

Free Exchange Markets Indicate Stabilization

The Removal of Restrictions Upon Exports of American Capital Points to International Currency Adjustments; the New York Stock Exchange Approves Federal Regulation

By ROBERT WINSMORE

CLEARED of all ifs and buts, the Administration's abrupt removal of restrictions on dealings in foreign exchange is unquestionably a step toward international currency stabilization. Beyond that, there is reason to believe that the step was deliberately taken in preparation for such stabilization, planned for no distant date.

To be sure, there has been no actual embargo upon exports of American capital through purchases of foreign exchange. The permissive Treasury Department licenses that have been required for the past twenty months have caused restrictive delays, but none has been finally refused. Even gold for export has been readily supplied by the Treasury when called for by foreign exchange rates.

Nevertheless, the Government's continuing supervision and readiness to halt the outgo of capital to other countries at any time has stood squarely in the way of the free international flow of funds and credits that is a primary requisite of currency stabilization. Now the barrier has been removed and the way cleared. It was erected because of a national emergency, and the emergency is past.

There are other implications. Administration purpose to make further experimental devaluation of the dollar seems to be clearly denied by this lifting of restrictions which would be necessary to prevent a resultant flight of capital. Such denial, in turn, might be interpreted as further proof of new Administration conservatism, and as post-election declaration thereof to inflationists and other radicals in Congress. Moreover, there is a suggestion of desire at Washington to contribute aid to struggling nations of the gold bloc by bringing international stabilization into sight.

Of outstanding importance, however, is the relation of stabilization to revival of international trade, which has suffered no less from exchange restrictions and fluctuations than from tariffs, quotas, embargoes and the like.

The share of the United States in that trade has fallen to 25 per cent. of what it once was, and to 10 per cent. of the world's total. Recovery of only a part of such loss would be a great aid to domestic industries, a great reducer of domestic unemployment.

For that reason, if for no other, the Administration's abandonment of its exchange market curb, with the implied call upon other nations to do the same, is an event of high significance and encouraging omen.

Wall Street cynics grinned broadly last week when President Richard Whitney, of the New York Stock Exchange, made occasion to speak with almost loving admiration of the month-old Federal regulation of the stock market. The principles and objectives of the new Securities and Exchange Act, he calmly declared, present no conflict, but are identical with those to which the Exchange and its written rules have long been wholly devoted. The Exchange does not regard the now dominant SEC as a taskmaster, but as an aid in promotion of ever-desirable practises.

**Federal
Control
Is
Welcomed**

The new order will not permanently restrict the volume of Stock Exchange trading. Restraint upon unethical speculation by corporation insiders will not materially curtail market activity, since such speculation never did constitute an important part of the market, having been grossly exaggerated in printed stories.

Imprudent speculation by those of small means will be diminished only to the limited extent that prudence can be defined and that those of small means will themselves ignore imagined opportunities for profit. Prevention of abuse of credit in the stock market can operate only when there is such abuse, which heretofore has been largely a fantasy of popular misconception. Then, too, the new law may be amended and modified when necessary.

Thus Mr. Whitney, official spokesman, with implication that the Stock Exchange's long and bitter and expensive struggle to avoid Federal regulation was rather a mistake after all, and that in defeat lay victory. He deplored the assumption of unwarranted market risks by bootblacks and laundresses, spoke admiringly of traders who are suffi-

ciently sophisticated to know that prices can legitimately go in two directions, and added an apothem. "Speculation," said he, "is a social evil principally in the eyes of people who have lost."

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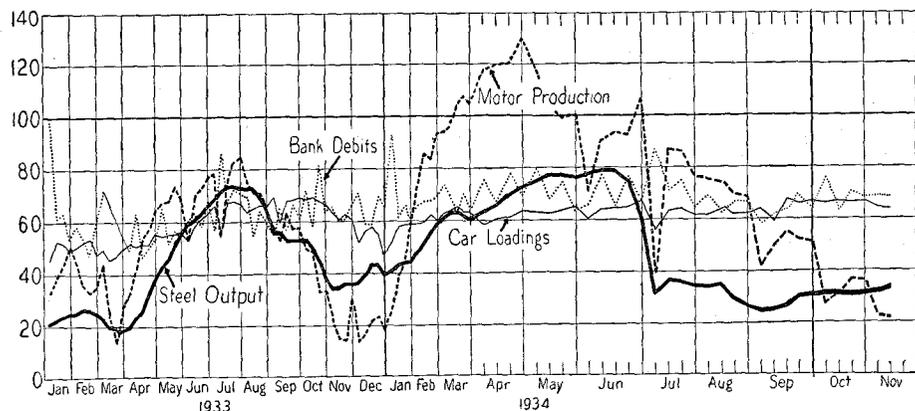
Fear of Federal taxation of their surpluses has become wide-spread among corporations, and the stock market is looking forward to many fat extra dividends during the next few months. Several large distributions to shareholders have already been announced, one of the most noteworthy recently being that of 100 per cent. in stock by People's Drug Stores. Various other concerns having more or less Wall Street prominence are known to be considering similar escape from the tax danger by dividing their accumulations among owners of their shares.

