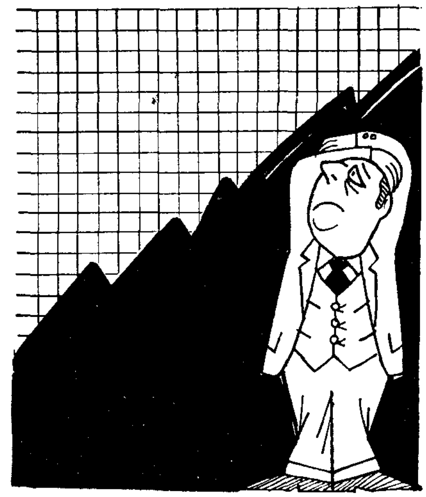
Where Is the Dollar Going?



Hedges for the Prudent Man

by J. A. LIVINGSTON

President Nixon would be a richer man had his checkbook measured up to his Wall Street prescience on April 28 last year. He told a group of businessmen: "You will begin to see, in the third quarter of the year, the economy leveling off . . . in the fourth quarter, you will begin to see more encouraging signs of an upturn. Frankly, if I had any money, I'd be buying stocks right now."

The President's forecast of a business recovery was premature. But he was only a month off in picking the bottom of the bear market. Had he bought, he'd have been 14 per cent behind at the May 26 low. But he'd be well ahead by now. Stocks have advanced 40 per cent from their lows. And Wall Street technicians, particularly Dow theorists, are satisfied that the Nixon Bear Market has been supplanted by the Nixon Bull Market. Thus does Wall Street reply with an emphatic "yes" to the question: Should the prudent man or woman buy common stocks as a hedge against inflation?

This much is certain: Inflation is here to stay a while longer. The President's economic prognosis for 1971 calls for a 12-per cent increase in the dollar value of goods and services from the fourth quarter of 1970 to the fourth quarter of 1971. And prices will rise 4 to 4.5 per cent as against 5.5 per cent last year. That's an improvement, if realized—but it's still inflation.

The prudent man is his own best answer to inflation—if he has a marketable skill. A lawyer, physician, or accountant beats rising costs by raising fees. The worker on the assembly line, the policeman, and the schoolteacher expect higher wages. The salesman counts on a bigger commission—what he sells commands a higher price. The TV serviceman collects more per call. And so it goes—earnings are the answer to inflation.

The prudent man seeks to safeguard his prudently acquired savings with an asset that, like his own earning power, will keep abreast or ahead of the cost of living. Opportunities—each with its own risk and appeal—are many: stocks, bonds, real estate, antiques, works of art, rare books, diamonds. He hedges not only against inflation but against his own judgment. He distrusts bonds as a depreciating asset during inflation, yet he'll want some for assured income, knowing he takes a double risk. If he spends $1,000 for a bond paying 6 per cent interest, and prices rise 5 per cent, his $60 annual income shrinks to $57 in the market place and his $1,000 capital to $950. So his command of goods and services at the end of the first year is only $1,007. That's a return of less than 1 per cent in purchasing power. Hardly satisfactory.

He'll own more stocks than bonds. That has been an investment fundamental ever since Edgar Lawrence Smith, a bond salesman with a flair for research, wrote *Common Stocks as Long Term Investments* in 1924. At that time, Smith was not doing too well. Many of his clients were venturing into common stocks. To him, this was their folly and his lost commissions. Methodically, he assembled statistics to reconvert these renegades, by measuring the performance of stocks versus bonds. Lo! His data reversed his a priori thesis. His 129-page book provided the rationale for the 1929 bull market and the overenthusiasm that fathered the crash.

Despite the devastation to stock prices during the Great Depression, Smith's thesis has stood up. A University of Chicago study shows that in the forty-year span from 1926 through 1965 the return (dividends plus capital appreciation) on all the stocks was 9.3 per cent. The return in the same period on bonds was less than half that.

To hedge against the debasement of money, men historically have bought gold. But the prudent investor would be leery of an inert metal, even were he legally able to own it. It has to be stored in a vault, it should be insured, it doesn't earn interest. It's an expense—a drain. Speculators and investors (if they can be so called) still buy and sell gold in Europe's free markets, notably London, but a major profit depends on the United States, which determines gold's monetary price. In 1934, President Franklin D. Roosevelt revalued gold from $20.67 to $35 an ounce. He wanted to inflate the world's money supply and stop deflation. Today, however, the world suffers from too much money. Raising the price would add to inflationary pressures. Only France, among major Western industrial nations, has favored an advance in the monetary price. That was when the late Charles de Gaulle was President.

