

BULLETIN

Harvard Business School Alumni Association



“BUSINESS LOOKS AHEAD”

SPEECHES
NINTH ANNUAL
ALUMNI PROGRAM

JULY, 1939

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SOLDIERS FIELD STATION, BOSTON, MASS.

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BULLETIN OF HARVARD BUSINESS SCHOOL ALUMNI ASSOCIATION

JOHN HUNTER SEDGWICK, *Editor*

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EDITORIALS

A PATHETIC CASE

It is one of the tragedies of history that so sensitive a man as Mr. John L. Lewis of the C. I. O. must be subjected to the buffetings of a naughty world. His irenic projects are by some obstructed, by others condemned, and worst of all by some other labor leaders. These, apparently, decline to let Mr. Lewis have his own way. This will shock our readers when they realize how gentle and beneficent that way has been. There appeared an item in the *Boston Herald* of June 15, 1939, which quoted Mr. Lewis as saying that the C. I. O. peace committee believed that the A. F. of L. leaders "were following a rule or ruin policy." This, too, will shock our readers, if only by its tone of dignified sorrow caused by the reactionary attitude of the A. F. of L. The idea that the wishes of Mr. Lewis and his associates should be opposed must be peculiarly repellent to all who, like them, are sensitive.

Mr. Lewis has been the victim of cruel misunderstanding by some at least of the public. There were those, for example, who thought that the sit-down strikes, especially in the automobile industry, showed a certain tendency to ruling or ruining, even though the then Governor Murphy regarded them with blandness. These critics indeed went so far as to believe, nay, in some instances to say that Mr. Lewis and his C. I. O. were interfering with the well-being of the country in general and seeking to impose their will upon thousands of persons quite innocent of any fell designs upon organized labor. There were, too, thousands of Americans who pre-

ferred the rule of the law to that of Mr. Lewis and who believed that the law and the orders of courts of justice should be upheld. They instinctively felt that when the law was flouted, decent rules of living were flouted, and the props knocked away from the structure of democracy. It appears now, however, that Mr. Lewis does not at all approve of ruling or ruining, at least when attempted by those not in sympathy with that body of philanthropists known as the C. I. O., that he is gravely moved and troubled in heart. Before this spectacle the flippant must stand corrected.

There is one phase of the question to which we must make bold to call Mr. Lewis' attention. First, after the sit-down strike had shown itself for what it was, the American public began to understand that it was a challenge to itself and associated Mr. Lewis with that challenge. It is well enough for him now to condemn a policy of ruling or ruining, but not long ago that was his policy. Second, policies like that of the C. I. O. have been in a large part of Europe the plausible excuse for the existence of totalitarianism with all its evil consequences and its threat to the free nations. Third, the designs upon the democratic societies which the totalitarian states have plainly avowed, the more than grave conditions in the Old World, the necessity for cohesion in the democracies, all point to the fact that such systematic trouble making as that pursued by Mr. Lewis and his associates may shortly become a menace to the defense of the United States and that menace Americans will not permit. Should

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Mr. Lewis wake up some fine day to find himself a member of a corporate state, he could have the pleasure of knowing that he and those who think with him had done much towards its creation.

REMONSTRANCES

No doubt many honest and patriotic Americans have been grieved of late years that what they think ought to be as plainly is not. They seem to think that the declaration of a right is tantamount to its effective defense. So it would be, if all men had as good morals as themselves. The main, or one of the main difficulties in the present conditions of international relations is that these honest people do not seem to understand that something more than remonstrance is needed in doing the business of diplomacy in such fashion that what is right may prevail.

T. J. Lawrence in his work on international law under the title "Non-Intervention" has this to say:

To scatter abroad protests and reproaches, and yet to let it be understood that they will never be backed by force of arms, is the surest way to get them treated with angry contempt. Neither selfish isolation nor undignified remonstrances is the proper attitude for honorable and self-respecting states.

This is clear enough and does not exaggerate. A police that left its night sticks in the station house and depended on remonstrances with law breakers would be no better than a menace to those that obeyed the law. A nation, supposing it to be of sufficient power and resources, that allowed a wrong doing nation to believe that its remonstrances were no more than words, would run the risk of being held to betray not only its nationals, but other law abiding nations. The idea of the use of force is not agreeable, the average man shrinks from it and with plausibly intelligible reasons, but unhappily there are millions of men who have been

taught to believe that what is not backed by force does not exist as anything to be reckoned with outside the realms of dialectic. It is not the immediate use of force that must be considered so much as the ability to use it in certain circumstances when there is a question of international justice. To this conception, men must accustom themselves as part of the normal instruments of civilized states, for failing that, force will be elevated into a principle and not left in its place as a means.

To make remonstrances, to write solemn state papers, to tell the wrongdoer what he already knows, is no more than a literary exercise and worth about as much if it carry no implication that something more is meant by it. When, however, that implication is understood, results will be obtained.

THE CONTEMPLATIVE LIFE

The contemplative life is a thing of the past; the reflective life is more than ever a necessity, but the two are quite different. It used to be possible to contemplate what went on and do nothing else. The world and the beings that seethed in it were to some a raree-show, to others a kind of theatrical performance, to still others material for essays that at least were neither revolutionary nor improper. Indeed, at one stage of the world's history, no blame attached to a man who preferred to do his living on the sidelines; he was simply regarded as one luckier than other men who had to have rather more battle-axe in their syntheses and counted themselves fortunate to have gone a whole week with a whole skin.

As the centuries rumbled on, things somewhat changed; the amiable practice of private warfare fell into desuetude and at least rudimentary rules of slaughter were evolved. Then after that civilization made still greater advances in washing its face and violence was regarded as opposed to the interests of the general society. The contemplative had always existed, but they were few in number

and not very vocal before that time. Things kept on developing until the modern state took shape, especially the democratic state in which, oddly enough, each man was supposed to play his part. We say "oddly enough" because in the United States where the suffrage is virtually universal and idling is not encouraged, the contemplative seem to have increased, not diminished. This can be explained by the fact that millions of Americans merely contemplate their political and social life—they take no active part in either. They do their contemplating largely through the evening paper and read about crime and graft and disorder as they would peek at a two-headed calf. They do not seem to think that it has anything to do with

them; they are spectators; they are not citizens; they contemplate a phenomenon, they do nothing to extirpate its causes. They have not been hurt themselves, or think that they have not, therefore their rule of thumb logic persuades them that malefactors and victims are in a well-nigh imaginary world.

This kind of contemplation does not make moral fibre, but rather it weakens the public conscience. As a matter of fact, the contemplative life is impossible because citizens must do their part—existence in this world is not a show, but something more searching, where everyone must understand that each has a duty to perform. It is often not pleasant, but then that is not the criterion.



“BUSINESS LOOKS AHEAD”

The Ninth Special Program of the Business School Alumni

Over four hundred Business School Alumni and their guests attended the Ninth Special Program of the Harvard Business School Alumni Association held at the Business School on June 16 and 17. The general subject of the meeting was “Business Looks Ahead,” and the Alumni heard men of prominence in both business and government affairs discuss various aspects of the problem of forecasting the trend of business during the coming months. The meetings began Friday afternoon in the Reading Room of Baker Library, continued with a dinner meeting in Eliot House, and the final session was held in Baker Library on Saturday morning.

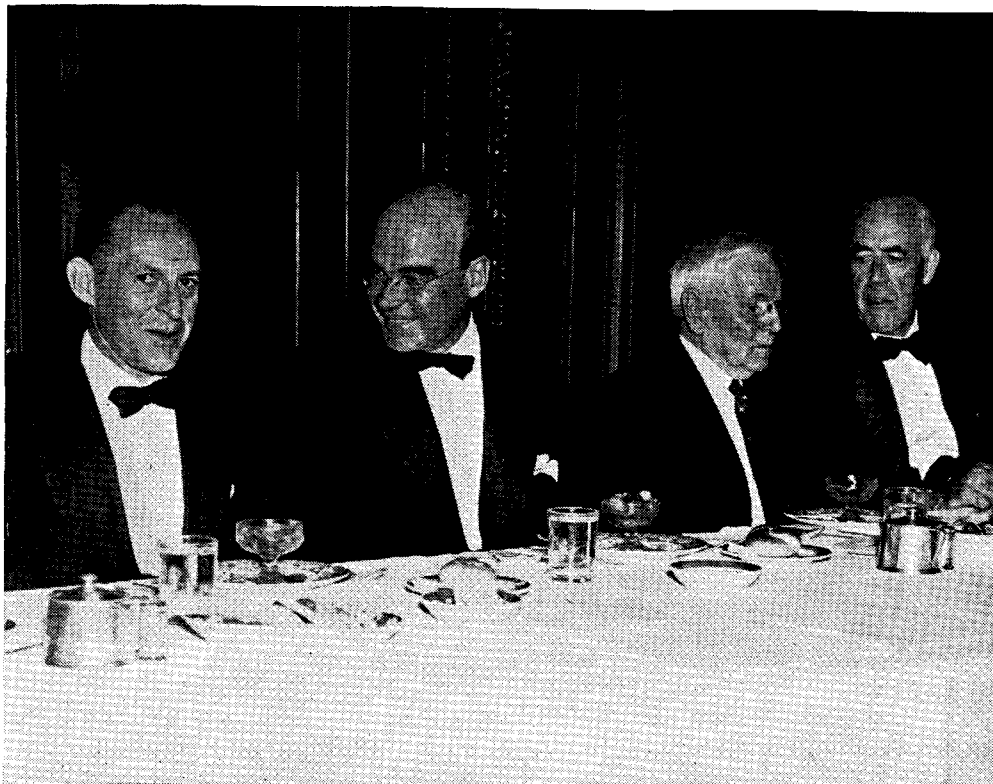
The committee in charge of the program was under the leadership of Theodore F. Drury, '28. Other members of the Alumni Committee included: Louis W. Munro '23, president of the Alumni Association, Frederick M. Bundy, '23, Dwight P. Robinson, Jr., '25, W. Stewart McDonald '25, Boyce F. Martin '30 and Roland P. Campbell '35. It was the intention of this committee that a well-rounded program of interest to all Alumni be presented. In carrying out this purpose, three types of speakers were secured: Business School Faculty members, government officials, and business executives. The topics discussed included the construction industry, the aviation industry, the public utilities industry, the Government's recovery program, the financial situation, industry's program for recovery, and the major social problems confronting business executives.

The Alumni registered in Baker Library early Friday afternoon and then gathered in the Reading Room to hear the three afternoon speakers. The first speaker was Mr. Thomas S. Holden, vice-president in charge of statistics and research of the F. W. Dodge Corporation. The title of his address was “New Frontiers.” Following Mr. Holden was Mr. Claude Robinson, president of Opinion

Research Corporation, who spoke on “The New Science of Public Opinion Measurement and Its Implications for Business.” The third speaker on the afternoon session was Judge Robert E. Healy, Commissioner of the Securities and Exchange Commission, who spoke on “Holding Companies and Private Capital Financing.” The discussion of private capital financing was off-the-record, but the remainder of Judge Healy's speech is carried, as are the other speeches, elsewhere in this issue of the BULLETIN.

An innovation instituted by this year's program was the cocktail party for all the Alumni, which was held in the Faculty Club. This provided the Alumni an opportunity to meet the speakers at the afternoon and evening meetings as well as to renew acquaintances with classmates and friends.

The dinner meeting was held this year in the main dining room of Eliot House. Approximately 220 Alumni and their guests were present at this meeting. Louis W. Munro, president of the Alumni Association for the year 1938-39, presided and introduced the speakers as well as the guests at the head table. The speakers included Mr. Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, Professor O. M. W. Sprague, Professor Malcolm P. McNair, and Dean Wallace B. Donham. Other guests at the head table included Mr. Holden and Judge Healy, who spoke at the afternoon meeting; Mr. Walter Bucklin, president of the National Shawmut Bank; Mr. Roy A. Young, president of the Federal Reserve Bank of Boston; Mr. John H. Williams, Dean of the Harvard Graduate School of Public Administration; Mr. Hugh Ward, vice-president of the First National Bank of Boston; Professor Philip Cabot; Theodore F. Drury, chairman of the Special Program Committee; and Edmund F. Wright, newly elected president of the Association. Mr.



THE SPEAKERS' TABLE AT THE ANNUAL ALUMNI DINNER

Left to right: Eccles, Munro, Sprague and Healy

Munro announced the election of the officers in addition to Mr. Wright, who will be in charge of the Association during the coming year. These included W. Stewart McDonald of New York, vice-president; Boyce F. Martin, secretary-treasurer; and the following members of the Executive Council: Robert E. Anderson, Jr., Boston; William O. Forssell, Walpole; Russell M. Sanders and Joseph J. Snyder of Boston; and John M. Young, Jr., of New York.

The program was resumed Saturday morning with a speech by Mr. Howard Coonley, chairman of the Board of the Walworth Company and president of the National Association of Manufacturers. The title of Mr. Coonley's address was "Obstacles in the Way of Business Recovery." The second speaker on the program was Mr. R. S. Damon, vice-president in charge of operations of

American Airlines, Inc., who spoke on the future of air transportation. The final speaker on the program was Professor Philip Cabot. The topic of Mr. Cabot's speech was "Ten Years of Depression — the Shadow and the Substance."

There were representatives at the meeting from all parts of the country. A total of 32 cities were represented, including San Francisco, Tampa, Pittsburgh, Cleveland, Baltimore, Rochester, Washington, Hartford, as well as New York and Boston. Except for the local group the largest contingent was from New York with a total of 23 men representing this city. There were six Alumni from Hartford, five from Rochester, four from Springfield, and three from Bridgeport, New Haven, Washington, and Holyoke.

The final Alumni Council meeting, which was held after the afternoon session, was

attended by a large number of representatives of the local clubs throughout the country. Nine Business School clubs sent official representatives to this business meeting of the Executive Council of the Alumni Association.

The following Alumni from New York registered at the meeting: Edward T. Batchelder '32, Frank H. Baumgardner, Jr., '32, Stacey K. Beebe '22, Marvin Bower '30, Edgar R. Broenniman '24, Benjamin D. Burch '34, J. Gordon Carr '34, R. Canon Clements '35, John O. Downey '24, Carroll Dunham, III, '11, William J. Edmonds '34, Dwight F. Evans '34, Milton Goldberg '31, I. Hayne Houston '33, Albert G. Joyce, Jr., '25, W. Stewart McDonald '25, Alan S. Miller '34, Michael Pescatello '35, John T. Remey, '15, Anton H. Rice, Jr., '33, Robert C. Story '29, Philip B. Stovin '29 and Ralph I. Straus '27.

The following men from other cities also attended the meeting: Charles E. Baldwin, Jr., '28 of Worcester, Mass., James S. Barker '34 of Nashua, N. H., Howard P. Beckett '23 of Philadelphia, Pa., Jonathan A. Brown '38 of New Castle, Pa., Elton J. Burgett '31 of Rochester, N. Y., W. Perry Curtiss, Jr., '37 of New Haven, Conn., James E. DeLano '38 of Kearny, N. J., Gregory Dexter '34 of San Francisco, Calif., Carl J. Dinic '30 of Pittsburgh, Pa., Harold J. Field '29 of Providence, R. I., John S. Fleek '21 of Cleveland, Ohio, Robert W. Fort '35 of Baltimore, Md., Ned F. Foulds '29 of Hartford, Conn., George Frederickson '30 of Bristol, Conn., Mott A. Garlock '27 of Springfield, Mass., E. Blakeney Gleason '27 of Rochester, N. Y., John M. Hallahan '30 of Bridgeport, Conn., C. Elihu

Hedges '26 of Rochester, N. Y., Wesson S. Hertrais '36 of Nashua, N. H., George W. Howe '23 of Springfield, Mass., C. Grandison Hoyt '27 of Toronto, Canada, Stuart E. Judd '27 of Waterbury, Conn., Raymond W. Keller '37 of Springfield, Mass., Edmund R. King '30 of Rochester, N. Y., Frank W. Lincoln, Jr., '31 of Providence, R. I., Norman G. MacLeod '23 of Springfield, Mass., Edwin T. Marble, II, '20 of Worcester, Mass., Wendell O. Metcalf '31 of Hartford, Conn., F. Darrell Moore '23 of Troy, N. Y., Albert M. Nutter '34 of East Bridgewater, Mass., Burnett R. Olmsted '33 of Metuchen, N. J., Philip R. Palamountain '24 of Ware, Mass., Kenneth W. Paul '35 of Rochester, N. Y., Clyde Perry '37 of Tampa, Fla., John M. Rae '28 of Bridgeport, Conn., E. Allen Robinson '38 of Washington, D. C., Shipherd Robinson '38 of Chicopee Falls, Mass., Harry K. Rutherford '26 of Washington, D. C., Lars J. Sandberg '31 of Wilmington, Del., Erle F. Saunders '28 of Montreal, Canada, Lee Schoenfeldt '27 of Bridgeport, Conn., Theodore D. Shapleigh '25 of New Haven, Conn., Edgar T. Sloan '32 of Hartford, Conn., William H. Smith, II, '33 of Holyoke, Mass., Holly W. Stevenson '23 of Hartford, Conn., Richard P. Towne '23 of Holyoke, Mass., W. Brewster Towne '38 of Holyoke, Mass., Charles F. Wagner '29 of Pittsfield, Mass., James J. Walker '21 of Pawtucket, R. I., Byron A. Waterman '24 of Providence, R. I., George K. Whitney '31 of Hartford, Conn., Charles C. Withers '30 of Newburyport, Mass., H. Arthur Wormcke '25 of Hartford, Conn. and Philip Young '33 of Washington, D. C.

The following local Alumni were also present at the meeting:

Jean R. Adrian '36
O. Kelley Anderson '29
Robert W. Anderson '32
F. Gregg Bemis '25
Joseph G. Bent, Jr. '31
Dwight B. Billings '22
Richard D. Bolster '30
Robert H. Booth '31

Leroy E. Briggs '34
Carl E. Bryant '28
Frederick M. Bundy '23
Roland P. Campbell '35
John J. Canavan '28
F. Robert Cole '27
George E. Cole '13
Charles F. Collins '14

John E. Dorsey '28
Jesse A. Drew '21
Theodore F. Drury '28
Henry T. Dunker '27
Robert A. Dunn '34
Marshal Fabyan, Jr. '38
Blake H. Field '29
E. Paul Floyd '28

A. Alfred Franks '26
Cecil E. Fraser '21
Maurice T. Freeman '27
Courtenay H. Gendron '18
Archibald C. Gove '13
Robert R. Haskell '21
Carrol J. Hoffman '28
Gilbert H. Hood, Jr. '22
George D. Horr '28
Kenneth T. Howe '32
Alexander W. Hutchinson '26
Clarence G. Ivey '30
Anthony Jaureguy '21
K. Renner Johnson '34
Richard N. Johnson '23
Roger Johnson '29
Paul E. Landry '24
Paul F. Lawler '37

Donald H. Linton '36
William F. McGonagle '37
Richard McKay '30
William T. Minor, Jr. '37
Chester T. Morrison '29
William F. Morton '27
Louis W. Munro '23
Philip H. Ordway '38
Nathaniel A. Orr '29
C. Wesley Purdy '24
William F. Ray '37
Adam Rhodes '32
Dwight P. Robinson, Jr. '25
Henry A. Sasserno '23
Philip Saunders '26
E. Linwood Savage, Jr. '32
John M. Sherman '25
Eldon C. Shoup '22

Donald B. Smith '22
Joseph J. Snyder '34
George G. Sommaripa '24
Walter M. Stone '15
Horace G. Torbert, Jr. '34
Everett R. Thompson '30
Frank L. Tucker '30
King Upton '35
Mark C. Walker '26
Stephen Weld '25
Alfred R. Westfall, Jr. '38
Arthur H. Whitman '13
Merton E. Williams '27
Francis S. Wilson '36
Henry C. Wood '30
Alfred S. Woodworth '31
Edmond F. Wright '26
Charles E. Young '16



NEW FRONTIERS

By THOMAS S. HOLDEN

A long-range view can give us a perspective and a sense of proportion. I would, therefore, like to survey briefly the past hundred years of economic growth in the United States, citing original documents. First, a letter to the editor of the *New York Evening Post*, dated May 1, 1937: "The present commercial revulsion is without a parallel in our history. The distress pervades all classes — the prudent and the foolhardy — the regular merchant and the speculator, the manufacturer, tradesman, laborer, banker — all are involved in one general calamity." Next item in our outline would be this from *Harper's Weekly*, dated October 10, 1857: "It is a gloomy moment in history. Not for many years has there been so much grave and deep apprehension; never has the future seemed so incalculable as at this time. . . . Of our own troubles no man can see the end." The theme recurs in 1876, when on August 3, the *New York World* said: "The industrious millions of our people are suffering now as they have never suffered before. Honest labor starves, and capital hides out of sight." The consistency of the picture was again confirmed on April 28, 1894, when the *New York Commercial* said: "The world has completed, perhaps, the most disastrous liquidation in its history." A glutton for punishment the United States survived till March 1, 1908, when the *Wall Street Journal* expressed the emotions of the moment in mixed metaphors, as follows: "There never was a time in the country's history when our industrial affairs were in such a tangle, and were going downhill as rapidly as they are today." And, to climax the record of despair, let me quote the *New York Herald-Tribune* of January 1, 1938: "The year 1937 will be remembered as the one in which the world, steadily and insistently, appeared to be going to hell in a hanging basket. It was a twelvemonth of gloom, uncertainty and apprehension. Many

things happened to disturb the even surface flow of events — strikes, wars, and so on. But what actually did happen? Was there any substantial and measurable gain in the upward struggle of the human race? In all the pulling and hauling, the conflicts and the bickerings, was there any tangible victory, over any broad front, for the nobler aspirations of mankind? We presume to doubt it. The assaults upon the ideals of democracy surely became stronger. The increase in bitterness, between peoples and factions and individuals, appears too obvious for comment. Are there still men of good will? Perhaps, but they are hard to find."

I think you can draw two possible conclusions from all this. You might decide that the people of the United States are a weary plodding race, inured to misfortune and resigned to a barren and desolate existence. On the other hand, you might conclude that the recuperative energy of our economic system resides less in charts of statisticians, predictions of economists and remarks of newspaper commentators than in the individual and collective will and intelligence of people.

If our economic system were a machine, as many people appear to assume, it would long ago have broken down beyond repair. If it is a living, growing organism, then it must progress by the experimental method. Experiments by government and criticism of governmental experiments are part of the process. I will draw one more quotation from the source of the others I have given you, *When the Merry-Go-Round Breaks Down*, by Wilfred J. Funk. Said the *Washington (D.C.) Daily National Intelligencer*, on June 12, 1838: "Everything is uncertain on account of the Government. The members of that Government write to some of our business men, encouraging the hope of a change in policy; but no change takes place of any consequence,

and further experiments continue to be made." One hundred and one years after that complaint was uttered, we still have enough vitality left in us to experiment and to grumble about it. Perhaps what we need most is appreciation of the evolutionary processes in economic phenomena in order that we may appraise experiments correctly and have a real understanding of economic growth.

The construction industry, which has prospered in every phase of economic growth this country has enjoyed and has fabricated the physical embodiments of our economic progress, has been called a backward industry. Some people even seem to regard it as being made up entirely of antiquarians, dumbbells, and racketeers. Professional housing experts, many of whom have never built a house, take the industry to task for not turning out a product for people who have no money. Wall Street statisticians are personally very much hurt that the industry does not jump immediately into assembly-line production of houses, when there is such an obvious statistical need for a boom.

The term "construction industry" is a convenient generalization which does not have the same kind of factual connotation that is implied when we speak of the "automotive industry," "the petroleum industry," "the electric-power industry." The term is sometimes used as though it included the processes of producing and transporting materials, as well as the process of assembling structures.

Even in the field of structural assembly, there are two fairly well-defined sets of industrial processes, one having many of the characteristics of modern large-scale industrial enterprise, the other being characterized principally by survivals of individualistic, handicraft procedures and so overlaid with tradition and resistance to change, that it has shown very little progress. I will refer to these divisions of the industry hereafter as large-scale construction and small-scale construction.

Large-scale construction gained its original impetus back in the 1890's from such inventions as steel-frame and reinforced concrete construction and the power-driven safety elevator. It met a large and rapidly growing demand for large industrial plants and for large urban buildings where maximum use of ground space seemed economically desirable.

It is unnecessary to review the triumphs of engineering science that have expressed themselves in the design and fabrication of such projects as the Panama Canal, the Westchester County Parkway System, the Golden Gate and George Washington Bridges, Boulder Dam, the Empire State Building, Rockefeller Center, or practically any large modern industrial plant you can name. These structures are the admiration and wonder of the entire modern world. One of them, Rockefeller Center, was recently characterized by Mr. Henry Vandervelde, the famous Belgian architect, as one of the great architectural achievements of all time. Similarly, M. Jacques Greber, noted French city-plan expert, has pronounced the Westchester County park and parkway system as the finest regional planning job in the world.

The men who brought such great structures into being have all been technicians of the highest competence: architects, engineers, general contractors. All are essentially professional men; even the general contractors, although they combine with engineering skill and organization technique the functions of business management. While professional status is officially and generally accorded to architects and engineers, it is not so generally recognized as belonging to those general contractors who erect large modern industrial and urban type buildings and the more complicated engineering structures. Yet those men (so long as they function as contractors) rarely initiate or finance projects, or produce buildings to sell or to operate for income. The volume of operations of particular architects, engineers, and contractors is subject very little to their own control; they do as

well as they can in the matter of maintaining permanent skeleton staffs, hoping for reasonable continuity of work. Many contractors also have considerable capital invested in construction equipment, much of which may lay idle a considerable part of the time. Generally speaking, each project is a custom-tailored job. It is the magnitude of the specific job that calls forth the economies and efficiencies of modern large-scale production. Generally speaking, the economies effected on such projects have been economies of organization, of operation, and of the time required for completing a project. The Empire State Building was constructed in eighteen months. During the World War, when army cantonments, industrial housing and other construction requiring maximum speed were required, the Government called upon the services of the executive heads of the big private contractor organizations to do these jobs. Low unit costs have always been a factor in large-scale buildings, but have probably counted most in factory and warehouse projects; most other classes of large-scale building projects have been quality jobs, involving a number of skilled handicraft trades, and planned for fairly high-cost uses. Mechanization of processes has gone fairly far with respect to excavation and material handling, and there has been a gradual advance in shop prefabrication.

This modern professionalized large-scale construction industry has not, until recently, functioned to any considerable extent in the production of housing facilities. According to the Census of 1930, 76 per cent of the family dwelling units occupied by American families were in single-family houses, 12 per cent in two-family houses, and 12 per cent in multiple dwellings. Only a small fraction of the multiple dwellings were very large buildings, the average number of family units per building in 1930 being slightly under six. While many operative builders have produced quantities of small houses for sale, with few exceptions their building operations have not

involved any really large number of new buildings in any particular year, nor any great degree of continuity of operations. Considerable numbers of the single-family houses that are produced for sale or rent are erected on the basis of one house per operation.

Consequently, most housing facilities have been produced by the small-scale construction industry. The small-scale industry dates back to the beginnings of man-made shelter, and in respect to construction methods has made little progress in modern times, although great progress has been made in such accessories as plumbing and heating and lighting equipment and similar conveniences and comforts. Consisting to such a large extent of small individualized operations, material and equipment purchases are generally on a retail basis. Even where stock plans are used, variety is frequently sought in external appearance, aiming at the effect of a custom job. The small-house builder is frequently a boss-carpenter or graduate from one of the other handicraft trades, or a former small-lot subdivider; he may be highly competent within the range of handicraft production of small houses, but only rarely has he had anything approximating the professional technique of the architect, the engineer, or the large-project contractor.

The operative builder who produces small house developments for sale has been, for the most part, a land speculator. As, during the evolution of urban communities, it became increasingly difficult to sell building lots, the addition of houses was made in order to sell the lots at a profit. This speculative technique was carried into the apartment field. Few builders of apartment houses produced them with the intention of operating them for an income over an extended period of time, although they have frequently held them until they were fully occupied with paying tenants before selling the properties to investors. The need for planned community developments, providing housing accommodations with a preconceived relationship to school,

transportation, and social facilities and employment opportunities has only received general recognition in recent years.

Thus, the small-scale building industry has never commanded any considerable amount of working capital, has had no opportunity to develop modern research, no real bargaining power in the material or labor market. It has not yet become in any important sense a modern business; it is in many respects an archaic survival of ancient and medieval construction techniques and nineteenth century management concepts.

While real estate speculation has been conspicuously present as a motivating force in the large-scale construction industry, it has not so dominated it as to exclude business considerations. Factories, office buildings, department store buildings, hotels, large apartment projects, and the like, have had to proceed from careful analyses of their potential earning power as business enterprises.

There have been noteworthy examples of large-scale enterprise in the housing field. The Fred F. French group of companies has produced more than \$100,000,000 worth of rental housing accommodations in the City of New York. The affiliated companies of this organization have included a holding company, a financing company, an architectural planning organization, a construction organization, and a management company to operate the properties. The Queensboro Corporation, also of New York, has produced more than \$50,000,000 worth of rental housing accommodations, although it has let out its construction on contract. The J. C. Nichols Development Company of Kansas City, the River Oaks Company of Houston, and the Roland Park Company of Baltimore are examples of well-capitalized companies which have produced planned communities of high quality as a matter of continuous operation over a considerable period of years; their projects have consisted principally of single-family residence properties. These outstanding exemplars of housing conducted as a

regularized business have until quite recently operated in the luxury housing field, where they found their greatest potential market. They have all recently engaged in lower-priced operations, consisting both of rental projects with FHA-insured mortgages and individual houses for sale.

In addition, there are such familiar examples of rental housing for middle-income families undertaken on a strictly investment basis, as the projects of the City and Suburban Homes Company projects of New York, the Washington Sanitary Improvement Company, the Washington Sanitary Housing Company, Chatham Village in Pittsburgh, and some of the limited-dividend projects under the program of the New York State Board of Housing. These projects have to a considerable extent provided the pattern for the large-scale rental projects that have been undertaken with FHA-insured mortgages.

