main problems have been caused by boom and overstrain could well be coming to an end, and in the 1960s the trouble may not be inflationary pressure, but a deficiency of demand.

Surplus Capacity in Europe

Taken in conjunction with the emergence of an obstinate unemployment problem in the United States, and the growth of surplus capacity in industry after industry in Western Europe, the weakness of security prices suggests that a fundamental change is taking place in the economy of the West. Therefore, the traditional financial virtues will need reappraisal. This brings into prominence the recent debate that has been going on between expansionist economists and financial puritans in both the U S and Britain. The ability to cope with the new world of Insufficient rather than excessive spending will be a decisive test for the viability of Western capitalism. Can capitalism avoid the tragic part of unemployed men and machines side by side with unsatisfied human wants as conditions of chronic surplus emerge?

The main difficulty for America in following the group of economic advisers, headed by Walter Heller, who want to pump more purchasing power into the economy to make sure that increasing output can be sold, is that this might lead to a risk that a change in the dollar price of gold might one day become necessary, and this is one of the traditional shibboleths which the Americans find hard to abandon.

Inadequate Monetary System

That the Bretton Woods monetary system is hopelessly inadequate is becoming increasingly obvious. Problems of liquidity and the uneven distribution of the world's purchasing power must now really be faced. The present system is naturally unstable, based as it is on too little gold, secondary reserves which command no real confidence, a volatile fund of "funk money" moving freely from one financial centre to another, combined with nervous international stock markets. This could lead to a very dangerous situation.

There is little doubt that in the immediate future, the feeling of uncertainty will remain and both businessmen and consumers will be reluctant to extend their commitments. One of the main risks is that periodic financial crises) will undermine business confidence. Swiss businessmen, who have seen their stock market fall by 20 per cent in six weeks, and some leading stocks fall by 25 per cent in one day. arc not likely to be in an expansionist mood. The general feeling is bound to put a damper on business investment plans and on consumer spending intentions, certainly in the U S and to some extent in Britain and other European countries too There is no doubt that business confidence in the USA has been shaken — the further fall in Wall Street on Monday of this week is but another indication of this fact—and any slowing down of the U S business recovery is bound to have a considerable effect on the level of commodity prices arid on world trade.

Demand Stimulation : How?

This naturally raises the question of whether the stock market slumj) will generate a more general economic recession as it did 32 years ago. But 1962 is not 1929 and capitalist Governments to-day, although unable to prevent the unstable swing from boom to recession, have a whole panoply of instruments to combat a real slump consisting, in the main of the Keynesian countercyclical measures to stimulate demand and consumer spending, including large public works and deficit budgets. How quickly Governments will set about using them depends on the tenacity of the exponents of financial orthodoxy. An equally critical question is whether demand stimulation will take the form of an intensification of the arms drive, or whether it will lead to channelling of larger aid funds to the developing countries of the world, hungry for the products that can be made by the idle factories and labour and spare capacity of the West.

Behind Wall Street Crash

Ajit Hutheesing

JUST three months ago an Amcrican colleague in Wall Street observed that the recurrence of a 1929-type stock market collapse was impossible. He argued that condition? prevalent in the capital market in 1929 which brought about the crash arc no longer possible. The present cash requirement ('margin') is 70 per cent on new purchases of stock against the upto 20 per cent requirement in 1929. Also, the creation of the Securities and Exchange. Commission (SEC) in 1933 to protest the investor's rights and maintain an orderly market has done much to prevent a repetition of the widespread misconduct and misrepresentation, of the twenties. Other important dincrences too could be cited to substantiate the argument. Nonetheless on 'Black Monday'. May 28, 1962, there was panic on Wall Street and the market collapsed in a manner bearing some resemblance to the 1929 debacle. The question must be asked. "What went wrong on Wall Street?"

Recession Psychology

It is important to examine the context in which the problem finds its roots There can be no doubt that any elaborate comparisons with 1929 would involve false reasoning. Apart from the controls established in the stock exchanges since then, the United States economy is tightly regulated today. In recent years, the pundits of Wall Street have reacted to a "bear" market by giving events a curious optimistic twist. ,"It will separate the men from the boys" or "I have been waiting for an opportunity to buy depressed situations" were the sort of remarks heard with monotonous regularity* A detached observer once jokingly retorted, "But what happens when the cash is separated from the men?" The question, which was then treated with disdain, has now received serious consideration.

An agonizing reappraisal of the forces at work in Wall Street has been long overdue. How is it that

the market continues to wither at a time when economic indicators in general are pointing upward? A number of national and international political issues can be offered as standard explanations, but these cannot account for the whole problem. There are other more refreshing, if debatable, opinions that are just beginning to receive public exposure.

