

The Papers of Eugene Meyer (mss52019)

121_13_001-

Subject File, Federal Reserve System, Margin Requirements, Apr-Aug 1949

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE SYSTEM
MAY 11 1942

(Washington Post Letterhead)

April 22, 1949

Mr. Leroy A. Wilson, President
American Telephone & Telegraph Company
195 Broadway
New York 7, N. Y.

My dear Mr. Wilson:

I have suggested to my friends in the Federal Reserve Board in Washington that margins on loans made by banks to subscribing stockholders or to purchasers of rights to subscribe to securities issued for expansion of legitimate industry be made on a basis different from ordinary Stock Exchange collateral loans.

I have suggested that banks be authorized to loan on the following basis:

25% cash and 25% payable
every six months.

This would, of course, mean that the maximum period would be eighteen months. Obviously, stockholders would not have a right to borrow; the banks would only be authorized in their discretion to make loans to satisfactory borrowers.

In such an issue as you are making at the present time, it seemed to me that distributing the impact of the very large amount would be helpful to your company, to your stockholders and to the public generally. The Telephone Company is a regulated activity whose expansion of services promotes the public interest in the vitally important area of communication facilities.

I would be glad to have your opinion of this suggestion.

Very truly yours,

(sgd) EUGENE MEYER

cc to Mr. Paradise
Mr. McCabe
Mr. Riefler

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N. Y.

LEROY A. WILSON
PRESIDENT

EXCHANGE 3-6000

April 25, 1949

Mr. Eugene Meyer,
Washington Post,
Washington 4, D.C.

Dear Mr. Meyer,

We believe the suggestion contained in your letter of April 22, 1949 is excellent.

The present requirement (Regulation U of the Federal Reserve System) that a bank may be authorized to make a loan, the sole purpose of which is to enable the borrower to acquire stock in a corporation by exercising a warrant or certificate evidencing a right to acquire such stock, and to treat any stock received as collateral in connection with such a loan as having a maximum loan value of only 50 per cent. of its current market value, seems to us unduly restrictive and leaves some doubt as to whether it applies to purchasers of rights to convertible debenture issues such as those currently used by this company.

We would be very much in favor of a plan such as you propose, since it would encourage savings and, more important, would seem to us a practical means of encouraging further investment in the equity of American business.

We hope that should the Federal Reserve Board amend its Regulation U, it specifically cover loans for subscribing for common stock and also loans for the purpose of subscribing to convertible debentures and subsequently for converting such debentures into shares of stock. As you know, stockholders of this company have approved a convertible debenture issue which will approximate \$400,000,000, and warrants evidencing rights to subscribe will go to stockholders around May 16 and such rights will expire on June 20. If any action is to be taken which would be of benefit to our nearly 800,000

stockholders and to other investors who may buy the rights it should be taken promptly.

We appreciate your interest in the matter and hope that your suggestions will be received favorably.

Sincerely yours,

Leroy A. Wilson

CRAFTSMAN BOND

ST. LOUIS, MO.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N. Y.

LERROY A. WILSON
PRESIDENT

EXCHANGE 3-6000

April 25, 1949

Mr. Eugene Meyer,
Washington Post,
Washington 4, D.C.

Dear Mr. Meyer,

We believe the suggestion contained in your letter of April 22, 1949 is excellent.

The present requirement (Regulation U of the Federal Reserve System) that a bank may be authorized to make a loan, the sole purpose of which is to enable the borrower to acquire stock in a corporation by exercising a warrant or certificate evidencing a right to acquire such stock, and to treat any stock received as collateral in connection with such a loan as having a maximum loan value of only 50 per cent. of its current market value, seems to us unduly restrictive and leaves some doubt as to whether it applies to purchasers of rights to convertible debenture issues such as those currently used by this company.

We would be very much in favor of a plan such as you propose, since it would encourage savings and, more important, would seem to us a practical means of encouraging further investment in the equity of American business.

We hope that should the Federal Reserve Board amend its Regulation U, it specifically cover loans for subscribing for common stock and also loans for the purpose of subscribing to convertible debentures and subsequently for converting such debentures into shares of stock. As you know, stockholders of this company have approved a convertible debenture issue which will approximate \$400,000,000, and warrants evidencing rights to subscribe will go to stockholders around May 16 and such rights will expire on June 20. If any action is to be taken which would be of benefit to our nearly 800,000

stockholders and to other investors who may buy the rights it should be taken promptly.

We appreciate your interest in the matter and hope that your suggestions will be received favorably.

Sincerely yours,

Leroy A. Wilson

CRAFTSMAN BOND

COTTON FIBRE COMPANY

April 26, 1949
[Dictated over the tele-
phone from New York]

Dear Governor McCabe:

I am sending you copy of a letter I wrote to
Mr. Leroy A. Wilson, President of the American Telephone
and Telegraph Company, and a copy of his reply.

I hope they will be of interest to you.

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Federal Reserve Building,
Washington, D. C.

