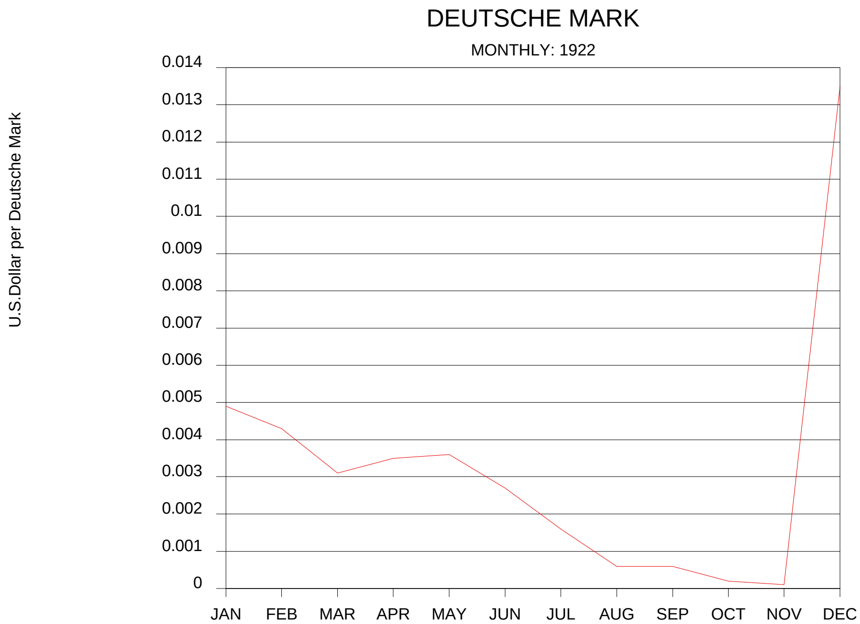
CHAPTER II

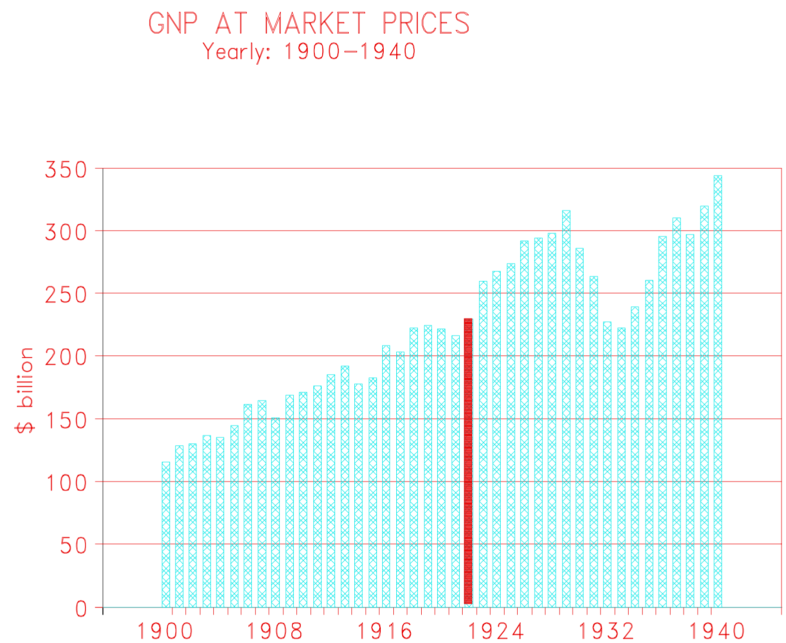
1922

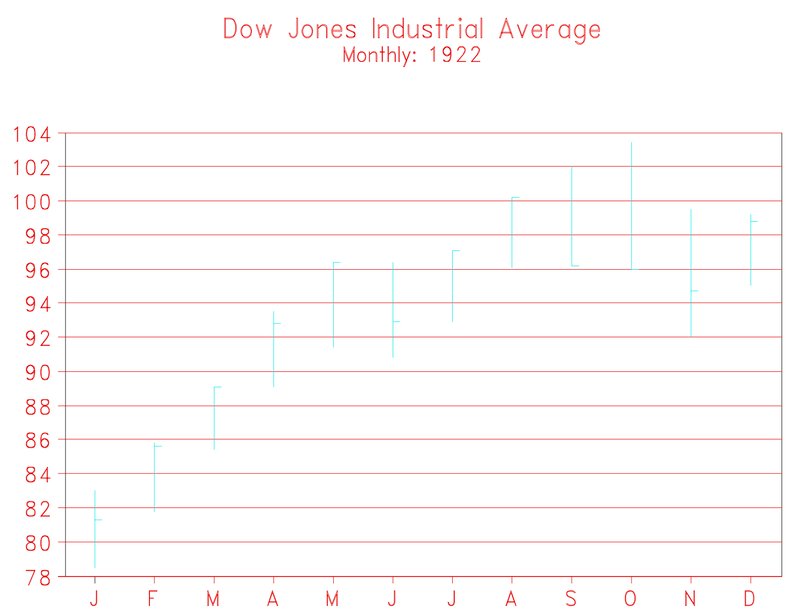


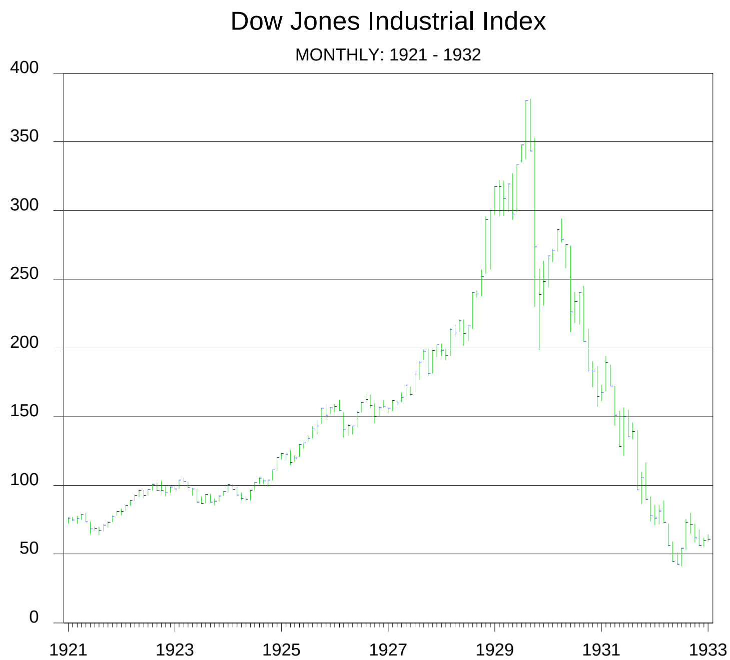
Germany had met the British Ultimatum and begun its reparation payments, but economically Germany would not be able to repay for all the damage of World War I. German coal production rose from 219.4 to 256.3 million tons between 1920 and 1922 but social unrest brought riots and a collapse in productivity. By 1923, coal production dropped to 180.4 million tons while steel production fell from 11.71 million tons in 1922 to 6.31 million tons in 1923. Exports in general had fallen 40% from their 1913 levels. Industrial disputes rose to their highest levels of 1,785 incidents, a record which still stands to this day.

The postwar era was definitely marked by inflationary pressures around the world. The United States chose the deflationary method we have discussed through actions taken on the part of the Federal Reserve. Britain chose to raise taxes, an old favorite in that political structure. But Germany chose the unchecked wholesale printing of money. Perhaps it had no choice with the demands placed upon it by the world. It was a little absurd to expect a nation that was destroyed by the War to suddenly profit from world trade to such an extent that it would be able to pay for the reconstruction of the rest of the world.

The strain was simply unbearable as reflected by the desperate condition of the mark. The German mark began to fall faster than anyone could have possibly imagined. At first it fall to 162 to the U.S. dollar, then down to 11,000 to the dollar by the end of 1922. Confidence of the German people had been destroyed. Chancellor Wilheim Writhe, who had been elected in


