BEAVERTON ENTERPRISE

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FREEDOM IS FOR BRAVE MEN, SLAVES CRAVE SECURITY.

Babson Says. ...

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The Multiplication Table, as well as the Ten Commandments, is bound to be a factor in bringing this war to and end, but when? The blockade—however—is becoming an important factor, but blockading takes time whether against Germany or Japan.

Uprisings May Come

All of this means that the only hope of bringing World WarII to an end during 1942 is an uprising of the Germans, Japanese, and Italians, or the people of the conquered nations, or of the people of Great Britain, or the United States. To have the people of any of these countries quit and go on a "sit-down strike" would bring the war to an end. I cannot visualize it as coming about in 1942. In this connection let me remind readers of what I said last January regarding the destruction of crops and fuel supplies during 1942. Therefore, I say that there will be no peace in 1942; that many non-defense industries will be depressed throughout 1942; and that business as a whole has already seen its peak. The war may even last two or more years after 1942; but after 1942, two months before it ends no one will forsee the end.

Real Estate Will Hold Firm

Prices of farm lands should strengthen during 1942. Farmers will be more prosperous. The only investment which farmers know is land. Many will be so foolish as to again get land poor as they did following World War I. There also will be some purchasing of small farms as inflation hedges. It looks, however, as if—other than in defense areas—the "small home" industry has about reached its peak and will begin to slump off in 1942.

Ordinarily this should result in increased rents and an increased demand for houses already built. It must be remembered, however, that where a third of the workers will have more wages and want to move into better houses, two-thirds of the workers will have no wage increases. Many will have wage decreases. Some will see their expenses so increased that they will be looking for cheaper homes as well as for cheaper cars. Readers who have real estate which they would like to sell should make a strong effort to sell it during 1942—at least sell enough to get out of debt.

What About Retail Trade?

Merchants in the defense areas should have a good year. I am not so hopeful for those outside defense areas. Certainly, the number of sales will be smaller although the total gross may hold up. Expanding the draft age may have a dampening effect on retail trade later in the year. The new draft call may also cut the labor supply of many industries. Blackouts are another factor in retarding consumer buying. Hence, mechants should increase advertising appropriations if they expect a good year in 1942. I advise mechants to keep down expenses; avoid wage increases; and get out of debt. If someone else offers your employes more money than you are now paying him, let him have such. After the war they will come back to you glad to work for less money than you are now paying. Don't speculate in merchandise. Keep well stocked on standard goods, but avoid style goods which are hard to carry over. Inflation is with us and is gradually increasing prices at the rate of from 10-15% a year. Legislation can check it, but it can no more stop inflation than can legislation stop crime. Remember that when war stops, it will stop suddenly. Therefore, merchants should keep close to shore.

Residential Building will Decline

Residential building during 1941 increased, as a year ago I forecasted it would increase. Hence, I do not like to risk my good reputation now in giving a figure for 1942. I believe however, that rising costs, scarcity of certain materials and the provoking way in which labor has acted is hurting residential building. Surely it will show no increase in 1942 over 1941; while I should not be surprised if it fell back to 1940 figures, —possibly to the extent of 10% to 15%. Public works and highway construction will be less in 1942 than in 1941. The building of industrial plants will continue in good volume during the first six months. Pleasure car production will be cut 50%. General export trade, except for war purposes, will also fall off. This will especially be true in the Pacific due to Japan's attack on us. Remember that as a rule—the curves for residential building, auto production, and non-defense foreign trade generally go in the same downward direction.

Utilities Should Improve

The utility industry is basically sound. With a few exceptions when high-financing crept in, the utilities have been conservatively and efficiently managed. They have been foremost in reducing the cost and improving the quality of their service. Yet for some unknown reasons the utilities have been persecuted, taxed, sandbagged, and strangled as never has any legitimate industry before. When a financial history of the 20th century is written this unjust and unnecessary abuse—climaxed with the SEC "death clause"—will be its big black spot. What of the future? They will continue to grow and improve their service. All the bonds and stocks of the operating companies should be good investments. The bonds and preferred stocks of the holding companies should sell during 1942 for more than present prices. What about the common stocks of the holding companies? Well, those not preceded by bonds and/or preferreds should be okay. In liquidation they should get more than they are now selling for. As for holding company stocks, preceded by bonds and/or preferreds, I have my doubts. Yet some of these at present prices may be worth holding. Price-fixing should help the utilities.