Encls.

cc to Mr. Riefler

April 27, 1949.

PERSONAL

Mr. Thomas McCabe, Chairman,
Federal Reserve Board,
Washington, D.C.

Dear Tom:

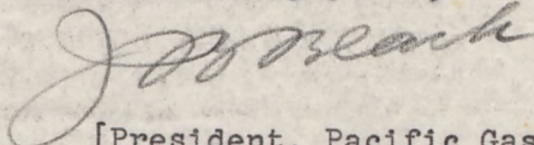
Eugene Meyer has told me of his conversations with your people and has shown me copies of correspondence with Mr. Leroy A. Wilson, President of the American Telephone & Telegraph Company with respect to the present requirement of Regulation U of the Federal Reserve System relating to borrowings for the purpose of acquiring stock in corporations by exercise of warrants.

The demand for equity and preferred capital is very great and in my opinion will be substantial for an indefinite future. My company alone has under way a long-term construction program which requires about \$10,000,000.00 of new capital each month. At least half should be raised by the sale of preferred and common stocks.

I am certain that anything the Board can see its way clear to do along the lines of Mr. Meyer's suggestion would be most constructive.

With kindest personal regards, believe me,

Sincerely yours,



[President, Pacific Gas &
Electric Company]

Copy to Mr. Eugene Meyer



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

APR 30 1949

OFFICE OF THE CHAIRMAN

April 29, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Dear Mr. Meyer:

Immediately upon receipt of your letter of April 26, I contacted Win Riefler and he met with a group in New York yesterday to explore further your suggestion regarding margins on loans made by banks to subscribing stockholders. Several of our staff members have been working on the subject for the past few weeks and I hope that we can come to some conclusion in the very near future.

We are always delighted to receive your suggestions and value them highly because of your rich background of experience.

With warmest regards,

Sincerely,

A handwritten signature in cursive script that reads "Tom".

Thomas B. McCabe,
Chairman.

The Washington Post

WASHINGTON 4, D. C.

April 29, 1949

Dear Mr. Price:

In talking with our mutual friend, General Swatland yesterday, I learned that you are very much interested in the problem of stock financing and expansion of the market for capital financing in the equity area.

I take pleasure in enclosing, in confidence, copy of a letter I wrote to Mr. Leroy A. Wilson, President of the American Telephone and Telegraph Company, and a copy of his reply to me. I also enclose a copy of a letter written by Mr. James B. Black, President of Pacific Gas & Electric Company, to the Chairman of the Federal Reserve Board here in Washington on the same subject.

I gather that the status of the thing is that it is perhaps favorably viewed by the Federal Reserve Board in principle. But some technical details need to be worked out in connection with any new regulation or modification of the existing regulation with the Securities Exchange Commission.

I would be glad if you would write me your views on the subject.

With best wishes, I remain,

Sincerely yours,

Eugene Meyer

Mr. Gwilym A. Price, President,
Westinghouse Electric Corporation,
306 Fourth Avenue,
Pittsburgh 30, Penna.

Encl.

copy

Board of Governors
of the
Federal Reserve System

Washington

Office of the Chairman

May 3, 1949.

Dear Jim:

Our staff has been devoting a great deal of time to the study of Eugene Meyer's proposal to which you refer in your letter of April 27. Last week Governor Clayton, of our Board, and several members of the staff met with a group of investment bankers in New York to explore it further. As you can imagine, there are many complications in the carrying out of his idea but we are struggling to see if we can overcome most of the obstacles.

I can thoroughly appreciate your financial problems.

With warmest regards,

Sincerely,

Tom

Mr. J. B. Black,
Hotel Pierre,
Fifth Avenue at 61st Street,
New York 21, New York.

Pacific Gas and Electric Company MAY 28 1949

245 Market Street

San Francisco, California

James B. Black

President

May 24, 1949

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Dear Gene:

I have read with interest yours of May 21 with several enclosures. It looks as though you did a fine job on the boys. From press reports, I understand that further relaxation is being considered with respect to subscriptions by "transferees".

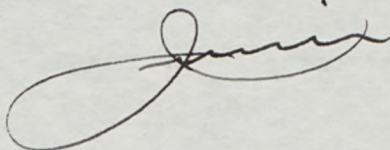
In order to complete your file, I am enclosing copy of a letter from Tom McCabe which has taken some time to reach me.

The attached reprint of an article by Mr. J. J. Deuel appearing in the May number of "California Farm Bureau Monthly" will, I am sure, be of interest to you. The story is factually correct in every respect and illustrates quite well what a licking the water-user and the Federal taxpayer are taking as the result of the attempt of the Bureau of Reclamation to socialize the power industry in Northern California. Mr. Deuel is expected to testify before the Senate Appropriations Sub-Committee this month.

I expect also to appear and will send you a copy of my statement which covers the subject from the standpoint of our investors and customers, as well as that of the water-user and taxpayer.

With kindest personal regards,

Sincerely yours,



JBB:TP

Enc.