The essence of investment housing is that it is undertaken for the sake of operating profits and equity appreciation over the years, rather than with the aim of a speculative profit from a quick sale. Initiation of such a project, therefore, is the nature of launching a business enterprise rather than a real estate speculation. Operation of a large urban or garden apartment project is just as much a business as operating a hotel. The buildings with the land and appurtenances constitute the plant; the merchandise sold is shelter, plus varying degrees of comfort and kinds of service; in the one case for transient tenants, usually on the basis of a lease. The concepts of housing as a business and as a field for investment (as contrasted with speculation) are daily gaining a wider and wider acceptance, although there is a great need for more education of the public as to the nature of these concepts, and as to the investment opportunities in this field.

The earlier investment housing projects were mostly financed with the conventional sixty per cent mortgages, though two impor-

tant ones, Chatham Village in Pittsburgh and the earlier Metropolitan Life Insurance Company project, were wholly owned by one hundred per cent investment of institutional funds. The new Metropolitan project, also wholly owned, will be the largest single rental housing project in the country. It is perhaps significant that this project has engaged the services of the architects, engineers, and builders of the Empire State Building.

The inception of the FHA plan for insuring mortgages on large-scale private enterprise rental projects thus found already in existence a pattern of investment housing, a construction industry entirely competent to build on as large a scale as needed, and a ready supply of mortgage money. Although the life insurance companies were a little slow in taking up these loans at first, they are now ready to make almost any rental-housing loan that meets the requirements for FHA approval. As of April 30, 1939, sixty-six of these projects were completed and in operation, eighty-seven were under construction and ninety-nine more had commitments for mortgage insurance.

One of the earliest of these projects, Colonial Village in Arlington, Virginia, has proved so sound and profitable that it has recently been refinanced without mortgage insurance, the new mortgage being taken by the New York Life Insurance Company, which was the original mortgagee. The principal obstacle, therefore, to more rapid progress in large-scale rental housing, has not been absence of construction technique, or mortgage money, but the absence of equity financing; there is as yet a dearth of men and money willing to go into the business of selling shelter service on a long-term basis. But their number is constantly growing.

Large-scale public housing projects, built with government subsidies, have also made considerable progress in reducing unit costs, partly by setting up reasonably modest plans and specifications and partly by engaging the

services of architects and contractors who have by careful study found more economical ways of building than were employed in the earlier subsidized projects.

Thus far, large-scale production of single houses for sale has not developed on any grand scale. Perhaps we ought to give it time. We have expected it to develop through some spectacular invention of a patentable house to be rolled off an assembly line. When this happens, if it ever does, it will be in response to a market demand and to the possibility of quantity orders from the field. While large-scale production of small houses has not been the rule, it has been done. Mr. John H. McClatchy of Philadelphia was an apprentice in a company that was building six hundred houses a year as early as 1894, and has been continuously in the housebuilding business for himself since 1900, since which time he has built and sold approximately ten thousand houses. Technical improvements in building, whether evolutionary or revolutionary in character, are more apt to come in a period of large activity than at a time when little building is going on. The market makes the opportunity. Evidence could be cited that small-house production as a regularized business is gradually coming into being.

Now, the people who at various times in the past hundred years thought the world had come to an end did not bring back prosperity with any synthetic miracles. They did not even know what was going to be the next big stimulus to economic expansion. The wailers of 1837 did not foresee the annexation of Texas, or the gold rush to California, and they probably looked upon steam railroads as interesting mechanical toys. The pessimists of 1857 did not foresee a settlement of the slavery problem, the establishment of a national banking system, or the building of western railroads. It was impossible in 1873 to forecast the rise of oil and steel and cement. Visitors to the Columbian Exposition in Chicago in 1893 were awed by the twenty-two-

story Masonic Temple building, but they were not even shown the laboratory experiments that later produced the automobile. This great invention was still a rich man's luxury in 1908. In 1908, no American knew that a World War would, in a short space of time, make us a creditor nation. Why should we today expect explicit road maps and charts guaranteeing a completely safe way to prosperity? There never were any new frontiers for those who did not have the frontier spirit. I recommend to students of business administration fewer charts, fewer explanations of the business cycle and more visits to the movies; if they must write dissertations, let them trace the spirit of American enterprise as shown in "Covered Wagon," "Man of Conquest," "Dodge City," "Union Pacific" and "Alexander Graham Bell." For post-graduate work, I suggest the New York and San Francisco World's Fairs.

During the past five years, slightly more than \$12,000,000,000 worth of construction contracts were reported by F. W. Dodge Corporation for the territory covered by its field staff, the thirty-seven States east of the Rocky Mountains. This large total was practically evenly divided between public and private work. During those five years, private work accounted for ninety-one per cent of the residential contract total, fifty-six per cent of the non-residential total, and ten per cent of the heavy engineering construction total.

The six billion dollars worth of private contracts were let by more than five hundred thousand private individuals, firms, and corporations, whose names and addresses have been recorded daily by the Dodge organization. Since these private projects had an average value of only \$12,000, the vast majority of venturesome people who made these commitments must have been people of moderate resources. At any rate, here were half a million Americans who had sufficient faith in the future to assume large risks at a time when many business and financial leaders and economists and statisticians were telling

them the world had practically come to an end.

The continuous increase that has taken place in private residential building since 1934 has been largely aided by FHA-insured mortgages, although not entirely financed in that way. This has caused some people to say that the residential building revival was artificially stimulated, a judgment I believe to be incorrect. Neither long-term amortized mortgages, moderate interest rates, nor investment housing is a new creation. It was just as necessary to change our lending from a pawnbroking system to a long-term credit system, as it was to change our basis of real estate appraisals from the speculative basis to the income basis. The mortgage-insurance feature, only novel device in the system, was necessary in order to override the limitations of restrictive state laws, so that uniform lending practices and uniform moderate interest rates might prevail throughout the country. This needed financial reform has broadened the area of business opportunity just as in earlier times the National Banking System and the Federal Reserve System did. In an important sector of finance, it has caused merchants of debt to become managers of credit. Since the FHA is neither a spending nor a lending agency, but draws out private funds for mortgage investment in small houses and large-scale rental projects, it seems to me that the progress this agency has made in stimulating residential building is a recovery factor of real and substantial proportions whose value cannot be discounted merely because it is an instrument of the Federal Government. Its current record of applications and commitments for mortgage-insurance constitute one of the most important indicators of continued residential building revival.

The public building and engineering half of the construction program of the past five years has represented an unusual proportion of the total and has been financed on an emergency basis; it did not exceed in actual volume the expenditures for public improve-

ments that were made in the preceding five years. The difference was in the extent of financial participation, and incidental centralized control, by the Federal Government. The states and local governments, with depleted credit resources dependent upon taxing depreciated real estate, could not have carried out unaided their improvement programs on their customary scale. While we cannot be sure that all public improvement projects that have been carried out with the stimulus of loans, grants, and work-relief programs are equally meritorious, the needs for community improvements to supplement and, in many cases, to stimulate, private construction throughout the country have been very great indeed, and have not been fully taken care of yet.

The two reorganization plans adopted by the Administration, one for consolidating the lending agencies, and the other for consolidating the construction agencies, are in principle, steps toward unifying these governmental activities, toward abandoning emergency programs and adoption of long-term policies. I do not profess to know just how these mergers of functions should be effected, nor what the long-range policies should be. The problem is in both cases largely one of long-term finance, involving both private and public credit.

On the side of public works financing, Mr. A. A. Berle has recently proposed the establishment of a Federal bank. Congressional proposals have included the possibility of the Federal Government's contributing two-thirds of the cost to non-Federal projects, an amount that seems to me beyond all reason. Neither of these proposals has, so far as I know, been accompanied by any authoritative statement as to the potential capacity of states and municipalities to do their own financing. There is also a need to spread the new mortgage system beyond the housing field into other branches of real estate, and proposals for a National Mortgage Discount Bank have been urged. And, outside the field of con-

struction finance, we have heard proposals for facilitating capital loans to small business.

While I am inclined to think that further adjustments are called for in the field of long-term finance, it does seem to me that the time is past for piece-meal emergency jobs, or for major legislative enactments in the field of banking and finance on the basis of proposals by public administrative offices or governmental advisers, without full consideration of the points of view of private finance and private business. It seems to me that the time has come for a broad objective survey of the country's needs in the field of long-term finance, including analysis of the present functioning of private and public agencies; it should include a critique of the workings of regulatory agencies, as well as of lending and investment banking agencies, and of the municipal bond market. It should give equal consideration to the testimony of bankers, industrialists, big business and little business, economists and public officials. This could be done in a way to inspire confidence instead of promoting distrust, if a joint committee were set up by Congress following the pattern of the National Monetary Commission of 1908 (generally known as the Aldrich Committee) whose studies resulted in creation of the Federal Reserve System. Such a National Long-Term Credit Commission, paralleling the deliberations of a similar commission to study Federal, State, and local taxes, could accomplish tremendous results in completing necessary adjustments, supplying any new instrumentalities of finance whose need may be fully demonstrated, and removing such obstacles to recovery as may exist either by reason of governmental restrictions or inertia of banking institutions.

I realize fully that the people of this country have tremendous problems to solve, and I would not wish to give the impression that I think all is right in the best of all possible worlds. It never was. But I do believe that the spirit of defeatism is dying out and that the recuperative forces of recovery are

strongly in evidence, very particularly in the field of private construction, a very good barometer.

Total contracts let for private construction during the first five months of this year in the thirty-seven eastern states amounted to \$729,968,000, compared with \$537,095,000 in the corresponding period of 1938, an increase of thirty-six per cent. During the same period, public construction contracts amounted to \$681,080,000, a thirty-four per cent increase over the first five months of last year. Residential contracts have run seventy-three per cent ahead of last year; non-residential building and heavy engineering, each twenty per cent ahead. There can be little doubt that the year will close with a substantial increase in total construction over 1938. This is nearly certain to be the sixth consecutive year of increased total construction and the fifth of increased residential volume; the odds seem highly favorable for continued recovery progress.

It would be foolish to minimize the gravity of our international, political, economic and social problems; or the fact that the construction industry itself still has important obstacles to overcome. We reached the boundaries of our geographical frontiers a couple of generations ago; and we arrived at maturity as an industrial nation between 1914 and 1929. But the job of making our country into a completely civilized nation, with better living conditions, and better communities for our people and greater efficiency

and economy in our productive and constructive enterprises, has scarcely begun. Modern Lewises and Clarks have explored some of the frontiers of modern civilization, but no man has yet discovered the boundary lines. Perhaps the frontiers do not disappear until the frontier spirit is dead.

I have tried to sketch for you the evolutionary process by which basic real estate concepts and practices are changing, by which mortgage banking is being transformed into a modern long-term credit system, by which speculative housing is being turned into a business, by which the builders of Rockefeller Center, the Westchester County Parkway System, the George Washington Bridge, Boulder Dam, and the Metropolitan Life Insurance Company Housing Project have begun to create the World of Tomorrow. I believe these phenomena to have greater significance than any mere listing or statistical compilation can indicate. I have not even had time to touch upon the new inventions, new materials, new machines, which will add their contributions to the American economy as recovery broadens and opportunities increase — that story is being much better told to millions of Americans at the two great expositions now in progress in New York and San Francisco. I have merely tried to present some evidence that the individual and collective will and energy and ingenuity of our people are not dead, that we have begun to demonstrate some of that initiative which in recent years we merely talked about.



THE NEW SCIENCE OF PUBLIC OPINION MEASUREMENT AND ITS IMPLICATIONS FOR BUSINESS

By CLAUDE ROBINSON

We are accustomed to think of public opinion as a social force with which politicians alone deal. As a matter of fact, business men have more public opinion problems than politicians for they deal with four publics to the politicians' one, and account to these publics, not once at election time, but every day of the year. When a man is in business he answers to a customer public, a labor public, an owner public, and a general public.

These publics are socially powerful. With the customer public, this power is manifested on every hand. Each day in the market place an election is held. The buyers look at the competing candidates for the sale and express their choice by their purchase. The business man who gets very far out of step with the opinion of the consumer public suffers the terrible penalty of being voted out of business. Some have tried to defy the customer either by innovating too rapidly or by overstaying a once successful market, but the answer is always the same: the customer simply withdraws his vote of confidence and gives it to the competition. When the public wants a gear shift car, not even a Henry Ford can hold out against the demand.

The labor and owner publics are, likewise, powerful. If they do not like the way a business is being run, they strike. They withdraw their labor or capital from the enterprise and the business suffers. Business has had much experience with these publics, and it understands the principles by which they operate.

But the power of the general public — that is a relatively new experience for business men. By the general public, I mean society as a whole — the public that gives the right to do business in the first place and lays down the fundamental rules by which the game is played.

The power of this form of public opinion is dramatically illustrated by the sit-down

strike. In this country, in contrast to some totalitarian societies, we have the institution of private property. We believe that a man's home is his castle, and we entrust ownership of property to individuals for exploitation under a set of rules governing the use of property. In 1937 these established rules of property were challenged in a revolutionary way. Workers seized plants and held them against owners and agents, until their demands might be met. For a time government officials were undecided whether or not the sit-down was to be recognized as a valid labor technique. But the general public was not long in making up its mind. It said a stern "no" to this attempted change in the customs regulating the use of property, and the sit-down epidemic was shortly at an end.

Suppose the general public had said "yes"; suppose this public had agreed that employes had the right to take over a plant or an office during a strike and keep the employer away until the workers' demands were met. Then, gentlemen, however fantastic it may seem to you now, sit-down strikes would have become an old union custom, and business men would have been forced to accommodate themselves to this new way of doing things, or go out of business. The general public is the Supreme Court of society, as it were, from which there is no further appeal.

In recent years the business man has felt the impact of opinion of the general public largely through government. In the economic demoralization that followed 1929, the public lost confidence in business leadership and turned to the politician and the instrumentality of the State to reorganize social effort. The changes that have taken place as a result of the intervention of the State have been, in an historical sense, revolutionary. Government has stepped in to regulate enterprises such as security exchanges; it has set minimum

wages and maximum hours for workingmen; it has gone into active competition with utility companies in supplying electric light and power; it has reached into the pay envelope and the corporate treasury to establish a vast system of old age and unemployment insurance; it has become banker to private and public enterprise; it has made it compulsory for the employer to deal with his employes collectively; it has given housing and food and grants of one kind and another to large segments of the population, creating a dependency relationship between the individual and the State which heretofore had not existed in this country. Business men have been at their wits' end in coping with this expression of the general public's will. Some business institutions resisted change too long, and suffered the humiliation of being regulated from without rather than being allowed to clean house from within. It has been a difficult problem for business to know when to yield and when to fight; and it has been the more difficult because, by and large, business men have been too little schooled in the tactics or the language of the struggle for public favor.

In this discussion of the relation of the business man to his several publics, I am not for a moment implying that he should be a yes man to any public. As a matter of fact, the public does not want yes men. What the public does want, and what the business man must be if he is to get on with his several publics, is a leader, an innovator, but a leader with a keen appreciation of what his followers are thinking. Nowadays, as I shall indicate later, it has become possible to measure and chart the public mood objectively. If business is to supply social leadership it must work in some fair relation to that mood, neither too far ahead nor too far behind. The business leader must have firm convictions on fundamentals, but he must also be able to understand his public and speak to it in a language it can comprehend.

In the absence of better techniques, busi-

ness men have heretofore depended a good deal on hunch and impression or scattered reports, for their knowledge of what the public is thinking. This is particularly true with the labor, owner and general publics. With the consumer public, of course, the sales curve has provided a basic index of public opinion. This index, however, is not without shortcomings, for the sales curve does not tell *why* people are voting favorably or unfavorably on a product, nor whether they are in favor of or opposed to government regulation of the distribution of the product. In the case of the chain stores, for example, the sales curve gave no evidence whatsoever that a large segment of the population thought they were an alien influence in the community and monopolistic, and that they should be subjected to special taxes not levied on other stores.

Another shortcoming of the sales curve as an index of consumer opinion is that where offers are controlled, sales may reflect the opinion more of the sellers than of the buyers.

There are two things wrong with judging public opinion by impressionistic observation and hunch. In the first place, impressions may be wrong. An observer may judge the public's mood brilliantly for a time, and then without warning run completely off the track. The process is a very subtle one. A little wishful thinking and a self-assured pronouncement by a trusted friend are all it takes to do the trick. There is no alarm bell to sound when observations of public opinion are about to betray the facts. Having been right before, the observer is sure he is right this time. The annals of business are filled with instances of guessing the public wrong, and of failure to discover a shift in public taste before the competition has won patronage away.

Some very interesting studies on this point were made by Arthur C. Nielsen. He asked executives of client companies to guess the public's attitude toward their product before the sales figures were available. These guesses, according to Nielsen, were fifty-eight

per cent right. I have no doubt that, by and large, business men's impressions about their own business are much more reliable than the same type of observations by outsiders, but the fact is that impressionistic observation as a technique for acquiring knowledge of what a public is thinking, has a very large margin of error.

The second thing that is wrong with appraising public opinion by impressionistic observations is that equally competent observers may disagree on what are the facts. In situations of this kind, disagreements over policy are commonplace, because each school of thought starts with a different premise. The only sure way to reconcile these differences, is to appeal to an objective method for developing the facts. When this is done, differences over policy frequently disappear.

Business men, by the nature of their calling, are schooled to face facts, and it is historically true that they have uniformly turned from hunch thinking to systematic analysis of facts whenever fact-finding techniques have been made available to them. Such a process of transition is now going on in the field of public opinion. Thanks to the development of modern methods of opinion sampling, business executives today are relying less on their bone marrow to tell them what the public is thinking and more on systematic sampling studies.

There is much misinformation abroad about the methods of public opinion sampling and I should like, therefore, to discuss briefly some basic aspects of the technique.

The central idea of opinion sampling is that the opinions, desires, customer preferences, and so on of any public can be determined by interviewing a few representative individuals of that public. The validity of the conclusions drawn from the sample depends upon three factors: the representativeness of the persons interviewed, the size of the sample and the system of interrogation used in the interview.

If the social composition of the sample

public is like that of the larger public, then it is valid to reason from the sample to the larger public. In sampling a population, for example, the sample is normally balanced for such factors as geographical area, sex, age, farm versus urban dwellers and income status. If a limited public such as buyers of a luxury product were being studied, then the sample would conform to the geographical peculiarities of the market, and particularly the income status of those included in the sample.

Most mistakes in the interpretations of samples are directly traceable to the question of representativeness. The most famous example, of course, was the *Literary Digest*. In 1936, this magazine sampled the voting preferences of upper income owners of telephones and automobiles and assumed that these preferences were representative of the whole electorate. They were not, of course, for the haves in the country are predominantly Republican while the have-nots are strong for Roosevelt and the New Deal. Today people vote in direct relation to their pocketbooks, not only in the market place but also at the polls, and the income factor therefore is of primary importance in determining the validity of a sample.

So the first question that must be raised whenever a sample is being interpreted is: what does the sample represent?

The second question, although a less important one, is: How many people were interviewed? The *Literary Digest* popularized the idea that millions of ballots were necessary to get an accurate sample. As a matter of fact, nations, states and trading areas are nowadays regularly and accurately sampled with from two to five thousand interviews. And it is a striking fact that some industrial concerns with hundreds of thousands of dollars at stake have found reliable policy guidance in samples numbering only a few hundred cases. One does not sample opinion long before he notices great likenesses in the ideas of people interviewed. When added

interviews fail to produce different opinion patterns, the opinion sampler knows that his sample is large enough. Beyond this point of stability it is a waste of time and effort to go.

It is not enough, however, to reach representative individuals in sufficient numbers to get a reliable opinion sample, for once the contact with the public is made the interviewer must interrogate the respondents in such manner as to elicit opinion that parallels behavior. This is a matter for great art and experience. The American people are very communicative, but to get desired information from them, they must be handled correctly.

It is necessary, in the first place, to interview them about things in which they are interested or in which they are experienced. It is a mistake to assume that the public has an opinion on everything. Opinions elicited in a sampling study can be considered valid only if the topic touches the people's interest.

In further describing what makes for a good interview, the interrogation must never put the respondent in an unfavorable light, nor put a premium of self-esteem on the answer given to the question. In studies of magazine readership, for example, researchers run into this difficulty consistently. People will tell you they read the *Reader's Digest* and the *Saturday Evening Post*, but overlook mention of magazines about love or astrology. Interviewing problems of this type provide a real challenge to research ingenuity.

Some time ago the American Institute of Public Opinion made a count of those who had read the best seller, "Gone With the Wind." Aware of the prestige nature of the book, the Institute phrased the question in such manner as to take account of this factor. It did not ask respondents, "Have you read 'Gone With the Wind'?" Instead, it asked, "Do you intend to read 'Gone With the Wind'?" Everybody was flattered. The people who had read the book said they had read it, and those who never read books under any circumstances, but who like to be

in the swim, were given a pleasant opportunity to express their literary aspirations.

One more observation on the technique of interviewing: Questions must be phrased clearly and concisely in words that are meaningful to respondents. Language is at best an imperfect instrument for communication of thought, for not only the meaning but also the emotional connotation of words varies with each individual. I once asked a simple question: "Is the electric utility in your community privately or publicly owned?" Many people who were served by private power companies answered, "publicly owned." Upon investigation, we found people saying "publicly owned" because the public owns the shares. The question was thereupon changed to read: "Is the electric power system in your community owned and operated by the government?"

Some words and phrases carry distinct emotional overtones either on the positive or negative side. People are generally for motherhood and against sin, in favor of helping the poor and opposed to going to war. Clichés of this type, therefore, must be avoided in asking questions of the public.

To get a valid sample of public opinion, therefore, it is necessary not only to use skill in selecting people to be interviewed, but also to use skill in their interrogation. When these technical hurdles have been cleared, the information from opinion samples can become invaluable as a practical guide to the trend of the public's thinking.

The growing recognition of opinion sampling as an instrument of business is attested to in many ways. A number of large manufacturing and distributing organizations now have departments of consumer research with substantial budgets to discover and analyze consumer opinion. General Motors, for example, has its Henry Weaver who sends you those entertaining little picture questionnaires which enable you to vote on body design, location of gear shift, types of ventilation and so on.

Procter & Gamble, to cite another example, directs its whole merchandising program from the conclusions of its research. If a new toothpaste is to be put on the market, it finds out if the customers like it red or blue, or yellow or green, whether they like it flavored or unflavored — in short, what they want in the way of a dentifrice. If a skillet or a hair brush is to be used as a premium to stimulate the sale of soap flakes, the housewife is first contacted to find out what she thinks about it. Procter & Gamble pre-tests radio commercials and magazine advertising. Being the biggest users of radio time in the country, they carefully analyze listener habits and listener reactions to the programs they offer. It is a tribute to the genius of Paul Smelser, who heads Procter & Gamble's research, that his company has regarded it as good business to increase its research budget year by year.

Advertising agencies have increasingly turned to opinion research for guidance on advertising programs. What people read in newspapers and magazines, what they listen to on the air, what types of copy most arrest their attention, what selling themes stimulate them most to buy, are among the problems dealt with in this kind of research.

In the publishing field, editors have more and more turned to readers for advice on what to print and how to print it. Following the reader interest technique developed by Dr. George Gallup, they lay their publication down in front of a subscriber and check, page by page, what he has read. Every article, picture, advertisement, cartoon, editorial, etc. is given an interest rating. Through analysis of these reader interest ratings, the editor can confidently add a feature here and cut one there, thus bringing his publication closer in line with the readers' demands.

In the field of public relations, opinion research is making very rapid strides. In the absence of more objective techniques, public relations men have been compelled to rely on impression to determine how people feel about any particular issue, and again rely on impres-

sion to determine if their tactical maneuvers have actually changed the public's thought. Nowadays an intelligently conceived public relations campaign is first preceded by a careful opinion study — where are the centers of disaffection, is one group more pro or anti than another, what is the principal cause for complaint, what does the public think should be done about the situation? With these facts in hand, the public relations counsel maps a program. If disaffection can be eliminated by change in trade or labor policy he recommends such change. If unfavorable opinion is based on misconception of facts, he uses the channels of publicity to correct these misconceptions. From time to time as his program is carried out, he tests sentiment to see what progress he is making in changing opinion. Opinion research thus objectifies much of the public relations counsel's thinking; he is enabled to know his problem in detail at the start and follow it week by week as his program matures.

There is an interesting corollary to this point. It is that through opinion sampling a client or sponsor can measure what he gets for his public relations dollar. A tremendous sum of money is spent in the United States each year on campaigns to change public opinion. Heretofore the success of these campaigns has been judged by evidences of indirect character. With modern statistical methods, public relations campaigns can be audited with a high degree of accuracy, and sponsors can see what they get for their expenditures. High grade public relations advisers, of course, welcome this development, for it strengthens their position.

Finally, regular opinion studies such as those of Dr. Gallup have contributed much to the business man's understanding of social trends. Heretofore business leaders have been largely occupied with such problems as raw material prices, labor costs, inventories, depreciation, machine obsolescence and so on. Their aim has been to earn a dollar by producing and distributing goods more cheaply.

They thought that as long as they were successful in this, they could get along with their several publics. But the social ferment of the past few years has changed this. Nowadays business men not only produce goods and services of better quality at cheaper prices, but they must also justify themselves to the general public on social grounds. If they sell groceries at cheaper prices by quantity methods of purchase and distribution, they must convince the general public that they are not monopolistic, that they pay their labor fairly, and that they contribute something to the community as well as take something out of it. If business makes much profit, it must not only account to the tax collector but also explain to the public why it should appropriate that part of the social surplus. In a hundred and one different ways, the business man is faced with social pressures which before now never even entered his consciousness. Opinion studies are helping him to understand these pressures and deal with them.

In this discussion I have said that business men deal with several publics, that what these publics think makes or unmakes a business, that hunch and impressionistic methods of learning what the public thinks are giving way to systematic opinion sampling studies, and that research of this type is being used increasingly in merchandising, in advertising, in publishing, in public relations and, generally, in gaining understanding of social trends. Is this development of opinion research a fad that will pass when the mood changes, or is it a permanent implement of

business that will grow with the using? The logic of the situation, it seems to me, argues greatly in favor of the latter alternative.

Opinion research deals with the most elementary force in society — the force that makes right and wrong, that sets codes and standards, that gives or withholds favors, that dictates the success or failure of any social enterprise, particularly a business. In dealing with this force, opinion research substitutes factual thinking for impressions and guesswork. It enables executives to end disagreement as to what are the facts and devote their time to doing something about the facts. It makes possible the discovery of opinion trends at their inception, so that something may be done about them before the tidal wave of opinion engulfs an enterprise. It enables detailed analysis of opinion by geographical areas, by sex, nativity, age, by types of buyers, by membership in associations or ownership of product. It produces economies in that it eliminates fumbling in matters of policy. It makes possible the establishment of opinion time series whereby the direction and speed of opinion change can be measured in relation to events.

The more business knows about its four publics, the more efficient it will be in serving these publics. The better its understanding of what the people think, the better its ability to fight off demagoguery and to supply social leadership that looks forward to higher and more equitable living standards for all. In promoting this understanding between business and the public, research is ready to make its contribution.

PUBLIC UTILITY HOLDING COMPANIES

By ROBERT E. HEALY

It is a great pleasure to be here with you at Harvard. This is one of the few occasions on which I have had the pleasure of returning to my native New England. I am here to discuss some of the problems of the public utility industry and to describe for you the effort which the Securities and Exchange Commission and the responsible leaders of the industry are making to restore sanity and soundness to the industry. This effort, as you know, has been fraught with dispute and attended on occasion by bitterness, and it is for that reason that I am particularly glad to discuss it here in New England where the conservative tradition is well understood and where the advocacy of old-fashioned honesty is not regarded as radicalism. I speak for no one but myself. I express no views but my own.

The principle that to gauge the future we must study the past applies with particular force to the public utility industry. At the Securities and Exchange Commission the problems of public utility companies come before us daily and in a great many cases the difficulty with which we must deal is the tangible heritage of an abusive practice of ten or fifteen years ago.

A major defect of the public utility holding company systems was their tendency toward over-expansion and over centralization. This tendency became most pronounced during the period between 1920 and 1930. These years were characterized by extreme and often disastrous competition of holding companies to acquire additional properties. Holding company representatives and promoters combed the United States in search of municipal and private utility companies which could be purchased outright or tied up with an option. Ambitious promoters put through many consolidations of small, locally owned systems into larger operating companies. There appeared to be no limit to the prices

which could be paid for new properties or the extent to which anticipated profits could be capitalized. This point of view stimulated, and in turn was stimulated by, the great speculative frenzy which swept the country during the late 1920's. Many of the holding companies were increasingly impressed with the ease of floating new securities through investment bankers, who were eager for commissions and profits on securities which could be sold to a public hungry for investment outlets and speculative opportunities. One holding company was piled upon another. So-called investment trusts and companies were erected above the holding companies, equities were divided and redivided and subdivided over and over again; and at the bottom of this vast pyramid, depended upon to support themselves and everything above them, were the only companies which owned any physical properties or had any real earning power, the local operating electric and gas utility companies. In certain cases there were as many as eight subholding companies interposed between the operating companies at the bottom and the holding company or investment company at the top.

While these practices were not universal there were few that did not embrace the opportunity to extend their spheres of influence with the money so readily provided by the public.

One of the major evils of the scramble for bigger systems and greater "empires" was the tendency to acquire new companies at figures far beyond reasonable values. Even as late as 1931, Samuel Insull caused the Midland United Company to acquire control of the Gary Heat, Light and Water Company from the United States Steel Corporation at a price of approximately \$23,000,000. At the time of purchase, the tangible fixed capital of the operating company was stated at about \$7,500,000. Is it any wonder that

the Midland United system became bankrupt and is still in the process of reorganization in the Federal courts?

Another instance was the purchase of the common stock of Eastern New Jersey Power Company, now Jersey Central Power and Light Company, by National Public Service Corporation, an Insull holding company, from Utilities Power and Light Corporation. The price paid, \$15,620,100, included a profit of \$8,898,848 to Utilities Power and Light Corporation, although the profit was never realized in full. The buyer, National Public Service Corporation, subsequently became bankrupt and the seller, Utilities Power and Light Corporation, is in the process of reorganization in the Federal courts.

You are undoubtedly familiar with other similar instances. There were many of them. They not only led to overcapitalized systems but they resulted in the illogical expansion of many holding companies. To prevent their recurrence in the utility industry of the future, the Public Utility Holding Company Act, established in Section 10 certain standards covering the acquisition of securities and assets by registered holding companies. Among other things, the price paid must be reasonable. It must bear a fair relation to the money invested in, or the earning capacity of, the utility assets to be acquired. To prevent illogical acquisitions in the future, it must be shown that the acquisition will serve the public interest by tending towards the economical and efficient development of an integrated public utility system.