All Federal revenue acts during the past twenty years have included an undivided corporation surplus tax in one form or another, but the penalty has rarely been imposed by the Government except where purpose to save individual stockholders from surtaxes on personal income has been too apparent to be ignored. Now, however, it is being variously indicated that the tax is to be levied upon all corporations whose accumulations are larger than the Treasury Department considers "reasonable." Naturally, therefore, many companies are considering the advisability of making new capital expenditures with one hand and distributions to shareholders with the other.

Another phase of the tax situation that should be noted at the moment is the likelihood that this year the usual year-end "tax

**Two
New
Tax
Effects**

**Stable
Currencies
in
Prospect**



Four Indicators of Business Activity

This chart shows in percentage of deviation from the basis of weekly average for 1923-1925, inclusive, steel ingot production in percentage of total plant capacity, total freight car-loadings, bank debits outside New York City, and automobile production. It covers the week ending November 10



Artist's conception of a family encamped in Golden Gate Park after the fire had burned their home

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Massachusetts' League of Nations Poll

At Least 62 Per Cent. of a Truly Representative Cross-Section of the State's Population Favors Membership

How do the American people stand on the issue of United States entrance into the League of Nations? An official referendum in Massachusetts—home State of the late Senator Henry Cabot Lodge, arch-opponent of American membership in the League, has just been taken.

Of a total 217,421 Massachusetts citizens voting on the question at the State election on November 6, 135,485—or 62.31 per cent.—registered their desire for the United States in the League. Of the 115 Massachusetts cities and towns where the referendum was on the ballot, but four returned negative majorities.

Descendant of the old New England town meeting, Massachusetts has its Public Policy Question Statute. Under it, any State Representative District, on petition of 200 of its citizens, or any State Senatorial District, when 1,000 citizens petition, must put on its ballot at a regular election any given question of public policy.

The League of Nations question asked:

"Shall the representatives in the General Court from . . . be instructed to vote to request the President and the United States Senate to enter into full cooperation and membership in the League of Nations, with the explanatory reservation that the United States shall not engage in war with any nation except by vote of Congress as provided in the United States Constitution, and such other reservations as they may deem wise?"

This appeared on the ballots of thirty-six Massachusetts Representative Districts. While only about one-fourth of the districts of the State, these are located in every region from the Cape to the Berkshires, and included at least a part of every county, except Dukes and Nantucket—sparsely settled island counties. In several instances, such as in Boston, Cambridge, and Brockton, district lines divided municipalities so that the referendum was on the ballot only in certain wards.

Comparison of returns seems to indicate little variation in sentiment between the types of population. Voters in college centers were most strongly in favor of the United States joining the League; those in suburban towns were the least so. Between these two were the rural communities and industrial centers, standing about alike on the League question. Political party-lines appeared to have had small, if any, bearing on the results.

As nearly as such distinctions can be made, using the general nature of the various towns or city wards as criteria, the following comparisons are possible:

	Per cent. of total vote	Majority in favor of League
Urban Industrial Centers	57.41	62.73
Suburban	23.92	57.71
Rural	14.84	65.14
College Centers	3.83	73.67

There appears to have been no difference in sentiment on the League between the native and foreign-born citizens. In such industrial cities as Worcester, Fitchburg,

and Lawrence, the preponderance of foreign born is great—in some instances around 40 per cent. The rural voters were, for the most part, born in the United States.

The four towns returning negative majorities may be classified as follows:

	Party Vote	Majority against League
Milton	Republican	52.84
Amesbury	Industrial Democratic	50.93
Salisbury	Rural Republican	52.04
Brewster	Rural Republican	52.82

This was an abnormally Democratic year in Massachusetts. Many normally Republican towns returned heavy Democratic majorities. Consequently it is difficult to measure League referendum results against party divisions.

Comparison of two Republican with two Democratic strongholds seems to show the Democrats somewhat more favorable than the Republicans to American membership in the League. Newton and Winchester, which normally return strong Republican majorities, gave 58 per cent. and 57 per cent. majorities in favor of the League; while Holyoke and New Bedford, heavily Democratic, returned League majorities of 67 per cent., and 74 per cent.

League Membership Wins

The possibility that the Democrats may have been somewhat more on the side of the League than the Republicans might be deduced from the fact that of the towns returning majorities against American membership, three were classed as Republican and one as Democratic. However, of the 115 cities and towns where the referendum was on the ballot, ninety-one were classed as Republican and twenty-four Democratic, on the basis of the 1933 elections.

Considering the general uniformity of the returns, it seems fair to say that at least 62 per cent. of a truly representative cross-section of the Massachusetts population favors the United States joining the League of Nations.

Free Exchange Markets

(Continued from page 40)

"selling" of securities will be very light in total volume. For his Federal taxation, it is no longer possible for the individual to offset his income by establishing large losses in stocks and bonds, since such capital losses are now allowable only to the extent of \$2,000 in excess of capital gains. At the same time, his New York State return must exclude both gains and losses in capital in computing his normal, as well as his emergency, income tax.

Therefore, the usual urge to sell securities and so record losses thereon will be a very mild urge this year, and the stock and bond markets should be relatively free from what has been a restraining, and even disturbing, influence in times past.