MAY -9 1949

May 5, 1949

Mr. Thomas McCabe, Chairman
Federal Reserve Board
Washington, D.C.

Dear Mr. McCabe:

I would like to add my endorsement to the recommendation which has been placed before you by Mr. Eugene Meyer and concurred in by others, i.e., that Regulation U of the Federal Reserve System relating to borrowings for the purpose of acquiring stock in corporations by existing stockholders or by the holders of rights should be liberalized.

In the utility field, we are keenly aware of the problem posed by the need for equity capital. Our expansion programs are such that we must have additional equity capital in order to balance our financial structures. As you know, most equity capital, and particularly that represented by common stock, must be secured from the individual rather than the institutional buyer. In view of the volume required, the suggested authorization to banks to loan on the basis of 25% cash and 25% payable in six months' periods over the following eighteen months, would be, I am sure, a very constructive step in this situation.

Thanking you for your consideration of the question, I am

Sincerely yours,

W.C.M.
W. C. MULLENDORE

WCM:cb

*Strive this
is from the
President of
South Cal Edison
Co*

MAY 10 1949

WESTINGHOUSE
ELECTRIC CORPORATION



306 FOURTH AVENUE
P. O. BOX 1017
PITTSBURGH 30, PA.

May 7, 1949

Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

My interest in the problem of stock financing and expansion of the market for capital financing in the equity area has been principally from the viewpoint of making equity investments more attractive as permanent long-term holdings for individuals.

Even so, I think that the suggestion contained in your letter of April 22nd to Mr. Wilson, President of the American Telephone & Telegraph Company, for the liberalization of Regulation U of the Federal Reserve System is a very good one. In common with Mr. Wilson, I think that any liberalization should be broad enough to cover loans for subscribing to common stock under warrants, certificates or legal pre-emptive rights of any sort and also loans for the purpose of subscribing to convertible debentures and subsequently for converting such debentures into shares of stock.

I am enclosing an extra signed copy of this letter in case you wish to use it with your friends in the Federal Reserve Board.

Sincerely yours,

Gwilym A. Price

May 10, 1949

Dear Mr. Price:

Thank you for your letter of the 7th. Anything that makes equity investments more attractive as long-term holdings for individuals, of course, is of the greatest importance.

The suggestion made in my letter has to do with enabling existing owners to exercise their rights for expansion of capital requirements of business corporations. Giving time for stockholders in which to pay or during which they can make arrangements to be in a position to pay will be helpful, I should think, to enable your purposes to be carried out effectively, to a greater extent.

With best wishes, I remain,

Sincerely yours,

Eugene Meyer

Mr. Gwilym A. Price, President,
Westinghouse Electric Corporation,
306 Fourth Avenue,
Pittsburgh 30, Penna.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers,
Saturday, May 14, 1949

May 13, 1949

Effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 per cent basis generally applicable under the regulations.

Copies of the amendments are attached.

Attachments

AMENDMENT NO. 9 TO REGULATION T

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation T is hereby amended by striking out section 6(1) of said regulation and by adding the following subsection at the end of section 4 of said regulation:

"(h) Special subscriptions account. - In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that -

"(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 per cent of their current market value as determined by any reasonable method;

"(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a

debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

"(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

"In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation."

5-13-49

AMENDMENT NO. 10 TO REGULATION U

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation U is hereby amended by changing section 3(p) of said regulation to read as follows:

"(p) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation."

5-13-49

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers,
Saturday, May 14, 1949

May 13, 1949

Effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 per cent basis generally applicable under the regulations.

Copies of the amendments are attached.

Attachments

AMENDMENT NO. 9 TO REGULATION T

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation T is hereby amended by striking out section 6(1) of said regulation and by adding the following subsection at the end of section 4 of said regulation:

"(h) Special subscriptions account. - In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that -

"(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 per cent of their current market value as determined by any reasonable method;

"(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a

debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

"(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

"In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation."

5-13-49

AMENDMENT NO. 10 TO REGULATION U

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation U is hereby amended by changing section 3(p) of said regulation to read as follows:

"(p) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation."

5-13-49

● Confidential ●

The effect on the money market of this reduction was offset, however, because banks sought and Federal Open Market Committee policy maintaining short term rates required sales of securities from the System's portfolio. In view of the expiration on June 30 of the remaining temporary reserve authority, releasing the residue of approximately \$800,000,000 of reserves, the Open Market Committee, on June 28, decided to modify its policy so that the reserves thus released or accruing later might have as full effect in the money market as was consistent with the continuance of orderly market conditions so long as the monetary problem remained one of dealing with contraction rather than overexpansion of credit.

May 14, 1949

Dear Professor Doriot:

Because I took quite a little time at your dinner party that night, I am writing to call your attention to the fact that the Federal Reserve Board has made a ruling along the lines that I have been discussing with them for the past several weeks.