In view of the abuses which developed under the holding company system with its scattered properties, its absentee-management, and its pyramided control, the integration requirements of the Holding Company Act appear reasonable indeed. As you know, Section 11 (b) (1) of the Holding Company Act requires each holding company to confine its operations to one integrated public utility system. The Commission, however, is required to allow the retention of additional

integrated systems, provided these additional systems can meet what are known as the ABC standards of Section 11. These standards are that —

(a) Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system;

(b) All of such additional systems are located in one state, or in adjoining states, or in a contiguous foreign country; and

(c) The continued combination of such systems under the control of such holding company is not so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

Any company which can satisfy these conditions has a legal right to retain more than one integrated public utility system; otherwise not. If the company has more than one such system, the burden seems to rest upon the company to demonstrate that it can meet the ABC standards quoted above.

This determination is not a matter of mere discretion, nor is it one of Commission policy. The Supreme Court has said that administrative agencies like the SEC can have no policy but the policy of the law. The application of that policy to specific cases, in accordance with the standards prescribed by the law, is one of the administrative tasks of the Commission.

Determination of the effect of Section 11 (b) (1) upon a specific company is as much a question of fact as it is a question of law. Section 11 provides that there must be a public hearing on the ABC questions. Without a hearing and evidence the Commission has no legal right to determine that a company has or has not complied with Section 11. But that question can be brought before the Commission in either of two ways. The company may file a voluntary plan under Section 11 (e) of the Act, or the Commission may institute a proceeding under Section 11 (b)

(1). In either event, it becomes the Commission's duty to decide first whether the company has more than one integrated system and, if so, whether the company has shown its legal right to retain them by meeting the ABC standards.

The most notorious of all holding company abuses was the write-up. In its most direct form the write-up consisted of marking up the figures at which assets were carried on books of account to higher figures, however arrived at. The same result was achieved in a less evident manner by causing one company to convey its assets to an affiliated company at a price in excess of the figure at which they were recorded by the selling company. Again, a merger or a consolidation of two or more companies under common control was sometimes utilized to accomplish a similar increase in the book value of the assets of the new company. The write-up also took other forms, but these were the most common.

The methods used to explain the amount of a write-up varied. Some of them were claimed to be based on appraisals. The appraisal was frequently made by a closely affiliated interest or by an officer of the company. In other cases the value was fixed arbitrarily by a vote of the directors. Very few of them were subject to any check by governmental authority. The appraisal, when made, was often based solely on an estimate of what it would cost to reproduce the property. Many intangibles, items such as lawyers' fees, costs of engineering supervision, interest during construction, goodwill or going-concern value, were frequently included in this estimate. The fact that these appraisals were often made by officers of the company or by affiliated companies and that they were seldom subject to official scrutiny cannot be overemphasized. In one system, for many years the appraisals were made by an apparently independent engineer who, it developed upon production of bank records under subpoena, deposited all of his fees in a bank account on which he could not draw. It was found that these fees

were the property of one of the men who controlled the system. The engineer was on a salary paid by that man. On the basis of appraisals made by this "independent" engineer the book values of properties on this system were written up many millions. The effect of legal concepts in connection with reproduction cost new for balance-sheet purposes may be seen in this same system, where the overhead allowances made by this same engineer in his appraisals were discarded and the higher ones which had been recommended by a special master in a gas-rate case were substituted. The system was not involved in that case and the allowances had been approved, not by an appellate court, but by a United States district court in a decision which has been infrequently followed. This change alone added many millions to the appraisal.

Varying dispositions were made of write-ups. In some systems they were credited to a surplus account against which dividends subsequently paid were charged, thus resulting, in some instances, in the payment of dividends out of unrealized appreciation. In other systems they were credited to a capital surplus account against which losses were charged, thus relieving the income accounts of the company. Very often unamortized debt discount was charged against a capital surplus so created, thus increasing the reported earnings of the company in future years.

There were instances where the write-up was used as a basis for additional security issues. Securities were thereby issued against "water." In a very few instances these securities were sold directly to the public, but in most cases they were delivered to a holding company which issued and sold its securities against them, so that indirectly many securities that were based on inflation or write-ups were sold to the public.

The Federal Trade Commission investigation found that the ledger values for the capital assets of the holding and operating

companies examined included a substantial amount of write-ups. The examination covered 18 top holding companies, 42 subholding companies, and 91 operating subsidiaries. The 91 operating companies had capital assets of \$3,306,893,000 which included write-ups of \$599,329,000 or 22.1 per cent. This percentage, computed on the basis of the assets as of the dates of examination of each company, would have been materially larger if computed on the basis of the assets at the time such write-ups occurred. The Federal Trade Commission also found evidence of further write-ups in the amount of \$264,000,000 for other operating subsidiaries, as disclosed in connection with the examination of the holding companies concerned.

The introduction of write-ups into balance sheets through the use of reproduction appraisals was based upon a misconception of *Smyth v. Ames*, decided by the Supreme Court of the United States in 1898. That was a rate case in which it was held that a rate imposed on a railroad which prevented it from making a fair return on the present value of its property was confiscatory. The Court said:

We hold, however, that the basis of all calculations as to the reasonableness of rates to be charged by a corporation maintaining a highway under legislative sanction must be the fair value of the property being used by it for the convenience of the public. And in order to ascertain that value, the original cost of construction, the amount expended in permanent improvements, the amount and market value of its bonds and stock, *the present as compared with the original cost of construction*, the probable earning capacity of the property under particular rates prescribed by statute, and the sum required to meet operating expenses, are all matters for consideration, and are to be given such weight as may be just and right in each case. We do not say that there may not be other matters to be regarded in estimating the value of the property. What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience. (Italics added.)

And from one clause in the Court's dictum — "the present as compared with the original cost of construction"—has sprung the "reproduction cost new minus depreciation" theory of fair value. That one short phrase has profoundly influenced the economic life, perhaps the history, of this nation.

I know of nothing in law or accounting that justifies the recording of estimates of reproducing property new on books of account. *Smyth v. Ames* does not justify it: first, because that case dealt only with rate-making and the confiscation issue, and, second, because even under that decision an estimate of reproduction cost was only one of several elements to be considered. A rate base, under certain decisions of the Supreme Court, is required to reflect the present fair value of public utility properties for rate-making purposes. And since such value has no immutable character these decisions also recognize that altered circumstances, such as a change in the general price level of commodities, may necessitate a change in the base. The rate base, and consequently the rates, can be adjusted to changing conditions. But once securities are issued and sold on the basis of an estimate of the cost of reproduction (especially if as here the estimate is made in a time of high prices) the loss must be absorbed by the investors, and the loss cannot be avoided merely by restating the value of the properties. Such a restatement is usually made in the process of a painful reorganization, and in the meantime many of the investors have been compelled to dispose of their securities and suffer severe losses.

The view that *Smyth v. Ames* in some way justifies the recording of reproduction estimates on books of account and the issuance of securities of an equivalent amount is based upon a distortion and misapplication of that famous decision and has done incalculable injury to the public and to the utility industry.

I am glad to report that some companies have embarked upon a comprehensive program of reorganizing their capital structures.

For example, one of the largest holding companies has begun to work out a program for restating its capital account and that of various subsidiaries. The program is based upon studies of the companies in the system with the following objectives: (1) To obtain as accurate a figure as possible of original cost of all property; (2) to identify and to obtain facts about every transaction which resulted in a debatable bookkeeping entry; and (3) to analyze the surplus accounts. Several of the companies in the system have filed applications with us to obtain approval, on the basis of the facts so ascertained, of a restatement of capital and creation of a special capital surplus. These special capital surpluses, in addition to surpluses as of December 31, 1937, may be used to absorb all debatable items which any of the companies find necessary to remove from their accounts, or to write their properties down to original cost, should that become necessary. In this way, it is reasonable to hope, the capital structure of companies in the system will be adjusted so that they can economically finance their requirements and confidently face the future.

Some of the utility holding companies indulged in unsound accounting. Such conduct may not have been characteristic, but it was sufficiently widespread to be an important problem. In part, many of these practices resulted from attempts to make up for the consequences of bad fortune or of reckless or improvident management.

Where utility holding companies were heavily overcapitalized, there often resulted very strong pressure to find the income necessary to pay interest or dividends on an excessive amount of securities. Moreover, such companies were pressed to maintain their financial standing and prestige and were eager to make a good showing as to net income and to pay dividends in order to sustain or improve their credit.

One of the principal means of meeting this situation was to make inadequate provisions for depreciation. A similar practice, often

employed not only by operating companies, but also by holding companies, where bond issues had been made at a discount, was to neglect the proper annual amortization charge. The payment of dividends from capital surplus or from an entirely fictitious surplus was sometimes resorted to. Another device was to take up on the books of the holding company the earned surpluses of subsidiary companies without any disbursement of them by those companies and to charge holding company dividend payments against such a surplus. Another was to create profits, and "create" is the very word for it, by transfers from one subsidiary to another.

Another great problem of the past in the utility industry, and one with which the Holding Company Act deals vigorously, was the siphoning off of profits through service, management and construction contracts. In general, these contracts provided that the holding or a wholly owned subsidiary company would, for a fee, manage or supervise the management and construction work of the other companies, usually operating utility companies in the same system. It became a feature of the holding company system, even though not all the holding companies made a practice of it. In a few instances, however, there were indications that a holding company system was promoted principally to create a source for these fees. There were many instances where the operating company paid for services far more than they were worth. In two systems the operating companies paid fees to a service company controlled by such systems and this company hired the service from an outside concern for a lesser amount and pocketed the difference.

After the Federal Trade Commission's investigation brought some of these facts to light, certain large holding company systems, sensing earlier than others the trend of public opinion, created servicing companies mutually owned by the operating companies.

Some of these management companies performed useful services for the operating

companies. However, they were managing their own properties and making a good profit so doing. The large profits obtained through service contracts would not have aroused widespread criticism had such contracts been made between strangers in interest rather than between companies under common control. This common control from which arose many of the other abuses, already pointed out, inevitably gave rise to the suspicion that service contracts, dictated as they were by the holding companies, were forced upon the controlled subsidiary companies making it especially difficult to decide such questions as the worth of the service to the operating company, and the real need of the operating company for outside management. Not all such fees were exorbitant or unearned. However, the unearned fee was a fraud on the senior security holders and a betrayal of the true principles of rate regulation.

Since the service fee was included by the operating company in its operating expenses and was deducted from income before computing the fair rate of return permitted by law, the management contract became in some instances a holding company device for taking from the operating company a special profit. This was patently unfair to the holders of senior securities and to the rate payers. In many systems operating companies were not at liberty to hire the supervision of their new construction from companies outside the holding company system of which they were a part. The fee charged for the supervision of construction usually included a profit to the company receiving it. The importance of this fee is emphasized by the fact that it was capitalized on the books of the operating companies, i.e., added to the fixed property account where it might figure in the rate base.

Extortionate servicing charges have unquestionably been a drain on the electric power industry of the country. The Holding Company Act undertakes to preserve what is good and erase what is bad in the servicing system. Holding companies are prohibited

from selling service to other companies in the same system. Both subsidiary and mutual service companies must render service at cost and must meet the standards set under the Act. The services they render must benefit the companies receiving them; the cost of services must be equitably allocated among the companies served; direct charges must be made as far as costs can be identified and related to specific transactions, and indirect charges must be apportioned on an equitable basis; and the services must be economically and efficiently performed at a saving to the serviced companies. To meet these requirements, certain large systems have employed independent public accounting firms to devise satisfactory accounting systems. The Act and our rules have brought about a substantial overhauling of servicing operations. One major service company found it desirable to make plans for curtailing its staff and restricting the specific services to be rendered, eliminating deadwood and in two months cutting the annual cost of the servicing company over \$400,000.

One of the characteristic abuses in the holding company field was excessive pyramiding of corporate structures. These were cases wherein six, and even eight, layers of companies were erected between the operating utility and the top holding company or other controlling organization. This meant, in the first place, that if the operating subsidiaries were earning a good return on the investment in their securities, the rate of return on equity securities in the top company skyrocketed, and secondly that a relatively small investment in the top company could effect control of a huge utility system.

The other side of this picture frequently came to light, however, when the operating companies failed, or could not be forced, to yield the anticipated return on the investments in them and in the numerous securities piled above. Minor fluctuations in the revenues of the underlying utility companies brought about cataclysmic gyrations in the

income accounts of the holding company hierarchies. With the depression many of these highly attenuated structures were swept away, although even today their scattered remnants constitute part of several large and many smaller systems.

Back in 1927 purchasers of holding company securities could see only one fact, that a small rise in operating revenues resulted in an accentuated increase in the profits accruing to the common stockholders of the holding companies. Your own Professor William Z. Ripley at Harvard was one of the few who appreciated the much overlooked fact that what goes up at an accentuated rate comes down at an even more accentuated rate. In his book, "Main Street and Wall Street," published in 1927, he explained how a small drop in the income of an operating company becomes a major one for the holding company. But he might just as well have added in the manner of his well-known namesake, "Believe it or not," for many investors apparently did not believe it.

What is the status today of those pyramided, or thin-equity, systems which have weathered the storm? Their present condition is sufficiently widespread to constitute one of the major problems under the Holding Company Act of 1935.

I have here some figures on several companies which control an important part of the electric utility assets of the country. The first has a consolidated capitalization, including surplus, of \$730,000,000. Its common stock and surplus together represent 11.7 per cent of the total capitalization. Yet when the arrearages of \$38,800,000 on the outstanding preferred stocks are deducted, the common and surplus represent only 6.4 per cent of the consolidated capitalization. The second system has a consolidated capitalization of \$573,000,000, of which the common stock and surplus represent 16 per cent. When adjusted for arrearages of \$58,000,000 on preferred stocks, the common and surplus represent only 5.9 per cent of the over-all

capitalization. The third company has a consolidated capitalization of \$615,000,000, of which 4 per cent is represented by common stock and surplus. After deducting arrearages of \$33,000,000 on preferred stocks, the common and surplus represent less than nothing — actually a minus figure of 1.4 per cent. The fourth system shows a consolidated capitalization of \$461,000,000. In this case the common stock and surplus amount to only 9/10 of 1 per cent of the total capitalization. When the arrearages of \$24,300,000 on preferred stocks are deducted, nothing but a minus quantity (4.4 per cent) is left for the common stock which controls this large system.

Should the analysis be pursued further, adjusting the assets of the companies for write-ups, squeezing the inflation out of carrying values for various properties and securities, the controlling equity would be even thinner if, indeed, an equity would remain at all. Another indication of the lack of equity is the fact that not one of these common stocks has paid a dividend in the last six years.

One point I want to emphasize is that while the equity represented by these stocks is exceedingly slim, the holders thereof continue to manage and control the properties which equitably belong to others.

Despite the "morning after" effects of preferred arrears, of dehydration and of shrunken values, pyramided structures still remain, suspended only by the silver cord of voting power.

It is here that the Holding Company Act will have an important influence. Under the great-grandfather clause, section 11 (b) (2), the SEC must require that each registered holding company, and each subsidiary company thereof, take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably dis-

tribute voting power among security holders, of such holding company system. We are further obliged to require that holding company structures shall be no more than three layers high, and we are told that we are not to require any change in the corporate structure or existence of any company which is not a holding company, or whose principal business is that of a public utility company, *except* for the purpose of fairly and equitably distributing voting power.

This subsection is designed to cope with the evils of excessively pyramided and complicated corporate structures and undue concentration of voting control in holding company systems. When the statute was enacted, the corporate and financial structures of some holding companies were so complicated that they were beyond the comprehension of the layman and in certain instances the expert.

Although many systems are voluntarily undertaking to eliminate unnecessary intermediate and underlying companies, relatively little progress has been made in clearing up arrearages of preferred stock dividends or in rectifying inequalities in the distribution of voting control.

Drastic financial reorganization of some holding companies which are burdened with huge preferred stock dividend arrearages is inevitable. The complete figures for January 1, 1939 are being compiled by the Commission's staff, but as of January 1, 1938, out of 158 holding companies having outstanding preferred stocks with a par or liquidating value of \$2,413,255,000, there were 48 companies with outstanding preferred stocks (in the hands of the public) amounting to \$1,330,616,000 which were in arrears as to dividends to the extent of \$336,657,000. A year ago, therefore, the arrearages represented an average accumulation of 25.3 per cent of the par or liquidating value of the stocks, or more than four years' dividends. Furthermore, over half of the outstanding preferred stocks of these holding companies have accumulated arrearages.

Turning to the operating subsidiaries of registered holding companies we found that there were 224 companies with preferred stocks in the hands of the public amounting to \$1,447,460,000. Of these, 70 companies had accumulated arrearages of \$95,745,000 on their outstanding preferred stocks in the amount of \$442,976,000. Thus over 30 per cent of the preferred stocks of the operating companies was in arrears to the extent of 21.6 per cent, or nearly three years' dividends.

Among the larger companies which have arrears on their preferred stocks are the American Power and Light Company and Electric Power and Light Corporation in the Electric Bond and Share System, Associated Gas and Electric Company, Commonwealth and Southern Corporation, Cities Service Power and Light Company, The United Light and Power Company, New England Public Service Company, New England Power Association, and The Standard Gas and Electric Company. As an example of the magnitude of this problem of preferred stock dividend arrears in some systems, I give you the figures as of January 1, 1939, for the Electric Bond and Share Company group, excluding the American and Foreign Power Co. This group of companies, comprising the American Power and Light Company, Electric Power and Light Corporation and National Power and Light Company and their respective subsidiaries, constitutes one of our largest holding company systems. As of December 31, 1938, their preferred dividend accumulations aggregated \$95,158,000 or 23.5 per cent of the par or stated value of the stocks which were in arrears. Substantially all of the arrearages are in the American Power and Light and the Electric Power and Light systems. Electric Bond and Share Company, itself, and National Power and Light Corporation have no arrearages. The Bond and Share group have preferred stocks outstanding in the amount of \$747,344,000. Of this total, the vast amount of \$403,739,000 (or 54 per cent of the whole) had accumulated unpaid

dividends. Approximately two-thirds of the aggregate arrearages are applicable to the preferred stocks of two of the subholding companies, and one-third is applicable to the preferred stocks of their subsidiaries.

As long as such accumulations of arrearages remain uncorrected it is idle to talk about an equity capital market in the public utility industry. Even the refunding of bonds by such a company is extremely difficult if not impossible. When many of the major holding companies are in drastic need of reorganization, they obviously are in no condition to raise equity capital for their operating subsidiaries. No sane investor will subscribe for an issue of common or even preferred stock in a company whose preferred dividends are heavily in arrears.

The early recapitalization of these companies is also imperative from the standpoint of the security holders who for a long time either have received no dividend at all or only an intermittently paid dividend. If such a recapitalization program will permit the resumption of the flow of earnings from the utility industry to investors, it will go far to revive public confidence in the securities of utility-holding companies.

Financial reorganization of companies with unsound structures will require recognition by all interests of sound asset values and reasonable earnings. When accomplished, it will serve the threefold purpose of protecting present security holders, opening the way for resumption of dividends, and facilitating new financing for construction.

If I have dwelt at length upon the excesses of the past, it has been to describe the task before us in working toward the financial rehabilitation of the utility industry. It has not been due to a desire to minimize the truly marvelous accomplishments of the industry along physical and engineering lines. If there were time I would dwell on them at greater length. I would especially mention the great contributions to progress in the industry made by such firms as General Electric and West-

inghouse, but our particular job is to correct the financial abuses which have existed — consequently that is what I have to talk about.

For the future, the Holding Company Act means the end of corporate pyramiding in the electric and gas utility field with its attendant obfuscation, speculation and unhealthy methods of control. It means, I hope, the end of improper accounting methods. It means no more write-ups and no more counterfeiting of values and earnings for stock-jobbing purposes. It means an end of the exploitation and victimization of operating companies. There will be no more private systems of inflation for the benefit of a self-appointed few. There will be no more upstream loans from operating companies to support their anaemic parents. There will be no more extortionate service charges, representing, in effect, special dividends disguised as operating expenses. There should be no more milking of operating subsidiaries through inadequate provisions for depreciation. There should be no more tricky securities. Voting power will be more equitably distributed. In reorganizations, the Act means that there will be no more blackmailing of senior security holders by the junior interests who may own nothing but a power to vote. It means that Government will have the right to say something as to the direction of the growth of national utility systems made up of corporations which are said to be devoted to the public service, which occupy public streets and highways and dam interstate and international rivers usually without paying for the privilege, which through delegation to them of a portion of the state's sovereignty are permitted to condemn private property, and which owe their very existence to the indulgence of government.

On the other hand, the Holding Company Act does not mean a death sentence for the utility industry or for the utility holding company. Nor does it mean that Insull Utility Investments, Inc. can be raised from

the dead or that value can be breathed into securities which it was unfair to issue in the first place. It does not mean that there is to be a dictatorship over the utility industry. It does not mean the nationalization of the utility industry. Whether you would oppose nationalization of electric power or whether you would favor it, you will not find it in the Holding Company Act, or in its administration.

The Act does mean lawful regulation in the interest of investors, consumers and the public, and a return to old-fashioned American conservatism and fair dealing from which we strayed in the roaring twenties. It recognizes and does not impede the earning of proper profits.

The Securities and Exchange Commission will do its best to administer the Act reasonably and vigorously, fairly and firmly, without prejudice and without favor. Our staff is composed of men with broad experience in

finance, in the law and in the utility business, and they are well qualified to do the job.

If I may, I would like to avail myself of this opportunity to take vigorous exception to some reports which I have seen and heard in recent weeks. It has been said that there is a drastic difference of opinion and attitude among the members of the Commission on the Holding Company Act and particularly on Section 11. There is no such division or difference of opinion. The members of the Commission see eye to eye on these questions. I know of no disposition on the part of any member of the Commission to ignore his duty under the Act or to exceed it.

It is our objective to put into practice the ideals of the Holding Company Act. If these ideals are attained, this great industry will place itself on permanently firm economic foundations and will see its own development bring increasing benefit both to itself and the investing and consuming public.



GROUP OF ALUMNI AND SPEAKERS ON THEIR WAY TO THE FRIDAY AFTERNOON SESSION

Including Professor George E. Bates, Mr. Louis W. Munro, President of the Association
Judge Robert E. Healy, Mr. Paul Floyd, Vice-President of the Association, and Mr. Thomas S. Holden

"CHICK" BIDDLE

By MALCOLM P. McNAIR¹

In any organization of people who work closely together, sooner or later death makes inroads. In this respect, the Business School has been fortunate. The group which, under the leadership of Mr. Donham, has been mainly responsible for the School's development since the War has been a definitely youthful company. For that younger group which Mr. Donham welded together after he came to the School in 1919, Chick Biddle's death is the first break in the ranks—a break at the last point anyone could possibly have expected—and that is why it is so hard to get used to his absence.

Chick and I both began working for the School in 1920. We were over in Lawrence Hall, in the Bureau of Business Research, under Doc Copeland's charge. Chick was heading up the retail grocery study, and I was working on the retail jewelry business. In those days I soon discovered that Chick, for all his youth—he was only twenty-three then—was a good man to talk things over with. I don't know how he did it, but I always felt bucked up after talking to him. Chick stood foursquare to all comers. That early impression grew on me, as it did on all of us; and through the years the habit of talking things over with Chick became so strong that even today I keep finding that my instinctive reaction to a new idea is, "There is something I had better get Chick's slant on." He was so vital a part of the School that still, when I am going through the first floor of Morgan Hall, unconsciously I half expect to see him coming out the door of his old office, in his brown suit, going to the water-cooler for a drink, stopping to talk to Mrs. Heard or Miss Cotter, with a student or two in the offing waiting for an appointment.

Chick's great strength lay in his skill as an

administrator. At an extraordinarily early age, he acquired wisdom about people. His judgment of people was uncannily good, and it was always essentially fair. He unerringly punctured sham and pretense, but he almost never hurt feelings. Responsibility just naturally gravitated to Chick. He was the balance wheel of this Faculty.

Chick had an unobtrusive but unflinching sense of humor. One of the forms which it took was a sly misuse of words. On one occasion at a Faculty meeting when Mr. Donham was away and President Lowell was presiding, with Chick at his right hand, discussion turned on some problems of instruction, and certain types of courses were referred to by several members of the Faculty as being "peripheral" in character. After Chick had listened to the discussion for some time he finally cleared his throat and said, "Does anyone wish to make a motion regarding these *ephemeral* courses?" As I recall the incident, that ended the discussion.

On another occasion Chick stopped me one morning as I was going by the door of his office, drew me inside, sat down at his desk, and with a very grave face said, "Mac, I've got an awful tough job this morning."

I duly offered the necessary interrogation, and he said, "Yes. It certainly looks like a bloody business."

Again I sought enlightenment.

"Well," he said, "you know that course of Professor Blank's" (referring to an elective course offered by a man who is not now on the Faculty).

"Yes," I said.

"Well, you know he is offering it in two sections this term."

Once more I pressed the inquiry; and then Chick sprang it on me, never relaxing his perfect poker face.

"Why, there's only one man registered in the course; and the only way I can conform

¹Text of Mr. McNair's remarks at the annual dinner meeting of the Alumni Association held at Eliot House on June 16.

to Miss Hoyle's schedule for two sections is to cut the man in two, and I don't know whether to do it lengthwise or crossways."

Another incident comes to mind. Once when I was staying with Chick down at Stonington we went out for a day's fishing. I was a complete novice at deep-sea fishing. In fact, the only sea fishing I knew anything about was the kind where you bait a hook, drop a line overboard, and pull up cod and haddock with no great effort. When Chick said we were going after bluefish, I asked him what they were like.

"Oh," he said, never cracking a smile, "you can pull them right in hand over hand and never know you have anything on."

I had a suspicion that there was a piece of information which needed to be taken with a grain of salt, but after trolling uneventfully for a matter of three or four hours I certainly was anything but prepared for the ton of dynamite which seemingly exploded at the other end of the line. Chick stood and grinned at me while my mouth fell open and I barked my knuckles on the whizzing handle of the reel, got my line all snarled up, and lost the fish. But a few minutes later, when I got another strike, it was Chick who helped me land the fish — in fact, cut his hands on the wire leader while bringing the fish in.

Chick was always so busy with his administrative job that I think few of us realized what important contributions he made to the teaching of the School during recent years when he and Doc Copeland were running the Business Policy course. This is not the place to comment on these in detail, but there are a few things which come to mind particularly: He brought to the Business Policy course a well-rounded comprehension of the business executive's functions and responsibilities. He was particularly aware of the extent to which the widespread social changes of the past few years have affected the business executive's job. Also he introduced into his teaching an appreciation of the great importance of per-

sonal relations in business. The executives in the cases he taught were not impersonal; they were live flesh-and-blood people, and he made the students think of them as such. And he had a valuable faculty for making the men keep their feet on the ground in discussing business cases. He clothed a case with reality. During the past year or two I tried every now and then to drop into some of his sections in Policy because I enjoyed seeing him in action in the classroom. To a man who began presenting some theoretical and rather abstract piece of reasoning, Chick would frequently say, "Now, wait a minute. This isn't an academic report you're submitting. You are the sales manager. This salesman is a real person. He's got a wife and two kids, and he's worried about paying doctors' bills. He's coming into your office in the next ten minutes. You've got his record in front of you. What are you going to say to him?"

Or sometimes Chick would walk into a classroom and begin the discussion of a case by saying, "This meeting of the Board of Directors of the Thus-and-So Company will come to order. We will dispense with the reading of the minutes. A special report of our operations for the last five years is in front of you. You have all had an opportunity to study it. The meeting is open for discussion."

Notwithstanding days and evenings filled with Business School work and responsibility, Chick found time to be a useful citizen of the community. As a director of the Cambridge Trust Company and of the Harvard Cooperative Society he exercised a maturity of judgment which was increasingly valued by his associates. In charitable work he quietly did a very real and effective job as president of the Avon Home. When Chick first took over that office, he adopted a money-raising plan which had the incidental effect of greatly speeding up the marriage and birth rate among the younger professors and instructors on the Business School staff. Considering that a

children's home ought to be a particularly charitable object in the eyes of those who had no children, Chick went vigorously after all his bachelor friends with the slogan, "Marry and produce, or pay up." In the subsequent rush to the altar, Homer Vanderblue was the only hold-out.

I think that, outwardly at least, Chick was the most imperturbable and unruffled person I have ever known. Whatever the situation, Chick always stood staunch and unshaken. Last September at the time of the hurricane all his family were on an island off the shore near Stonington, Connecticut, directly in the path of the storm's greatest intensity. Chick was in Cambridge. All the wires were down, and after early Wednesday afternoon there was no word, and all through Wednesday night, Thursday, and Thursday night there was no word. The roads on Thursday, of course, were completely impassable. Friday morning Chick and I loaded a car with saws, axes, flashlights, thermos bottles, and sandwiches, and started for Stonington. Every few miles we had to stop and help clear the road. And it wasn't until we were more than three-quarters of the way to Stonington that we got word, on the radio, that all his family were safe. But throughout that whole ordeal Chick was perfectly calm and self-possessed, showing no sign of the terrific strain that he was under. That stoic quality in Chick was especially evident in the way he bore the sad loss of his oldest son, Tommy, in the early spring of 1936. Whatever came his way, he took it in stride.

But Chick's life was predominantly a happy life — full of good fellowship and a keen zest for living. He was a convivial spirit in every best sense of the words. There are quite a few of you here tonight whose recollections go back, along with mine, to some of the gay times in the early days of the Staplers,

when that organization was quartered upstairs in the Union. Chick enjoyed those parties hugely, but it was generally Chick who saw to it that some of the rest of us got safely home. All that was quite a long time ago. But in these later years on many days along toward the office closing hour of five o'clock the telephone would ring and there would come Chick's voice on the wire, "Stop in at the house for a cocktail on your way home." And one of the pictures that memory will always summon up most readily is that of Chick with a cocktail shaker, filling the glasses again before they were half empty, waving aside the not-too-vigorous objections with his customary argument, "It's mostly ice water now, anyway." That was Chick's little joke; for we all knew that beginning with a 3½-to-1 ratio for mixing Martinis he had constantly experimented with various brands of gin and vermouth until he was closely approaching a 5-to-1 basis.