GNP AT MARKET PRICES
Yearly: 1900–1940
$ billion
350
300
250
200
150
100
50
0
1900
1908
1916
1924
1932
1940


Dow Jones Industrial Average
Monthly: 1922
104
102
100
98
96
94
92
90
88
86
84
82
80
78
J
F
M
A
M
J
J
A
S
O
N
D



1921, was forced to resign over the reparations issue in 1922. He was replaced by Chancellor Wilheim Cund in 1922 but by now he could not stop the onslaught in loss of confidence.

In Britain, the producer price index declined from the 1921 level, falling from 7.9 to 6.5 in 1922. The consumer price index fell from 9.7 to 7.9 in 1922 but these gains were made at the serious expense of its population through the drastic increases in taxation and reduction in money. This would eventually prove to be a major deterrent toward recovery in the years ahead and leave Britain as a debtor nation counting on payments from Germany which would never come.

In France, their CPI fell from .41 to .39 between 1921 and 1922 while in the United States the gross national product rose from 12.7 in 1921 to 14.9 in 1922. U.S. industrial production was rising sharply between 1921 and 1922 but this was largely ignored by the analysts as a temporary situation. Raw steel production rose from 20.9 million tons to 35.3 in 1922 and passenger car production rose from 1.4 million to 2.2 million. Copper production rose from 437.5 million tons to 670.3 Obviously something was taking place which should not have been ignored.

In the United States, the Federal Reserve continued to ease as foreign capital continued to gravitate towards its economy. In June 1922, the Fed cut the discount rate from 4.5% back to 4% which is where it had stood between 1915 to 1917.