I enclose a planographed copy of a letter I received from Mr. Leroy A. Wilson, President of the American Telephone and Telegraph Company. Similar letters were received by me from the President of Pacific Gas & Electric Company and the President of Southern California Edison Co.

I did not make a campaign to get testimonials because I thought a few representative letters were better than something that looked like organized propaganda.

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

Prof. Georges F. Doriot,
Graduate School of Business Administration,
Harvard University,
Boston 63, Mass.

Encl.

May 14, 1949

Dear Mr. Smith:

Your Mr. Stanley Carr in Washington rang me up to mention the announcement of the Federal Reserve Board with respect to loans on subscriptions to capital stock by stockholders or buyers of rights.

I had discussed this matter several weeks ago at a meeting of the graduates of the Harvard Business School here in Washington and Mr. Saccardi of your Washington office, being present, mentioned to Mr. Carr the fact that I had been interested in this matter.

When I saw the American Telephone and Telegraph Company announce the \$400,000,000 security operation, I rang up the President, Mr. Leroy A. Wilson, and told him what I had been suggesting. He expressed his approval and, when I asked him to write a letter, he said he would be glad to do so if I would write him onesetting forth the idea in detail. This I did, and in reply received the enclosed letter from him with permission to send it to the Federal Reserve people here, which I did.

I also got a more or less similar letter from James Black, President of the Pacific Gas & Electric Company, and also one from W. C. Mullanore, President of the Southern California Edison Co., to whom the suggestion was made by Mr. Black who knew that the Southern California was in the same position.

These three letters testifying to the interests of legitimate public utility business, I am sure, give evidence of the importance attached to the idea by public utility managements.

I am sending you a planographed copy of Mr. Wilson's letter in strict confidence. I think that your firm, with its wide ramifications, might do something very important to promote effective use of the new authorization.

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. Winthrop H. Smith,
70 Pine Street,
New York 5, N. Y.
Encl.

MERRILL LYNCH, PIERCE, FENNER & BEANE

S E V E N T Y P I N E S T R E E T

N E W Y O R K 5, N . Y .

May 17, 1949

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Dear Mr. Meyer:

I want to acknowledge your very kind letter of the 14th in which you mentioned the new ruling of the Federal Reserve Board which lowers the margin requirements on capital stock bought through the exercise of subscription rights.

Because of your interest in the matter I thought you would like to see the attached notice which we have sent to all of our offices. In fact, we are so enthusiastic about the good that can come from the new action of the Federal Reserve Board we intend to do everything we can to bring this liberalized credit policy to the attention of our customers whenever a company offers rights to its stockholders to buy additional shares.

We know that in the past a stockholder who was not able to exercise rights which were offered to him, frequently resented seeing his interest in the company diluted. Furthermore, we feel that the stringent requirements of the past worked to the disadvantage of the small stockholder who often didn't have the immediate cash resources required to exercise his rights.

This new regulation should be of particular interest to the citizens of the District of Columbia because Potomac Electric has just given its stockholders the rights to purchase 592,250 shares of stock at \$12.50 per share.

We believe that the Federal Reserve Board and everyone else who had a part in effecting this change should be congratulated because it should aid substantially in freeing the flow of risk capital into productive enterprise.

Very truly yours,

Wentworth Smith

WHS:bb

TO ALL MANAGERS:

RELAXED MARGIN REQUIREMENTS ON THE EXERCISE OF RIGHTS

The relaxation of regulation "T" as it applies to the exercise of rights should be called to the attention of all customers holding stock in any companies which now have rights outstanding. Generally speaking, customers are now permitted to exercise their rights on payment of 25 per cent of the market value of the securities. Detailed interpretation of the regulation was sent to you yesterday signed SHAP -- F.

Rights that are currently outstanding include the following:

Potomac Electric Power, one for five, at \$12.50

AT&T Debentures, \$100 face amount for 6 common, at par

South Carolina Electric & Gas, one for four, at 7 5/8

Cincinnati Gas & Electric, one for nine, at \$22.00

Indianapolis Power & Light, one for ten, at \$25.10 (appx)

Peninsular Telephone, one for five, at \$38

Bangor Hydro Electric, one preferred for 20 preferred or
80 common, at 98 1/2
one common for four common, at \$23.

This document is protected by copyright and has been removed.

Author(s):

Article Title: Putting Money to Work

Journal Title: Washington Post

Volume Number:

Issue Number:

Date: May 18, 1949

Page Numbers:

MAY 21 1949



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

May 19, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Dear Mr. Meyer:

I am very grateful to you for bringing to our attention the matter of margin requirements to finance the exercise of stock rights, and for your help in furthering the study of this. Both personally and on behalf of the Board, I want to thank you for this contribution.

I am also deeply appreciative of the editorial which appeared in the Post last Sunday regarding testimony before the Senate committee, and the subsequent editorial regarding the stock rights margin amendment.

I wish there were more men in positions of influence who had your great understanding of monetary and credit problems and your breadth of vision.