One theory contends that a "recession psychology" has begun to influence market cycles. There have been four notable recessions in the U S A , since World War II. The first, immediately after the war; the second followed the Korean War (1953); the third in 1957; and the most recent one in 1960. From this one can see that the period between the recessions has been narrowing. Some US economists are now predicting a mild recession in 1963. The stock market, which is supposed to anticipate the trend of the economy, found itself pulling out of one recession in 1960-61 only to discount another soon thereafter.

Another development which is said to have kept the market buoyed up was the election of a Democratic President and Congress, with the economic implications of increasing inflation. Those who anticipated an 'inflation boom' earlier suddenly decided that the current attitude of Government to business ruled out any possibility of it now. The lack of understanding of terms such as 'inflation' and 'recession'. even among the professionals, goes a long wav in explaining the whimsical swings of the market.

"Glamour" Industries Disappoint

The prolific, discoveries of new scientific wonder products gave stimulus to the imaginations of the professional as well as millions of investing Americans. Companies in the "glamour" industries found their share prices rising to dizzy heights, with price: earnings ratios in the astronomic regions of up to 100. But gradually came the realisation that scientific inventiveness does not immediately bring commercial successes. At the same time, the increasing competitive threat mainly from the Common Market countries and Japan, served to remind Americans that prices in the future would be determined on an international competitive market but wages and other costs would be determined at the national level. The years of automatic growth and prosperity were now matters of historical significance only. The scene was set for general dis-illusionment.

The dramatic fall on 'Black Monday' followed by the equally sensational rise on Tuesday showed clearly that uncertainty and emotion were the dominant features of the market. To predict the short-term performance of such a market would be to attempt to compound the emotional outbursts of the public in the hope of finding a single resultant behaviour. It is more readily possible and constructive to be a "bear" in an effort to examine the consequences of a continuing decline in Wall Street prices and the associated multiplier effect on the whole economy.

Selling by Unit Trusts

Among the real danger signals in a rapidly declining market would be the enforced selling of shares by Mutual Funds (Unit Trusts). The total net assets of all Mutual Funds in 1960 were in excess of $ 17 billion The pressure on such funds would be generated by very large numbers of shareholders exercising their redemption privilege, thereby exhausting the liquidity of the funds and forcing them to sell. There can be no doubt that the remarkable growth of Mutual Fund* and Pension Funds in the fifties pumped millions of investment dollars each year into a limited number of "growth'' stocks. Present conditions indicate that these funds may very well turn out to be their own worst enemies.

The dire repercussions of falling share prices on the ability of American industry to embark on a campaign of major capital expenditures for modernising or expanding plant and equipment are obvious. There is still a good deal of unused productive capacity and it will probably take substantial tax inducements together with renewed stabibility in the market before businessmen are tempted to upend amounts close to those forecast by Government experts. The recent disenchantment of industry with Government has jarred confidence and could very well stimulate a chain reaction in which the next link would be the consumer. Purchases of cars, houses. etc would be put aside for greener years affecting industry sales and profits. How then can the economy be supported at current levels — quite apart from any consideration of growth?

Influence of Wull Street

The remarkable influence of Wall Street on world stock exchanges was never better illustrated than in the dosing hours of May. London. Paris, Frankfurt, Zurich, Amsterdam, Brussels, Milan, Melbourne and Tokyo performed the "twist" to the dissonant tunes from Wall Street, The detrimental effects of a serious set-back in the United Stales economy could readily spread to the developed and under-developed economies of all continents. A diminishing How of direct investments from the I S ; the revision of U S Government's foreign aid programmes by an increasingly jittery Congress; import restrictions affecting vital exports to the United States from countries like Japan, Germany and the U K, and so on. These eventualities highlight the problem in its gravest form.

One should add in haste that, at present, there is no need to fear an economic crisis in the United States. Economic indicators have continued on an upward trend, if less vigorously than bad been predicted. The most recent announcement of improving balance of payment and unemployment figures should have some bearing on the near-term performance of the stock market. But whatever the future prospects, the May upheaval should serve some useful purpose. It is hoped that the glib comments of so many Wail Street pundits will give way to a more reflective approach in an effort to increase the usefulness and accuracy of the stock market as an indicator of industrial hopes and fears. The market is down to a level where prices are more in line with traditional concepts of "value", There has been a market correction which under less emotional circumstances would be considered healthy. The crucial element of business and public 'confidence" will now be under anxious surveillance and its restoration might help bring to the American scene an improved climate for sound economic growth and prosperity