Diamonds may be a girl's best friend, but not the investor's. As soon as the bauble leaves Tiffany's, Cartier's, or Caldwell's, it's a used commodity. The price falls, even as the price of a new automobile on its first mile. The purchaser buys retail but has to sell wholesale.

Over the years, coins, masterworks of art, rare books, antiques, and other collector's items have appreciated in price. But they are not primarily investments. Like gold, they should be insured and guarded. If they go up in price, fine, but that is incidental to the pleasure of collecting. The income they provide is psychic, not monetary. Rarity—at times uniqueness—is essential. A Chippendale chair has a quality of its own. Its patina cannot be reproduced. Scarcity imparts value to coins, stamps, first editions, and antiques.

What makes a painting an inflation hedge also makes it a risk. Artists go out of style. Few are those the gods ennoble—Titian, Rembrandt, Michelangelo, Rodin, Goya—with museum permanence. The price put on a Jackson Pollock, Andy Warhol, or Andrew Wyeth today is not as assured as that of a Manet, Eakins, Modigliani, or Picasso. The selection of a work of art as an inflation hedge demands a shrewd, calculating eye and much the same knowledge and experience that go into a financial analyst's selection of a

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stock or a real estate expert's choice of property. In the nineteenth century, Meissonier and Bouguereau were highly popular and successful French artists. But when their paintings fell out of fashion, so did their prices. The storage areas of museums are well stocked with works of painters and sculptors whose importance and prices have been diminished by time.

Real estate and stocks belong to a different genre. Great fortunes—such as the Astors'—have been built up by acquiring and holding land. But this can be costly, especially these days as cities scrounge for tax revenues. An investment in real estate usually requires a large sum of capital and entails debt. Rental housing, shopping centers, office buildings bring in income. But they must be in improving neighborhoods. At times of overbuilding, expected rentals may not be realized. Then, instead of being an income producer, property becomes a burden. Though "average men" have made money by buying houses, renting them, and becoming, in time, landlords, real estate is not the ideal inflation hedge for the average man.

Nor can a residence be regarded as cost-of-living insurance, even if it appreciates in price. Where does the owner live after he has sold it? If he buys another home, dollars come in only to go out. The Internal Revenue Code recognizes this. It defers the payment of taxes on capital gains provided the seller of a home uses the proceeds for another home of equal or greater market value. Of course, the home-seller can move into rented quarters. Then he has to pay the capital-gains tax, if any—and he has to pay rent, an expense he didn't have before.

Except during panics on Wall Street, stocks have this advantage over real estate, antiques, paintings, or rare books: They're considered "liquid." They can be turned into cash quickly. There is no searching among dealers for the best price, no haggling through a real estate agent with the prospective buyer. And prices that can be read every day in the newspaper are almost as good as following the daily double at the races. For lonely widows, keeping track of stock quotations is a form of occupational therapy.

A stock, however, is more than price in the newspaper or an engraved certificate. It's a share or participation in the company's real estate, plant and equipment, inventories, organization, and management. Years ago, the New York Stock Exchange popularized the phrase "people's capitalism." Owning a share of stock doesn't make you a duPont or a Ford, but at least you can feel like a country cousin.

Far too often, stocks are regarded as an inflation hedge for the wrong reason. In Germany after World War I, bonds were paid off in near-worthless currency. Owners of businesses fared well. Their assets—real estate, equipment, inventories—kept pace with the inflation. Yet, assets, as assets, don't protect the stockholder. Corporate executives don't dispose of properties to get capital gains. They want to perpetuate the company and their jobs, salaries, and emoluments. Since they don't make a practice of selling assets, how they use them is important. Penn Central Company has plenty of assets, estimated at more than $100 a share. Yet the company is in receivership. The stock, which sold above $80 a share in 1968, now trades at less than one-tenth that. The company loses money, it has discontinued paying dividends, and prospects for resumption are dim.

Earnings, which promise dividends, are the sine qua non of stock values. An investor may buy IBM, which often yields less than 2 per cent. But he anticipates a rising stream of dividends —three, five, or ten years later. When speculators purchase shares in an infant company, they count on ultimate earnings followed by dividends. Then the price of the stock will rise.