The Dow Industrials had rallied for nine months straight since the August 1921 low. By May 1922, the industrials were nearing the 100 level once again. Oddly enough, the June discount rate saw the market correct for the first time. After the June consolidation, the market resumed higher, reaching a peak in October. Many viewed the discount rate cut as bearish and as a signal that a depression would resume. November 1922 provided a sharp correction and December closed slightly below the 100 level.

The year 1922 was a strange year indeed. The boom in the economy was again highly influenced by favorable overseas investors. The British pound had rallied from its drastic decline of 1920. During 1921, the pound had rallied during the first quarter, reaching $3.95 in April but falling sharply back to $3.56 in July, bottoming one month prior to the turn in the Dow Jones Industrials. By year end, the pound had staged a comeback, closing December 1921 at $4.21. The pound continued higher in 1922 but at a slightly less aggressive pace, peaking during May at $4.45 and consolidating into September down to $4.38. But by year end, the pound resumed its uptrend, closing December 1922 at $4.63.

The stock market was moving higher from its 1921 low, once again following the opposite trend of the dollar. The economy was booming in many sectors yet by and large the press remained negative. The housing construction figures are reflective of how the consumer was apparently doing better than the professional stock traders. The following table illustrates the housing boom that was taking place:

Dwelling Units Constructed

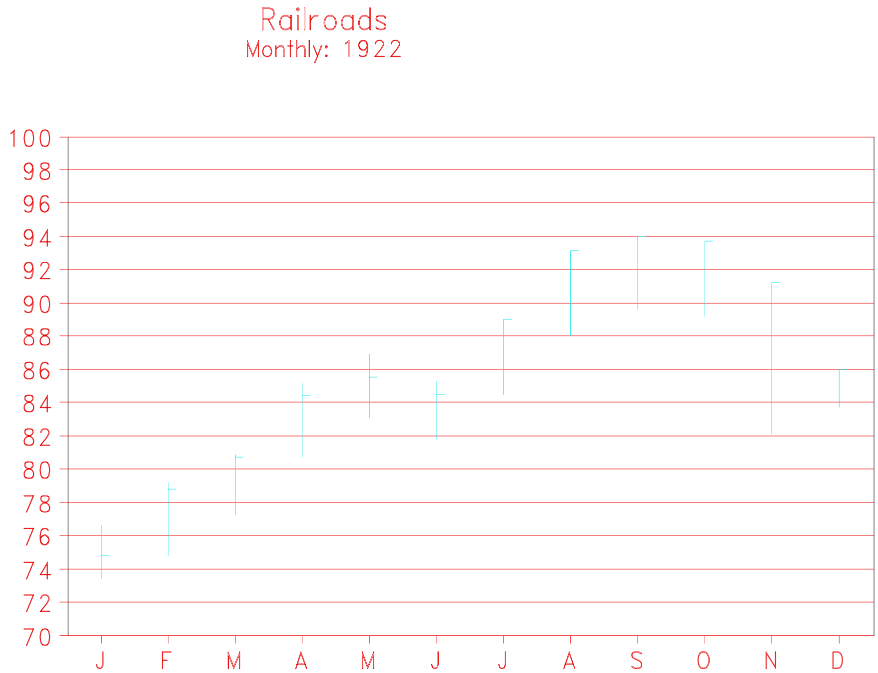
1921....449,000
1922....716,000
1923....817,000
1924....893,000
1925....937,000
1926....849,000
1927....810,000
1928....753,000
1929....509.000

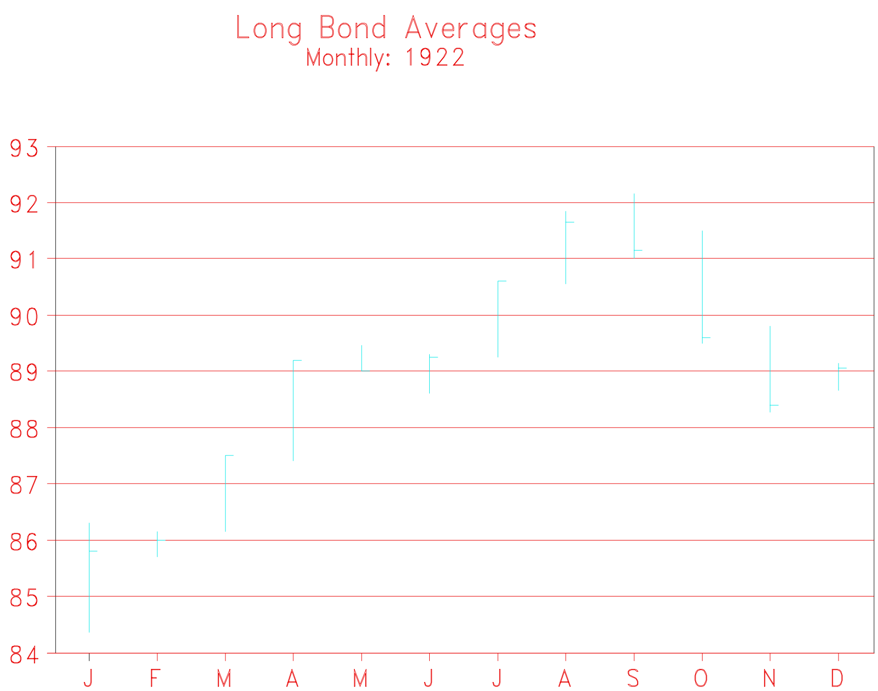
There was nearly a 35% increase in the construction industry between 1921 and 1922. This was the sharpest rise for the entire period known as the Roaring 20s. Once the peak was reached in 1925, even 1939 levels would be 20% below that which was recorded during 1922.

