Remarks by Emil Schram

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BECAUSE of renewed interest in the securities market, as evidenced by the revival of activity after a prolonged period of dullness, a number of questions are being raised today as to the significance of the increasing demand for the securities of our publicly-owned enterprises such as those listed on our Exchange. The question uppermost in the minds of most people today revolves around the problem of inflation. There is a belief in the minds of some that the stock market is largely responsible for inflation. It is my intention today to examine some of the realities of this subject.

It is quite clear that the erroneous belief that the stock market is a primary source of inflation is being deliberately fostered. Certain public officials in Washington have professed to be alarmed over the "psychological factors" contributing to inflation. According to a Washington dispatch published in The New York Times of January 30, these officials have ascribed the existence of a "psychology of inflation" to rising prices in the stock market. Now I have no intention of apologizing for the behavior of the stock market in the face of conditions which, unless corrected, make inevitable a more dangerous form of inflation than we are now witnessing.

True, the market is registering the apprehensions of the American people. And, under the system of price publicity which the New York Stock Exchange long ago established, these apprehensions cannot be hidden any more than can the performance of a weather vane or of a thermometer.

I do not for a moment underestimate the psychological factors in a situation such as that which is developing, but if these influences are to be neutralized we must concern ourselves less with outward manifestations than with policies which have sown and are still sowing the seeds of inflation. Many people are putting money into securities because present national policies, or lack of policies, are tending to undermine their confidence in the future value of the dollar. Only the Government can preserve the people's confidence in the integrity of our currency.

Please do not misunderstand me. The fear of inflation is by no means the only element in the current interest in securities. A great many people feel that we are passing through a temporary phase of readjustment and that this country will, in time, work out of its difficulties as it always has in the past, and that American common sense again will assert itself for the lasting benefit of this country and the world. Mind you, I am expressing no opinion as to whether the market is right or wrong in its estimate of present conditions and future prospects.

The stock market records each day, for all the world to see, the ebb and flow of the country's hopes and fears with respect to our economic well-being. Our market is constantly exposed to the spot-light, as a free market should be. All of us recognize that realized profits, whether in securities, real estate or any other property, enlarge the inflationary potential—a fact which no one can deny. But when this is conceded, the fact remains that the advance in stock prices and the activity in the market, to the extent that inflation is a motivating consideration, are no more than symptoms. If we are to check inflation, we must attack the basic causes, which are far removed from the surface reflections of the stock market.

Being the very sensitive index that it is, the market is obviously registering the opinions of large numbers of people with respect to the stresses and strains that are apparent everywhere as we attempt to make the great adjustment from war to peace.

It is all too plain that a substantial amount of inflation already has taken place. The power to prevent a further extension of inflation rests with the Government and only sound governmental policies can save us from approaching danger. I can offer no panaceas, no painless methods to avert this danger. Nor can anyone else.

The danger, though great, is susceptible of control. To prevent runaway inflation will require resolute steps by Congress and the executive branch of Government in various directions. The Government has yet to come to grips realistically with the kind of fiscal policies which the times demand. The same is true with respect to the relations between labor and management and also with respect to the procedures for lifting *unnecessary* controls that will release our great productive capacity in order that it may supply the needs and wants of our people.

It is a function of the securities market to reflect the concern which these difficult problems are causing. It is absurd to blame the market for giving expression to the anxieties that are in the public mind.

In a moment I shall recall to you the words of Marriner S. Eccles, Chairman of the Federal Reserve Board, when he announced, some time ago, a Reserve Board ruling that securities must be paid for in cash. This action of the Reserve Board was an unblushing discrimination against a form of property owned by many millions of American citizens. It is not my purpose at this time, however, to discuss this discriminatory action, except to point out its futility as a brake on inflation.

Under the powers conferred by law upon the Reserve Board, that body was expected by Congress to use its authority to prevent the excessive use of credit. The Reserve Board was well aware of the fact that only a comparatively small amount of credit was being used at the time it decided to make securities, for market purposes, valueless as collateral. The Board could have had little, if any, concern over a possible excessive demand upon our credit resources. The purpose, obviously, was to reduce the volume of dealings in securities. And it could have been under no illusions even as to the effectiveness of its action in curtailing such dealings.

Events subsequent to the decision of the Board to place the stock market on a cash basis have illustrated eloquently the fact that this was no more than an empty gesture. Judging by what has happened, I should say that the Reserve Board's ruling has had the effect merely of fanning the flames of inflation. This ruling was interpreted as official notice from the highest authority that inflation was upon us. The ruling was also interpreted by many unthinking people as a genuine effort to control inflation.

In the light of the frank and realistic appraisal of the situation by Mr. Eccles, we cannot fairly accuse the Reserve Board of an attempt to make a culprit of the stock market. Nevertheless, the Board's action did focus public attention upon the market in such a way as to lead many people mistakenly to believe that the Government was taking vigorous steps to control inflation; that the stock market was an obstacle to such control. This is most unfortunate for unless the American people are awakened to the underlying conditions tending to create inflation, the necessary remedies may be delayed too long. To admonish the stock market may have a temporary diversionary effect in taking the heat off of Washington, but it will require stronger and more courageous measures to save this country from the blight of inflation.