Chick was always doing things for his friends. There were a legion of us who relied on him for help and advice; but even before we came to him, he seemed to know instinctively where there was trouble, when somebody was carrying too heavy a load and getting overtired, who was worried about finances or about family illness; and he was always going out of his way to help in those situations.

Chick Biddle's relation with the School was a peculiarly vital one, and what he did for the School is not a chapter that is closed, it is a chapter which continues; for many of the best qualities of the School today are the qualities that he stood for. His was a great career and a happy life, and he lives in the spirit of the School no less than in the memories of all of us, his friends.

Gentlemen, may I suggest that at this time we all stand in silent tribute to Clinton P. Biddle.

HOW ARE WE TO PUT IDLE MEN, MONEY AND MACHINES TO WORK?

By MARRINER S. ECCLES

There is one thing on which I am sure we can all agree, namely, that our economic condition, with the existing large volume of idle men, idle money, and idle plant equipment, is unsatisfactory and that a material improvement must be brought about to vindicate and preserve our economic system.

Secondly, I think that we will also all agree that we have abundant material resources and money, so that they are not a limiting factor on further recovery. In fact, the supply of funds is not only more than adequate under present conditions for an expansion of output, but our monetary and credit system has sufficient elasticity so that we can always create the funds necessary to expand production within the limits of our man power.

We may say then, I think, that our greatest domestic problem — the major task before the nation — is to find productive employment for all of our people capable of working who are now unable to find employment. The magnitude of the problem is measured by the number of these people. Allowing for a certain unavoidable minimum of unemployment due to seasonal and other special reasons, there are more than eight million men and women for whom work should be found.

That it is not a scarcity of money that prevents a more satisfactory economic condition from developing is clear from the fact that our supply of money represented by demand deposits and currency today is larger by several billions of dollars and interest rates are lower than ever before in our history. In addition, the excess reserves of member banks at the present time exceed four billion dollars, a heretofore undreamed of surplus. These reserves could become the basis for a further expansion of our money supply to the extent of more than \$25 billions.

While some of the smaller business con-

cerns may be having difficulty in obtaining funds that they would like to use, this is not true in general either for the great majority of the smaller companies or for the larger corporations of the country whose balance sheets show that they are the owners of billions of dollars of bank deposits. The great corporations of the country could, generally speaking, considerably expand employment and production without going to the capital markets to raise a dollar of new funds and without borrowing from the banks. Our problem is not to create more funds, but to find productive use for those already in existence.

The extent to which this is a problem is indicated by a comparison with the period of the twenties. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15 billions a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would appear that comparable outlays today to insure reasonably full employment would have to be more than \$18 billions a year, provided there is no material change in the present division of the national income between consumption and new investment. According to our past experience, we must have a continuous annual flow of all of our savings accumulations into all kinds of capital outlays. This has required a continuous growth of new investment in new undertakings, both public and private.

For the year 1938, according to our estimates, the total of private capital outlays was about \$8 billions. It reached a low point of \$2½ billions in 1932, but by 1935 it had recovered to approximately \$10 billions, and by 1937 to about \$11 billions. In addition, in 1937 there was an increase in business inventories of some \$4 billions. While the increased inventory accumulation had the

same effect on employment as a similar amount of capital outlays would have had, the effect was only temporary because, as we saw, new demand in the next year was met out of inventories, production was retarded, and employment declined.

The question today is whether we can restore the volume of private capital outlays to a point sufficient to absorb unemployment as has been the case in the past, and if not, what alternatives confront us. In other words, in order to maintain a flow of funds into new capital outlays in sufficient volume to provide full employment, we must either have new private capital outlays of approximately \$18 billions, or we must have a combination of private and public outlays of this amount, or we must increase the proportion of our national income that goes into consumption by an amount equal to the reduction in private and public investment. Unless we follow one of these courses, we face a decline in production and employment and hence in national income and our standard of living.

Our business leaders, if we are to judge by typical speeches, publications and resolutions, believe that the problem can be met by increasing investment in private channels and that failure to achieve an adequate rate of new private investment is due entirely to a variety of so-called deterrents, chiefly in the field of taxation and Government regulation. They seem to think that if these deterrents were removed, there would be a flow of capital into new enterprise that would largely absorb unemployed men and idle funds. I wish that I, as a business man and banker, could persuade myself that this is a correct analysis. I do not want to be understood as saying, however, that there are no deterrents of this character.

The question I want to raise is whether, even though we should eliminate all of the deterrents that business men usually talk about, we would have made substantial progress towards the goal of full employment.

It is my belief that these factors, important though they are to individual business men, are relatively unimportant, viewing the economy as a whole, and that our fundamental problems lie much deeper. I cannot believe that our problems can be adequately met simply by the removal of these supposed deterrents.

The chief complaints most frequently cited in typical speeches and resolutions of business men and business organizations may be fairly summarized, I think, as calling for:

Removal of tax deterrents which discourage investment;

Abandonment of unwise public spending policies;

Modification of laws relating to the issuing and marketing of private securities;

Discontinuance of Government competition with private enterprise.

As to the question of taxes, I believe that our tax system, local and national, is as much of a crazy quilt as our banking system. Both reflect a planless, piecemeal growth by various authorities over a long period of years, with little or no regard for the economic and social effects. Both urgently need a complete overhauling directed toward simplification, coordination and avoidance of duplication. Both require that we agree upon objectives to be pursued by public authorities in the light of changing economic conditions.

As to tax deterrents, I, too, should like to remove those taxes that are discouraging new investment. On several occasions I have expressed my view that corporation taxes should be simplified; that greater latitude should be allowed businesses in carrying forward losses and that capital losses should be deductible from business operating earnings; that we should permit consolidated returns for corporations; that we should abolish tax-exempt securities; that our estate tax system should be improved by reducing exemptions and opportunities for avoidance; that the rates in the middle income brackets should be increased — that is, on incomes of

from three to fifty thousand dollars a year; and that the base of the income tax should also be broadened by reducing exemptions.

However, in my judgment, the most important tax deterrents on business activity are those taxes which bear directly on consumption. And, therefore, the most important tax reform would be to reduce consumption taxes, which are, including Federal and State, about \$3 billions more now than in 1929. This would increase the purchasing power of consumers and stimulate the markets for business and industry. Such a reduction in taxes should be made up — since I think no one will argue that we should reduce revenue — by taxes that will fall in large part on those individuals and corporations whose incomes tend to increase the already large volume of idle funds.

It is beyond dispute, I think, that consumption taxes fall too heavily on the great masses of our people. A recent round table group, gathered together by *Fortune* magazine, all agreed that the present tax system bears too heavily on the lower income groups because of excise and sales taxes. Various studies that have been made by the Brookings Institution, the National Resources Committee, and other groups, all indicate that the great majority of our people at the bottom of the income scale would consume far more if they had the purchasing power. It is not among these people that idle funds accumulate, but in the numerically smaller groups, less than ten per cent of the population, whose income taxes are low relative to the British scale and that prevailing in most other countries.

The tax revisions I have outlined would tend to stimulate consumer buying power, and thus require production of more goods which, in turn, would mean greater employment, and as the capacity of existing plant was reached, would open the way for using otherwise idle funds for investment in new productive facilities. To my mind, this is the sort of tax program we need at this time. It

would be both economically sound and socially equitable.

There has recently been brought to my attention a compilation of the balance sheets of 133 companies. The cash holdings of this group increased from the middle of 1937 to the end of 1938 by \$174 millions, or by 56 per cent. This was money withdrawn from the income stream — money paid in by consumers but not passed back to them in wages, dividends or lower prices. I am not for a moment questioning the right of corporate executives to increase or decrease their cash holdings at will, but we must recognize that when great sums are withdrawn in this or other ways from the income stream, it inevitably means a slowing down unless it is offset through outlays by other businesses or by having the Government take up the slack.

A reasoned appraisal of our economic situation compels me to warn against the illusion that the reduction of taxes that fall on us as business men would solve our fundamental problem of idle men and idle money. On the contrary, the requirements of a sounder and more stable economy will, in my opinion, call on us in our own interest to provide relatively more rather than less of the total tax revenue as a means of maintaining and increasing consumption and thus of preserving existing investment and paving the way for new investment by providing a profitable outlet.

What we, as business men, should be interested in is what we have left over after our taxes are paid. We are far better off with high taxes and high incomes than with low taxes and low incomes. For example, national income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the Federal Government increased from about \$2 billions for the fiscal year ending June 30, 1933, to about \$6 billions for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments.

I leave it to you to decide which level of income and taxes you would prefer.

We are all familiar with frequent speeches and resolutions against unwise public spending policies. We all agree, I am sure, that in the expenditure of public funds there should be neither favoritism nor politics, and that the Government should carry out efficiently such socially and economically desirable enterprises as would not be undertaken by private business.

Where all of us encounter sharp differences is when we get down to deciding what are wise and what are unwise spending policies. What the Government expends for roads is not considered unwise spending by automobile manufacturers, for instance. Bankers who came to the RFC for help in the worst of the depression did not think it was unwise to have the Government borrow and lend them many hundreds of millions. Agricultural benefits are not regarded as unwise by the farm groups who receive the benefits. The veterans do not think payments to them — and this is one of the major items in the budget — are unwise. You do not hear the munitions makers calling expenditures for armaments unwise.

Recent Gallup polls reflect a large majority opinion against spending in general by the Government, but when it comes to determining just where the public would reduce spending, there are actually majorities of 81 per cent against reducing expenditures for armament, 86 per cent are in favor of an adequate old-age pension, and 62 per cent favor a continuation of the present farm benefits. Some 69 per cent favor reducing the ordinary operating expenses of the Government, but this is a relatively small item and it has not materially increased in the last ten years. Small majorities favored a ten per cent cut in relief and public works, but there was a majority for work relief in preference to the dole, notwithstanding the fact that work relief is far more expensive. You are aware of the many pressure groups which,

while assailing the unbalance of the budget, nevertheless seek special bounties for themselves, and you have seen the contrast presented in the political arena between oratory and actual votes. Unwise spending seems to be spending for the other fellow.

To my mind, a policy of Government expenditure and investment does not become dangerous in an economic sense until the point is reached at which Government is competing with private industry for men and materials, and demand has reached a point where prices are being forced up and a general inflationary condition is threatened. We are far removed from that danger at present, and whatever other deterrents to recovery may exist, all the evidence shows that public spending and investment in general have supplemented and stimulated private activity.

By all means, let us modify laws that interfere with the marketing of private securities, if there is unwise interference. But this again is a generality. That there should be much complaint from the brokerage community and investment bankers is to be expected, viewed in the light of the great reduction in security trading and capital issues. But I see no prospect or public demand for a return to the unsound security operations of the late twenties, and certainly no reasonable man supposes that the public would tolerate a return of the security affiliates of banks and removal of the safeguards created by the setting up of the Securities and Exchange Commission. Regulation of the exchanges and of the issuance of securities as a necessary protection of investors is here to stay.

Constructive changes have, of course, been made and will undoubtedly continue to be made in legislation as well as in regulatory rules and operations. I took some part in the amendment of banking regulations to permit the banks to purchase securities of small corporations and to do away with the requirement that only registered securities listed on the stock exchanges and having ready marketability were eligible for the

investment portfolios of banks. Likewise, I had something to do with the Banking Act of 1935, which, in effect, makes any sound asset, regardless of maturity, eligible for borrowing at the Federal Reserve banks, so that banks would not be hampered by rules of technical eligibility and short maturity in their lending functions. I have also given considerable time and thought to possible measures to improve the mechanisms to facilitate the flow of private funds into small and medium-sized business concerns which need loan or equity capital.

As a matter of fact, a substantial volume of new and refunding issues, amounting to more than \$6 billions, were sold in the capital market in 1936 — and this notwithstanding the supposed deterrents created by the regulatory laws, or, for that matter, by the undistributed profits tax. All of the so-called deterrents were present during that year, which was also the year of the greatest Government deficit. Yet business was better and profits were larger than at any time since 1929.

With reference to Government's competing with private business, I have repeatedly contended that for the Government to do so is a deterrent. Yet, let us look at this complaint realistically. When it is brought out of the realm of generality and reduced to specific terms, the complaint is confined almost entirely to the power industry.

I agree that it is unwise public policy for the Government to go into the utility field in competition with private capital. I recognize, however, that some of the worst financial abuses occurred in this field in the twenties and that public revulsion demanded a house cleaning and a reduction of excessive rates that were imposed by many companies to support inflated financial structures. The threat of an extension of competition by the Government and by various municipalities served to bring about a justifiable reduction in rates which was a big help to millions of consumers.

With this accomplished and real progress being made in reducing the inflated capital structures to a sounder basis, there is no further justification for or, so far as I know, intention of further Government competition in this field. What was done to correct abuses in this area was also the result of an insistent public demand that was successful, notwithstanding the most insidious organized propaganda we have ever witnessed.

So far as the electric power industry is concerned, there was a generous margin of excess capacity up until the latter part of 1936. In that year capital expenditures of the power companies, which had dwindled to almost nothing in the depth of the depression, amounted to some \$250 millions, and in 1937, as the need for additional capacity began to make itself felt, these outlays increased to \$425 millions. If we can succeed in increasing national income and industrial activity, a further expansion of capital outlays for plant and equipment may reasonably be anticipated. Under the most favorable circumstances, however, such investment is not likely to exceed the \$800 to \$900 millions a year reached in the late twenties when the industry was experiencing the period of its most rapid growth. That is, we cannot, at the outside, look for an annual expenditure of more than \$400 millions above the 1937 level. Now, this additional outlay, desirable as it would be, would not make much of a dent on the billions of capital which need to be invested in new enterprise in order to reduce unemployment substantially.

I am convinced that in this industry, as in many others, including the railroads, we are dealing with what essentially are depression problems and that the difficulty is not so much that deterrents exist, at least to the extent so often alleged, but rather that we do not have adequate demand, at the present levels of national income, that would make profitable large new investments for additional output or services.

I have mentioned the major complaints as

to supposed deterrents and expressed my personal views with reference to them, seeking to put them in correct perspective as I see them. It leads me to the conclusion that we must look much deeper into our economic structure today for the underlying forces that are holding back further recovery.

We can all agree, I think, upon the simple economic truth that to maintain and increase our standard of living and our national income, and hence to reduce unemployment, we must have a continuous, increasing flow of money throughout our economy from consumers to producers and back again from producers to consumers. This means that we cannot withdraw and hold idle large sums of our annual income because to do so obviously diminishes the flow. Thus, the amounts that we put aside in our savings accounts, insurance policies, in retained profits, in depreciation, obsolescence and depletion reserves, and in all other forms of storing up for the future, must be put back into the income stream, if not by the savers themselves through investments, then by borrowers who will put the money to use. When this process does not take place, deflation is inevitable and the Government as a coördinator, through its fiscal, monetary and other policies, must take measures to restore and maintain the income stream.

We hear it said continually that there is an absence of risk or venture capital willing to go into new enterprise. I do not think there is an absence of the capital, but there undoubtedly is an unwillingness to assume the risk. I think that this may be due in part, but only in relatively small part, to the fact that the entrepreneur who is in the upper income brackets feels that he is as well off buying tax-exempt bonds as he would be in venturing his money in some new business. I am convinced, however, that if markets existed for additional products of existing enterprise, or if new markets were in sight calling for additions to existing enterprise, or if new inventions were at hand for which a demand

would probably develop, there would be no lack of risk capital willing to undertake the necessary investment.

In this connection, I should like to remind you of the experience of the distilling, brewing and airplane industries, which have had little difficulty in recent years in raising capital for expansion in spite of all the supposed deterrents to the flow of capital into enterprise. For example, in 1938-39, airplane companies have sold common stock at relatively high price earnings ratios. One airplane company recently sold \$3,500,000 of common stock at forty-six times its per share earnings in the record airplane year of 1938. There are other industries, notably the automobile companies, whose earnings have been large and which have added substantially to their cash holdings during the past year, in spite of a large increase in their volume of business. Hence, in the case of these industries it cannot be said that lack of ability to get capital or lack of profits are deterrents. What has held them back from capital expansion is the adequacy of existing facilities to meet all present and anticipated consumer demand.

I have no basis for hoping that the special incentives or the removal of the deterrents indicated by business interests would be sufficient to put our economic machine in high gear. Historically, new investment has always led the way in our economic progress. The forward thrusts of new capital adventuring have not been steady but sporadic, and in the interludes, periods of relative stagnation, men have become discouraged and concluded that the era of expansion was over.

The turn of the century marked a change in the character of our economic development. The western frontier had largely disappeared, and there were no more free lands to be had for the asking. America was beginning to come of age. I am sure that a gradual readjustment to the new conditions would have been necessary and would have occurred beginning at that time had our normal

development not been abruptly interrupted by the World War which resulted in an unlimited demand for certain kinds of goods and which left us with an aftermath of dislocations.

Incidentally, the war resulted in a suspension of private building which led to an enormous volume of housing activity in the twenties. This volume of building, together with the phenomenal expansion of the automobile industry, constituted the principal basis of our prosperity in that decade. Additional factors were a large volume of foreign loans, which in many cases subsequently defaulted, but in the meantime created foreign purchasing power for our products. There was also a large expansion in the utility industry, and in many collateral activities producing the material for building, for automobiles and for electric equipment. There was also a large growth of consumer credit and a siphoning of funds into luxury consumption through profits made in security speculation. Also, States and municipalities, which provided an outlet for investment funds of nearly a billion dollars a year in the twenties have been reducing their debt since 1932 and thus increasing the supply of funds that need to be invested.

The problem today is to survey the possibilities of new fields of investment that may be open for capital at the present time. I hardly need say to this audience that we have excess capacity in almost every existing industry of which I can think. I know of no quicker way to become unpopular with my business friends than to suggest, for example, that we ought to build more textile mills, more sugar factories, more lumber plants; that we should drill more oil wells, add to our canning plants, our automobile factories, our steel mills, and office buildings. You can go on down through the list and every time you mention a business in which someone present has his money invested or in which he is employed, he holds up his hands in horror and says, "No, we do not need more

plant capacity. We have too much now." I would rather state it in different terms and say we do not have too much plant capacity, but we do have inadequate markets for the products of our present plant.

We hear it said that there is a great backlog of deferred investment in industry, but as a matter of fact, there has been a considerable volume of investment in recent years, and industry has been putting on the market many new products. The actual volume of private investment for plant and equipment reached a level in 1937 as high as in 1923 and 1924, and within a billion dollars a year of the 1925-28 average. In 1937, according to the estimates of our research division, plant and equipment expenditures on new durable producers' goods aggregated \$7.4 billions. Of this, \$3 billions was in manufacturing and mining — an amount greater than like expenditures in 1927 or 1928. Where there was the greatest difference — the largest decline of investment in 1937 as compared with the 1926-28 average — was, first, in commercial buildings, and, second, in the utility field and, to a lesser degree, in railroads. Expenditures on commercial buildings averaged \$1,188,000,000 for the years 1926 to 1928, both inclusive. The figure was only \$367,000,000 in 1937. We have only to recall the speculation in this field in the late twenties to answer the question of whether there is an outlet here today for funds comparable to the twenties.

As we look about us today, the most promising fields in which to put idle men, money and materials to work are housing, railroads, and to a lesser degree, the utilities. These are the fields in which the depression struck deepest and the unemployment was greatest. I believe we could do much in all three fields.

Some plan for rehabilitating the railroad industry and for making it feasible and profitable for the railroads to purchase equipment which they are sure to need in the future should be developed.

As to housing, a great deal has been done in the past few years to get private capital moving more actively into this field, particularly through FHA insured mortgages. Housing is the one factor that registered an upward turn on the business chart when all other indices were diving downward in 1938. I think it would be possible to lower interest rates from the present level another one-half or possibly one per cent, and thus tap another strata of potential home owners.

Residential building was at an unprecedentedly low level through the early and middle thirties. This was primarily a result of depression, but the lower rate of population growth also reduced the accumulating pressure on housing accommodation as compared with earlier periods. I think we have by now built up a backlog of housing demand which, if we can keep national income at a fairly high level, should give us an increasing volume of building activity for several years to come. As we look ahead, however, we can no longer count on the pressure of rapidly increasing population to surmount all obstacles in the building field. Increasingly the problem will become one of tapping lower strata of demand through the provision of lower cost housing.

As for the utilities, I think they ought by now to feel fairly well assured that they have a future under private ownership and need not be deterred from needed expansion of their plant.

But when we add up all the amounts we could possibly hope to expend under the most favorable conditions in these three fields of private housing, railroads and electric power, we come out with a figure of between \$5 and \$6 billions, which is small in relation to the magnitude of funds that have to find outlets for investment under the present distribution of the national income if we are to achieve full employment.

With the slower tempo of our national growth, and being now a creditor and not a debtor nation in need of capital, we must

devise means to enlarge the domestic market for our products. To do this we need a better balanced distribution of our national income, which in turn involves the steady channeling of additional funds into the hands of those at the lower end of our income scale.

I have already indicated in an earlier part of my talk the kind of revision in our tax system that would seem to me to be necessary in order to increase the funds in the hands of consumers and to diminish the problem of finding investment outlets for accumulating funds. In some countries, as in England, this has been done, and the flow of income there is maintained with a smaller volume of investment, because a larger proportion of the income has been diverted to consumers through much higher income taxes on the groups with incomes from \$2,000 to \$50,000, and through adequate old-age pensions, unemployment insurance and other social services.

Perhaps the most important single step that can be taken now to increase the purchasing power of consumers and thus to diminish the need for investment outlets is to revamp our present old-age insurance program. Under this plan by the end of this year it is estimated that there will have been collected from payroll taxes \$1.7 billions, this burden falling almost entirely on consumers, whereas practically nothing has been paid out in benefits. It is so constructed as to collect taxes from young men now with a view to taking care of them when they become old. This system needs to be so revised as to provide a reasonable pension to old people immediately, regardless of whether or not they have contributed to the fund. This would not only meet a great social need and popular demand, but would also be a sound economic measure at this stage in our economic life.

The present plan is operating as a gigantic saving device at a time when there is a surfeit of saving; it is decreasing consumption when we have inadequate consumer buying

power. It would be appropriate to a capital-poor country where a curtailment of consumption was necessary in order to divert more resources into the making of plant and equipment. It has no possible economic justification, however, in our capital-rich, consumption-poor economy.

Payroll taxes in England amount only to 60 per cent of old-age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.

In order to provide for the maximum possible elasticity in our economy so that there will be no obstructions to the income flow, we must find means of controlling monopolistic and other uneconomic practices both by industry and by labor.

The policies of many of our large industries to meet a decline in demand by radical curtailment of output, while leaving prices at high levels, result in accentuating depressions. On the other hand, rapid price advances at the first indications of the return of a lively demand tend to bring an upswing in business to an end. These policies tend to create maladjustment between industrial and agricultural prices, which in turn have a seriously disturbing effect on the whole economy. Better planning of production and price policies by business concerns with reference to more than the short-time garnering of profits would do much to reduce violent fluctuations in business.

I want to take this occasion to explain more fully my position on labor. My sympathies are all with the real interests of labor. I fully realize the importance both from the social and the economic point of view of having continuous employment of labor at as high a real wage as the national income will permit. In fact, full employment and adequate consumer buying power (and surely that includes labor) is the central objective toward which our national economic policy

should be directed. But the first requirement for a satisfactory labor policy is responsible and not conflicting leadership of labor itself. Furthermore, wage advances must in general correspond to and be paid out of increased productivity of labor. It is obvious from an economic point of view that there is no other continuous source out of which increased labor costs can be met. Monopolistic advantages and practices of certain minority labor groups, such as the organized building trades, are at times an important disrupting influence in our economy. In the spring of 1937, for example, an important factor in arresting the economic recovery which was under way was the shortage of certain kinds of skilled labor and excessive labor and material costs in the construction industry.

Premature advances in hourly or daily wage rates and excessive reductions in hours of labor of minority labor groups, having strategic trading advantages derived largely from restrictive practices in regard to union membership and the training of apprentices, are not in the lasting interests of labor. They result in a decrease in employment and a loss of annual income which is far more important than hourly wage rates. Furthermore, they fall heavily in increased costs on the great mass of industrial labor that is not so favorably situated and on agricultural workers. Most important of all, however, is that these labor-cost maladjustments tend to arrest economic recovery with grave consequences to all the elements of the population. Rational, far-sighted labor policies and responsible labor leadership are necessary in the interests of labor itself and of continuous economic advance for the nation as a whole.

I have given much thought and study to the analysis which I have presented to you. I come out with the firm conviction that, in order to keep up the flow of income and prevent the progress of our economy from being arrested, we must adopt — in addition to the various measures and proposals that I have outlined — a program, on the one hand, of

increasing consumption relative to the national income through the development of old age pensions, health and other social services and, on the other hand, of undertaking increased public investment in useful enterprises of a kind that private capital will not undertake, but which, nevertheless, can be in large part self-liquidating. Such public investment could take the form of toll roads, tunnels and bridges; rural rehabilitation and farm tenancy loans, especially in the South, to make our farmers independent and self-supporting; an extension of the rural electrification program; hospitals and sanitation facilities to reduce the appalling economic waste of sickness and to make our people healthier and more efficient; and expansion of public housing for the lowest income groups. Such a program need not involve budgetary deficits; it is entirely consistent with a balanced budget. In fact, I can see no prospect for balancing the budget in the near future except by following this general course of action which would increase national income and consequently increase tax revenues.

The two groups in the community which have the greatest stake in raising the national income above the present level are at the opposite ends of the income scale — stockholders and the unemployed. In 1935 the net profits of all corporations amounted to only \$1,700,000,000. In 1936, however, they jumped to \$3,900,000,000. Hence, business and the unemployed have a greater stake in

the last ten or fifteen-billion increase in the national income than any other group.

I recognize that you may not accept as conclusive either my statistics or my analysis. It may be, of course, that an epoch-making discovery is just around the corner that will result in a greatly increased flow of investment. It may even be that private capital will suddenly and spontaneously begin to flow in greater volume than it ever has before. I feel strongly, however, that even if that should happen, the only safe course for the nation to pursue is, while hoping for the best, to plan for the worst. There is nothing to be lost by this course of action. If it should develop that our labor is practically all employed, our income restored, and Government is competing with private business for labor, then the Government could and should promptly curtail its investment operations. There will be nothing lost. Whereas, if we drift and hope for miracles to pull us out of the present condition, then it will become increasingly difficult to handle the problem.

What is at stake is nothing less than our economic and political system. We must not take chances on delaying action too long. We need a concrete and flexible program that can be put into effect promptly. Let us hope for the best, but for the sake of preserving our liberty and our freedom of economic enterprise, let us be prepared to grapple with the worst.



“OBSTACLES IN THE WAY OF BUSINESS RECOVERY”

By HOWARD COONLEY

It is a distinct pleasure to be back once again in the friendly surroundings of the Business School with which I have such delightful associations.

Yet my memory takes me back to some particularly embarrassing questions over a series of years when I was presenting a problem in plant location to some of your classes. Today I have the same feeling of inadequacy in making out a case for the manufacturer before men who have enjoyed greater privileges than I in delving into the science of management. But at least the spirit is willing, and under these circumstances I am impelled by the spirit of free enterprise to express my individuality on my own initiative.

Today this nation finds itself still in the throes of depression. Industry looks at the business index and wonders when the curve will rise. Industry looks abroad and wonders how other nations manage to achieve a measure of recovery.

The most recent figures from the League of Nations show just how far this progress abroad has gone, how far our own recession has lagged.

In February, 1939, for example, the League reported that the United States industrial production index for goods for current consumption is the lowest of the ten reporting countries. Latvia stands first, then Finland, Denmark, Sweden, Esthonia, the Netherlands, Norway, Germany and Poland. Last of all comes the United States. Here is the picture, and it is not a cheerful one. It shows this nation — with the richest and most abundant natural resources in the entire world — completely helpless in the face of depression.

Recovery, today, is the big question. Wars and war scares may threaten our future and thereby jeopardize our present. 1940 with its bugaboo of election year may loom large on the horizon, and wave the red flag

of delayed recovery. But America is more concerned about recovery than about wars or elections. People are talking more about economics than any other subject. They are concerned about this ten-year depression which has been the longest and most severe in all our history. They are dissatisfied because recovery has not come. They are mystified that it has not.

We have listened to many expressions on economics. We have heard a lot of complicated theories explaining the simple fact that the nation is in the midst of a depression. But let us face the facts as we find them.

We have the money — billions are idle in our banks. We have the man-power — ten million men are unemployed. We have the same boundless natural resources we had back in 1929. We have pent-up consumer demands and obsolescence in plants to satisfy. We have scientific knowledge to serve us as never before.

Business men today are working to be constructive on a nation-wide basis. Perhaps we are brash to express ourselves. Probably there is no place for business men to raise their voices with suggestions to the Government. But we are vocal, anyway, and we will continue to be so.

We have a realization of the problems that face us. We are less inclined to criticize present conditions, and more inclined to plan for recovery.

Now, in discussing recovery through the processes of capital formation and a revival in the production of capital goods, emphasis is too frequently laid on the deficiencies of



HOWARD COONLEY

banking, both commercial and investment, and not on the real problem. The real problem is not a lack of capital or credit but a lack of demand on the part of the enterpriser for the capital and credit to use in forward-looking enterprise. This lack of demand arises from the lack of opportunity to use capital and credit constructively and at a profit. This lack of opportunity is caused:

First, by artificially high costs, raised more rapidly than the country can assimilate the changes. These increases in costs arise primarily from rapid increase in taxation, from arbitrarily shortened hours with corresponding increases in hourly wage rates, and therefore all labor costs, from rapid increase in collateral production costs such as the Social Security tax and some of the interferences with the normal operation of business, such as those occurring through the Wage and Hour Act, in the Walsh-Healey Government Contracts Act, the National Labor Relations Act and a number of others which are just so many snags over which the feet of the enterpriser must find his way.

Second, this lack of opportunity is caused by the economic urge to reduce prices in the face of rising costs so as to prevent a reaction on the part of the general public against the increasing cost of living which is generated by some of the impractical and imprudent public policies to which we have referred.

Third, it is caused by the penetration of Government agencies into fields heretofore occupied by private enterprise, thereby destroying the confidence not only of those who are directly affected but also of those engaged in business generally. For the competition of government inevitably creates doubt as to the possibilities of the future of any industry.