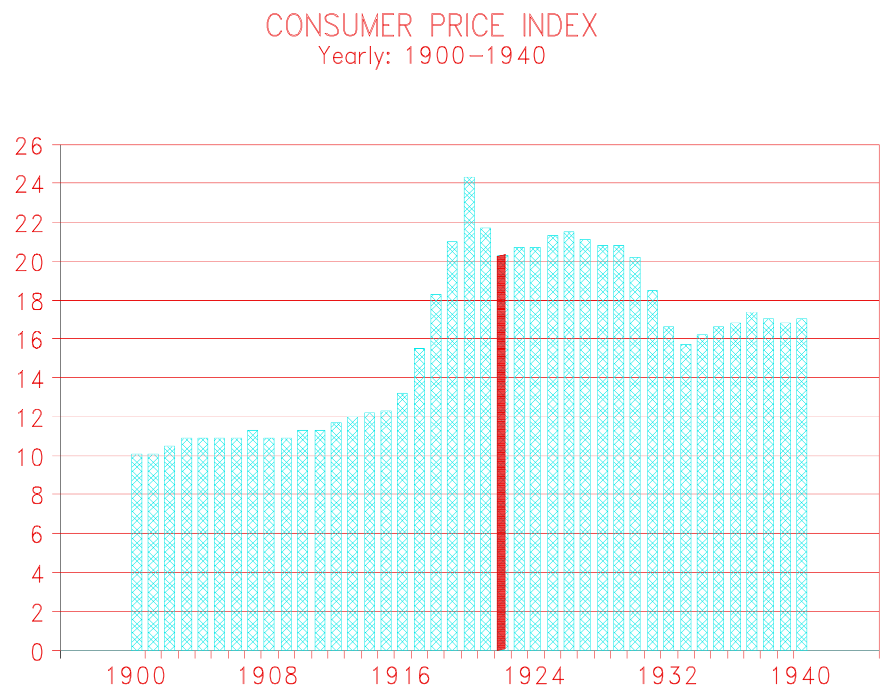
One issue that also helped the U.S. markets at that time was the severity of the foreign loan situation. In February 1922, President Harding called a conference at the White House. In attendance were Secretaries Hoover, Hughes and Mellon, along with representatives from the banking industry and the bond- issuing houses. President Harding had become alarmed at the number of foreign bond issues which were being floated in the States. Individuals from overseas, as well as representatives from foreign governments, were coming to the U.S. financial markets to raise capital. They offered rates between 5% and 8% to attract badly needed capital. As the money had flowed to the U.S. from overseas investors, Europe's cash flow was in jeopardy. Many became concerned over the security of many of those bond issues and the outflow of capital had even driven the dollar down on foreign exchange markets.

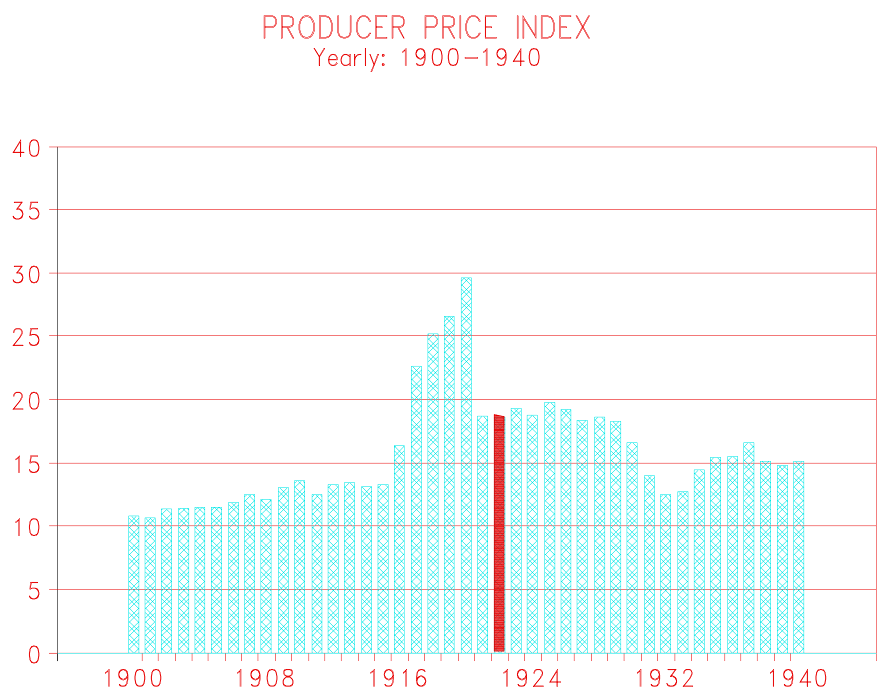
It was agreed at the White House conference in early 1922 that any foreign bond issue be submitted to the State Department for its opinion. The State Department in turn referred the submission to the departments of Commerce and the Treasury. The Commerce Department ventured their opinion as to the security and repayment ability of the intended borrower, whereas the Treasury ruled on governmental issues as to their political desirability. A public notice to that effect was eventually made on March 3, 1922.