With warmest regards,

Sincerely,

Tom
Thomas B. McCabe,
Chairman.

The Washington Post

WASHINGTON 4, D. C.

May 19, 1949

Dear Russell:

I enjoyed our friendly interchange of ideas this morning. It will lead to my furnishing you with a few communications.

I particularly feel that attacking problems in a selective way rather than by horizontal methods is something that lawyers do not understand. Lawyers deal in generalities and therefore their remedy is always to change laws and regulations in terms of horizontal actions which affect things in general, sometimes, doing both good and harm at the same time.

Being a practical man with no knowledge of law and not much faith in generalities, I favor selective rather than horizontal measures. A selective approach led me to favor the thing that you agreed with me about, but to which you did not give much thought.

While working on this subject, which took some weeks to get results, I obtained three letters, copies of which I enclose herewith. I did not run a propaganda campaign but I thought a few testimonials from the interests directly concerned might illuminate the mind of the FRB members here.

The pressures following the destruction of war were enlarged by three bad crops in Europe in 1945, 1946 and 1947, putting an additional strain on our economy which was inordinate, and created a temporary demand for things of any and every kind on our economy. The better crops in Europe in 1948 and our huge corn crop meant the end of the agricultural price inflation.

Wheat at \$3.20 and corn at \$2.70 came down with a bang and this has had an effect on the whole economy as to volume and prices. The readjustment is not without advantages. An adjustment had to come and I am sure you are not unsympathetic with such a readjustment with adequate countervailing action in order to avoid a deep depression.

Of course, Russia is a main factor in our financial

and economic thinking, and the consequent Government expenditures for arms and high taxes are also factors.

It is unfortunate that Hoover as usual muffed the psychological factor in his report. It was brought out piecemeal when it should have been brought out as a unit with a build-up of expectation leading to acceptance instead of inaction.

I see there are no railroad cars being ordered. The railroads always buy everything at the top of the market and at the peak of demand and in competition with each other and the world at large. It is nothing new. It has always been so, except when James J. Hill, Harriman and Harry Walters were alive. They used to step in and buy equipment when business was bad instead of when business was at its peak.

Right now I believe that orders for goods are not equal to current consumption, the difference being made up out of visible and invisible inventories. Invisible inventories are related in part to orders for normal requirements.

Actually, bankers could perhaps exercise a useful influence in bringing about normal conditions by keeping their own minds objective and dispassionate. I am not belittling the weaknesses of the situation.

On the other hand, there is nothing happening now that as a matter of fact you yourself and George Whitney, when I talked to you six or eight months ago, did not fear, if not actually anticipate.

As I said this morning, the first six months of 1919, followed by a boom and a bust, was a period of living on inventory to an unusual degree. Of course, there was no such backlog of unfilled demands on Armistice Day-1918 as there was after V-J Day-1945.

Let's keep cool!

Cordially yours,

Honorable Russell C. Leffingwell,
J. P. Morgan & Co., Inc.,
23 Wall Street,
New York, N. Y.

[This is just a rambling note]

Encl.

[Excerpt from letter from Russell C. Leffingwell
to Mr. Meyer dated May 20, 1949

* * * * *

I received your two letters of yesterday.
That is good news about the reserve requirements.

I think the reduction in margin required for
the exercise of stockholders' rights is most constructive.
I congratulate you on this admirable suggestion and its
acceptance. We should ourselves be delighted to make
any such loan. I return Lee Wilson's letter of April 25th
and the copies of Mullendore's and Black's letters on the
subject. Many thanks for letting me see them.

May 21, 1949

Dear Mr. Wilson:

Now that the Federal Reserve Board has acted with reference to the matters we discussed over the telephone and which you were kind enough to write a letter about, I think it may be of interest to see what is happening.

This is shown in a letter from one of the partners of Merrill Lynch to me, enclosing copy of a notice sent to all their offices. As you know, Merrill Lynch do 10 or 12% of the total business on the Stock Exchange and I think they express just the attitude you would like to see prevail.

While the letter mentions "capital stock", you will note on the list of companies offering rights to subscribe that the American Telephone & Telegraph debentures are on the capital stock list to which they call attention.

Merrill Lynch have given me permission to send a copy of their letter and instructions to their managers to other firms and bankers who might be interested in seeing what Merrill Lynch are doing about it. Copies are enclosed herewith.

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. Leroy A. Wilson,
American Telephone & Telegraph Co.
New York, N.Y.

May 21, 1949

Dear Mr. McCabe:

I highly appreciate your friendly expressions concerning the matter of modifying margin requirements to finance the exercise of stock rights.

I have interested myself a little in trying to activate firms in the matter. Sometimes the speed of the reactions in such a measure as you adopted has a certain value.

The Merrill Lynch firm, as you know, are by far the largest dealers in the Stock Exchange--more than 10% of the total business. They have sent out a circular to all their branches and staff, of which they allowed me to have a copy and to make copies, which they authorized me to send to other firms that I happen to know personally.