What About the Railroads?

Nineteen-forty-one has been the best year that the railroads have had since 1928. The total gross for 1941 will be about $5,300,000,000 compared with $4,300,000,000 in 1940; while the net for 1941 will be about $925,000,000 compared with $682,000,000 in 1940. The coming year 1942 will show higher figures both for gross and net earnings; but if so, 1942 may be a good time to get out of railroad securities. Yes, get out and stay out. After World War II the railroads are sure to get an awful licking from shipping, airplanes, pipe lines, auto trucks, motor coaches, and private cars of all kinds. Besides, the recent railroad wage award is very unfair to the railroads. The ICC and the Brotherhoods are killing the railroad industry. The sooner the government buys the railroads, the better off investors will be.

Money Rates and Bond Prices

Money rates will stiffen during 1942; perhaps not appreciably, but some. Certainly any change that does take place will be on the upside. The U. S. government cannot spend about $30 billions a year ($575,000 per second) "mostly for fire crackers" without an ultimate strengthening of money rates even though one-half of the sum is raised by taxation. This ultimately means higher yields for Governments and corporation bonds. Certain medium-grade bonds should sell at higher prices during 1942. The money-rate pendulum has swung from high to low and vice-versa for 2000 years. It will continue to swing. The present decline in gold imports foretells the next swing. Gold imports are now running only 25% of 1940, while loans are increasing.

Cost of Living

The official government cost-of-living figures, which will be published during 1942, will show a small increase each month. The reason is that these figures must cover the same items, brands, and grades in order to have them useful for comparative statistical purposes. As a practical matter, however, a family can switch its purchase from sirloin steak to top-of-the-round without any increase in the cost-of-living. The same family can cut down on desserts and save money on both food and dental bills! Hence, there need be no inmanaged families during 1942. This is crease in the cost-of-living for well-especially true as 15% now goes into the garbage pail or is wasted in other ways.

Will Wages Be Frozen?

Some engaged in the defense industries may get wage increases during 1942; but not more than enough to offset the rise in the government's cost-of-living indices. Certain concerns engaged in the non-defense industries will be obliged to pay key people a little more to hold them. The great majority of workers in the non-defense industries will get no increases in 1942, while some will get their wages reduced. The year 1941 saw the peak of strikes and wage increases. The Canadian labor policy may be adopted by our Congress. The law of supply and demand is still working. Cost-of-living in the defense areas may have already seen its peak. The new workers who are flowing into these areas may so flood the market as to prevent further wage raises. Besides, I'm in hope the government will discuss a supplementary table of living-costs after providing for switches in purchasing and waste elimination.

What Will Congress Do?

My forecast a year ago as to what Congress would do in 1941 was 100% correct. Now, I am surer of my ground. When Congress declared war it performed its most important single act until peace comes. From here out it will become of necessity somewhat of a rubber stamp. War emergency powers of the President will require but little action on the part of Congress. Remember that there are important Congressional Elections on November 3, 1942. Incidentally, the results of these elections will be very interesting to watch. They will give us a goodclue as to Republican chances in 1944; but this is something for me to discuss a year from now. There is another possibility, namely, the enacting of labor control legislation such as Canada has adopted.

Price Control and Rationing

If price control legislation is enacted in 1942, it will not be very successful. Price control, **without rationing**, is usually a failure. Of course, the entire set-up appears cock-eyed to me. For instance, the purpose of the price control is to prevent inflation and to discourage the purchase of non-essentials. But, does keeping prices down discourage purchasing? No! The way to discourage purchasing is to let prices rise. But, you ask: How about the prices of essentials such as food? Well, strange to say, the prices of farm products are not being controlled! Even wages are omitted "because we cannot force people to work" and yet wages are the most important factor in setting prices. Bernard Baruch is correct when demanding the freezing of everything on a given day,—commodities farm products, wages, rents, interest, and profits. Fine! But how can such a law be enforced? Remember the boot-legging during prohibition days and apply this to 100,000 articles! The answer is in having price control apply to a few essentials and **then ration these essentials.**

Social Security Legislation

There will be a new tax bill in 1942. It will somewhat increase corporation and personal income taxes, but not seriously. Let me again remind readers that all the Congressmen and one-third of the Senators will be up for re-election on November 3, 1942! There will be a serious attempt by the anti-inflation group to further tax luxuries and unnecessary non-defense products as the easiest way to raise money.