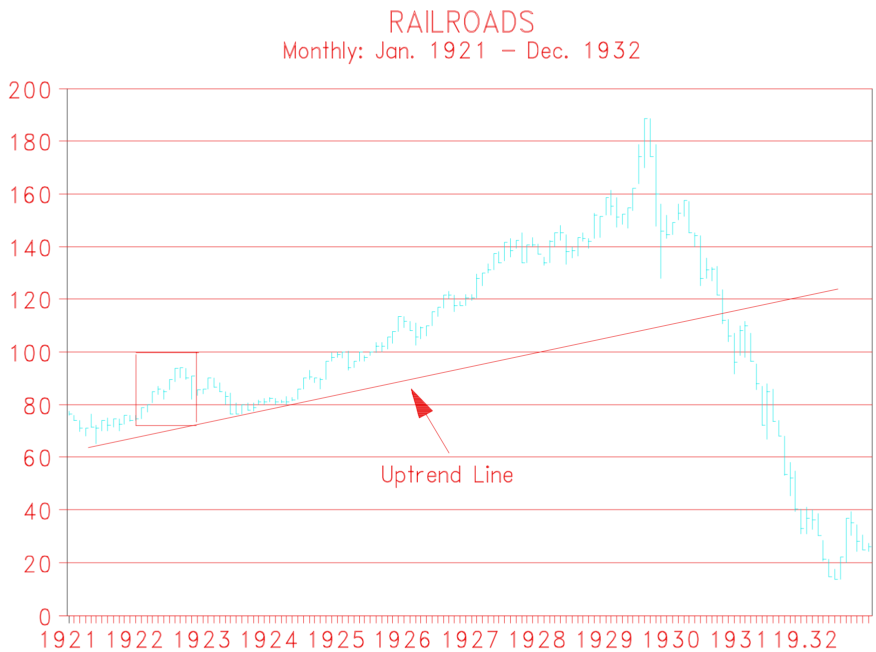
The big New York banks complained about the restrictions and, in fact, the Governor of the New York Federal Reserve, Benjamin Strong, filed a protest with the State Department in April 1922. Benjamin Strong would eventually, in my opinion, almost single-handedly create much of the damage that caused the panic of 1929. Due to Strong's attack upon this policy, Presi-

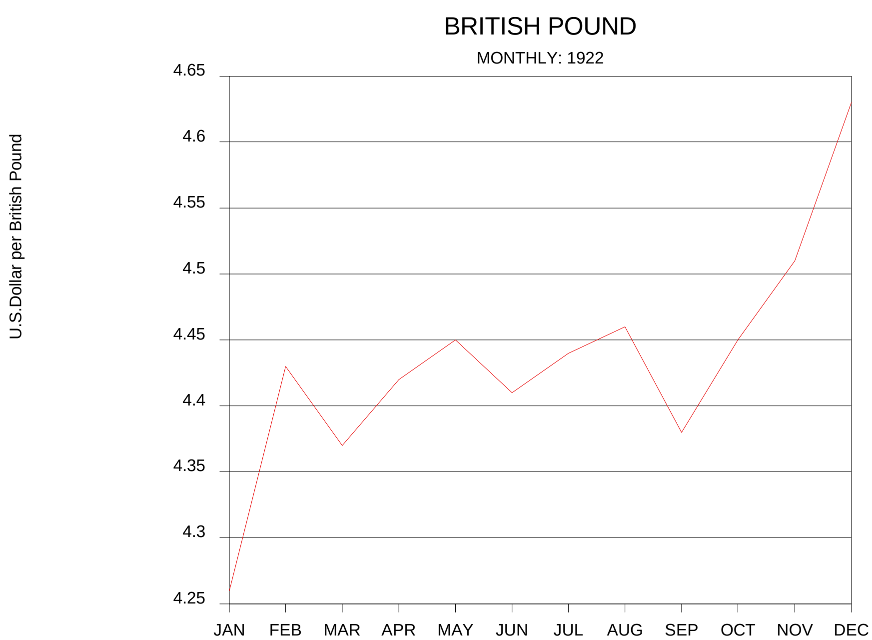

Railroads
Monthly: 1922
100
98
96
94
92
90
88
86
84
82
80
78
76
74
72
70
J F M A M J J A S O N D