History validates the prudent man's trust in stocks. They have increased in market value in nine out of the last ten decades. And advances in four of the five inflationary decades protected stockholders against increases in living costs. Here are the figures:

Stock Prices vs. Cost of Living

Period	Stocks	Cost of Living
1872-80*	+ 5%	− 19%
1881-90	+ 42	− 6
1891-1900	+ 13	− 9
1901-10	+ 49	+ 14
1911-20	+ 30	+111
1921-30	+153	− 17
1931-40	− 35	− 16
1941-50	+ 72	+ 72
1951-60	+224	+ 23
1961-70	+ 54	+ 31

*Only nine years; earlier figures not available for stocks.
Sources: Standard and Poor's Index, Department of Labor

If America's past is Wall Street's prologue, then common stocks are inflation's antidote. But the prudent man hedges his bets. He wonders if common stocks will perform as heretofore. Successful corporations, of course, are money machines. They trade goods and services for the dollars with which they meet a payroll, purchase materials, replace worn-out plant and equipment, satisfy tax collectors, and make a profit. The profit, or earning power, imparts value to stocks. But corporations have been trading an increasing quantity of dollars for a lower percentage of profit. Although volume has risen, the margin available to stockholders has declined.

In 1947, 1948, and 1950 corporate profits crested. They got above 8 per cent of the Gross National Product, a percentage also reached in 1929. But in the past twenty years, profits have not neared that percentage, notwithstanding the longest period of recessionless expansion in U.S. history, from 1961 through 1968. And, in recent years, the trend—profits relative to GNP—has been downward (for purposes of the following analysis, the GNP—total output of goods and services—has been treated as sales):

Profits vs. GNP

Year	GNP —BILLIONS—	Profits	Pfts. as % of GNP
1965	$685	$47	6.9%
1966	750	50	6.7
1967	794	47	5.9
1968	865	48	5.5
1969	931	48	5.2
1970*	977	44	4.5

*Estimate
Source: Department of Commerce

The postwar role of government puts this decline in perspective. The Employment Act of 1946 slid a cushion under this country's high-risk, high-profit, and high-loss economy by directing the President to "promote maximum employment, production, and purchasing power." This was the Great Divide—the government's mandate to tame the business cycle. No more Great Depressions!

In the five postwar recessions—one under Truman, three under Eisenhower, and one under Nixon—the drop in industrial production has averaged 10 per cent as compared with the 19-per cent average for earlier declines. The duration has been shorter, too—eleven versus twenty-one months. Annual unemployment, which averaged 18 per cent during the Thirties, has not exceeded 7 per cent since 1941. If the government is the National Economic Stabilizer, then recession losses won't be as great as formerly. As a corollary, investors don't deserve so great a return.

But what the government gives in stability it can take away in taxes. The corporation, far from being the private enterprise it was in the days of J. P. Morgan, Andrew Carnegie, and John D. Rockefeller, Sr., has become institutionalized. Its profits and dividends

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The Theater

Henry Hewes

The Saved Nine

THE GREAT VALUE of Father Daniel Berrigan's new play *The Trial of the Catonsville Nine* is not its dramatic effectiveness, for there is little drama to the trial of nine persons who openly admit that they have intentionally broken the law, even when their motive is so noble as the stopping of a war in which innocent babies are burned to death with napalm. The verdict in such a case is never in doubt. Moreover, both the prosecutor and the judge seem too kindly to be stage villains.

Beyond the lack of those elements that make a courtroom drama suspenseful, there is also the fact that the "crime" committed by the Catonsville Nine, the burning of 378 Selective Service records, could have had no direct effect on stopping the war. Since the draft board was able to reconstruct those records with a little extra work, the whole affair amounted to a slight nuisance. And indeed, if the government had decided not to arrest and try these selective arsonists, the event might have passed into oblivion as a minor news item.

However, the government did take the bait, and as a result we have a historic event and a play that should deeply trouble us all. The play, which is virtually a rearrangement of the words actually spoken at the trial, attempts to do several things. With utter sincerity and deliberate untheatricality, the actors recount some of the discriminatory acts against the poor of the world allegedly committed by American institutions. Because their dialogue is presented in a montage of brief statements, seven of the Catonsville Nine remain rather anonymous, and what is being said emerges more strongly than the character who said it. What their charges do is remind us that the war in Vietnam is not all that needs to be stopped for America to live up to its democratic ideals.