I enclose a few copies of their communication, thinking it might interest you, some of the members of the Board and some of the men on the staff who worked on this matter.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Hon. Thomas B. McCabe, Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

May 21, 1949

Dear Mr. Harrison:

I am sending you 15 copies of the Merrill Lynch letter to me and the notice Merrill Lynch sent to all of their offices. Also copies of the letter I received from the American Telephone & Telegraph Company and of the letters sent to Mr. McCabe by James Black, President of Pacific Gas & Electric, and by W. C. Mullen-dore, President of Southern California Edison Co.

I suggest you go and see Harold Bache of J. S. Bache as soon as you can and let me know what his reaction is, how much interest he shows, etc.

Sincerely yours,

Mr. Floyd R. Harrison,
Room 2301, 20 Pine Street,
New York 5, N. Y.

Encls.

May 21, 1949

Dear Jim:

I am sure the enclosed will interest you. As you know, Merrill Lynch do 10 or 12% of the total Stock Exchange business.

I am sending copies of the letter to me from Merrill Lynch and the instructions to their managers to partners in some of the other large firms having numerous branches all over the country.

With best wishes, I remain,

Sincerely yours,

Mr. James B. Black, President,
Pacific Gas & Electric Co.,
245 Market Street,
San Francisco 6, California.

Encl.

May 21, 1949

Dear Mr. Mullendore:

I am sure the enclosed will interest you. As you know, Merrill Lynch do 10 or 12% of the total Stock Exchange business.

I am sending copies of the letter to me from Merrill Lynch and the instructions to their managers to partners in some of the other large firms having numerous branches all over the country.

With best wishes, I remain,

Sincerely yours,

Eugene Meyer

Mr. W. C. Mullendore, President,
Southern California Edison Co.,
601 West 5th Street,
Los Angeles, California.

Encl.

[Copy]

President's Office
AMERICAN TELEPHONE AND TELEGRAPH COMPANY
195 Broadway
New York 7, N. Y.

May 23, 1949

Mr. Eugene Meyer,
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

By coincidence I had dictated a note this morning thanking you for your interest in helping to bring about amendments to Regulations T and U of the Federal Reserve Board, but had not signed this note when your letter of May 21 came to my desk.

We had recently received the amendment and I was especially interested in the attachments to your letter of May 21 showing that at least some of the Stock Exchange houses are already advising their customers of the new regulations. I think these amendments should be helpful in our own situation, as they should make it much easier for stockholders to exercise their rights. I also think the changes are constructive in making it easier to raise equity funds generally.

We believe the Reserve Board has done a wise thing and greatly appreciate your personal interest and assistance in this matter.

Sincerely,

[Signed] Leroy A. Wilson



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

MAY 26 1949

OFFICE OF THE CHAIRMAN

May 25, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

Dear Mr. Meyer:

Immediately upon receipt of your letter of May 21, I had copies sent to the members of the Board and the interested members of the staff as I was sure they would be pleased to read the copies of the letters which you received from Merrill Lynch, Pierce, Fenner & Beane.

Wishing to express again my sincere appreciation of your interest in Federal Reserve matters, and with warmest regards,

Sincerely,

Tom M. McCabe

Thomas B. McCabe,
Chairman.

STRATHMORE BOND

MADE IN U.S.A.

May 26, 1949

Dear Mr. Cates:

Mr. Meyer asked me to send you, for your confidential information, the enclosed copies of letters.

Very truly yours,

Charles F. Paradise
Secretary to Eugene Meyer

Mr. Louis S. Cates,
Chairman of the Board,
Phelps Dodge Corporation,
40 Wall Street,
New York 5, N. Y.

Encls. [Federal Reserve--letters from McCabe; Wilson (2),
Merrill, Lynch, Black and Mullendore]

May 28, 1949

Gentlemen:

I am interested in the recent ruling of the Federal Reserve Board here favoring easier terms by reducing required margins on loans made to finance subscriptions connected with new issues of equity capital in the form of stocks or convertible debentures. I would be glad to hear from you if you think it is going to be effective in improving equity capital issues.

I notice in a report of the Socony-Vacuum Company that they emphasize the need for enlarging equity capital. Figures quoted indicate that in the three years from 1946 to 1948, inclusive, only 5% of the expansion of American industry was financed through the equity capital channels, the balance being largely borrowing on bonds and term bank and insurance company loans and internal resources and depreciation.

Merrill Lynch, with whom I have been in touch on the subject, sent a circular to all of their offices. I enclose a copy of their letter to me and their instructions in connection with this matter.

I enclose also a copy of the Federal Reserve release in connection with the amendment.

Very truly yours,

Eugene Meyer

Thomson & McKinnon,
11 Wall Street,
New York, N. Y.

Encls.

May 28, 1949

Gentlemen:

I am interested in the recent ruling of the Federal Reserve Board here favoring easier terms by reducing required margins on loans made to finance subscriptions connected with new issues of equity capital in the form of stocks or convertible debentures. I would be glad to hear from you if you think it is going to be effective in improving equity capital issues.