Social Security taxes on wages will be another easy way to get funds. They are really a sales tax of the most vicious kind; but the name and promises which go with them make them very difficult for Congressmen to oppose. "Social Security" is a poisonous pill, sugar-coated. The United States can easily commit suicide by taking too much "Social Security" poison. Of course, one fair way to collect more money would be for Congress to put an excess profit tax on wages identical with the present excess tax on profits. This would both raise the needed funds and put an end to the labor racket for the duration of the war.

Rents and Strikes

Rents will not decline during 1942; but whether to make long or short leases, is debatable. Those owning large, old style houses should sell them during 1942 for any price they can get. I say this because of the action of carpenters, brick layers, plumbers, and painters who are fast killing the geese that lay their golden eggs. You can no longer afford to make over a large, old house into apartments as you once could. Again I say—try to get out of debt during 1942.

There will be fewer strikes in 1942. The strike business has its "ups and downs" like the stock market. Labor leaders, like Wall Street bankers, strike while the iron is hot; they speed up while the going is good. With both labor leaders and bankers, their jobs are purely a business. The "business" of the average labor leader will not be so good in 1942 as in 1941. As the tax payers of the nation and this includes every reader of this column) realize that during 1941 they lost about 200,000,000, man-days (or five times the loss during 1940) the American people will wake up and stop this nonsense. Statistics show that 1941 had 3,500 major strikes involving over 2,200,000 workers. This is about double the average of the preceding five years. Congress should insist on a secret ballot by workers before a strike can be called.

Farm Prices Will Be Better

I estimate that if farm prices are not controlled, the farmers in 1942 may receive an increase of 20% over 1941. This could increase the national income 10% and raise farm consumer purchasing power to nearly double what it was a few year previous. Cash farm income in 1942 should reach about $13,000,000,000—the highest since 1920. This figure compares with $11,000,000,000 for 1941. and $9,000,000,000 for 1940. During 1941 food prices increased about 12% but 1942 should show a distinct tapering off of this upward curve. By substitutions and the elimination of waste, most people can absorb this food increase without either further wage increeases or a reduction in wage increases or a reduction in

High Living Standards

Readers who are squaking about increased prices should remember this fact:—Considering 1929 wages and living costs at 100, the wage index has gone up to 106 while the retail cost of food has dropped to 80. In other words, the average American has today left over for non-food purchases $1.045 compared with $887 in the boom year of 1929. To put it another way, all wage workers are at least 20% better off today than in 1929. What possible excuse is there for more strikes or even wage increases? These high standards will hold up during 1942, notwithstanding our war with the Axis Powers.

Firmer Commodity Prices

Wholesale prices will average during 1942 over the "1941 average". But do not get excited! These prices are now about 10% below the 1926 level which the U. S. Bureau of Labor Statistics considers "normal". Those who expect a less-than-10% increase point to (1) the large stocks of food supplies, raw materials, and merchandise now on hand; (2) the heavy advance purchases which consumers made during 1941 which could keep them going for some time. (3) The high taxes of various kinds which 1942 is to witness together with the curtailment of installment credit; and (4) a gradual increase of unemployment in the non-defense indlustries.

Those who expect a greater-than-10% increase point to (1) the steady decline in available non-defense goods regarding defense materials the making of which goods will be curtailed; (2) the increased purchasing power which will come from the farm sections even if wages in the war industries are no longer increased; (3) a shortage and speculative buying and hoarding which cannot be prevented. Psychology and fear are more potent than law; (4) the fact that higher taxes and more bond sales will result in greater disbursements which must come back to increased purchasing and higher prices.

I believe that these eight reasons about balance one another and that the net result will be an increase of not over 10%, as above indicated. This however, does not necessarily require an equal increase in the cost-of-living for careful housewives.

Stocks to Go Up?