With refreshing candor, which other public officials in Washington would do well to emulate, Mr. Eccles said:

"The primary source of the inflation danger which overhangs the domestic economy on all fronts is the vast accumulation of currency and bank deposits at the disposal of the public as a result of the fact that far too much of the cost of the war was financed through the creation of commercial bank credit and not enough was financed out of taxes and the savings of the public. * * *

"It is important to point out that so long as the public debt continues to be monetized through the purchase of Government securities by the banking system the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds."

The policy of financing the war on a low and stable level of interest rates has had a large measure of public approval, but the further decline in rates over the past year, and particularly since the Victory Loan, is both a symptom and a source of mounting danger. It is a symptom of danger because it reflects expansion of credit and purchasing power at a time when goods are scarce and when one of our main problems is the control of inflation. It is a source of danger because declining interest rates aggravate the tendency for government debt to pile up in the banks and thus add to the inflation of credit.

While low interest rates may cheapen the cost to the taxpayer of carrying the Federal debt, they are a levy upon everyone who saves. They affect millions of people by making insurance more costly, by cutting the yield of savings deposits, trust, and pension funds, and by reducing the income of charitable and educational institutions. They contribute to a general lowering of investment standards and practices as investors search for income. They discourage individual thrift and are definitely inflationary in encouraging the flow of money into stocks, real estate and commodities. And when people cannot get a reasonable return on sound investments they turn to riskier ones. Those in the securities business see every day money going into highly speculative stocks that ought to be going into government bonds. The longer this continued driving down of interest rates is countenanced and accelerated by official policies, the more trouble we are storing up for ourselves in the future.

Our generation has witnessed the evils of extreme inflation and deflation. We could hardly devise a more certain way than a repetition of either to insure the desertion of the middle class—the stabilizer of our society—from its loyalty to our traditions.

Those responsible for the policies which are inviting inflation must be aware that the danger can best be minimized by increased production of goods. To discourage production because of doubt over the exact profits that might result could precipitate further maladjustments, because consumers in a buying mood will buy.

Our present tax structure has developed piecemeal and reflects attempts to meet emergencies. Specifically, the tax system seems to be geared toward the penalizing of venture capital in its treatment of interest, profits, and dividends, as well as capital gains. Our tax system has encouraged the constant tendency to invest funds directly, or through financial institutions, in fixed interest obligations. But interest, in the end, must be paid from the results of economic activity, and the activity will not be undertaken unless the risk-takers have some encouragement.

If I were asked to list the prerequisites to the establishment of a sound and healthy economy, I would put them down in this order:

1. Assurances of a balanced Federal budget and the end of deficit financing. And I would like to see some old-fashioned bookkeeping practices used when the balance is computed.

2. A definite program of debt retirement.

3. Tax legislation that would encourage the flow of capital into productive enterprise.

4. A national labor policy under which the employer and employee would be treated as equals.

5. The development of a friendly attitude on the part of Government toward business.

A prosperous nation will assure to our Government abundant federal revenues. In turn, adequate revenues and reasonable economies in government are our best assurances of sound government credit. Prosperity is geared to quantity and quality production of goods—the natural brake on rising prices. It is in the fertile field of production and profits that we plant the seed that encourage the orderly creation of wealth and the broadening of the invested capital base of the nation. Upon these cornerstones rest a healthy and vigorous economy.

In conclusion, may I leave one thought with you on the subject of inflation as it relates to the securities market. It is my opinion—and I realize that it conflicts with that of a great many people—that investment in common stocks and other securities is sound only to the extent that the dangers of inflation are avoided. Nothing that is bad for the economy of this country is good for securities and anything that is good for America is good for the shares in American industry. Sound values in business rest on a healthy national life. In the event of disastrous inflation, the stock market will provide no storm cellar of protection and American corporations will suffer along with the rest of the American people. That is why we are so anxious that intelligent measures for the prevention of further inflation be adopted without delay.

Now a final word about the New York Stock Exchange. We are constantly driving home this fundamental principle—that, although access to the market is open to everyone, its facilities should not be abused. There is no easy road to wealth—in the investment of money or in any other legitimate activity. The desire to get ahead, to create a competence, is one of the most commendable of American traits. But to try to get rich quick is not commendable. Moreover, it is extremely dangerous and it is a reflection upon the intelligence of those who attempt it. Facts are the only trustworthy guide in the buying and selling of securities. Facts are available as to the financial condition of the companies listed on our Exchange. Those who are unwilling to rely upon facts in judging values, and those who cannot afford to take risks, should stay out of the market. I invite the assistance of this group in spreading that message. It will redound to the benefit of us all.