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Economic dilemma

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The Economic Dilemma

SOCIETY, as a whole, is faced with the fact that business is not good. It is not as good as it was a year ago. The bottom of the decline may have been reached. Business may be getting no worse. Business men may be facing the future with the "hope and confident expectation" that the situation soon will be better. But business is not good.

The cause, or causes, of the business condition have been discussed at great length. Individually, some of the suggestions appear to have some bearing on the matter; others seem entirely irrelevant. Collectively, the suggestions leave the situation unexplained.

What to do about correcting the situation has been discussed almost as much as the causes. The recommendations have been so many and so varied as to leave one in a daze. Saving has been deplored as harmful, inasmuch as already there is too much money which cannot be employed at profitable rates. Yet, savings bank deposits are increasing, as is the volume of life insurance being written.

Spending is advocated. But, here theory and practice clash. The individual of moderate means, who could spend as much, if not more, than formerly, may be in accord with the theory. When it comes to practice, the fear that conditions may become worse is likely to act as a deterrent. All but pressing needs are set aside. Demand thus is slackened.

One might obtain some idea of the effect on New York stock brokers by making a comparison of shares traded in on the New York Stock Exchange. For eleven months ended November 30, 1929, the number was 1,041,023,130. For the corresponding eleven months ended November 29, 1930, the number was 751,171,364. Commissions computed on the difference of 289,851,766 shares would indicate that the purchasing power of the brokers, as individuals, has been materially decreased.

A master economic mind which could dictate a business policy for the entire world, presumably would have no difficulty in straightening out the tangle in which this country is involved. The individuals who make up the masses, however, are confronted with what appears to them to be a two-horned dilemma. If they spend, they may rue it later on. If they save, they make business worse. The situation, indeed, is complicated.

A perspective of the whole matter permits of conclusions which are as certain almost as time itself. The successful conduct of business is dependent upon sufficient demand to utilize the available factors of land, labor, capital, and business organization. Business, undoubtedly, has slumped because of a decline in effective demand, which is demand accompanied by purchasing power. This country is over-equipped to supply the present demand. Unless the equipment is to be reduced, demand must be increased. Spending, seems to furnish the answer. Governmental as well as private enterprises are engaged in a campaign of spending which will be enlarged in the near future. The result of the increased purchasing power should result in a return to more normal business conditions.

Capital Reductions

THE liberality which characterizes the corporation laws of some states tends to a frame of mind which dismisses from serious consideration reported actions of corporations organized under the laws of those states. One reads in the newspapers of certain actions taken by a corporation existing under authority of the laws of a certain state, and passes along to other news items with the thought that anything approved by formal vote of directors, is possible under such laws. The action need not be rational. It may be unsound economically. The effect may be a suppression of the facts. But if expediency so dictates, and the action is taken properly, the action has the stamp of legality. Such is likely to be the mental attitude of one who is familiar with these matters.

In fairness to such laws, it is interesting to consider, without prejudice, the proposed action of a certain holding company as reported in the news column. Is the action facilitated by the laws governing the organization and corporate conduct of the company in question? Is there anything questionable about the proposed action? Does it gain any improper advantage on account of the character of its shares of capital stock and the laws authorizing the issuance of such shares?

"The Blank Corporation has called a special meeting of class B stockholders for November 28 to vote on a proposal to reduce the stated value of the class B stock from $65,849,369.00 to $46,842,721.00, thereby creating capital and capital surplus and applying a portion of the capital and surplus to write investments down to market value.

"The purpose of the proposal is to reduce the paid-in capital of the class B stock from $10.00 to $5.00 and bring about a capital readjustment and thereby correct the existing situation under which the payment of dividends may be interrupted, while the corporation is receiving income from investments sufficient to cover dividend requirements."

The foregoing quotations, slightly disguised, are as reported by the press from the company's announcement. The discussion which follows is based on the newspaper statement.

Analyzing the announcement, it is apparent that the company issued some of its stock for, or purchased from the proceeds thereof, certain securities, at prices, which, on the basis of the market (October 31, 1930) would have to be reduced substantially. This would result in a material reduction of the balance sheet value of the securities owned. The paper loss incident to such devaluation presumably would be large. It would be too large to permit of absorption by the surplus accounts, the character of which is not disclosed. The corporation may have had earned surplus, or surplus arising from valuation of securities, or paid-in surplus resulting from arbitrary classification of paid-in capital. At any rate, whether from motives of necessity, or of expediency, there was not sufficient surplus to absorb the write down. And so, it is proposed that stated capital shall be adjusted, so reducing it as to make