fear of a shortage in 1941 of sugar, which in 1920 sold at 22 cents a pound; or wheat, which in 1918 sold at \$2.30 per bushel. Perhaps most important of all is that we have learned much about controlling prices.

What About Wages? In certain lines such as among tool makers, shipbuilders, and plane makers, there will be wage increases in 1941. If by chance the number of unemployed is reduced

from 7,500,000 to a normal figure of 4,500,000, then other wage increases are inevitable. Generally speaking, however, the cost of living should be the answer to the wage question. If the government acts sanely about taxes and if employers are reasonable about profits, then improved manufacturing processes should keep down the average cost of living. Certain materials such as metals, for which there is a great foreign demand, will increase in price; but other items, like cotton, the export of which has been severely cut, should show little change in price.

In short, if we will be reasonable and keep down the cost of living, most wage workers will not ask for more money. It is true that labor leaders usually feel they must get something for their union members each year in order to hold their jobs as labor leaders and collect dues from members. In 1941, however, these leaders will have a good excuse and fine alibi for not doing this. They can "pass the buck" to the government and to Mr. Hitler. I am very serious about this. Let us all, whether employers or wage workers, act in 1941 as if we were in the army, whether or not we have on a uniform.

Higher Payrolls—Fewer Strikes

Total payrolls will be bigger in 1941 than ever before in our history. Even today with 7,500,000 unemployed, total payrolls are higher than at the peak of the past period of prosperity, and much greater than during the silk shirt era of World War I. There are three reasons for this: (1) The United States has 20,000,000 more people. (2) The working week has been reduced from 48 to 40 hours. (3) Hourly wages have increased in nearly every line. Also, inventors and research engineers are making our dollar go further. Hence, when turning his pay envelope into food, clothing and shelter, the man with a job is better off than ever before.

I do not believe any sensible labor leader, wage worker, or employer is going to think of striking during 1941. If the cost of living goes up, then let wages be amicably adjusted correspondingly. I surely forecast no industry-wide strikes during 1941. As to the Communist element, the vote on last November 5 shows this is declining. Even the most radical know what has happened already to labor unions and their leaders in every country but the United States. I

(Continued on page 4)

Banks Legion and Auxiliary to Meet

BANKS—Next meeting of the American Legion Auxiliary will be January 8. The Christmas party, which was planned by the Legion

Scholls Resident Injured at Work

SCHOLLS—Stanford Gotter cut his foot with an ax while working on his acreage and is recovering at the St. Vincent's hospital in Portland.

Eight Epworth Leaguers of the Scholls district attended the District skate at the Oaks Rink in Portland December 27.

Eighteen were present at the home of Mr. and Mrs. Henry Hesse for Christmas dinner. Among those present were Eldon Nelson of Dixie Mountain and Mrs. Maybell Porter, formerly of Florida, who is now keeping house for her brother Ed Cox.

Friday guests at the T. R. Moore home were Mrs. C. C. Triplett and daughter Francis of Corvallis.

Ferd Groner is confined to his home with the flu.

Nineteen were present at the Christmas dinner at the home of T. R. Moore. Among those present were Mr. and Mrs. Will Withycombe of Gaston, Mr. and Mrs. Ed Hatfield, Mrs. Annie Boge and family.

Dora and Nellie Withycombe visited their uncle and aunt, Mr. and Mrs. T. R. Moore, or near Midway during the holidays.

Betty Sue Fristoe visited Donna Williams of McMinnville, during the holidays.

Waldo Flint is convalescing from a badly burned leg received while burning brush on the Flint farm.

and Auxiliary, was postponed on account of illness.

Mr. and Mrs. Oscar Benefiel and three children of Willamina were Friday guests of Mr. and Mrs. Jack Benefiel.

Miss Thelma Williams is spending the holidays with friends and relatives at Roseburg.

Junior Women's Club Plans for Entertainment

NORTH PLAINS—North Plains Junior Women's club members are planning a "Community Good Time" evening for January 10 in the gym. A short program will start the evening's entertainment and there will be games and fun for everyone. Admission is free and refreshments will be sold. Those in charge of the evening's entertainment are Gladys Brown, Irene Langue, and Dorothy Keenon. Everyone is invited to bring the family.

Mr. and Mrs. Robert Johnston and Joan of Silverton were Christmas guests of Mr. and Mrs. Henry Cypher.

Mr. and Mrs. J. R. Sandford and Glen went to Nehalem Sunday to attend a family reunion at the home of Mrs. Sandford's brother, Lee Mead. Fifty-two were present at the dinner.

Mr. and Mrs. Elmer Mays and Elmer Jr. of Yamhill were Christmas eve and Christmas day guests of Mr. and Mrs. Lester Cypher.

Elmer Jr. stayed down for a few days' visit.

The school teachers, R. Hall, spent the Christmas vacation at his home in Corvallis and Mrs. Noreen B. Allyn visited at her home at Beaverton.

Christmas dinner party guests of Mr. and Mrs. Merrill Jackson were Mr. and Mrs. Alvin Batchelor and Mrs. Margaret Batchelor of McMinnville.

Mrs. James H. Davis is ill with the flu. Her father, F. F. LaHaie, who makes his home with the Davis' is in the Jones hospital with pneumonia.

Christmas dinner party guests of Mr. and Mrs. Steve Meek were Mr. and Mrs. Clarke Inkley and son of Portland, Mr. and Mrs. Pat Davis and Ronnie of Seaside, Mr. and Mrs.

John Gates and family of Leisville, Mr. and Mrs. M. M. Harvey, Mr. and Mrs. Robert Meek and family, and Mr. and Mrs. Clarence Meek and family.

LaVelle Jackson, student of Pacific university, is spending the holidays and vacation at the home of her parents, Mr. and Mrs. Merrett Jackson.

Sunday dinner party guests of Mr. and Mrs. Steve Meek were their niece, Mrs. Duke of Craigmont, Idaho, Mr. and Mrs. Fred Meek and Steve Meek Jr. of Portland.

Former Resident of Banks District Dies

BANKS—Word was received in Banks of the death of Sam Burnett Friday evening in San Francisco. Mr. Burnett was a brother of Millard Burnett of Greenville, and lived in this vicinity many years ago.

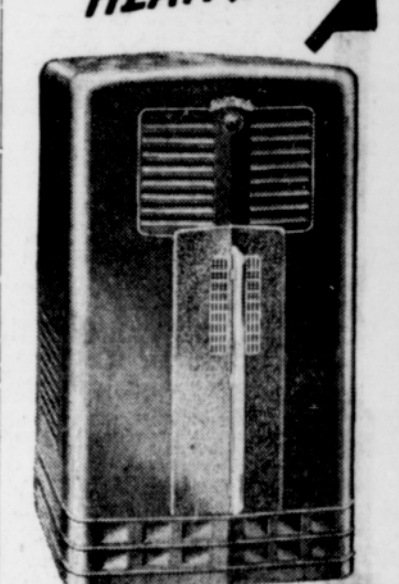
Californians Visit Mr. and Mrs. Dee Stultz and four children of Los Angeles, Cal., visited from Friday until Monday morning with his sister, Mrs. Albert Heard, and family.

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