Federal spending in the last decade was sufficient to buy the assets of all manufacturing corporations and all mines and quarries in the United States and still have six billions — not millions — left over as operating capital.

New courthouses, parks, swimming pools and monuments — in some cases desirable, but only in a very few imperative — are certainly not income-producing. They really produce further expense, further taxpayers' liabilities to keep them up. Such expenditures create no real expansion of enterprise and permanent employment today when these things are so badly needed.

Let us look at the facts on pump-priming.

Out of every borrowed dollar spent on pump-priming, only 64 cents is reflected in real income received by the people of the United States in the form of goods and services, according to the National Industrial Conference Board. Such spending, we have seen, is not the spending that creates productive work. Actually, while pump-priming in theory increases national income and, as a result, tax revenues, during the last five years of the Government's efforts we have increased our national debt by \$14,000,000,000 and our national income has increased only \$9,000,000,000.

Compared with the results of investments in public works, the following figures,¹ showing the actual results of a plant investment of \$100,000, are significant and illustrative of a most important point:

With a plant investment of \$100,000, an average company would employ 150 men and provide them with an annual pay roll of \$200,000. This would give, directly and indirectly, support for 1,000 people who would maintain a dozen stores with an annual expenditure in trade of \$1,000,000. The company would also mean the sales and service on 200 automobiles, the use of a ten room schoolhouse and 200 homes. Opportunity for one dozen professional men would be provided. The company would pay \$60,000 annually to the railroads, provide an outlet for the products of 8,000 acres of land, and the total investment would represent a taxable valuation of \$1,000,000.

¹ Source: "The Retention and Development of Industry in Minnesota," 1938.

This is the significance of American industry — its value to the community in which it operates.

Taking up for a moment the question of idle capital, if the TNEC really wants to find out what is causing the stagnation of industrial capital, they will have to restore to their program of hearings, witnesses on the operation of the Securities Act of 1933 and the Securities and Exchange Act of 1934. The fullest testimony of outstanding experts in this field, regardless of their viewpoint, is important and proper. In the too stringent provisions of these two acts will be found much of the log jam of capital formation.

Senator O'Mahoney, Chairman of the TNEC, has made an admirable statement of the purposes of the Committee when he said they would "collect and analyze, through the medium of reports and public hearings, available facts . . . in an objective, unbiased, and dispassionate manner. . . . It is the purpose of the Committee to pursue its work solely from this point of view."

Let us trust that there will not be omitted in the hearings any phase that will develop facts to support this objective of finding out why capital is not invested. Because, summed up and minus the frills, our entire problem is that we pay lip service to the profit system while we seek to make it profitless; even more succinctly, we are trying to run a capitalistic system without capital.

Now Secretary Hopkins in his famous Des Moines address said: "Lack of business confidence is and has been a hard, stubborn fact, and may be as real a deterrent to restored business health as any we have to deal with. . . ."

Later in the same address he stated: "It is not surprising that business confidence has been affected by the events of the past decade. . . . The legislative reforms and new government activities . . . are [among] the many reasons why many people have lost their confidence."

No modification or repeal of a single legis-

lative enactment will restore confidence and bring recovery. What is needed above all else is a clear, definite and unequivocal recognition by both administrative and legislative branches of the national government that:

The private enterprise system is the fundamental basis of our future prosperity and progress, and that it must, therefore, be preserved, protected and encouraged.

While government regulation under present-day conditions is undoubtedly necessary, government control will eventually destroy private enterprise.

Investors, large and small, must be encouraged to put their savings into private enterprise by giving them an opportunity for a return commensurate with the risk involved.

Under our Constitution, government is, after all, the servant of the people. As servant, its attitude should be helpful and cooperative. Its efforts should be to bring unity of action and purpose to preserve individual initiative, freedom of speech and freedom of action.

Now along with this need for clarification of Government attitude, we need clarification of labor relations.

Labor relations today are disturbed because of a National Labor Relations Act which started on three false assumptions:

First, that conflicts between employers and employees are inevitable.

Second, that employers are almost always unfair to employees.

Third, that it is the duty of the Government to take sides in disputes between employers and employees.

The National Labor Relations Act needs revision in a number of major respects. While it should protect the principle and practice of collective bargaining whenever employees determine freely that they wish it, it should at the same time recognize the absolutely voluntary and free right of employees to bargain as they choose through their own voluntarily selected representatives.

It should recognize frankly that labor dis-

putes are caused by unfair and improper practices on the part of labor organizations as well as employers. It should, therefore, undertake to protect commerce against disruptions due to improper practices of employees and labor organizations as well as of employers.

Definite safeguards also should be written into the Act, to insure, insofar as Congress can do so, impartial administration, equal standing of all interested parties before the Board, fair and deliberate proceedings, equal right to production of witnesses and presentation of evidence, prompt decisions, and more adequate court review.

The closed shop and the check-off should be prohibited. They are not in accord with American principles of equal opportunity, and permit a form of coercion against employees which is peculiarly objectionable because it is done by arrangements in which the employee is not even consulted.

The majority rule principle of the statute, while superficially in accord with democratic procedure, in fact deprives minorities of their rights, and, because dependent upon Board determination of the "appropriate unit," has contributed greatly to industrial strife and breaches in the ranks of organized labor.

The definition of employees, together with the power of the Board to order reinstatement, has resulted, as the Supreme Court described it in the *Fansteel Case*, in a premium on violence and disorder; the employer has been compelled improperly to return to his plant, and pay roll men who, through their own unlawful conduct, have placed themselves beyond and above the law. The definition should be revised carefully. Neither employees nor labor organizations using unlawful tactics should receive the benefits of the National Labor Relations Act any more than employers who use unlawful tactics.

There is no question that interpretations of the Act by the Board have curtailed freedom of speech on the part of the employer in his relations with his employees. While

theoretically an employer may have recourse to the courts to protect this right, the principle is so vital that an express statutory statement is desirable.

Clarification of government's attitude toward business and revision of the National Labor Relations Act are two vital steps toward recovery.

Third is the complicated tax situation.

Regarding the reduction of government spending, we believe that the ordinary expenditures of government could be reduced by at least 20 per cent.

While making no specific recommendations for government economy at this time, we note that Secretary Morgenthau 'is on record as believing feasible economies which would total \$700,000,000.

In tax revision, we have specific suggestions:

1. A five-year net loss carry-over should be allowed to corporations in the determination of their taxable net income.
2. The combined capital stock and excess profits taxes should be repealed.
3. The privilege of filing consolidated returns should be allowed corporations in the same manner as under the Federal law and its administration from 1917 to 1934.
4. Intercorporate dividends should be relieved from taxation.
5. Reduction of Federal surtax rates which discourage investment of savings in private industry.
6. All capital gains and losses of corporations should be treated as ordinary income for the purpose of taxation.
7. Exemption of corporate dividends paid to individuals from normal income tax since this involves double taxation.
8. Abolition of undistributed earnings tax.

The revenue collected by all governmental units—Federal, State and local—in 1938 is estimated at 13 billion 700 million dollars. The taxes paid last year were 40 per cent more than in 1929—our national income 22 per cent less.

Taxes in 1938 were 23 per cent of the national income, as compared with 12 per

cent ten years ago. Had we met our full spending bill in 1938, taxes would have amounted to 28 per cent of the national income.

Interest charges today on the national debt are 40 per cent larger than the total Federal expenditures of 25 years ago.

The answer to all this, gentlemen, is less spending. Senator Byrd says:

The sooner the public generally and the lawmakers in particular take a realistic view of our problems, face with courage and fortitude the conditions which confront us, and eliminate the waste and extravagance in governmental expenditures, the sooner we shall enjoy the kind of genuine prosperity upon which the future depends, and to which the people of this nation are entitled.

I agree with Senator Byrd's statement.

Economy moves in government — State and local — are possible. Tax-minded business men in many sections of the country are doing more than complaining about high taxes and high government costs. They are getting out in droves and actually reducing them. How? By organizing taxpayers groups and presenting their ideas to the local office holders. Instead of praying for economy, they are commanding it!

They know that tax cutting, like charity, begins at home. They realize that State and local governments take 57 per cent of the taxpayer's tax dollar. That is why they are beginning in their own towns, in their cities, in their counties, and in their States.

This movement will spread to the National Government. And then we will see results!

Clarification, then, of the Government's attitude, of labor laws and revision of taxes are the first three requisites.

Then how about clarification in defining economic terms?

Stuart Chase, the noted economist, has supplied Washington with a glossary of "selling terms" — words to avoid in selling certain new and strange conceptions of government to the people. Should we be harsh and call it the language of concealment?

The public, at least that part of it which uses language to conceal, rather than to reveal, is quick to pick up such practices. You know we have been admonished to treat some part of our government deficit as investment. Certainly the Harvard Business School will have to revise its methods of teaching assets and liabilities if such practices are to be followed — if we are to credit our liabilities as assets and vice versa. I saw an apt example of this kind of thing several weeks ago in New Orleans. A bookmaker had a sign over his booth reading "Turf Investments." A remarkable example of a wrong thought carried to its logical and absurd conclusion!

Sometimes I feel we have tried to doll up everything in newness to the extent that we have lost sight of the old meanings of words critically important to our economy. Often different groups use the same words to mean different things, and the confusion confounds.

Some, for example, think surplus is always cash, also that depreciation is always a cash fund available for reinvestment. But surplus, in reality, is of two kinds — capital surplus and earned surplus.

Capital surplus may be defined as the excess of the net worth of a corporation over and above the stated value of its capital stock at the time of its organizations, or subsequent restatement of the value of its capital stock. Profits arising from transactions in capital assets are frequently added to the net worth through the capital surplus account.

Earned surplus may be defined as the residue of profits arising from operations not distributed as dividends. The true assets of a corporation are, in general, cash, receivables, investments, inventories and property, plant and equipment. They are offset generally by current liabilities, funded debt, reserves, and the stated value of capital stock and surplus.

The net worth may be defined as the sum of the assets, less the current liabilities, funded debt and reserves. In other words, net worth is the sum of the capital stock and surplus.

The man on the street generally conceives

of surplus as being in the form of cash. If one is to classify assets against liabilities, however, surplus must be classified with capital stock as representing the net worth, and may be said to be made up of the assets which are the least liquid. This will be seen readily if liquidation is undertaken when the most liquid assets would be applied to the payment of debts, namely current liabilities and funded debt, and the residue left for the capital and surplus.

Inasmuch as the capital is what the stockholders have contributed, it should be deducted from the net worth in liquidation before the remaining surplus is realized. Therefore, in the final analysis, surplus may be said to represent the least liquid and the least available assets that a corporation owns.

A moment ago I mentioned that some people think depreciation is always a cash fund available for investment. Now property, plant and equipment may be said to be the physical facilities with which business is carried on. The investment in these facilities may properly be looked upon as a deferred expense to be absorbed into cost over the useful life of the facilities. In manufacturing, this charge is generally called "depreciation accrual." Depreciation accrual may therefore be defined as the restoration to cash of the investment made in facilities, but only to the extent that the company operates without loss after the accrual of these reserves.

It is obvious that if the sales value of the products are not sufficient to absorb the cost of production, including the depreciation accrual, such accrual constitutes merely a mark-down of the book value at which the plant facilities are carried and not the restoration of such investment to cash. To the extent that such accruals are earned, they are, of course, available for reinvestment.

An eminent Harvard Business School authority has made the statement that annual depreciation accrual in American business is sufficient to finance current replacements. This same authority quotes the estimate of

the National Bureau of Economic Research to the effect that the annual depreciation accrual of American business is in the neighborhood of five billion dollars a year. His famous colleague at Harvard estimates capital equipment of American business at about two hundred billion dollars in value. It will be seen that a five billion dollar depreciation per annum would mean $2\frac{1}{2}$ per cent of that value. If this entire annual accrual were available for reinvestment, and was thus reinvested, it would mean that the capital facilities of the country as a whole would be renewed once in forty years. Is this frequent enough to keep capital equipment of the country up-to-date with technological progress?

From such limited experiences as I have had, I could not conceive that this would keep capital up-to-date, to say nothing of keeping pace with technological progress.

Another recently coined definition of a perfectly good word has popped up to plague us — our thoughtless critics have even made an unsavory adjective of the noun corporation. By the artifices of innuendo the term corporation is given a sinister meaning. Such is not the case. Corporate existence is an underlying necessity of our industrial type of civilization. The corporate form of organization is not only honorable but of far-reaching value in distributing the ownership of wealth among the population. It has been carried on for hundreds of years as an essential and highly desirable facility for business. Here, as is often the case, glib tongues have endeavored to interpret as normal to the whole of business the evil practices of a few. The resulting public misconception is one of the major liabilities of the present economic situation. For high public regard of business is indispensable to this much-talked-of thing called confidence.

Another word that detractors have discredited is the word "capitalism." That is an old habit that started with Karl Marx, ninety years ago. Because he did not like capitalism,

he wanted it supplanted by socialism. So, all that think as he does, many without declaring their intention so bravely as he did, have adopted his tactics of sneering at capitalism.

Even business men hesitate to use the term capitalism nowadays. This is regrettable, as it reflects the extent to which we can be misguided into discrediting that which is closest to our welfare — the successful operation of capitalism.

What is capitalism?

Something thought up by rich men to harass the poor? The demagogue says as much.

Capitalism is merely a natural growth arising from human experiences.

No one said, "Let us have capitalism." In their everyday lives, people found the necessity for the practices of capitalism, which are, in fact, nothing more or less than the production and distribution of the things required by the people through the use of property owned and controlled by individuals.

The property required for the production and distribution of the necessities of the people can be acquired by individuals only through the processes of saving and investment. These are of two kinds: the savings of existing business which are reinvested in additional facilities, and the savings of individuals from their own incomes invested, in turn, in business.

In order to obtain these savings, profits are essential first to make possible the savings of business and, second, to make possible a return on the investments of individuals in business which will encourage and stimulate their creation.

It will be seen, therefore, that capitalism is inseparable from profit. The only alternative, after all, is some form of collectivism, such as socialism, in which the facilities of production and distribution are owned and controlled by the State.

Under such a system the facilities of business must be acquired in turn either by profits received from the operation of business, or

by resources raised by the State through taxation, or both. The theoretical assumption was frequently advanced that Socialism requires no margin over production costs, which margin corresponds to the profit of capitalism. This theory has never been sustained in any practical operation of the Socialistic system. That is certainly something which should concern America today.

So far in this discussion I have been presenting a pretty dark picture. But it is not *quite* as dark as I may have made it out to be. There are numerous hopeful signs on the distant horizon.

One of these is evidence of reviving belief in the American system of free enterprise — the flame of faith may be feeble, but it is burning!

And there are other hopeful signs, some, for example, that point to an eventual decrease in government spending:

1. All national polls of opinion reflect an overwhelming dissatisfaction with continued spending. A recent nationwide poll, made for the National Association of Manufacturers by Elmo Roper, shows 58 per cent of those questioned opposed to increased spending. Only six per cent favored increased spending.

2. Congress begins to reflect this public sentiment, and seems definitely less inclined to satisfy the appetites of pressure groups. This will lead eventually to economy.

3. Government departments plan some tax revisions, which, while not broad, indicate an attitude of business encouragement.

4. Not a tax-cut but a lightening of impending burdens is reflected in the movement to keep the Social Security payroll tax at one per cent, saving industry and labor 150 million dollars a year.

5. Economy will come slower than spending came, and while retrenchment may not be marked or immediate there is a cessation of new debt-creating ideas that indicate the flood tide has been reached.

6. The attitude of business is to keep government to this adjustment. NAM has, for instance, been conferring widely with many departments to this end.

It is important that we do so. *We must* reduce government spending.

Reducing spending and unshackling business, then, are two jobs that must be done — but there is still another job which must be tackled, and this is one which I am especially anxious to stress here at the Business School.

The issues that must be met must be met not only by today's generation but by the training of today for tomorrow's leadership. Tomorrow's leaders must have a larger, broader conception of their social responsibilities — they must be trained to provide technical as well as inspirational leadership.

Yesterday we were a segregated lot, we manufacturers. We produced goods and we sold them. We were active in merchandising and financing. But that was about all.

Tomorrow manufacturing executives will have to combine the vision of the engineer with the exactness of the accountant. They will have to have the technical knowledge of the research student. They should know finance as the banker knows it. They should have as keen an insight into human nature as the psychiatrist. They must have the instinct

of the teacher, the legal mind of the lawyer and the impartial attitude of the judge. Perhaps we should even say that they will be magicians.

All this will require training — broad, enlightened training of today's youth so that they will be fitted to meet tomorrow's problems. We need the brain trusts. But we need the type of brain trusts we can trust. The opportunities are unlimited for men who have character, courage, training and ability. They are welcome, more than welcome, in industry today. And they are welcome in politics, too.

America must call these brains to the colors. You men who have had the training of the Business School should heed the call of today. Those that follow you must be ready to respond to the call of tomorrow for leadership in industry and in government. There can be no other hope for the continuance of the form of democracy planned by our forefathers.



THE FUTURE OF AIR TRANSPORTATION

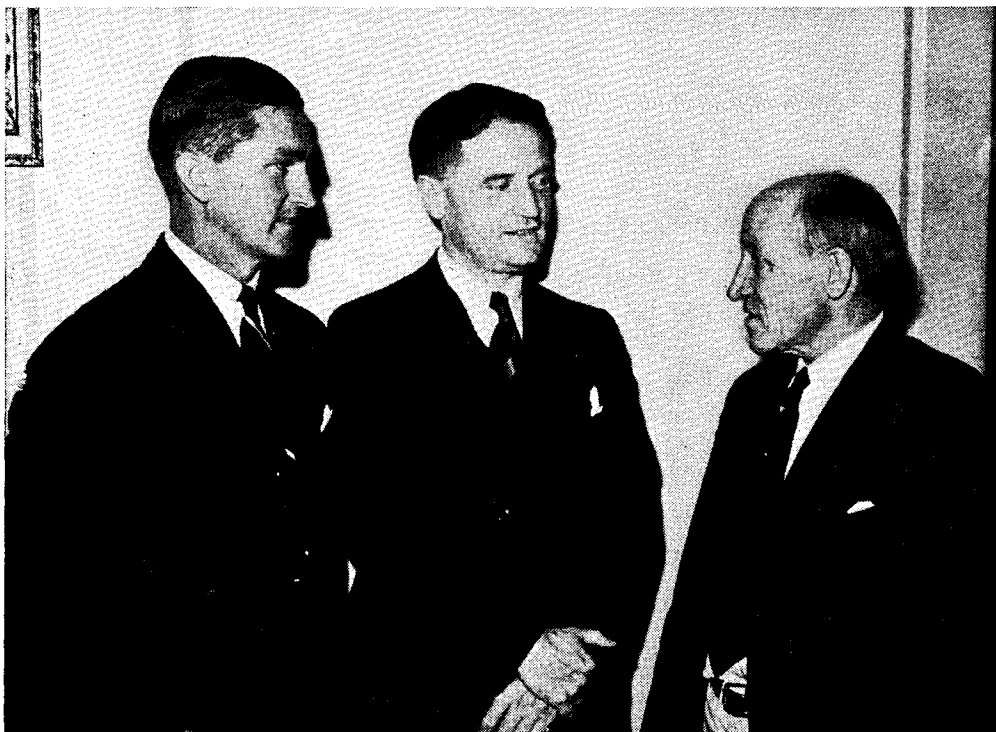
By RALPH S. DAMON

Before we can intelligently forecast the future it is desirable to review the past and analyze the present in order to provide a firm foundation for indications of the future.

Air transportation on schedule was inaugurated in 1913 between Tampa and St. Petersburg, Florida, but during the next few years was completely eliminated because of the World War. It began again in 1918, with the carriage of mail by the United States Post Office Department, and in 1919 in Europe, with the carriage of passengers, mail and express on the English Channel routes. Generally speaking, all operations were either conducted by the governments directly, as in the case of the United States Post Office

Department, or were very heavily subsidized by governments, as in the case of the European Channel services. Subsidies in many cases ran as high as 90 per cent of the gross income.

Following the American tradition of operation by private industry as far as possible, the Post Office Department in the United States very wisely eliminated its own air line operation in 1927 in favor of private contracts for carrying the mail promptly thereafter. Although the private air mail contractors in this country confined themselves almost exclusively to mail, occasionally a peculiar passenger would attempt to tag himself with air mail stamps or buy a ticket on a private



Courtesy of The Boston "Herald-Traveler"

MR. THEODORE F. DRURY, Chairman, Special Program Committee,
MR. RALPH S. DAMON, and PROFESSOR PHILIP CABOT

basis and ride in the mail compartment with the mail bags, incurring untold bodily punishment in return for the opportunity to talk about the incident for the rest of his life.

While passenger service in Europe on the heavily subsidized basis mentioned above was going forward slowly and steadily in the first decade after the War, there was until 1927 practically no passenger transportation in the United States. In the period immediately following the Lindbergh Flight, air lines carrying passengers on schedule, hoping for and in some few cases receiving air mail contracts, sprang up like mushrooms, largely using small single-engined cabin type equipment, and within the next three years practically standardized on the Ford or Fokker tri-motored airplanes, carrying generally 14 passengers with a pilot and co-pilot, and later occasionally with a third member of the crew as a cabin attendant, either a steward or a stewardess.

The air lines carrying air mail, which were practically the only ones to survive the 1931-32 depression, in general, received from 50 to 90 per cent of their gross income from the Post Office Department for carrying the mail. It was a common occurrence in time of bad weather to land the airplane, discharge the passengers and take off again in order to fly the mail through. In 1934 the mail contracts of all the domestic air lines in the United States were cancelled and, although in many cases later reinstated at far lower terms, a large number of companies and routes failed to survive the cancellation, and the lines which did emerge constitute 15 of the 20 domestic air transportation companies in the United States today. Since that time there have been a few additions, a few mergers, a few separations and a few cases of discontinued service, but for the last five years the industry has acquired a relative stabilization with which it had not been favored before and on the whole has prospered accordingly. The immediate effect of the air mail contract cancellation was to kill or cure by the

economic necessity of forcing the air lines to find adequate sources of revenue other than that derived solely or regularly from the carriage of air mail, with the net result that today the average domestic air line derives over 50 per cent of its revenue from passengers, most of the remainder from the mail and a small percentage, in general three per cent, from air express.

On foreign air lines the ratio of passenger business income to the total income is not as large as on the American domestic lines, in general it falls short of 50 per cent, and in many cases far short of 50 per cent.

From this point on I intend to confine myself to the present and future of air transportation within the United States except insofar as it may be affected by transoceanic and South American air travel to and from the United States.

At the present time, the 20 air lines in the United States, all of which are barely more than ten years old and many of which are substantially younger than that, fly 250,000 plane-miles in a day of 24 hours. In order to obtain an adequate picture of this amount of mileage it can be described as the equivalent of ten trips around the world at the equator every day, or one trip from the earth to the moon every day, or perhaps better, as 80 airplanes flying from the Atlantic Coast of the United States to the Pacific Coast of the United States every day.

These 20 air lines use about 250 airplanes to do this job, so that the average airplane in order to do its stint for the day has to fly 1,000 miles. These airplanes fly on routes which total roughly 30,000 miles, so that each route is flown in one direction or the other about eight times each day. On these routes the airplanes stop at slightly over 200 different cities, including practically all the major cities of the country which provide suitable airport facilities.

In the average day over 4,000 people take passage over one or more of these planes, and in addition to these 4,000 passengers, these

planes carry over 20,000 ton-miles of air mail and carry one-half as much air express. A ton-mile is a little hard to visualize, but the 20,000 ton-miles carried daily are equivalent to 640,000 letters going from Boston to Los Angeles each day.

The average passenger who flies today travels 400 miles by plane. He does this in a little over two and one-half hours, and he pays a fare just over \$20. One-third of the passengers buy one-way tickets; one-sixth of them buy round-trip tickets, and one-half of them buy the modern air line scrip which is equivalent to the old railroad interchangeable mileage books, which offer a reduction in rate on either one-way or round-trip tickets.

The heaviest traveled routes are between New York and Chicago, where three companies compete and offer a total of 29 planes each way daily. The second heaviest traveled route is between New York and Washington, where two companies offer services with a total of 24 planes each way daily, and the third most heavily traveled route in the United States is between New York and Boston, where 14 flights are offered by one company every day each way.

Most of the planes on the major routes are of the 21-passenger type for day service and of the 14-passenger sleeper-plane type for night service, chiefly on the various routes across the continent.

As an example of the service offered at the present time, you can leave Boston at 3.20 any afternoon and arrive in Los Angeles the following morning on a sleeper-plane at 7.43 a.m. Your fare plus the sleeper charge of \$8 includes two free meals (dinner and breakfast) on the plane and, if you desire, an evening snack before retiring.

Probably the most serious hazard to the proper growth of passenger transportation by air in the past has been the fear of accidents which arises in all forms of transportation and of which in its early stages air transportation has had its full share. The trend in acci-

dents can best be described by the fact that in 1928, the first real year of air transportation carrying passengers in this country, there was an accident involving a fatality for every 889,000 plane-miles flown. In 1938 the accident ratio had, however, been improved to the point where the same definition of accident occurred only once in every 13,934,000 plane-miles flown — an improvement in the period of 11 years of over 1,500 per cent. Thus, if in flying 13,934,000 plane-miles in 1938 there was one accident involving a fatality, and if in flying the same miles in 1928 there were 15 accidents involving a fatality, it may be justly said that in 1938, 14 of the 15 accidents which would have happened in the same mileage in 1928 had been saved. Any industry which can eliminate 14/15 or 93 per cent of its accidents in the first 11 years of its regular existence can probably expect to save 14/15 of the remaining 1/15 in the next 11 years, and we in the air transport industry are straining every effort to do so.

The methods leading to this end are concentrated upon two things — better material and better trained personnel. Under material we should pay great tribute to the better technical knowledge secured and the improvements made by the Army and Navy and other governmental agencies such as the Civil Aeronautics Authority, the National Advisory Committee for Aeronautics, and the Bureau of Standards, and also to the technical improvements made by the manufacturers of material and equipment such as planes, motors, propellers, instruments, radio and accessories, and to the purveyors of materials such as steels and the lighter alloys of aluminum, fuels, lubricants and finishes, and finally to the private research laboratories and others engaged in the technical and material developments of the art.

In the training of personnel also, we should pay tribute to all of the agencies mentioned above, to schools both public and private, and to the elaborate training schedules and famil-

iarization programs instituted by the air transport carriers themselves. As an example of the thoroughness with which the air lines are equipping themselves to do this job, I would cite the apprentice training program for mechanics recently inaugurated by one air line, covering a four-year training course, and I could further mention the fact that when a new co-pilot comes with this same air line, even though he may have many years and many thousand flying hours of past experience in addition to a college degree background, he is assigned to the training school for a period of six weeks, during which time, in addition to checking his previous training both theoretical and practical, he is given instruction in the detailed flying and operating procedures of the particular air line in question. The same is true of stewardesses and to different extents of station agents, radio operators, meteorologists, and all other classes of personnel which go to make up such an organization. The reservations salesman who takes your order over the telephone is a further and similar case at point.

After a combination of material and personnel training come those intangible factors known as operating procedures upon which the railroads have so successfully built their present high standard of safety, and which we in the air transport industry hope in time to surpass. Perhaps some of you may have flown from one city to another and have wondered why your pilot deviated from what you believed to be a straight path between the two cities. The answer probably is, that he is following a prescribed course set up for instrument flight, which he is instructed to practice in good weather so that he will be thoroughly familiar at all times with his position on the radio range beams and will be indoctrinated in becoming thoroughly familiar with the intersections of those beams in space and the reporting of the intersections or fixes by radio to the ground stations. These radio stations guard his flight in exactly the same manner as a railroad

dispatcher guards the trains between the various blocks on the track. Or perhaps you may have wondered how thorough is the maintenance and inspection of the airplane in which you were riding and would have been glad to know that that particular airplane had had its daily inspection that morning before it left Newark on its way to Boston, and had had a "turn-around" inspection on arrival at Boston before picking you up to depart for Newark on your way to Jacksonville or Los Angeles. In such a case you would have been glad to know that at predetermined intervals — generally, every 100 hours flying time — each airplane receives a "major" inspection, and that the motors in the planes are completely removed, overhauled, reassembled, and tested, including a flight test, every 500 hours regardless of the reported condition of the motor when the 500 hours since previous overhaul were up. In other words, we provide maintenance on a trouble prevention basis rather than on a trouble cure basis by regularly scheduling inspections and overhauls of each wing, motor, propeller, instrument, or radio, at intervals predetermined from experience to be sufficiently in advance of any possibility of difficulty. This type of prophylactic maintenance has gone a great way toward accomplishing the safety and reliability of the industry today.

In looking to the future of air transportation, we have many avenues to explore. Probably our airplanes will be faster — the rate at which this will happen and the amount of the increase in speed which will take place are very hard to determine. One thing should be borne in mind: it now takes us one hour and twenty-four minutes to fly from Boston to Newark, and an increase in cruising speed of 50 miles per hour in addition to the present 180 mph will not produce much reduction in travel time.

Of the one hour and twenty-four minutes which is shown in the timetable, seven minutes is what we call maneuvering time and covers the taxiing time before the takeoff and

after the landing and the turns after takeoff and before landing which will probably not be reduced one bit. The cruising speed of 180 mph or 230 mph, as the case may be, does not apply to this period at either end.

In addition, it does not apply to the time necessary to climb to cruising altitude, which might be, perhaps, 6,000 feet. This climb is generally accomplished at an air speed of about 120 mph, and even on a plane whose cruising speed was faster than that of the present equipment would probably not be much increased because the horsepower available is going into the energy required to lift the plane rather than to overcome the air resistance at high speed in carrying the plane forward.

At ordinary climbing speed of 500 feet per minute to attain 6,000 feet will require 12 minutes; therefore, we must add 12 plus 7, or a total of 19 minutes, to the time within which the greater speed utility of the airplane is either nonexistent or very negligible. This leaves us with one hour and five minutes at 180 mph. This would be reduced to 51 minutes at 230 mph, making a total saving of 14 minutes, so that an airplane cruising at a speed of 50 mph faster than present equipment between Newark and Boston would save 14 minutes in the air and the timetable would show one hour and ten minutes instead of one hour and twenty-four minutes. While it is true that on longer distances the relative saving in time becomes slightly higher as a result of the higher percentage of time spent at cruising speed, it should be readily apparent that we are entering the era of rapidly diminishing returns in flight schedules and that spectacular advances in reduced times are not likely to occur.