I notice in a report of the Socony-Vacuum Company that they emphasize the need for enlarging equity capital. Figures quoted indicate that in the three years from 1946 to 1948, inclusive, only 5% of the expansion of American industry was financed through the equity capital channels, the balance being largely borrowing on bonds and term bank and insurance company loans and internal resources and depreciation.

Merrill Lynch, with whom I have been in touch on the subject, sent a circular to all of their offices. I enclose a copy of their letter to me and their instructions in connection with this matter.

I enclose also a copy of the Federal Reserve release in connection with the amendment.

Very truly yours,

Eugene Meyer

Carl M. Loeb, Rhoades & Co.,
61 Broadway,
New York, N. Y.

Encls.

CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON



HERMAN W. STEINKRAUS
PRESIDENT

JUN - 1 1949
May 31, 1949
(Dictated 5/27/49)

Mr. Eugene Meyer
Chairman of the Board
The Washington Post
1337 E Street, N. W.
Washington, D. C.

My dear Mr. Meyer:

It was very pleasant to see you Friday noon, and I enjoyed the luncheon with you and the Messrs. Elliston, Reefer and Stern. I enjoyed the discussions at the luncheon table and also appreciate your helpful suggestions to me about this new job here.

As soon as the information is obtained which you are planning to send me I shall certainly get busy and see that this material is passed on to our membership throughout the country, for I think that the assistance to equity financing which the Federal Reserve Board has given may have great significance at this time.

I hope you won't mind if once in a while, when I have a serious problem, I may consult with you again, for I realize how important it is for organizations such as ours to take a constructive attitude for the best interests of the country at large. I hope to do my small share in this direction.

Kind personal regards.

Sincerely yours,

Herman W. Steinkraus
President

June 1, 1949

Dear Mr. Steinkraus:

I received your letter and appreciate your interest in the equity financing activity as facilitated by the new amendments to the Regulations of the Federal Reserve Board.

I ran into John O'Connor at the Metropolitan Club and he mentioned the fact that you had spoken to him a little about the matter. So I asked him to come to see me this morning, which he did, and we had a talk for about an hour about this and other matters.

He was very much interested and thoroughly understood, in harmony with your own views and mine, the importance of the matter if adequately publicized. I showed him the letters from the Telephone Company and other utility companies and also other documents, which helped to bring home to him the endorsement of the steps taken from different high sources in a position to judge.

He is going to prepare a bulletin to send out to the Chamber of Commerce which, of course, will be brought to your attention before going out, I assume. On calling the Chamber just now, I learned that you would not be back for ten days, but I hope to see you on your return.

With kind regards and best wishes, I remain,

Sincerely yours,

Eugene Meyer,

Mr. Herman W. Steinkraus, President,
Chamber of Commerce of the United States,
1615 H Street, N. W.,
Washington, D. C.

PHELPS DODGE CORPORATION
40 WALL STREET
NEW YORK, N. Y.

Handwritten:
~~Phelps Dodge~~
H. B. Elliott
& return to
Elliott

June 1, 1949.

PERSONAL

Mr. Thomas McCabe, Chairman,
Federal Reserve Board,
Washington, D. C.

Dear Mr. McCabe :

I would like to congratulate you and the Board of Governors of the Federal Reserve System on its action in amending Regulations T and U to increase from 50% to 75% the loan value of securities acquired through the exercise of subscription rights. This step should have a real effect in making possible more new equity financing, of which so many companies are in need. While our Company has no financing program in contemplation, we serve various industries, including particularly the public utility industries, which do have large expansion programs in prospect. These expansion programs will require financing, which should be greatly facilitated by the action of the Board of Governors.

With kindest regards, I am,

Yours sincerely,

Louis Stettin

Chairman of the Board.

Blind copy

Mr Eugene Meyer
Washington Post
Washington, D. C.

BACHE & Co.

36 WALL STREET
NEW YORK

JUN - 6 1949

*replied by
phone call
June 8th*
June 3rd, 1949
EM

Mr. Eugene Meyer
Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

This firm is grateful to you for your effective advocacy of so administering credit regulations as to reduce margin requirements, covering Stockholders' subscriptions to new issues.

Such a modification is essential to the expansion of a venture capital market, currently such a difficult handicap to business development.

Your vast experience, and your great prestige as a private banker and as a former Federal Reserve Board Governor, obtained the effective audience for your views.

The individual corporation stockholder, served by firms such as ours, has for years suffered hardships in consequence of the securities legislation of 1933 and 1934.

The recent ruling modifying margin requirements, applicable to subscriptions to new issues, will materially aid both stockholder and corporation and we feel that your advocacy of such a ruling must have brought about this very constructive change. You have again performed a great public service.

With kindest regards,

Sincerely,

Charles

A. Charles Schwartz

ACS:AF

[original handed to Mr. John O'Connor of U.S.
Chamber of Commerce]

Too little attention has been paid by the
business and banking community to the recent ruling of
the Federal Reserve Board with respect to the financing
of increased equity capital.