The stock market was a "selective market" during 1941 and will probably continue to be such during 1942. While the market as a whole was declining, certain stocks were moving upward. Among these were war stocks, movie stocks, motor coach stocks, chewing gum stocks, soft drink stocks, and certain chain-store stocks. On the contrary, the stocks of companies making mostly refrigerators, oil burners, auto parts, and the like have declined much more than the average market. This has also been true of the electrical appliance stocks and the "small-loans." stocks. As declining stock prices came in 1941 accompanying advancing business activity, it is logical that advancing stock prices should come in 1942 accompanying declining business activity. Certainly stock prices will recover sharply from present quotations even if not topping 1941 highs. The companies to buy into are those which are having no government interference. Fire-insurance stocks look good to me for 1942 investments. Besides, they should be a good inflation hedge.

Defense Costs for 1942

During the calendar year 1941 our government spent about $16,000,000,000 with revenue of over one-half this sum. It is estimated that this will be nearly double in 1942. I estimate the government debt increased during 1941 about $12,000,000,000. Bankers recently estimated that on December 31, 1942, the government debt will be about $65,000,000,000 compared with only $20,000,000,000 in 1922 and less than $2,000,000,000 in 1917. As a result we are slowly approaching state capitalism. The Federal Government may sometime control banking, transportation, and farming. I am bearish on long-term government bonds.

England is likewise increasing its debt by leaps and bounds. This makes me wonder why we talk only of an uprising in Germany. Could not the English, Japanese, Italians, or even American people get tired and quit? In this connection let me say that according to the U. S. Chamber of Commerce, U. S. taxes in 1941 were higher than English taxes whether measured on a **per capita** or percentage basis. My estimate for U. S. federal, state and local taxes for 1942 is $25,000,000,000. This gives a per capita figure of about $180—for every U. S. person; while the British figure will be only $173 per person. Based upon national income, it is estimated that U. S. taxes take 25% of our national income while the British taxes will take only 22%.

Closing Warning

Just a word to various groups who read this forecast: (1) To manufacturers and investors:—Get out of the objective case. Stop kicking, but help more to row the boat. If we believe in "private enterprise" show more of this enterprise in your own plans and policies. If you love personal liberty, be willing to fight for it, to be taxed for it, and accept the risks that go with it. If you wish to avoid having the government make employment, make it yourselves. There never was any cyclone cellar for private property or for private enterprise.

(2) To wage workers and others: —Smash the racketeers whether in labor circles or government circles. Insist that workers shall vote by secret ballot as to whether or not they shall strike **after** hearing arguments from **both** their labor leaders and their employers. (I am willing to agree that no corporation be allowed to put on a "lock out" without a similar vote by its stockholders.) I beg labor in 1942 to encourage the department of Justice in eliminating all rackets.

(3) The Babsonchart shows total U. S. business today at an all-time high. Production and consumption records are being made all along the line. More are employed and at higher wages than ever before. But if 1942 is as good as 1941 we will be lucky.

We should work, study, and cooperate as never before! On our shoulders rests a great responsibility. This is no time for politics or pettiness in any form. The stakes are too high. The very life of our country and our way of living hang in the balance. Let us join wholeheartedly in giving our all to serving humanity in this, its hour of need. Only real sacrifice, effectively co-ordinated, can tip the scales for righteousness and insure security. The fight calls for all we Americans can give of time, money and blood. Most of all it means that we should ask of God forgiveness for our past selfishness and wastefulness. Let's begin the new year with an honest prayer that each of us as individuals shall be better men and women.

Defense Bond Quiz

Q I am a machinist in an airplane factory. When the war is over I may be laid off. How can I prepare for that time?

A Make systematic and regular purchases of Defense Savings Bonds. They will give you a substantial reserve which you can fall back on in the period of readjustment after the emergency.

Q To what very large group of Americans does the Government look particularly for extensive buying of Defense Bonds and Stamps?

A People in the middle and lower income brackets, where many of the most rapid increases in national earnings have taken place. This immense part of our population can be especially effective in reducing national purchasing power by buying Bonds and Stamps, thus aiding the country's defense program, while helping to keep down the cost of living.

NOTE—To buy Defense Bonds and Stamps, go to the nearest post office, bank, or savings and loan association; or write to the Treasurer of the United States, Washington, D. C. Also Stamps now are on sale at retail stores.