One of the advances that I feel we may definitely look forward to will be flying in the sub-stratosphere in airplanes with pressure cabins in which the atmosphere will be artificially compressed and so regulated that the passengers and crew will be breathing air of the same consistency as that at sea level, or at some reasonably low altitude such

as, perhaps, 5,000 feet. One of the disadvantages of this stratosphere flying is that it can be utilized only on longer trips because of the time element required to reach the high altitudes. It probably will never be used between New York and Boston. It might conceivably be used between New York and Chicago or on transcontinental trips. Flying in the sub-stratosphere should be very smooth and the possibility of the high winds at altitudes which may be gained by flying in one direction in the sub-stratosphere, with the opposite schedule returning at more moderate altitudes, may cut down the total flying time of a round trip and thereby effect material savings as well as increasing comfort.

Airplanes in the future will probably be larger, but just how large we do not know. The air lines today are experiencing many disadvantages when placing the 21-passenger planes on routes where the distance between stops is short. The number of passengers to be handled at each station and the time lost in handling baggage, mail, passengers and express is rapidly becoming a problem. There are a number of larger airplanes now projected, some of which are flying, and they will undoubtedly have passenger acceptance on the same basis that the *Queen Mary* and the *Normandie* have acceptance in the transatlantic ocean travel. They present very definite problems both economically and practically because of the fact that their maneuvering time, which I mentioned previously, will be greater, the time for enplaning and deplaning passengers and their baggage, and the confusion resulting solely from the increase in units to be handled at one time where speed is essential, may serve to offset their other improvements and utility. For instance, it would be absurd to use the *Queen Mary* on an East Boston ferry-boat run. There is some question as to whether it would be advisable to use it on the night boat run between Boston and New York even though the passengers might like the service very much.

This gets us into the economic future of air transportation, because one of the reasons why it would be so useless to operate the *Queen Mary* on the East Boston ferry-boat run or even on the night run between Boston and New York is that the depreciation account of the boat and the many hours that it would remain idle between trips would make it economically unsound. The only companies which have been successful in air transport under the present economic conditions, including present passenger fares, present airmail payments and present operating costs, have been those air lines which have been able to operate each airplane approximately eight flying hours every day. For instance, the daily depreciation on a 21-passenger Douglas Flagship costing \$110,000 is about \$65, or if you can fly it eight hours a day, about \$8 per flying hour. While it is true that depreciation on this basis is only ten per cent of the total overall cost of operating the plane, the economic experience of the air lines has been such that they would have been very happy to have had a ten per cent or even a five per cent profit on their operating revenues.

Furthermore, it seems logical that since air transportation has time-saving as its chief utility and as one of its major reasons for which it can command a premium price, frequency of service must also be provided to a reasonable extent. Whether it is cause or effect is, of course, difficult to state, but it is an outstanding fact that in many cases when the number of schedules has been increased, the load factor (number of persons carried to seats available) on each schedule has also increased. Perhaps this has something to do with the travel habits of the public.

It is difficult to say exactly what percentage of the total travel in the United States is carried by air transport companies today — and it must, therefore, be even more difficult to say what percentage of travel will go by air in the future. More people left New York last year by air than left New York as first-

class passengers on transatlantic boat services, and I believe that the same is true of Boston. The methods of counting passengers, strange as it may seem, vary with the different transportation industries. For instance, in air transportation, the Post Office Department insists that passengers shall be counted by air mail routes and all figures published regarding the average passenger are computed on that basis. The railroads have their own method of computing passengers, including particularly passengers on interline tickets between one railroad and another. Therefore, it is hard to say what percentage of passengers today travel by air when compared with passengers traveling by rail, either in Pullmans only or in Pullmans and coaches combined.

In 1938, the official Civil Aeronautics Authority figure for passengers carried by the domestic air lines was 1,176,858 for the year and was computed on the Post Office Department definition basis. Various estimates which have been made and most of which have been based on passenger miles (a passenger mile is one passenger traveling one mile) indicate that last year the air lines of the United States carried about eight per cent of the passengers carried by rail in Pullmans.

The point which air travel has reached in its growth is graphically illustrated by the fact that in 1937 the passenger revenue of only 21 railroad systems exceeded the passenger revenue of one air line; in 1938 the passenger revenue of this same air line was exceeded by only 16 railroad systems and it appears quite probable that the air line will climb a few more notches in 1939.

In view of the fact that the air lines will probably never serve as many cities as railroads do at present because of the fact that air travel is basically unsound where other satisfactory means are available for distances of less than 100 miles, the air lines cannot hope to purvey all the utility now purveyed by the railroads and other means of transportation and should logically confine them

selves to the longer haul, rapid, first-class travel requirements.

On this basis it seems reasonable to assume that their saturation point will not be reached until they have at least equaled the figure of the present Pullman passenger mileage. How much of this travel will be created as new business because of the greater utility, speed and comfort of air travel is, of course, an unknown quantity. Perhaps the best estimate would be that half of the air line increase will come from present means and mostly from Pullman passengers and the other half will be created before the saturation point is reached.

If this is true the air lines may confidently move forward to the day when their present eight per cent of Pullman Travel will increase to 75 per cent of the present Pullman Company passenger mileage or an increase for the air lines of about ten times their present figures. Whether this will be attained in the next ten years may be questionable, but it should certainly be attained within the next twenty years.

One of the biggest factors affecting the future growth of air lines will be the reliability which may be developed for this means of travel. In 1938 the air lines flew approximately 95 per cent of their published schedules — the remaining five per cent being cancelled mainly due to unfavorable flight conditions, mostly due to low ceilings and low visibilities. There will probably always be a

small residue of flights which will not be made due to flight conditions, although even that is hard to forecast, because with the advent of sub-stratosphere flying there will be many choices of levels which will make it possible to avoid unfavorable flight areas. The advances to overcome the low ceilings and visibilities include developments in instrument landings, and although such advances will naturally come very slowly because of the extreme and increasing reluctance of the air lines to release flights when flight conditions do not meet specified standards, it is probable that within the next decade the 95 per cent performance which was attained in 1938 will be increased to 98 per cent or 99 per cent with further increases in safety.

The future of air transport companies may be summed up briefly in the following general phrases: the saturation point of the market will not be reached until travel has increased to ten times the present figure which may take one or two decades. The speed of flight will be increased but will not show proportionate reduction in travel time because of the diminishing returns attained by such increases. The reliability, comfort and frequency of schedules will be materially increased provided the economic conditions and economic regulation do not change materially. On this basis the air lines should take their place in a coördinated transportation picture providing for the longer haul fast first-class travel.



TEN YEARS OF DEPRESSION

THE SHADOW AND THE SUBSTANCE

By PHILIP CABOT

THE SHADOW

For hard upon ten years we have lived in the shadow of industrial depression, varied from time to time by panics and by short-lived recovery. The experience of panic, followed by a period of economic contraction, lasting from one to five years, is perfectly familiar to us. Our pet name for these fluctuations is "the business cycle," and we have come to regard them as a natural phenomenon, like the seasons of the year. But the experience of the last ten years is, I believe, new in this country. This depression has already run to twice the length of its most severe predecessor, and still there is no light on the horizon.

Also, we may note that our situation seems to be worse than that of others. Although we possess the greatest natural resources of any nation in the world, protected by two oceans, the index of production of our growing population in 1938 as compared with 1929 stands at the bottom of the scale of North American and European nations. Ours was 72 per cent, while poor France, with a declining population, threatened with war and rent with internal dissension, was 77 per cent. Canada and the Netherlands stood at 90 per cent; the United Kingdom at 116 per cent; Poland at 117 per cent; Norway at 127 per cent; Denmark at 135 per cent; Sweden at 146 per cent, and little Finland at 153 per cent.¹ (I have omitted Germany and Italy from the list because the dominant factor of armament might distort the figures.) Incredible as it may seem, the shadow of depression which hangs over this unthreatened country is heavier than that which hangs over European nations, which may be on the verge of war. The strangeness of this picture makes me wonder whether it is a picture of economic

¹ League of Nations, *Monthly Bulletin of Statistics*, Vol. XX, 1939, p. 168.

depression or of something quite different.

The shadow of depression under which we lie is the major preoccupation of all our people. This is to be expected. As we grow poorer, the shoe pinches every foot. The *symptoms* which we observe are economic — idle men, idle money, idle factories, idle land. It is natural to assume that we are suffering from some economic malady, and accordingly we are deluged with proposals for economic reforms. The number of these proposals is enough to make the strongest head spin. In the confusion, Congress has almost ceased to function, and even President Roosevelt seems for the moment to be a little perplexed.

In the June number of the *Atlantic Monthly*, Mr. Wendell L. Willkie set forth a program for economic recovery. In the March number of *Fortune*, a group of distinguished citizens told us what they thought ought to be done; and Mr. Roosevelt has just asked his Temporary National Economic Committee to answer the same question; and, to make the measure full, you can hardly open your morning paper without seeing an address by some wise and experienced person on this most perplexing question.

I have spoken of "the shadow" under which we rest (or rather squirm), using the word in the sense of the shadow of some *thing*. Of course, the "thing" need not be as tangible as a rock; it may be the shadow of a state of mind. In fact, when we speak of an economic depression we must be thinking of the shadow of a state of mind, and we commonly make the explicit assumption that this state of mind is due to some defect in the methods of exchange of goods and services within the society which is depressed. *Provided this assumption is correct, economic adjustments will cure the depression; but only upon this assumption.*

In view of the length of this period of depression, and the failure of various economic "medicines" with which the "doctors" have tried to cure it, I suggest that the assumption is not correct. I think these people are barking up the wrong tree. There isn't any coon in it. He may have started up, but he's not up there now. I do not believe that the "thing" which casts this shadow is merely an economic maladjustment. It looks more like a social breakdown. If this is the case, economic remedies may alleviate the symptoms, but they cannot cure the disease. In fact, they may aggravate it. "A higher standard of living," for example, is the economic heaven toward which both economists and politicians gaze. But, as I look back over the last fifty years, I often wonder whether the rapidly rising standard of living, which was its most marked achievement, was a gain or a loss. As our standard of living has risen, our troubles seem to have multiplied. Is it possible that it has risen too high and become "a standard of high living"? Of course, this is a shocking heresy, for which no one else can be held responsible.

In suggesting that the problem which faces us is primarily social, and that economic remedies will not cure it, I am, of course, casting doubt upon what might be called the "economic interpretation of history." History has often been interpreted in this way in the past. The great Karl Marx built his whole system on this foundation. He was perhaps the most thoroughgoing of this school of thought; in fact, so thorough that for fifty years no one had the courage to put his theories to the test. But when this was finally done by the Russian revolutionists, they broke down so completely that there are probably more followers of Karl Marx in the United States than in Russia today. Practical experience is the acid test of this theory, as of all others. The strictly economic interpretation of history has failed to meet it.

In substituting the assumption that "the thing" which throws this shadow is a social

breakdown, and not an economic maladjustment, I am merely offering an opinion not susceptible of proof. But, for that matter, neither are the economic theories which are so vigorously thrust upon us.

THE SUBSTANCE

Bluntly, what I ask you to believe is that the serious disorders in our society are the most important reasons for our inability to rise out of this depression. I am not suggesting that the social and economic aspects of human life are independent. On the contrary they are parts of one whole. What I *am* suggesting is the unwisdom of the gross overemphasis now placed on the economic aspects. While I cannot prove the truth of my opinions, I can at least suggest some of the grounds for them.

Assuming that "the business cycle" will continue to plague us for a long time to come, I ask you to notice what occurs to the structure of our society during a period of severe and prolonged industrial decline. What we see is a small fraction of the population unaffected, either socially or economically. Another fraction (perhaps somewhat larger) is subjected to some economic loss, but no loss of social status. Another fraction (much larger) is subjected to severe economic strain and to the daily fear of economic destitution and loss of social status. The balance of our whole society is "on the bread line." In short, the economic forces of a major depression now tear apart our social structure, forcing half the population — the foundation upon which the other half rests — to face the possibility of economic and social disaster. It seems to me incredible that any society subject to this sort of periodic disruption should function satisfactorily. The wonder is that it functions at all. We might as well ask a man with a broken leg to run.

My reference to the loss of social status (or the fear of it), which threatens so large a fraction of our population during a major economic depression, may require some explana-

tion, because it is a relatively new phenomenon in this country. It did not occur to at all the same degree after the panic of 1893, which ushered in our previous major depression, because two-thirds of the population were farmers, firmly rooted in the soil. Within the relatively short period between 1898 and the present day, the operation of economic forces resulting from new inventions has changed our environment so rapidly as to require a new form of social structure to fit it. We are now, I think, in process of building one. Fifty years ago the home, the church, and the neighborhood were the framework of our society. Today, new inventions, like telephones, radios, movies, automobiles (to which we have not yet become adjusted) have greatly weakened all these social forms, so that now the most permanent and the most important social groups known to me are those in the shop and in the factory, based on work routines. Here, if anywhere, I suggest, the great mass of our working population must satisfy most of its need for normal social intercourse, or go without, and I like to believe that the social disorder in which we live is the result of shifting from one form of social structure to another. While the house is being rebuilt we must expect hunger, exposure and fatigue. If only the new structure is good, we shall have nothing to complain about. But let us not soothe ourselves with the illusion that the changes which are taking place are small. They are radical. We are asked to move out of our old homes into our new factories. Let us hope that we shall find them equipped with "modern social conveniences." At present, these are notably absent. What I observe is that within a short half century the centre of gravity of our social system has been shifted. The process is not complete, and it is for this reason that the breaking of the social fabric by industrial depression makes recovery so difficult. When industry breaks down, our society goes with it.

I have been interested to observe that labor leaders, and labor economists, with whom I

have talked were wholly unimpressed by the ideas suggested above; namely, that the factory and the shop are in their essence social groups, or societies, today. This I confess disappointed me until I noticed that their own arguments in favor of collective bargaining rested upon the premise that this method was essential to the maintenance of the civic rights of workers and therefore to the preservation of democracy. Thus, even for these men, economic needs give way before our social needs, and they admit by implication the proposition for which I contend. Then I see that we are all "shooting at the same target" and merely calling it by different names.

Assuming that the welfare of society is the purpose and goal of human endeavor, and industry only a means to that end, the conclusion is inevitable that society will find a way (in its own good time) to correct those defects in our economic system which experience shows to be socially harmful. Our major problem today is to discover the long-time effects on society of some of our economic techniques. Merely because I do not know the answer to these questions is no reason why I should not be interested in their solution.

I repeat that the shadow of depression under which we lie is the shadow of our social failure. Of course, the necessity of providing for our material wants (which we call "business") is a major part of "the business of life" which is society. Our economic and social functions are inextricably intertwined, but every structure depends for its stability on a due regard for proportion, and I have a feeling that during my life, and to some extent during my father's, this people has exaggerated the economic aspects of social living. When this occurs, one may look for signs of social disorder. They face us on every hand; and the senseless hurry of modern life is merely our flight from these haunting spectres.

A symptom of social disorder which has received less attention than it deserves is the general loss of hope and the slackening of ambition. Our great Secretary of the Treas-

ury has characterized the feeling of business men as a "What's the use?" attitude. In this opinion I concur, but I am moved to wonder why he stopped there, for the same attitude is observable in all classes of our society. It is less than a generation since "piece rates," and other forms of money incentives to workers to increase production, worked. Now they have largely "lost their cunning." Restriction of output can be found on every hand, and the hope or ambition which the various incentive systems formerly aroused in the worker at the bench is waning.

Among the so-called "white-collar workers," there is also evidence of loss of hope, and I am told by competent and interested observers that this feeling is very marked among high school and college men. Nor does it stop even with them. I know an active boy of rare ability who at the age of ten has practically refused to work, either at school or at home. When asked how he expected to earn his living, he replied that he didn't. WPA "work," as he had observed it, "looked good to him!"

I have spoken about the loss of hope which is so marked in all classes. Its direct manifestation is loss of initiative. For reasons which are very complex, and which are not well understood, the initiative — the intense urge to action — of this people has been cut off. Where "the spring of action" is located in the human body we do not know, but we do know that it is touched off by emotion — the emotion of hope and the emotion of fear in particular. This nation has for two centuries, or more, shown amazing initiative, the result of widespread hope. Today that initiative is quenched and the question which we must answer is, can it be restored? One school of thought answers in the negative, and offers us as a reason that, after three centuries of prodigious expansion, that cycle has come to an end and we must now settle down to a static condition, or at best to a very slowly expanding one. Personally, I reject this answer. It seems to me childish to suppose

that the cycle of expansion for this nation is closed, unless we close it by our own lack of imagination. Tradition to the contrary notwithstanding, history never repeats itself. The great opportunities for increased economic activity of the past are unlikely to recur. But there are countless other opportunities. A more plausible and a more manly explanation of this loss of initiative is that it is due to the failure of our social system to function properly, a social breakdown — a society "gone sour," so to speak. Nothing will undermine hope and weaken the springs of action more rapidly, and such a breakdown is just what one would expect to follow from the periodic disruption of our social groups by the forces of the business cycle. When some of the men and women working together in shops and factories are periodically exiled from their society, and when those who are not live in constant fear of it, only a highly optimistic (not to say silly) person would expect to find a happy and hopeful society. The wonder is that things are not far worse. What greater opportunity could be offered to any generation than the opportunity to restore this waning hope and the initiative to which it gave rise?

The election of President Roosevelt in 1932, and his almost immediate demand for social reforms, were not accidental. They were the result of a great popular reaction against social conditions which were fast becoming intolerable. Many people feel that, while the aims of Mr. Roosevelt's social reforms were wise, his methods have been unwise. I am one of that number. In fact, I go further and suggest that the Federal Government, acting through Congress, cannot achieve by national legislation the social reforms which are most essential. Legislation is merely a form of sweeping generalization. Such generalizations can only be made with full knowledge of facts which are not yet known, and are only useful where the facts, after they have been observed, fall into some sort of pattern. Wide variations from

the established pattern make such generalizations impractical. In the case of much of the social legislation attempted by Mr. Roosevelt's administration, these conditions are not fulfilled.

Take, for example, the operation of the Works Progress Administration. This shows quite clearly the effects of federal legislation which practically concentrates in the hands of one man the power to spend billions of dollars of the savings of the nation for the relief of the unemployed. No one questions that these people must be fed, but many question the method used. The first thing to observe is that the operation of the WPA is shrouded in a cloud of mystery which even a committee of Congress has been unable to penetrate. The tenacity with which the Federal Government clings to the principle of centralized administration leads one to suspect that the handling of this money is a source of political power and profit. Certainly, such concentration is very wasteful. These, however, are common symptoms of the way in which our democracy functions and may not be in themselves alarming. The real vices of the WPA method of unemployment relief lie deeper.

Many, probably most, of these unemployed are people who have been exiled from the industrial or business groups to which they belong by the economic contraction of the last decade, which we may note in passing President Roosevelt has done much to promote. They have been banished from the societies in which they belong, usually without fault of their own, by the operation of "an economic law" which they cannot comprehend, and which many of them do not believe to be a law at all. No Works Progress Administration, even if administered by the Archangel Gabriel, could right these people's wrongs. It can protect them against starvation, but it cannot cure the wounds to their self-respect which their own societies have inflicted. "He who has broken the head must find the plaster." Only the industrial societies

which have cast these people out, can help them. If these societies are unable to find a way to do this, or unless these outcasts are soon united into new industrial societies, our whole industrial system will collapse, because of its instability.

The WPA, however, as now administered, instead of assisting our industrial societies to accomplish this task, is making it more difficult. Although men working for the WPA must live on small pickings, they are nevertheless reluctant to return to private employers because their past experience has taught them to fear the risk. They feel a sense of economic security in working for the government which more than outweighs their loss of self-respect. Of social security, that is, the security of belonging to a social group, the WPA gives them little enough.

Here we may observe a movement of extraordinary interest which has received little attention; namely, a new society in process of trying to get itself born. These people who are working for the WPA, feeling the lack of anything that remotely resembles a society in the group thus employed by the government, have apparently taken the work of social integration into their own hands and are forming a social group of their own — the Workers' Alliance. This WPA "pressure group" is already powerful, and it will grow. Making faces at it, or calling its members "Communists," is childish. We have made them what they are, and if private enterprise in this country cannot give a better account of itself in the future than in the past, it deserves to fail. But such a failure would be a disaster of the first magnitude. It would mean a return to the barbarism which has overrun some of the European nations.

This is not inevitable. In fact, I am convinced that such a collapse can be prevented, but it can only be prevented by the most strenuous exertion on the part of business men. There is small hope that we can be saved by nation-wide activities of the Federal Government, based on political expediency

and insufficient knowledge. The problem must be attacked in detail at many different points and in many different ways. No government has ever done this, and no government can do it. This is a task for free men working freely, and, although we have lost much of our freedom, we have enough left if we have the will to use it.

No man is wise enough to lay down a plan of procedure which will solve our problems, because no man has the knowledge. But we have the strongest evidence that the government cannot solve them without destroying the foundations on which it rests. The number of our unemployed has remained practically stationary since 1933, and the pressure group called the Workers' Alliance is a threat growing on government funds.

Our best hope lies in gradual social and economic reforms based on intimate knowledge of the conditions within our thousands of industrial societies. Such knowledge is not now available and it will take time to get it, for we have reason to believe that the social conditions within these societies vary widely — from relative health and happiness at one end of the scale to a condition verging on mutiny at the other. But we are not sure of our facts. Careful study, pushed with vigor by business men *who mean business*, might open many new vistas. Even with my own extremely limited horizon, I can see industrial societies which during the last twenty years have gone through all the economic vicissitudes of that troubled period. Some of them have maintained their courage, their integrity, and their social equilibrium under the most difficult conditions. Others under far less "stress of weather" have suffered serious social disintegration. We can observe these bald facts, but in the present state of our knowledge we cannot understand them.

Here, I suggest, is where we must begin. What are the reasons why some of these industrial societies are so serene and others so disturbed? If we could answer this one question we should, I believe, have opened the

door to the solution of our problem. The work must be undertaken by business men, equipped with the tools of science and endowed with indomitable patience. There is no quick solution, and, even if there were, it might take a generation or two to make it work. For social changes operate on a time scale much slower than the technological changes with which this generation is familiar. It is for this reason that the results we seek cannot be achieved by any government using the democratic process. The politician who lays out plans which may take half a century to complete will lose his head at the next election, and be replaced by a man with a panacea which will "work while you sleep."

Please observe that I am not blaming the politicians, the economists, or anyone else in what I have been saying. It is not for me to make value judgments. But we all know that the trade of the politician in a modern democracy is to get quick results. The business man, however, has been trained in another school. Much of his planning used to be for the coming generation, and, while this is now prevented by the social revolution through which we are passing, the paths are well marked and he has not lost his skill in following them.

While the recognition of their "social obligations" is now very general among business men, they show a marked preference for keeping these obligations in the realm of abstractions. To induce a large firm to spend a million dollars a year on an advertising program, in the hope of increasing its sales, is relatively simple, though the results are likely to be temporary. But to induce the Board of Directors of the same firm to spend \$50,000 a year on a program of real social research, which would be of permanent value, and might save the business from ruin, is an almost superhuman task.

Of course, there have been many studies of *working groups* made, usually by industrial relations or personnel people, as a basis for

executive action about wages or working conditions. They are interesting and valuable, but they will not serve our present purpose. What we need are many studies of *complete* industrial organizations, including every person from the President to the office boy and the man and woman at the bench. These organizations are organisms like the human body which must be studied as a whole. Studies of their parts are interesting, but they are useless without knowledge of the whole. They are like the reports of the four blind men feeling of the elephant. One got hold of a leg, and said it was a tree. Another put his hands on the elephant's side, and said it was a rock warmed by the sun. Another got hold of the trunk, and said it seemed to be a snake of the boa-constrictor variety. The fourth took a pull at the tail, and when he recovered said it was the lanyard of a cannon, without sound, but with a heavy recoil. Much of our research seems to have begun at the wrong end. We must

know more about the whole before we can understand the parts.

In my title: "The Shadow and the Substance" I deliberately used the word "shadow" in a double meaning — the shadow which clouds our vision and the shadow of some material or spiritual reality. As I close I trust that I have made it clear that it is the shadow of social disorganization which is the substance and with which we have to deal. The causes of this social disorganization are too complex for me to understand, but the fact seems to me as plain as a pikestaff. The substance of our social disorganization is proved, both by its shadow, and by many other observations of daily life. In God's name, let us attack this substance with every means in our power before it is too late, and, unless our educational institutions are false to their calling, you will soon find them fighting at your side and supplying recruits to your armies.



BOOK REVIEWS

WORLD ECONOMIC SURVEY¹

By ARTHUR H. REEDE

The seventh *World Economic Survey* by the Economic Intelligence Service of the League of Nations has been prepared by J. E. Meade, ending the hitherto unbroken authorship of J. B. Condliffe. Mr. Meade's economic history of a year retains the characteristics which have made the *Survey* an indispensable reference work. He has winnowed from the several League studies the essential facts and figures, added such other relevant information as was available, and woven these materials together with the provisional interpretations a keen but prudent observer may make this early. The disgruntled will look in vain for invective, and the crusader will find no encomiums. But although cautious, Mr. Meade is not timid. His descriptions of economic trends and events are clearly worded, and his interpretations, if often tentative, are not shadowy.

This number of the *Survey* quite naturally takes as its point of departure the decline in business activity which began in the summer of 1937, and from which the world, generally speaking, suffered throughout the period under consideration. Abandonment of fixed exchange rates, application of exchange control, imposition of import quotas and other similar measures have restricted the influence of general business conditions in one country upon other countries, in recent years. Mr. Meade holds, nevertheless, that no country, however "autarkic," can isolate itself from a major depression in a large country. American readers will be impressed by the significance he attaches to movements of purchasing power in the United States of America. The United States takes so large a proportion of world exports—13.3 per

cent in 1937 — that all nations are bound to feel the effects of any serious shrinkage in American demand, indirectly if not directly. Total American imports fell from a high of 838.5 million dollars in the second quarter of 1937 to a low of 492.7 million dollars in the first quarter of 1938. Similarly, a collapse of security prices in the United States is immediately followed by sympathetic bearishness of European exchanges. The stock market panic of the fall of 1937 involved the loss of twenty billion dollars in share values in Wall Street, and was accompanied by downward movements of share prices abroad, even in the controlled economies of Germany and Italy.

The amplitude and causes of the American "recession," of which these developments were symptomatic, are discussed in a twelve-page analysis. The familiar device of statistical comparison with a similar period is effectively employed. Share prices declined 24.6 per cent, industrial production 14.9 per cent, in the six months beginning September 1929; the corresponding declines for the first six months of the 1937-38 recession were 33.4 per cent and 32.5 per cent respectively. Mr. Meade might have pointed out that in absolute figures the more recent declines compare more favorably with those of 1929. It is clear, however, that the United States was confronted by a major business downswing late in 1937. Between August and December, production of consumption goods decreased 13.3 per cent; but production of investment goods declined 51.7 per cent, steel output 69.7 per cent, and automobile production 50.3 per cent. The movement of pay rolls lagged, little change taking place before November, and the drop at the year's end amounting to 22 per cent. Department store sales decreased only 3.3 per cent. The author argues from these and other figures that "the immediate cause of the recession was an abrupt fall in investment activity and

¹ League of Nations, Economic Intelligence Service: *World Economic Survey, 1937-38*. Columbia University Press, \$1.50.

in expenditure on durable consumption goods." He points to the failure of consumer demand to continue expanding after November 1936, relating this phenomenon to several aspects of Federal fiscal policy. Rising labor costs are cited as the principal factor influencing expectation of profits and the costs of construction. Some readers will wonder why price policies of business firms are not taken into account in appraising movements of profits and costs. Mr. Meade regards Federal Reserve policies concerning reserves and gold as chiefly responsible for the sudden rise in long-term interest rates early in June, 1937.

There follows a discussion of the extent to which other nations shared in the "recession." The author finds in buoyant wage rates and prices the key to France's exchange difficulties, over-high interest rates, and the lack of a stimulus to increased production. The evident decline in British exports during 1937 was to some extent offset by the demands incident to the expenditure on rearmament, but private investment tended to decline, and the peak demand for iron and steel appeared to have been attained at the end of 1937. Production and employment declined in Belgium and the Netherlands; prices, in Switzerland and Sweden. It is more difficult to follow the course of events in the rigidly regimented economy of the third Reich. The very favorable production figures must be considered in the light of the intensive activity in public building and war industries, the operation of the four-year plan, and the much less favorable situation as to consumption goods. It is difficult to analyze the situation in Japan, as well, chiefly because of the overwhelming significance of the war in China in determining the movement of nearly all economic series. The shrinkage in world trade nevertheless complicated her exchange problem.

World unemployment had fallen to the 1929 level by the summer of 1937, but a sharp rise in unemployment began in the autumn and continued into 1938. The Inter-

national Labor Office's index of the number employed for the year 1937 as a whole was exactly at the 1929 level. Hours of work per worker had fallen, however, and the index of man-hours — the best single measure of employment — was still 10 per cent below the 1929 level. Ten of the twenty-two nations represented in these indices employed fewer workers in 1937 than in 1929, among them France, the United States of America and the Dominion of Canada. Outstanding industrial nations employing more workers than in 1929 were the United Kingdom, Germany, Japan, Italy and Sweden. In Germany, while the number employed had increased 907,000 the number unemployed had fallen by 980,000. In view of the marked increase in the number of Germans of working age, this phenomenon can only be explained by noting the absorption of workers by the Army and the Labor Service.

Even for the year as a whole, several nations still suffered a high level of unemployment. The highest levels obtained in the Low Countries, Norway and Austria. The rate of unemployment in the United States had fallen to 10.5 per cent, but all of the ground won during the early months of 1937 was surrendered before the year's end. In November, the Biggers census estimated total full-time unemployment at 10,870,000, and in February, 1938, the President released an estimate that 3,000,000 persons had since become unemployed. Of the twelve leading industrial powers, only four escaped an appreciable increase in unemployment in the late months of 1937 and the early months of 1938. Notwithstanding the increases in unemployment, the shortages of skilled labor noted in the previous *Survey* continued to manifest themselves, perhaps to a greater extent. Increases in armed forces and in the demand for skilled labor in the production of armaments are seriously delimiting the already low supply of skilled labor in many countries. A French Committee on Production, reporting in December, 1937, recommended special

modifications in the forty-hour week in the case of skilled workers, the introduction of additional shifts, and the principle of compensating overtime for workers who had previously been underemployed.