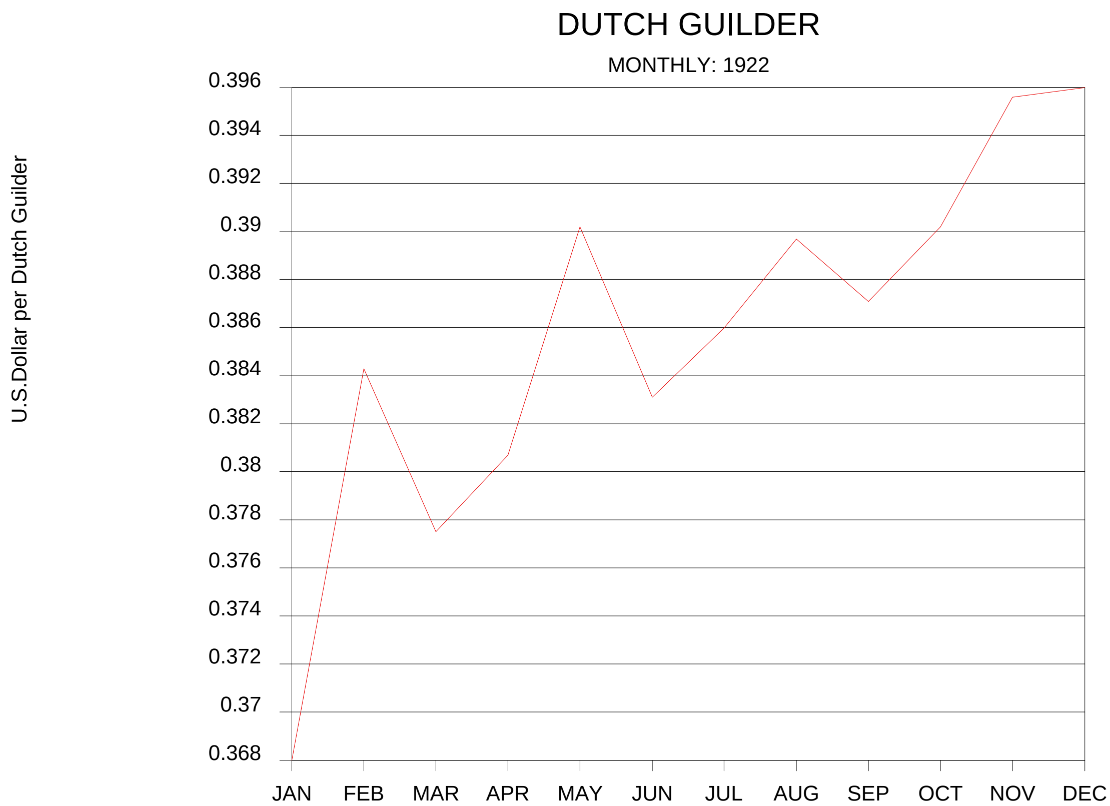

Long Bond Averages
Monthly: 1922
93
92
91
90
89
88
87
86
85
84
J F M A M J J A S O N D