More important than these specific items are the deeper revelations delivered by Fathers Daniel and Philip Berrigan. Daniel, played with a nice touch of mischievousness by Ed Flanders, confesses that he is a compulsive rebel who despises the "sheepfold" of priests who queasily side-step the public horror and make Jesus "a temple eunuch." Yet his obvious enjoyment of his role does not negate the logic of his explanation why he could not go on announcing the gospel from a pedestal. He tells us, "I was threatened with verbalizing my moral substance out of existence."

Philip, as portrayed with rugged vitality by Michael Kane, appears less a role-player and more a man who has found himself fulfilled by seeing society as it looks from the underside. He warns us simply: "We cannot ravage the environment of Indochina, kill ten civilians for every soldier, and expect anything but do-or-die opposition. We cannot fight the abstraction of communism by killing the people who believe in it."

In contrast with the defendants' controlled anger is the judge's benevolence. There is a most interesting exchange of ideas between him and the accused while the jury is out deliberating its verdict. The judge sympathizes with the Catonsville Nine but feels he had no other course than to instruct the jury to disregard conscience and make their decision entirely upon the facts and the letter of the law. The judge, who believes that the war can be stopped by use of institutions as they currently exist in our country, points out that if the protesters had gotten legal advice they could have found a better way to challenge the legality of the war than their act at Catonsville. This does not satisfy the Berrigans, who feel that our churches and our courts no longer serve the needs of the people.

Father Berrigan's stated intention that the play purge us of pity for the defendants is hard to achieve when you have nine protagonists. Director Gordon Davidson has done the best he can by having each performer underplay, thereby suggesting the inner peace of blessedly saved souls. The result is convincingly honest and partly compensates for a lack of that accelerating ascendancy to group ecstasy which might have made the climactic moment, when the nine step forward and ask the audience to join them in the Lord's Prayer, more emotionally stirring and less passively submissive.

Nevertheless, the entire play does remind us that the Catonsville Nine have willingly exchanged loss of personal liberty for a joyous freedom from the frustration and guilt of not having made a total commitment to ending the war. And their gesture of resistance stands as a rallying point for those who wish to confess their own insufficiency. To attend this play is to go to the Good Shepherd-Faith Church on West 66th Street and make a token atonement for the incompleteness of our commitment. We do not even have to be in political agreement with these radicals. We only need to feel that whatever it is we believe, we believe it too half-heartedly.

The Phoenix Theatre, which along with Leland Hayward co-produced the New York production of *The Trial of the Catonsville Nine*, has also come up with a most successful Broadway presentation of Molière's *The School for Wives.*

Poet Richard Wilbur has crafted a gorgeous translation of this comic portrait of a forty-two-year-old man who selfishly seeks to marry his teen-aged ward. And under Stephen Porter's unstrained but adroit direction, Molière's rhymed couplets, which could easily become monotonous, are used so deftly and relaxedly that they delight and liberate our minds.

The plot is both simple and subtle. Arnolphe has deliberately brought up his beautiful ward Agnes to be totally innocent and gullible. He reasons that the less she knows about life, the more satisfied and faithful she will be as his wife. However, there are flaws in Arnolphe's strategy, for, as his wise friend Crysalde wittily points out, "a simpleton can commit adultery without suspecting it."

By coincidence, Arnolphe meets Horace, the handsome son of his old friend Oronte, and to his consternation Horace confides in him that he has been enjoying rendezvous with Agnes. Arnolphe confronts her, and Agnes openly confesses that, following the dictates of simple goodheartedness, she has befriended Horace. She hesitates in telling Arnolphe what else she has done, because she is afraid he might be angry. He presses her, and Agnes blushingly admits she has given Horace a piece of ribbon Arnolphe had given her. Here Brian Bedford, who plays Arnolphe, is marvelous as with controlled exasperation he tells her to "forget the ribbon" and get to what for him is the all-important detail.

Mr. Bedford is droll throughout, as he shows us a man driven mad by fate, which keeps rescuing him only to throw him into hotter water. Of course, he deserves what he gets, because, as Agnes reveals in one beautifully direct speech, Arnolphe might have made her fall in love with him, had he been generous and trusting enough to give her a good education. The rest of the cast, which includes Joan van Ark as Agnes and David Dukes as Horace, handle the verse competently, but it is pretty much Mr. Bedford's triumphant evening.