All of the League's indices of world production showed increases during 1937, continuing the movement beyond 1929 levels which had been attained during 1936. Although production of foodstuffs continued to expand, it was less per capita than in 1929. Mr. Meade points out, however, that the index numbers do not include some commodities, consumption of which has recently increased, such as poultry, eggs or fresh fruits and vegetables. A sharp gain was registered in production of raw materials. Shortages of certain raw materials were appearing early in 1937, partly because of rearmament expenditures and partly because of speculation in these commodities. Speculative demands abruptly ceased about the end of the first quarter of 1937, and when the severe contraction of industrial activity set in in the summer, stocks of raw materials rose sharply. Manufacture of consumption goods had been tapering off all year in the United States, and manufacture of capital goods suffered a violent decrease in the autumn. Serious declines took place in Canada, Czechoslovakia and the Low Countries, as well, and moderate declines in Sweden and Hungary. Expansion of industrial activity ceased in the United Kingdom and only continued in the controlled economies of Germany, Italy and Japan.

The outstanding feature of price movements during 1937 was the abrupt about-face in commodity prices in the spring. Late in 1936, under the spur of heightened industrial activity and competing demands by war industries, manufacturers began to increase their stocks of raw materials, apprehensive of shortages and further advances in price. A few months later it became apparent that (1) supplies of raw materials were being produced more rapidly than had been suspected,

and (2) that consumer resistance to price increases made it difficult to pass on the high costs of raw materials. A sharp break in commodity prices affected seven out of fifteen leading industrial nations immediately and four additional countries subsequently. Germany and Italy escaped this phenomenon by rigid price control. The pressure of the War caused Japanese prices to rise against the world trend, while exchange difficulties and new social legislation had a similar effect in France. Where price declines occurred, they differed greatly in timing and amplitude. In general, food prices experienced less substantial reductions and they followed special developments affecting the supply. Wheat and cotton prices broke after large harvests in the United States, coffee prices after the collapse of negotiations for international restriction of production. As regards non-agricultural raw materials, however, changes in speculative, then industrial demand, appear to have been decisive. The United States consumed 30.7 per cent less silk, 41.9 per cent less rubber, and 60 per cent less tin in January, 1938, than in January, 1937. The uneven movement of prices naturally disturbed price relations. Retail prices declined much less than wholesale prices, and prices paid by farmers much less than prices received by farmers. Mr. Meade discusses, but all too briefly, the relation between prices paid by firms to those received by them — costs vs. selling prices — and his conclusions are, therefore, generalizations of limited use.

The production of gold which, in 1936, had been 73 per cent higher than in 1929, increased 7 per cent more. The concentration of gold holdings in a few important creditor countries, nevertheless, continues to hamper the monetary systems of some countries. This maldistribution of gold grew worse in 1937, the holdings of the United States increasing from 51 per cent to 55 per cent of the world's total. The outstanding shift in monetary policy in 1937 was the change from a restrictive to an expansionist

policy by the Federal Reserve System. In August and September, 1937, rediscount rates were reduced from 2 per cent to $1\frac{1}{2}$ per cent; in September, \$300 million was released from the "inactive gold fund"; in October, the rules governing rediscountable paper were relaxed; and in November, the reserve banks purchased \$38 million of government securities in the open market. Later the policy of "deteriorating" gold was repeated and in April, 1938, the "inactive gold fund" was abolished and gold certificates representing \$1,400 million in gold were added to the nation's bank reserves.

For 1937 as a whole, the volume of goods exported was only 3 per cent below the 1929 level, having increased about 12 per cent over 1936. The increase was, however, unevenly distributed, and the rates of increase were falling rapidly in the final quarter of 1937. Trade in raw materials was above the 1929 level, trade in foodstuffs 7 per cent less than in 1929, and trade in manufactured articles 14 per cent less than in 1929. Curiously enough, three significant trends of recent years were reversed in 1937-38. Total world trade, after rising less than seasonally in the last quarter of 1937, declined more than seasonally in the first quarter of 1938. Prices of exports relative to those of imports began to change to the disadvantage of raw material exporting countries. A three-year trend of export balances for these countries was reversed. Of greater significance than these data was the continuation of the struggle between the American trade agreements program and the clearing agreements program of the exchange-control nations. Over a third of the trade of the United States was with countries which were operating under reciprocal trade agreements at the end of 1937, and negotiations were under way with other nations that would directly affect 30 per cent more. The recovery in world trade in 1936

and 1937 tended to discourage bilateral agreements. Yugoslavia and Turkey began diverting much of their trade to the free-exchange countries. Full clearing agreements were giving way to payment agreements, under which the exchange-control state would allot a definite portion of the payment for its exports to importers for purchase of goods from the free-exchange country. Up to the middle of 1938, the "recession" had not led to intensification of bilateral agreements, but liberalization of world trade is generally more difficult in periods of economic stress.

Writing at the end of July, 1938, Mr. Meade observes that "the prospects of an early recovery in the United States of America appear to be improving; and the decline has given place to an upward movement." He describes in detail the rise in security prices and the several hopeful industrial signs on which the rise was based. Were he writing now, he might point to many additional improvements in the economic situation of the United States. Probably he would, nevertheless, still hold that it is too early to determine whether the recovery is permanent or merely represents a temporary halt before a further recession. He would certainly not be favorably impressed by subsequent developments regarding building, railways, and utilities, the situation of which industries he considered discouraging. Nor has the international political situation of which he complains changed for the better. He shares a common feeling that the relations between government and business must improve (and one sometimes suspects that he overstates the responsibility of the Government in this regard). Whatever the answer to the fundamental question regarding the permanence of the recovery, this reviewer looks forward to his analysis of the events which will provide it.

CONSUMER CO-OPERATIVES IN 1937¹

By W. MACKENZIE STEVENS
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A great many attempts have been made by coöperators and by their private competitors to show that coöperative distribution on the one hand or private distribution on the other is the more efficient. This pamphlet by Professor Schmalz is by far the most careful attempt thus far made to compare the two types of institutions.

Previous comparisons between coöperatives and private distributors have led to questionable conclusions because the figures obtained have not been properly comparable for one reason or another. Differences between available operating statements for coöperatives and private distributors have arisen from differences in size of the city in which the two types of enterprises have been located, differences in the geographical location of the two, differences in the types of service provided, and differences in the commodities handled or the proportion of different commodities handled. Professor Schmalz has recognized the fact that differences in operating results between coöperatives and private distributors may be due to differences in the operating conditions under which given firms operate rather than differences due to ownership by coöperative as compared with private operators, and has tried, so far as possible, to develop comparable data.

In this, he is greatly favored by the tremendous quantity of comparative material available on operating results of individual firms that has been accumulated by the Harvard Bureau of Business Research. The study of coöperative distributors is fitted into the same standard investigational process as all the private distributors previously investi-

gated; consequently, the figures obtained should be as truly comparable as it is possible to secure by any method of investigation based upon pre-existing operating statements not set up with reference to a particular investigation. The author recognizes the limitations of the data with which he is working, and is careful to qualify conclusions whenever smallness of sample or other factors necessitate this.

While the comparison between private and coöperative distributors' enterprises constitutes one of the most striking elements of this report, only a small portion of the pamphlet is given over to discussion of the relative operating advantages of the two types of enterprise.

This study divides consumer coöperatives into three groups for purposes of study: (1) the food store coöperatives, largely serving urban communities; (2) the general store coöperatives which deal in miscellaneous or general merchandise, including foods, which tend to be located in small towns or in distinctly rural localities, and which serve farmers for the most part; and (3) the coöperatives organized among farmers chiefly for the joint purchasing of farm supplies, including petroleum products.

For each of these classes of coöperatives, this report provides a detailed analysis of operating expenses, margins, income, and stock turn. The author draws a number of conclusions from his tabulations with respect to effects upon operating ratios of differences in sales volume, size of city, types of operation or service, and commodities handled that are quite useful to students of distribution. The "common" ratios developed will serve as performance standards for the appraisal of operating results of distributive coöperatives. Operating expenses (before interest in each case) were 16.6 per cent of sales of food stores (14.6 per cent in the most profitable enterprises), and 11.6 per cent of sales of the general stores (9.9 per cent in the most profitable enterprises). In both types

¹ "Operating Results of Consumer Coöperatives in the United States in 1937," by Carl N. Schmalz. Bulletin No. 108, Bureau of Business Research, Harvard Business School, 1939. \$1.00 (discount of 20 per cent allowed to Alumni).

of store, expenses increased markedly with size of city.

Farm supply stores and petroleum bulk stations were analyzed separately in accordance with the relative proportions of farm supplies and petroleum products. Coöperative bulk stations had the highest operating expenses of any group surveyed, 19.1 per cent to 19.3 per cent for stations without and with filling stations respectively, and even the most profitable firms averaging 17.3 per cent to 18.0 per cent.

Because of the influence of varying gasoline taxes upon the expense ratios, a useful appendix is included in the report that shows comparative figures with allowance for gasoline taxes.

With regard to the comparative operating advantages of coöperatives as compared with private merchants, Schmalz says with regard to food stores, "It appears either that the coöperative form of organization does not lead to conspicuous advantage in operating efficiency, or that the coöperatives by 1937 had not got themselves organized to the point where such advantages had become evident."

"Insofar as food retailing is concerned, any important contribution of coöperatives to the welfare of consumers which is made through lower prices or greater values does not arise from operating efficiency in the retail stores greater than that for private enterprise. This does not mean that coöperatives cannot

give better values than privately owned businesses; but it indicates that such better values, if given, probably must reflect:

(a) Advantages secured in wholesaling or in manufacture, possibly through private branding coupled with scrupulous regard, in product specifications, in labelling, and in pricing, for the interest of consumers; and

(b) A distribution of retail profits."

Schmalz' conclusions as to the comparative operating expenses of coöperative general stores and their private competitors are in sharp contrast to the conclusions just stated as to food stores. This study shows total expense before interest of coöperatives of 11.6 per cent for coöperative general stores as compared with 15.6 per cent to 18.65 per cent computed by various other studies as the expense of privately owned general stores. The author concludes that "coöperatives may have introduced some economies in retail distribution". . . and "that they did have conspicuously lower costs for payroll, advertising, miscellaneous expense, and total expense." As the author points out, however, the several samples are small, they represent different years, different sizes of firms, and different geographical areas; and he suggests that conclusions as to greater efficiency among coöperative general stores must be considered on a tentative basis until more adequate and comparable studies can be made of the two types of enterprises operating under more nearly comparable conditions.



COMMENCEMENT

On Commencement Day, which was held on June 22, a total of 2,315 degrees were awarded. From the standpoint of the Alumni of the Business School, the degree which attracted the most interest was the honorary degree of Doctor of Laws conferred on Wallace B. Donham, Dean of the Business School since 1919. This rounded out a series of Harvard degrees for Mr. Donham since he received his A.B. in 1899 and was therefore celebrating his fortieth reunion with the members of his class. Mr. Donham graduated from the Law School in 1902 and received his LL.B. degree at that time. The citation which accompanied the degree was read by President Conant as follows: "A man of business turned educator; his originality and daring have shown us how a university should educate the business man."

Also of interest to Business School Alumni was the speech of Darwin C. Brown, a candidate for the degree of Master in Business Administration. This was the first time in some years that a Business School man has been one of the Commencement speakers. Mr. Brown spoke on "The Responsibility of Business to Government."

A total of 866 degrees were conferred on undergraduates, 660 receiving the Bachelor of Arts degree and 206 that of Bachelor of Science. Two men received the degree of Adjunct in Arts. In the Graduate School of Arts and Sciences 194 men received the degree of Master of Arts, four men that of Master of Forestry, 11 men that of Master of Arts in Teaching, and 87 that of Doctor of Philosophy. In the School of Education 22 men received the degree of Master of Education and three that of Doctor of Education. The Faculty of Design graduated eight Bachelors of Architecture, nine Masters in Architecture, seven Masters in Landscape Architecture and one Master in Regional Planning. The Engineering School graduated one Master of Science and 92 Masters of Science in Engineering. The Law School graduated 384 Bachelors of Law, 17 Masters of Law, and two Doctors of Juridical Science. In the Dental School 29 men received the degree of Doctor of Dental Medicine. In the School of Public Health 37 received the degree of Master of Public Health and two that of Doctor of Public Health. The Medical School graduated 130 Doctors of Medicine. The Divinity School graduated seven with the degree of Bachelor of Divinity and two with that of Master of Divinity. The Business School graduated 396 men, 38 of them with Distinction, and awarded two degrees of Doctor of Commercial Science. The honorary degrees were 12 in number and the recipients and the citations are as follows:

Master of Arts

WALTER BENJAMIN BRIGGS. An officer of the College Library during four decades, to all who seek knowledge among our books a patient and kindly guide.

BRUCE ROGERS. A skilled designer of the printed page, adviser to the Press in both this University and in the ancient Cambridge across the sea.

Doctor of Arts

WILLIAM EMERSON. An educational statesman in the field of architecture, administrator and teacher at the Institute of Technology, our distinguished neighbor.

Doctor of Science

PERCY WILLIAMS BRIDGMAN. An experimentalist who transforms stubborn matter by high pressures; a logician who alters physical theory by acute analysis.

HANS ZINSSER. A dynamic teacher whose vision extends beyond his laboratory; a famed investigator of the secret ways of man's microscopic enemies.

CHARLES FRANKLIN KETTERING. An engineer in the great American tradition, an inventor whose imagination has quickened both industry and science.

Doctor of Laws

ENDICOTT PEABODY. The builder of a famous school, a master honored and revered by generations of devoted pupils.

WALLACE BRETT DONHAM. A man of business turned educator; his originality and daring have shown us how a university should educate the business man.

HOWARD WASHINGTON ODUM. A pioneer surveyor of the modern South; from an academic vantage point he directs and inspires a vigorous attack on the social problems of tomorrow.

LEARNED HAND. A judge worthy of his name, judicial in his temper, profound in his knowledge; a philosopher whose decisions affect a nation.

Doctor of Letters

GEORGE ANDREW REISNER. Egyptologist without equal; a relentless excavator, he recaptures for this age the glories of a distant past.

WALLACE NOTESTEIN. A critical historian of the Stuart parliaments; his accomplishment of a great task puts before us the significant record of the first triumphs of the House of Commons.

DOCTOR OF COMMERCIAL SCIENCE

PEARSON HUNT, Ph.B. (Yale University) 1930; M.B.A. (Harvard University) 1933. *Special Field*, Commercial Banking. Thesis, "An Examination of the Commercial Bank Portfolio Policies in the United States — 1920-1938."

CEDRIC WILLIAM LUTZ, S.B. (University of Arizona) 1932; M.B.A. (Harvard University) 1937. *Special Field*, Accounting. Thesis, "Cost Determination for the Control of Load Building and Rate Making in Electric Utilities."

(As of February, 1939)

THOMAS HENRY CARROLL, S.B. (University of California) 1934; M.B.A. (Harvard University) 1936. *Special Field*, Accounting. Thesis, "Some Financial and Regulatory Problems of Retirement Accounting in Public Utilities."

ARCHIBALD WILLIAM CURRIE, B.A. (Queen's University) 1929; B.Com. (ibid) 1930; M.B.A. (Harvard University) 1934. *Special Field*, Transportation. Thesis, "Canadian Railway Problems with Special Reference to Freight Rates on Grain."

HARRY LOUIS HANSEN, S.B. (Haverford College) 1933; M.B.A. (Harvard University) 1935. *Special Field*, Sales Management. Thesis, "Premium Merchandising to the Ultimate Consumer."

MASTER IN BUSINESS ADMINISTRATION

WITH HIGH DISTINCTION

Darwin Charles Brown
Alexander Troup Daignault
Philip Otto Geier, Jr.

John Henry Martin
Robert Watson Merry
Percival Frederick Albert France

John Franklin Pritchard, Jr.
Joseph Share

MASTER IN BUSINESS ADMINISTRATION

WITH DISTINCTION

William Marcellus Anderson, Jr.
Charles Elwood Bain, Jr.
Kenneth Henry Beer
Ronald Calvin Bradley
Robert Emmett Burns
Horace Childs Buxton, Jr.
Frank George Chambers
Heng Chi
Hugh Frank Colvin
William Winans Converse

Robert Moore Dillard
Walter Godley Donald
John Stevenson Edwards, Jr.
Albert Maurice Freiberg
John Desmond Glover
Howard Franklin Hamacher
Arden Elwood Hardgrove, Jr.
Kenneth Sear Harris
Edward Lincoln Heller
Arthur Richard Hodgson, Jr.

James Arnold Hurst
Alfred Ertel Kuerst
Laurence Henry Larsen
Edwin Charles Luedeking
Alfred Thomas Magnell
Stanley Lewis Mayo
Quin Morton
Horace Alvord Quinn
Edwin William Rawlings
Robert Byers Shaw

MASTER IN BUSINESS ADMINISTRATION

Arthur Aaron
Patrick Bernard Victor Montagu
Acheson
John Willis Adams
Julian Adler, Jr.
Edward Robert Ahearn
L. B. Alexander
William Williams Allen, 3d
Charles Carroll Alsop
Robert Angell Andrews
Norman Sheffield Angell
Arthur Lowrie Applegate
John Moody Arnfield
David Rudd Arnold
Cecil MacDonald Arrowsmith
Phillip Stiling Babb
Albert Gray Bale
Donald Roy Barber
George Franklin Bateson, Jr.
Gene Kerwin Beare
William Simpson Beatty
Walter Bernfeld
John Frederick Bertram
Morris Herbert Betten
Richard Virgil Bibbero
Joseph Allen Bloombergh
David Clark Bole
Arthur Dalton Bond, Jr.
Paul Sachs Bowers
Thomas McLaughlin Breeden, Jr.
Cyril Quentin Breitenbach
Bernard Thomas Brennan
Francis Gorham Brigham, Jr.
Emerson Eliot Brightman
Beryl Leonard Brody
Edmund Perry Bronson
Thomas Wallace Brooks
Hubert Leighton Brown
Mervin Charles Brown
Stanley Edwin Brunstein
Frank Gerhard Buchwald
Daniel Joseph Buckley
Trane Burwell
Richard Ford Cadwallader
Howard Bennion Calder

James Gray Cannon
Montfort Boylan Carr
Walter Paul Cartun
John McMullen Case
Robert James Chapman
Sumner Daniel Charn
James Wiley Christie, Jr.
Grover Vincent Clark
Henry Wyatt Clowe
Raymond Carl Clyne
Ruard William Cochrane
Robert Louis Cohen
Sydney Leon Cohen
Robert Leake Steele Cole
Whitefoord Russell Cole, Jr.
William Joseph Collins
Philip James Conley
Walter Douglas Cook
Avrun Ebb Cooper
Jack Crouch Corbett
William Franklin Corman
Charles Ellison Cosby
Leo James Coveney
Edward Byron Covert
Harmer Lee Cox
Howard Ellis Cox
Robert Walton Crawford
Hershner Cross
William Arthur Cullman
Wilburn Leslie Davidson
Harry Lyman Davis, Jr.
William Woodford Davis
George Lawrence Deal
Robert Francis Delaney
Joseph Richard Dembeck
John Henry Devlin, Jr.
Robert Farmer Devoy
Theodore L. Diamond
William James Dibble
Alfred James Dickinson, Jr.
Frederic Eugene Dion
Ambrose Benedict Doran
Edward James Drummey
William Carter Dulin
William Harrison Dunbar

Frank William Dunn
James Saye Dusenbury, Jr.
Robert Rockwell Dyer
Robert Frank Edwards
William James English, Jr.
John Nichols Estabrook
Richard Fremont Estes
Frank Marion Evans, Jr.
Edwin Ewing, Jr.
Orlo Arden Ewing
Robert Wallace Ficken
Lawrence Miller Finkel
Stanley Morton Finkel
Robert Fleming Finnegan
John Cox Flynn
James Bruff Forbes, Jr.
Robert Fayette Foster
David Livingston Francis
John Warren Franklin
Edward Albert Fritz
John Arthur Fromm
Charles Albert Garcia
Louis Lindeman Gardner
Frederick Garrison
Frank Berry Gatchell, Jr.
Truman Gray Geddes
James Marshall Geer
Richard Henry Gillespie, Jr.
Harry Lionel Goff
Harry Russell Goff
Morton Silverson Goldstein
Albert Goodhue, Jr.
George Hargraves Aubrey Gooding
Warren Kelly Goss
Harry Kasper Gregory
Nathaniel Cooley Groby
Harry Brooks Gutelius, Jr.
Ernest Paul Haas
Walter A. Haas, Jr.
William Haas
Chandler Sprague Hagen-Bürger
Albert Halsband
Glenn Ellsworth Hansen
Nathaniel Arnold Hardin
Thomas Walter Hardy, Jr.

William Albert Harmon
 Lee Harris
 Alfred Townsend Hartwell, Jr.
 Lucius Herman Harvin, Jr.
 Albert Edwin Haskell
 Kenneth MacKenzie Hatcher
 Philip Mosher Hawes
 Dana Waldron Hayward
 George Henry Heddesheimer
 Samuel Ray Heffron
 Waldemar Robert Helmholz
 Joseph Lee Herlihy
 Bernard Irving Hermele
 aime Hernandez
 Harold Lloyd Hess
 William Henry Hinson
 Henry Williamson Hoagland, Jr.
 Lester Nathan Hofheimer
 Robert Crossett Holcombe
 George Hughes Holder
 Marshall Maynard Holleb
 Louis Homonoff
 Charles Coy Honsaker, Jr.
 Alexander Bates Horsfall
 George Taylor Howard
 William Everett Hoyt, Jr.
 Albert Edward Hulbert
 Harold Homer Hunt
 John Bernard Hunt
 William Craig Huntting
 David Salmon Schuster Hutton
 Myron VanPraagh Jacobs
 James Myron Jacobson
 Leonard Sigmund Jaffe
 Harold Earnst Jahn
 Albert John Jehle, Jr.
 Grinnell Jones, Jr.
 Edward Raymond Joshua, Jr.
 Frank Foreman Kahn
 William Frank Kewer
 Edward Norris Kimball, Jr.
 Edward Zahm King, Jr.
 Richard Jacob Kins
 Winston Joseph Klein
 Richard Bunting Knight
 Julius Louis Korson
 Irving Monroe Kram
 William Augustus Kuhns
 Paul Richard Lally
 James Alan Landsman
 Sidney Lansburgh, Jr.
 Homer Clarke Lathrop
 Daniel Webster Latimore
 Robert Benson Law
 Albert Mona Lester
 Arthur Irving Levy
 Laurence Hertzell Levy
 Sidney Lewis
 William Harold Lipsitt
 Daniel Sylvan Lisberger
 Maurice Liston, Jr.
 Marion Richard Llewellyn
 Henry Lloyd
 John William Losse, 3d
 Allen Hudson Lynch
 Irving Lyons
 Richard Carl Lytle
 Kenneth John McCarthy
 William Raymond McCleary
 William Masten McCullough

John Dann MacDonald
 John Thornton MacDonald, Jr.
 William Thornton McDonnell
 Milton Machinist
 Edward John Mack
 John Martin McKeague
 John Trudgeon McKown
 Myles Tierney MacMahon
 Robert Strange McNamara
 Winthrop Gilman McSparran
 Robert Leitch McVie
 Richard Hartnett Magee
 Robert Williamson Maher
 Morton Roy Mann
 Delmor Benjamin Markoff
 Brewer Jay Merriam
 John Ferdinand Meyer
 Robert Alan Meyers
 Robert Holbrook Miller
 Paul Tavenner Millikin
 Vangel Lazar Misho
 Danforth Steere Mitchell
 Anson Churchill Moore
 Baxter Springs Moore, Jr.
 Howard Vincent More
 Howard Knight Morgan
 John Allen Morgan
 Donald Fraser Morris
 Clinton Morrison
 Albert Reynolds Morse
 Byron Wallace Moser, Jr.
 Carl Renner Moss
 William Newton Nelson, 2d
 Frank Newman
 Harry Jefferson Newman
 Vigo Gilbert Nielsen
 Charles Loring Jackson Noble
 George Stark Norfleet
 Granville Wallace Oakes
 Charles Wheeler O'Connor
 Ralph Sigurd Odegard
 William Farnsworth Orr
 Jack Ostrer
 Ambrose Kendall Oulie
 Samuel Keith Painter
 Everett Arthur Palmer, Jr.
 Harry Edmunds Parker, Jr.
 Richard Ballou Parks
 James Schwan Parshall
 Joseph James Patton
 Warren Frederic Pearce
 Charles Adam Penzel, Jr.
 John Edwin Peterson
 Joseph Carman Petteeruti
 Jesse Philips
 Charles Chipman Pineo, Jr.
 Perry Paul Polentz
 Raymond Avery Powell
 Richard Aloysius Powell
 Dana Serr Prescott
 Charles Farnsworth Price
 Joseph Osborne Procter
 Peter Joseph Prozeller
 George Laurence Pulis
 Nicholas Puzak
 Jacob Sherman Ramsey, Jr.
 Schuyler Colfax Reber, Jr.
 Thomas Carl Reck
 George Hannah Reese, Jr.
 Franklin Reifsnider

Edmund Addison Rennolds, Jr.
 Fred T. Renshaw
 Sydney Resnick
 Henry Carlos Rexach
 Frank Jones Roberts
 William Leslie Roberts
 John Gustave Robertson, Jr.
 Melvin Alan Robin
 Albert Ignatius Roche
 Thomas Blackwood Rodgers, 3d
 Malcolm McNaughten Rorty
 Maurice Charles Rosch
 Michael Irving Rosenthal
 Charles Burdette Ross, Jr.
 Earl Wesley Ross
 John Paul Russell
 Thomas Anthony Saint
 Albin Salamon
 William Mair Sanderson
 Leroy Edward Savage
 Edward Lawrence Saxe
 Abe Schlesinger, 2d
 Courtney Frederick Schley
 Robert Joseph Schmidt
 Charles Henry Schnell
 Richard Anthony Schroeter
 Abram Segal
 John Archibald Sessions
 Robert Urson Shallenberger
 John Sherman Shaw, Jr.
 Norman James Shaw
 Robert Emmet Shearon
 Israel Saul Shulman
 Jerome Arthur Siegel
 Andrew Lawrence Simpson
 Ralph Parkinson Simpson
 Edward Martin Skowrup
 Howard Carroll Smalley
 Dexter Allen Smith
 Ernest Walker Smith
 Sidney Joseph Smith
 Girvan Noble Snider, Jr.
 Robert Bresson Solow
 Robert Sosnik
 Francis Charles Stacey, Jr.
 Samuel Saul Stahl
 William Otto Starkweather
 Elmer Norman Staub
 David Duffield Steere
 Edmund Francis Stefenson
 Eric John Stenholm, Jr.
 George Earl Stoddard
 Harry Kendall Stremmel, Jr.
 John Raymond Stuart
 Alfred Wilbur Swinyard
 Winthrop Howard Taft
 John Austin Tate, Jr.
 Joseph Montgomery Taylor
 Robert Elliott Thompson
 Walter Francis Thompson
 Charles Leonidas Tooker
 Charles Wilmot Veysey
 Richard Holt Wakefield
 Homan Leavell Walsh
 Hugh Francisco Warner
 William Sayles Webster
 Frederick Peter Weil
 Roger Underwood Wellington
 Sigmund Werner
 John Edward Whitfield

Myron Arms Wick, Jr.
Charles Marvin Williams
Francis Curteus Wilson
Robert Claude Wing

Cyrus Wintersea
Edward Warren Wohlgenuth
Harold Patterson Wolf
William Gilchrist Wood

Richard Harry Woodrow
Ellis Gardiner Youtz
Louis Edward Zell, Jr.
Abraham Moses Zibit

CERTIFICATE

Glenn William Anderson, Jr.

Frank Warren Knowlton, Jr.

MASTER IN BUSINESS ADMINISTRATION

(Out of Course)

As of the Year 1938

Arthur Little Hamilton, Jr.
Milton Lincoln Levy

William Shepard Lingley
Samuel Daniel Mills

Bernard Maurice Turrettini

As of the Year 1937

Alvin Kenneth De Siena

William Clarence Wickenden



ALUMNI REPORTS

HARVARD BUSINESS SCHOOL ALUMNI ASSOCIATION

BALANCE SHEET — APRIL 30, 1939

ASSETS

Cash in banks:		
Checking account		\$2,122.56
Savings accounts		5,709.45
		\$7,832.01
Office equipment, less reserve for depreciation		50.84
Supplies		559.78
		\$8,442.63
Total assets		\$8,442.63

LIABILITIES AND SURPLUS

Accounts payable		\$230.96
Dues prepaid:		
1939-40	\$3,903.50	
1940-41	649.00	
1941-42	13.50	
1942-43	6.00	
		4,572.00
Advertising prepaid		55.00
Surplus:		
Balance, May 1, 1938	\$3,244.90	
Excess of income over expenses for the year ending April 30, 1939	339.77	
		3,584.67
Total liabilities and surplus . . .		\$8,442.63

To the Harvard Business School Alumni Association:

We have made an examination of the balance sheet of the Harvard Business School Alumni Association as at April 30, 1939 and of the statement of income and expenses for the year ending on that date. In connection therewith we examined or tested accounting records of the Association and other supporting evidence and obtained information and explanations from officers and employees.

Cash balances were confirmed by direct correspondence with the depositaries. Recorded receipts were traced to bank statements and cancelled checks or vouchers supporting all recorded disbursements were examined, but we did not verify independently the amounts of dues and admissions received during the year.

In our opinion, based upon such examination, the above balance sheet and attached statement of income and expenses fairly present the position of the Association at April 30, 1939 and the results of its operations for the year ending on that date.

PRICE, WATERHOUSE & Co.

Boston, Massachusetts.
June 12, 1939.

STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDING APRIL 30, 1939

Income:			
Dues, 1938-39		\$5,048.33	
Bulletin advertising		618.58	
Bulletin sales		26.55	
Interest on savings bank balances		124.78	
Admissions, less expenses — annual meeting		14.19	
Miscellaneous income		50.00	
Total income		\$5,882.43	
Less:			
Expenses:			
Administrative			
Printing	\$107.43		
Postage	12.87		
Supplies	411.57		
Miscellaneous	90.55		
		\$622.42	
Bulletin			
Printing	\$2,429.66		
Postage	100.36		
Supplies	61.87		
Miscellaneous	2.36		
		2,594.25	
Membership			
Printing	\$151.20		
Postage	180.93		
Supplies	123.09		
		455.22	
Stenographic and clerical		\$3,804.60	
Less — Contribution of stenographic and clerical services by Harvard Graduate School of Business Administration	3,144.60		
		660.00	
Addressograph expense		232.98	
Depreciation of addressograph		50.85	
Directory expense		\$1,926.94	
Less — Contribution for directory printing by Harvard Graduate School of Business Administra- tion	1,000.00		
		926.94	
		5,542.66	
Total expenses			5,542.66
Excess of income over expenses for the year			\$339.77

CORRESPONDENCE

To the Editor:

The text of Mr. Sayre's address, "Fun in Business," published in the February BULLETIN, was of great interest, and it has inspired me to add a few comments on another variation of this thesis.

If your corporation employer is decentralizing, do not wait, volunteer to transfer your services to the small oppidan division from the big metropolitan office.

Stepping up to meet this challenge, together with your expression of a willingness to pioneer thus, may well be the spark of initiative that your superior has been seeking among his staff of understudies — and never worry, the worthwhile business executive will not lose sight of his capable men, wherever they may be located. This trend of decentralizing of industries is only in embryo, and your acting now will provide you with an eclecticism of opportunities. It is written by experienced brass hats that one of the soundest routes to top-flight corporate officialdom is via invitation to such responsibilities subsequent to success in the secondary corporate units.

While you are in the "sticks" you will thrive on the walk to and from your office three times daily. For the first time since grade school days you may be on hand for the "hashed-up" home noon meal you have so long missed. Your little, non-carpeted office quarters over one of the national chain grocery stores on Main Street is diagonally across from the county courthouse, jail and sheriff's home. From the tidily trimmed, green-grassed yard of the latter you hear the pet rooster crow while you converse with the central office via long distance telephone, which jangles with the din of screaming automobile brakes and the shrill penetrating whistle of the "city cop." Soon you become certain that the regular toll of the town clock in the courthouse has long since discouraged the salesmen of office clocks from approaching your "P. A."

During your first week of residence in the new community the fact of your presence is passed along the "grapevine" to Farmer Cyrus Dawson who comes to ask if he may have the privilege of collecting your garbage. This is an introduction to an acquaintanceship which leads you to visit Dawson's farm, down the National Pike "apiece" and then to the left "on a good cornfed road." You see the already corpulent hogs, which are henceforth to be your garbage disposal plant, casually inspect the poultry yards and houses, pass through the stock barns, and eventually come to the house to meet immaculate Mrs. Dawson as she interrupts her work in her spotless kitchen to welcome you at the threshold. In consequence of this visit you are soon regularly engaging both country-churned butter and strictly fresh eggs from the Dawson farm, and pork products at butchering time — spareribs that are not streamlined spare, and sausage that is seasoned as you have read about but never before eaten.

During the same first week the effectiveness of a beauty parlor announcement is impressed upon your household. The mother of one of your associates remarks in Mrs. Hogle's Beauty Shoppe that the wife of a new company employee is interested in Girl Scouting. From this casual statement the Girl Scout district chairman, Mrs. Isabel Carroll, comes to interview your wife and solicit her support. In mid-season your wife is assigned a troop of Scouts. She quickly broadens her contacts through this activity, and concludes that girls are about the same wherever you work with them — excepting that never had a Girl Scout in the big city brought a two-months old pet pig to Scout meeting.

Yes, your mailman will read your postals, know your stock interests and, if you must have them, your creditors. He will surprise your visiting mother-in-law when he delivers to her the first package, saying, "It is for Vernon." Scotty, in the post office, will know that you are a movie faddist through your mailings to and from Eastman, but you will

be rewarded for any infringement on your privacy when he invites himself over for an evening of comparing movie works and you enjoy his four reels taken at the Los Angeles Convention of the American Legion.

Bank statements will not be forthcoming monthly by mail. But what of it? You soon are aware that for the individual some of the so-called "banking services" are merely showmanship, the omission of which are more than compensated for by the lack of "service charges."

When you leave the office to attend the Rotary luncheon meeting in the assembly room of the First National Bank you observe the Methodist women carrying steaming pots and pans from the church kitchen across Main Street to the luncheon table. And you leave your coat and hat on the counters or chairs of the bank lobby — unwatched.

You will be afforded the opportunity of enjoying the church bells as they toll the peo-

ple to worship — yes, for three services on Sunday and for midweek prayer meeting. Knowing full well that Undertaker Patterson stands before his door on Main Street being sociable for future business reasons, you, nevertheless, cannot but feel his friendliness and stop occasionally to visit. You may enjoy Sullivan's excellent riding horses and private riding ring — no charge. Certainly you will appreciate Mrs. Corcoran's homemade ice cream, made of cream from their own Jersey cows, pastured right off Main Street.

If you welcome and accept the challenge of pioneering in the movement of the decentralization of industries you will gain either as a permanent provincial or as an improved metropolitan. In the interim you will reap sufficiently satisfying compensations, spiced to a nicety with unpredictable adventure.

Yours very truly,

VERNON S. LATIMER, '32.



ALUMNI NOTES

OBITUARY

1935

George Herbert Nelson died June 11 at Rockville Center, Long Island. He received his B.S. from Worcester Polytechnic Institute in 1923 and his M.B.A. from the School in 1935. He went with Eastman Kodak Company in Rochester as an industrial engineer after receiving his M.B.A., and at the time of his death he was production manager of the Boston firm of Manning, Maxwell & Moore, Inc.

1912

A son, Richard C. Floyd, Jr., was born to Mr. and Mrs. Richard C. Floyd of Brookline, Mass., on April 18.

1913

Francis P. Byerly, representing the American Institute of Accountants, was one of the speakers at Ohio State University's institute on accounting held May 19 and 20 at Columbus, Ohio.

1914

William L. Walker is now general manager of the Universal Button Company, 2250 Fort St., W., Detroit, Mich.

1922

Aaron S. Aronson is controller for the National Dairy Products Corp., now located at 75 East 45th St., New York City.

Herbert O. Hope, formerly merchandise manager for the H. & S. Pogue Company in Cincinnati, Ohio, is now general merchandise manager for the May Company at Baltimore, Md.

Richard S. Wright is now associated with Bell & Davis, 519 California St., San Francisco, Calif.

1923

J. Gerard Heathcote, who has been with the Bishop Insurance Agency, Ltd., in Honolulu, is now non-resident supervisor with the Canada Life Assurance Co., 330 University Ave., Toronto, Canada. He is living at 89 Moran St., Grosse Pointe Farms, Mich.

1924

John W. Cance, formerly with the Allied Purchasing Corp. in New York City, is now merchandise vice-president for Waite's, Inc. in Pontiac, Mich. He is living at 117 East Iroquois Rd. in Pontiac.

Eric Etherington is now associated with Southgate & Company, 33 State St., Boston, Mass.

1925

Dr. Aldis B. Johnson has left the Willard Parker Hospital in New York City and is now connected with the Children's Hospital in Denver, Colo.

Charles C. Lillis, who has been in the operating department of Wilson & Co. in Chicago, has been transferred to their plant at Osage and Adams Sts. in Kansas City, Kan. He is living at 2521 Washington Ave., Kansas City.

Glenn N. Merry, formerly associate professor at New York University School of Commerce, is now professor of marketing there.

1926

Lt. Comdr. Robert F. Batchelder has been transferred from the Philadelphia Navy Yard to the U. S. S. California, San Pedro, Calif.

Henry T. Crosby married Miss Susan MacLaurin, daughter of Mrs. Daniel MacLaurin Mayers of Brandon, Miss., on June 29.

Kenneth D. Hutchinson, who received his Ph.D. at Harvard last summer, is now assistant professor of economics at Pennsylvania State College.

Paul Ryan, formerly a partner in the firm of Ryan, Leach & Goode in New York City, is now president of the National Refining Co., Hanna Building, Cleveland, Ohio.

1927

Nevin B. Balliet was married to Mrs. Corrine Eckhardt Lund (Marshall College), daughter of Mrs. Priscilla Eckhardt Beauchamp of Prince George, B. C., Canada on June 24.

Frank D. Chutter has left Charles W. Scranton & Co. in New Haven, Conn., to join the reorganization division of the Securities and Exchange Commission, Washington, D. C.

Mr. and Mrs. Pierce Onthank of Waban, Mass., are the parents of twin daughters, Katherine and Dorothy Onthank, born April 13, 1939.

On May 27, Francis G. Ross was married to Miss Marjorie E. Black (Syracuse University), daughter of Mrs. Wallace Black of New York City and Lancaster, Pa.

C. Bevan Strayer, formerly county supervisor for the Pennsylvania Department of Public Assistance, is now group enrollment representative for the Associated Hospital Service in Philadelphia, Pa.

John C. Williams has been elected a director and secretary in charge of publicity of L. Bamberger & Co., in Newark, N. J.

1928

Samuel E. Berman is now manager of the Berman Cut Sole Co., 203 Essex St., Boston, Mass.

Announcement has been made of the engagement of Malcolm L. Donaldson to Miss Eleanor Locke (Syracuse University), daughter of Mr. and Mrs. Clifford M. Locke of Needham, Mass.

Clifford L. Haworth is now head of the sales auditing division of Marshall Field & Co., 222 North Bank Dr., Chicago, Ill.

Raymond C. Holgate is merchandise manager and West Coast buyer of the United Cigar-Whelan Stores Corp., 701 Bryant St., San Francisco, Calif.

Howard R. Lansinger has just been made District Operating Manager for B. F. Goodrich Co. at 1427 North Water St., Milwaukee, Wis.

John F. Marshall, who has been a security analyst for Loomis, Sayles & Co., Inc., in Boston, has been trans-

ferred to their office in San Francisco which is in the Russ Building.

William P. Ryan, formerly associated with the International Silver Co. in Meriden, Conn., has become associated with the Market Research Department of Pedlar & Ryan, 250 Park Ave., New York City.

1929

Parmely C. Daniels, formerly with the Panama Canal and Railroad Co. in Balboa Heights, Canal Zone, has recently accepted a position with the Social Security Board as senior personnel assistant at 1724 F St., N.W., Washington, D. C.

Announcement has been made of the engagement of G. Alden Donham to Miss Mary Virginia Ashby (Russell Sage College), daughter of Mr. and Mrs. Holden M. Ashby of Kinderhook, N. Y.

Robert C. Duncan has left Davison-Paxon Co. in Atlanta, Ga., and is now assistant to the sales manager of Lehm & Fink, 683 Fifth Ave., New York City.

Douglas D. Hall was married to Miss Martha L. Conley, daughter of Dr. and Mrs. Charles Henry Conley of Frederick, Md., on May 5.

Col. Rufus F. Maddux will be located at Fort Sherman, Canal Zone, as of August 1, 1939.

Bertram D. Shepard's business connection and residence address were inadvertently confused with those of Mr. T. Mills Shepard in the new Directory. Mr. Bertram D. Shepard's business address is City Bank Farmers Trust Co., 22 William St., New York City, and he lives at 325 Riverside Dr., New York.

Milton C. Smith, formerly an instructor at Miami University School of Business Administration, is now

assistant to the editor of the South-Western Publishing Co., 201 West Fourth St., Cincinnati, Ohio.

1930

B. Bernard Kreisler has recently been appointed manager of the Washington office of the Universal Pictures at 913 New Jersey Ave.

A son, Roderick McRae, Jr., was born July 4 to Mr. and Mrs. Roderick McRae of New York City.

Comdr. Edward R. McKenzie, who has been stationed in Washington, D. C., has recently been transferred to the U. S. S. Yorktown, San Diego, Calif.

Alvin L. Neuman is now office manager for the Chase Bag Co. at the corner of Brown and Nebraska Aves., in Toledo, Ohio.

F. Dwight Sage has recently joined the Rochester Trust and Deposit Co., Rochester, N. Y., as assistant secretary.

Melville C. Threlkeld, Jr., general partner of the Threlkeld Commissary Co., is again located at 405 Wall St., Los Angeles, Calif. His home address is 322 South Lorraine Blvd., Los Angeles.

Frost L. Tinklepaugh is now a special trainee in Montgomery Ward Co. in New Britain, Conn. He is living at 22 Lincoln St., New Britain.

1931

John Hamilton Briggs is director of the Eaton Manufacturing Co., 1149 Terminal Tower, Cleveland, Ohio.

A. Barr Dolan and Miss Ella M. Poland, daughter of Mr. George M. Poland, were married April 29.

Paul A. Grafton has accepted a position selling for Bullock's, Inc. in Los Angeles, Calif. He is living at 2211 Hill Drive, Eagle Rock, Calif.

OUR 49 YEARS EXPERIENCE

in handling trust accounts
qualifies us to assist you in handling
your trust problems

Ask one of our officers how we may help you



THE
CAMBRIDGE
TRUST COMPANY
Harvard Square, Cambridge, Mass.

James J. Hanks, who was in the Department of Commerce in Madison, Wis., is now assistant to the General Secretary for the American Pulp and Paper Association in New York City.

James I. Lobred, who has been with the Stewart Dry Goods Co. in Louisville, Ky., has recently become associated with the Gertz Department Store in Jamaica, L. I.

John A. Roberts, formerly a salesman for the Wellington Foundation, Inc., is now selling for Markay Products, Empire State Building, New York City.

The marriage of James H. Walker, Jr., to Miss Louise Makepeace McKelvy, daughter of Mr. and Mrs. Francis Graham McKelvy of Waterbury, Conn., took place on May 26.

1932

Bee, Inc., of which Luther R. Bachman is vice-president, will move sometime this summer into larger quarters on Allen St., Allentown, Pa.

A son, John Connable Bennett, II, was born to Mr. and Mrs. John C. Bennett of New York City on April 27.

Robert Bennink has left Standish, Racey & McKay in Boston and has become associated with Lever Brothers Co. at 164 Broadway, Cambridge.

Robert J. Brown is credit manager of the B. F. Goodrich Rubber Co. at 7351 Woodward Ave., Detroit, Mich.

S. Charles Hanson has been transferred by Montgomery Ward & Co. from Baltimore to their offices in Chicago, Ill. He is living at 7121 North Paulina St., Chicago.

Mr. and Mrs. Vernon S. Latimer of St. Clausville, Ohio, became the parents of a son, Peter Dana Latimer, on April 29, 1939.

The engagement of Russell B. McNeill to Miss Rebecca Elizabeth Duncan, daughter of Mr. and Mrs. Malcolm K. Duncan of Dayton, Ohio, has been announced.

Prof. and Mrs. W. Rupert Maclaurin of Cambridge, Mass., are the parents of a second child, Robert Campbell Maclaurin, born recently.

Leon Z. Mandelson was married to Miss Eleanor Sachs (Radcliffe), daughter of Mr. Abraham Sachs of Brookline, Mass., on May 11.

John Henry O'Toole, Jr., has recently become general merchandise assistant and councillor to Mr. Svigals of L. Bamberger Co., of Newark, N. J.

Mr. and Mrs. Marshall C. Sewall of New Canaan, Conn., are the parents of a daughter, born April 20, 1939.

Stephen L. Upson, Jr. has left the Securities & Exchange Commission in Washington, D. C., and has accepted a position as assistant to the general counsel at the Burlington Mills Corp., North Eugene St., Greensboro, N. C. He is living at the Country Club Apts., in Greensboro.

William A. Yantis was married to Miss Marian Elizabeth Homer, daughter of Mrs. Arthur Homer of Meredith, N. M., on May 16. Mr. Yantis has recently been made vice-president of F. S. Yantis & Co., Inc., 120 South LaSalle St., Chicago, Ill.

1933

A son, Peter Walker Armstrong, was born April 15 to Mr. and Mrs. Richard H. Armstrong of East Orange, N. J.

The engagement of John H. Chamberlin to Miss Ellen Hatfield Weir (Wilson College), daughter of Mr.

and Mrs. Jean Frederick Weir of New York City, has been announced.

Announcement of the engagement of Richard B. Chase to Miss Barbara Morel, daughter of Mrs. Thaddeus A. Morel of Barrington, R. I., has been made.

The engagement of Winthrop N. Davis to Miss Eleanor Louise Power, daughter of Mr. and Mrs. Edward Miller Power of Pittsburgh, Pa., was announced on May 22.

William R. Driver, Jr., is now assistant cashier for the Bank of Manhattan Co., 40 Wall St., New York City.

Announcement of the engagement of Abbot Frank to Miss Helen Bernd Klein, daughter of Mrs. Mynette B. Klein of Macon, Ga., has been made. Mr. Frank is purchasing director for L. Grossman Sons, Inc., 130 Granite St., Quincy, Mass.

Frank W. Klatt has been transferred from Santa Ana, Calif., to San Francisco where he is an account representative for Eaton & Howard, Inc., Investment Managers. He is living at 1918 Franklin St., San Francisco.

Wendell D. Macdonald has accepted a position in the refrigerator sales department of the Eastern Co., 620 Memorial Dr., Cambridge, Mass.

James G. Macey, recently partner of Shaw Hooker & Co. in San Francisco, is now partner of Davies & Co., 225 Bush St., San Francisco, Calif.

Joseph A. Marcus has left R. H. Macy & Co. of New York to become buyer with its affiliate, Davison-Paxon Co., in Atlanta, Ga.

1934

A son, Stephen Manning Beal, was born May 17 to Mr. and Mrs. Sarell W. Beal, Jr., of Winnetka, Ill.

Bay E. Estes, Jr., formerly with Goldman Sachs & Co., 30 Pine St., New York City, is now associated with the United States Steel Corp. of Delaware, 436 Seventh Ave., Pittsburgh, Pa.

R. Barry Greene, formerly secretary-treasurer of the Orkil Electric Co. in Hartford, Conn., has recently become associated with the Connecticut General Life Insurance Co. at 55 Elm St., Hartford.

Dean C. Jenkins has left Westinghouse Mfg. Co., in Pittsburgh, and is now connected with the American Appraisal Co., 1 Cedar St., New York City. This company has loaned him to the FHA as special consultant.

Mr. and Mrs. Lawrence S. Johnston of Stoneham, Mass., are the parents of a daughter, Susan Barbara, born April 15, 1939.

Simon J. Khattar is now a barrister, solicitor and notary public at 337 Charlotte St., Sydney, N. S., Canada.

Borgau Liang (Sing-Kue Liang) is now secretary in charge of traffic and operations and a member of the board of directors of the Hunan-Kwangsi R. R. Corp., 9 Yun-chen Kai, Kweilin, Kwangsi, China.

John N. Lyle has been awarded the Julian Rosenwald Fund of Chicago traveling fellowship. Mr. Lyle's twelve months' study will include an investigation of English and Scottish savings banks, investment companies and trust methods employed there.

Mr. and Mrs. Frank Lyman, Jr., of Cambridge, Mass. are the parents of a daughter born April 11.

Arthur J. McGinnis and Miss Roselind Perpetua Diskon (Trinity), daughter of Mr. and Mrs. John J. Diskon of Paterson, N. J., were married on May 17. They will live at 440 West 24th St., New York City.

Alan S. Miller is associated with the R. W. Cramer Co., Inc. in Centerbrook, Conn.

Charles S. Richardson has been transferred to the head office of Sears, Roebuck Co. in Chicago, where he is assistant in the retail merchandising department. His

address is the Hotel Stevens, Michigan Boulevard, Chicago, Ill.

An invitation to the ordination to the diaconate of Richard Upsher Smith by the Bishop of Washington in Washington Cathedral on June 4 was received. Mr. Smith was curate of St. Paul's church in Flint, Mich.

The engagement of Robert K. Vincent to Miss Eleanor B. Sherman, daughter of Mrs. Roger Sherman of Winnetka, Ill., was announced recently.

William D. Wallace, formerly with the Union Bank and Trust Co. in Los Angeles, is now credit and office manager for the Albers Milling Co., 6130 Avalon Boulevard, Los Angeles, Calif.

1935

Richard L. Allen was married on May 20 to Miss Helen Elizabeth Bliss (Vassar), daughter of Mrs. Charles A. Bliss of Newburyport, Mass. They are living at 89 Maynard Road, Framingham Center, Mass.

Malcolm Bancroft was married to Miss Jean Tuckerman, daughter of Mr. J. Willard Tuckerman, Jr., on May 27, 1939.

Leo M. Favrot, Jr., has accepted a position as auditor with Parkerson & Dupuis in Lafayette, La.

Monroe W. Gill has been transferred by the Mohawk Carpet Mills, Inc., from New York City to their office at Amsterdam, N. Y.

James E. Goddard is now associated with the Zanesville Metropolitan Housing Authority, First Trust Building, Zanesville, Ohio.

Chester H. Griggs is now in the office of the operating superintendent at Sears, Roebuck Co. at Homan and Arthington Sts., Chicago, Ill.

Richard Housley was married on June 10 to Miss Mary Everett (Wellesley), daughter of Dr. and Mrs. Harold J. Everett of Wellesley, Mass.

James S. Lay has recently become sales manager for the Hagerstown Light and Heat Co., Public Square, Hagerstown, Md. His home is at 150 East Irvin Ave., Hagerstown.

A daughter, Marilyn Bennett Moore, was born June 28 to Mr. and Mrs. Robert A. Moore of Arlington, Mass.

Leo Shapiro, Jr., is credit manager for Leo Shapiro & Co., now located at 200 Christie Building, Duluth, Minn.

In the March issue of the *New York University Quarterly Review*, Joseph C. Simpson has an article entitled "The Sale Technique in Corporate Reorganizations," written in collaboration with Melvin Cohen.

Stanley W. Swipp is now an assistant engineer at the Rock Island, Ill., Arsenal. He is living at 630 Myrtle St., Davenport, Iowa.

Richard P. Thompson is now in the commercial research department of the Bethlehem Steel Co., in Bethlehem, Pa., and is living at 18 East Market St.

William L. West has left the investment house of Harold E. Wood & Co. in St. Paul and become associated with the Automatic Control Co., 2590 University Ave., St. Paul, Minn., as treasurer of the firm.

1936

Charles M. Dieffenbach is now purchasing agent for the H. H. Meyer Packing Company, Linn St. and Central Ave., Cincinnati, Ohio. He is living at 372 Probasco St., Cincinnati, Ohio.

James F. Forster, who has been with Arthur Andersen & Co. in New York City since his graduation from the School, is now associated with the Sperry Corp., 30 Rockefeller Plaza, New York City. His home address is Thornycroft Apartments, Scarsdale, N. Y.

Andrew J. Goodwin, Jr., has left Dillon Read & Co., New York City, and is now associated with the First National Bank of Anniston, Ala.

Carleton E. Hammond was married to Miss Dorothy Pearson (New Jersey College for Women), daughter of Mrs. William C. Pearson of East Orange, N. J., on June 17.

Luther D. Hemphill, who works for Arthur Andersen & Co., has recently been transferred to 135 South LaSalle St., Chicago, Ill. His home is at 837 Ainslie St., Chicago, Ill.

Mr. and Mrs. Lenert W. Henry of Newton Center, Mass., are the parents of a second son, William Abbott Henry, born March 30, 1939.

Mr. William V. Luneberg was married to Miss Frances Louise Benton (Barnard College), daughter of Dr. and Mrs. Nelson Kingsbury Benton of New York City, on May 27.

The engagement of Russell B. Neff to Miss Emily Harris Jones (Smith College), daughter of Mr. and Mrs. Frederic M. Jones of Springfield, Mass., has been announced.

William B. Rubey is now president of the Dr. Pepper Bottling Co., 6101 Blair Rd., N. W., Washington, D. C. He is living at 6693 Barnaby St., N. W., Washington, D. C.

The engagement of Ewing P. Shahan to Miss Anne Vivian Stobie (Wells College), daughter of Mrs. Harold R. Stobie of Pelham Manor, N. Y., has been announced.

Announcement of the engagement of F. Douglas Williams to Miss Esther Jane Grant (Kansas University), daughter of Mr. and Mrs. W. T. Grant of Kansas City, Mo., was announced recently.

1937

Max L. Baughman was married June 24 to Miss Isabelle Heard Bland, daughter of Mrs. Charles Percival Bland of St. Louis, Mo.

Gaylen R. Duncan, formerly appraisal engineer for the Montreal Engineering Co. in Montreal, is now associated with the Venezuela Electric Co., Apartado 146, Maracaibo, Venezuela, S. A.

Sidney L. Gross is now secretary for the Atlas Shirt Co. in Kinston, N. C.

Mr. and Mrs. Sargent Kennedy of Cambridge, Mass., are the parents of a daughter, Elisabeth Morgan Kennedy, their third child, born May 23.

The engagement of Edward S. Litchfield to Miss Carolyn Van Cortlandt, daughter of Mr. and Mrs. Augustus Van Cortlandt of Mt. Kisco, N. Y., has been announced.

Harry T. Morris, formerly with *Look, Inc.*, in Detroit, is now assistant to the publisher of *Science and Mechanics* at 800 North Clark St., Chicago, Ill.

The engagement of Sigourney B. Romaine to Miss Laura Guy French (Vassar), daughter of Mr. and Mrs. Harry N. French of New York City, has been announced.

Chester L. Seeley was married to Miss Evelyn L. Schumacher (Wellesley), daughter of Mr. and Mrs. Elmer L. Schumacher of Southbridge, Mass., on June 18.

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William L. Bong, Jr., formerly with Price, Waterhouse & Co., is now payroll auditor for the Royal Insurance Co. at 150 William St., New York City. He is living at 350 West 85th St.

The engagement of Robert H. Cain to Miss Martha Nuzman (University of Kansas), daughter of Mr. and Mrs. Frederick R. Nuzman of Ottawa, Kans., has been announced.

John C. Cobourn, who has been with the Bausch & Lomb Optical Co. in Rochester, N. Y., has recently accepted a position as office manager for the Warren Refining and Chemical Company at 9420 Meech Ave., Cleveland, Ohio.

Peter C. Coggeshall, III, who has been a research assistant at the School for the last year, has recently accepted a position with the Sonoco Products Co. in Hartsville, S. C.

Guild Devere was married on June 3 to Miss Barbara Marvin Perkins, daughter of Mrs. Frederick H. Perkins of Providence, R. I.

Donald G. Dunn is now manager of the Sales Promotion and Advertising Department of the Reynolds Metal Co. in Richmond, Va.

John P. English has left the *United States News* in Washington, D. C., to return to the *Boston Herald*. He is living at 1807 Beacon St., Brookline, Mass.

Leonard A. Frank, formerly with the Crown Overall Mfg. Co. in Cincinnati, Ohio, is now credit manager for Yaring's, 506 Congress St., Austin, Texas.

Guy Garland and Miss Ruth Loveland Hale, daughter of Mr. and Mrs. Clarence E. Hale of New York City and Wallingford, Conn., were married June 3.

Robert J. Granberg, formerly with the Gleason Works in Rochester, N. Y., is now consulting engineer for Dyer Engineers, Inc., 1984 Union Commerce Building in Cleveland, Ohio.

John E. Griffin has recently become a member of the firm of Martin & Griffin Super Food Markets, 417-419 West Third St., Grand Island, Neb.

John M. Hartwell, formerly with the Union Carbide and Carbon Co. in New York City, is now an accountant with United Services Co., Inc., 131 State St., Boston, Mass. He is living at 16 Rockmont Rd., Belmont, Mass.

Russell W. Johnson is now an engineer for Procter & Gamble Mfg. Co. in Ivorydale, Ohio. His home address is 4716 Gray Rd., Winton Place, Cincinnati, Ohio.

William S. Lingley, formerly with R. H. Macy & Co. in New York, is now associated with Pennsylvania Salt Mfg. Co. of Washington, in Tacoma, Wash.

Walter Merrill has been transferred by the Procter & Gamble Mfg. Co. from Staten Island to Box 469, Quincy, Mass.

The engagement of William T. Rhame to Miss Thelma Scorgie (Simmons), daughter of Mr. and Mrs.

Frederick A. Scorgie of Belmont, Mass., was announced on May 13.

Frederick S. Rolandi, Jr., is now an engineer associated with the Pan-American Airways in Honolulu, T. H.

James J. Thackara has recently become associated with the Bankers Trust Co., 16 Wall St., New York City.

Fred H. Trimmer has left the Automatic Electric Co. in Chicago and is now associated with the Anchor Hocking Glass Co. He is living at 430 North Mt. Pleasant Ave., Lancaster, Ohio.

Bernard Turrettini is now associated with Brown Bros., Harriman & Co., 59 Wall St., New York City, and is living at 60 Park Ave.

Robert E. Witherspoon, who is with the Hecht Co., has been transferred from Washington to Buffalo, N. Y.

The engagement of Worth E. Yankey to Miss Dorothy Moreland Bagwell, daughter of Mr. and Mrs. Jesse Clinton Bagwell of Atlanta, Ga., was announced recently.

Announcement of the engagement of Edmund L. G. Zalinski to Miss Matilde Mittendorf, daughter of Mr. and Mrs. George S. Mittendorf of Crugers, N. Y., has been made.

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Announcement has been made of the engagement of Mervin C. Brown to Miss Margaret Snyder (Connecticut College for Women), daughter of Mr. and Mrs. Frederic S. Snyder, of Winchester, Mass.

The engagement of James S. Dusenbury, Jr., to Miss Nina Fenno Keppler, daughter of Capt. and Mrs. Chester H. J. Keppler of Newton, Mass., was announced on May 24.

Lawrence H. Larsen was married on May 27 to Miss Margaret Ward, daughter of Mr. and Mrs. John H. Ward of Ridgewood, N. J.

The engagement of Danforth S. Mitchell to Miss Marion R. Huffman, daughter of Mr. and Mrs. Horace M. Huffman of Providence, R. I., was announced recently.

Announcement of the engagement of Logan Munroe to Miss Jean Stirling Martin, daughter of Mr. and Mrs. Henry C. Martin of New York City and Glen Cove, L. I., has been made.