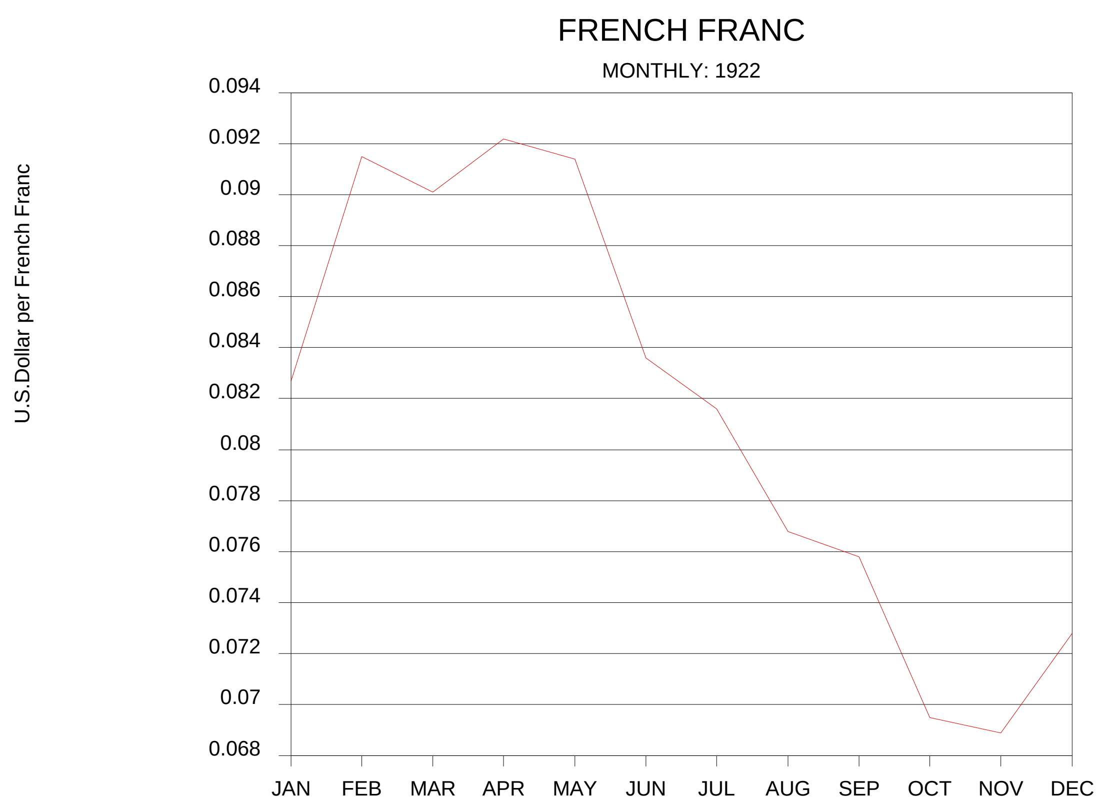

CONSUMER PRICE INDEX
Yearly: 1900–1940
26
24
22
20
18
16
14
12
10
8
6
4
2
0
1900
1908
1916
1924
1932
1940


PRODUCER PRICE INDEX
Yearly: 1900–1940
40
35
30
25
20
15
10
5
0
1900
1908
1916
1924
1932
1940


RAILROADS
Monthly: Jan. 1921 – Dec. 1932
200
180
160
140
120
100
80
60
40
20
0
1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 19.32
Uptrend Line


BRITISH POUND
MONTHLY: 1922
U.S.Dollar per British Pound
4.65
4.6
4.55
4.5
4.45
4.4
4.35
4.3
4.25
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC


DUTCH GUILDER
MONTHLY: 1922
U.S.Dollar per Dutch Guilder
0.396
0.394
0.392
0.39
0.388
0.386
0.384
0.382
0.38
0.378
0.376
0.374
0.372
0.37
0.368
JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC


FRENCH FRANC
MONTHLY: 1922
U.S.Dollar per French Franc
0.094
0.092
0.09
0.088
0.086
0.084
0.082
0.08
0.078
0.076
0.074
0.072
0.07
0.068
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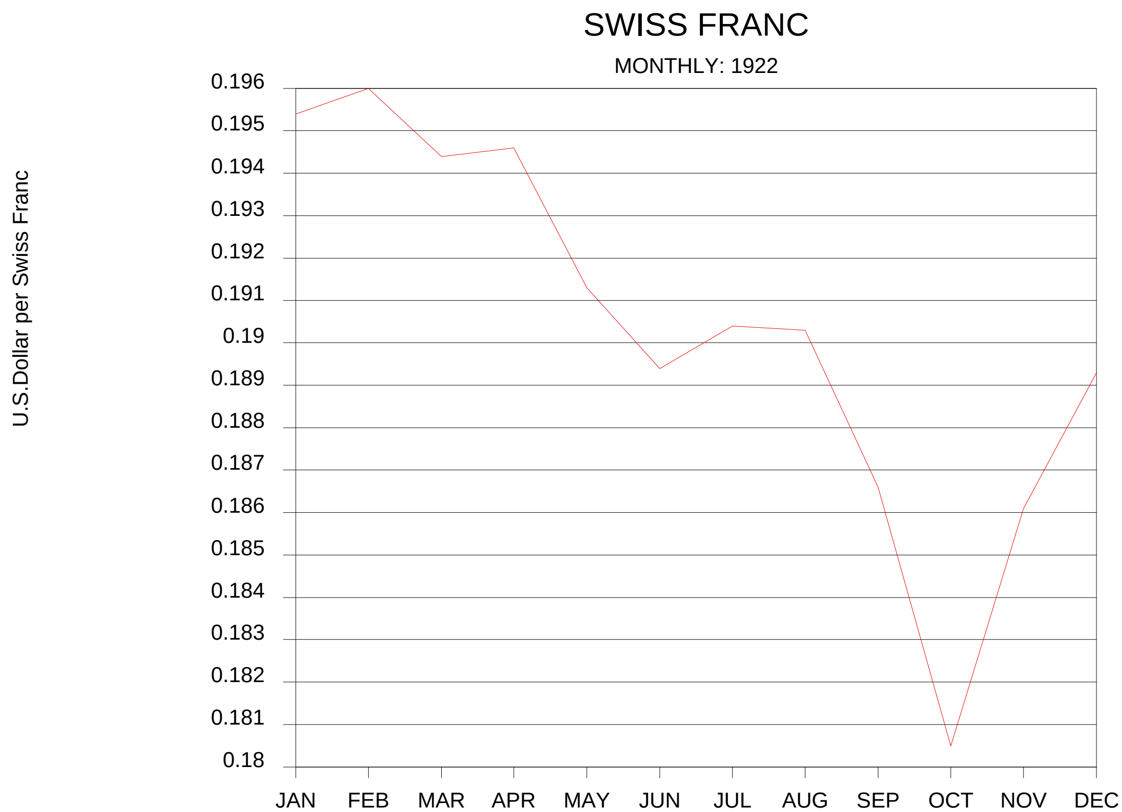
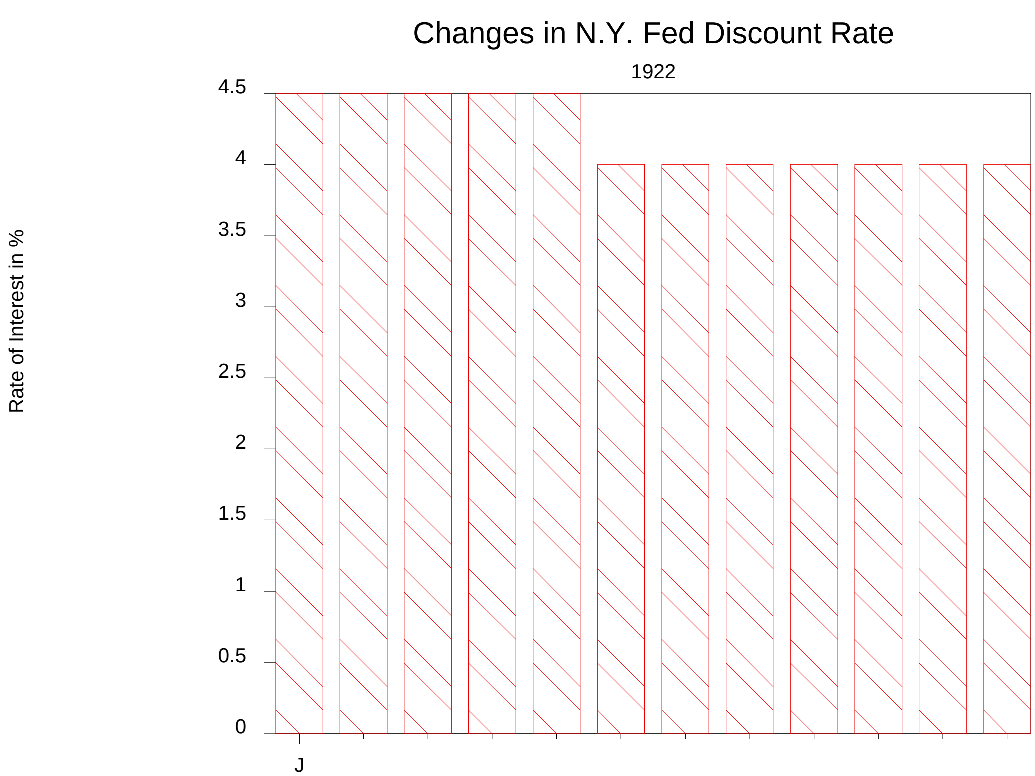

SWISS FRANC
MONTHLY: 1922
U.S.Dollar per Swiss Franc
0.196
0.195
0.194
0.193
0.192
0.191
0.19
0.189
0.188
0.187
0.186
0.185
0.184
0.183
0.182
0.181
0.18
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC


Changes in N.Y. Fed Discount Rate
1922
Rate of Interest in %
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
J

dent Harding retreated and reduced the restrictions to merely passing its opinion upon the foreign political implications of a foreign bond issue. This was a serious error that would eventually come back to haunt the stability of the entire economic structure.

The year 1922 was a year of strange prosperity. Passenger car production soared to record levels well above those of 1917 and 1920. The CPI declined from 1921, still yielding a sense of deflation that aided in the confusion for many analysts. Producer prices declined by a mere fraction while GNP rose to new record highs. Business inventories had reached a record swing from a plus $12 billion in 1920 down to a negative in 1921. Inventories rose only slightly in 1922, reflecting that many goods had actually fallen into short supply. Unemployment dropped from the 1921 record high of 11.7% in 1921 to 6.7% yet exports were beginning to decline, indicating that much of the boom was created by a buoyant domestic recovery.

All things considered, the greatest import of the United States during the 1921 period had been foreign private capital. This inflow helped support the stock market and added greatly to the recovery of 1922. But by the end of 1922, U.S. exports had declined and foreign bond issues seeking a home in the U.S. financial community had changed the trend in the dollar and set a new invisible hand at work on an international level to both create and destroy the greatest bull market in history.

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