[I should think you would describe the importance
of increased equity capital and what it means to business,
large and small, to have this provision of easier financ-
ing for the needs of expanding business and equity capital
and particularly with respect to the public utility expansion,
the constant increase in which is a matter of keeping pace
in public services through private enterprise with the
growth of population and the need for the services.]

This regulation, which was issued Friday, May 13,
has already had a material effect on the situation where
rights were dealt in in the market on some of the nationally
known and some of the local utility situations.

Business will do well to note this favorable

treatment by the Federal Reserve Board Governors in Washington and to study the matter with respect to their particular situations with the local bankers and brokerage firms. The largest firm in the brokerage business is Merrill Lynch Pierce, Fenner & Beane, which has a large number of houses all over the country. They have alerted their branches, and other firms with national wire connections, as well as local firms, are showing increasing interest in this facility for financing equity capital on easier terms from a borrowing point of view.

The net effect, if sufficient attention and energy is devoted to the subject, should be to remedy some of the difficulties that have been encountered by business, where only a small percentage of the capital expansion of industry in this country (less than 5%) in the years 1946, 1947 and 1948 has been through equity capital.

New equity capital in significant amounts may be available as a result of a recent relaxation of security margin requirements by the Board of Governors of the Federal Reserve System.

Margin requirements for purchases of securities under special subscription rights are now 25 per cent instead of 50 per cent. Importance of this relaxation, which was effective May 16, has been quite generally overlooked. Between 40 and 50 per cent of stocks offered during the past year is estimated to have been under special subscription rights of persons previously holding stock in the particular companies. The relaxation of margin requirements applies both to original holders and subsequent buyers of subscription rights.

Under the revised regulations of the Reserve Board, subscription purchasers must pay another 25 per cent of the total cost in cash within nine months to be eligible for further purchases with 25 per cent down payments.

In the light of the downward trend of business and the desirability of maintaining a constant flow of new investment capital, the easing of the margin requirements is expected to make available a considerable amount of funds needed for expansion of industry.

Equity capital has been becoming dangerously scarce, due in large part to burdensome taxation. Corporations have been forced increasingly to obtain capital from borrowing, retention of earnings and use of depreciation reserves. Stock issues in the three years from 1946 to 1948, inclusive, accounted for only \$3.7 billion or $4\frac{1}{2}$ per cent of the \$82.2 billion of capital invested in corporate business.

Under existing conditions even some of the larger and more successful corporations have had difficulty in recent months in marketing new stock

issues under special subscription rights. The situation has been especially serious for public utility corporations, including local concerns in various cities. The relaxation of margin requirements already has had a favorable effect where subscription rights are dealt with in the market.

The easier financing for the needs of expanding business is of such importance as to warrant the attention of corporation officials and bankers. The greater availability of new equity capital should help to make it possible for business and particularly the public utilities to keep pace with the growth of population and the need for expanded services as well as to avoid unemployment.

The margin requirements were imposed by the Reserve Board under the authority of the Securities Exchange Act of 1934. Regulation T of the Board relates to extensions of credit by brokers and dealers on listed securities and Regulation U to loans by banks on stocks. Prior to World War II the margin requirement on both classes was 40 per cent, which meant that 60 per cent of the market value could be borrowed. From January 1946 to the end of January 1947 the margin requirement was fixed at 100 per cent, which meant that there could be no credit for this purpose. From February 1, 1947 to March 29, 1949, the margin requirement was 75 per cent, purchasers being able to borrow 25 per cent of the value of listed securities. Effective March 29, 1949, the Board reduced margin requirements to 50 per cent in recognition of the declining trend of business. The margin requirements, ^{except} as to stocks with special subscription rights, remain at 50 per cent.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA
WASHINGTON

JUN - 3 1949

FINANCE DEPARTMENT
JOHN J. O'CONNOR MANAGER

June 3, 1949

Honorable Eugene Meyer
The Washington Post
Washington, D. C.

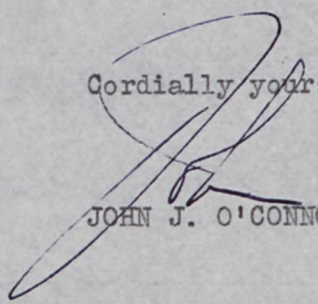
Dear Governor:

Enclosed is copy we contemplate using in next week's BUSINESS ACTION. This weekly (copy attached) has a circulation of about fifty thousand.

We will find other ways of giving currency to the information.

Congratulating you again upon your helpful initiative and the accomplishment, I am,

Cordially yours,



JOHN J. O'CONNOR

335/328
Enclosures

PHELPS DODGE CORPORATION

40 WALL STREET
NEW YORK 5, N. Y.

June 7, 1949.

JUN - 8 1949

Mr. Eugene Meyer,
The Washington Post,
Washington D. C.

My dear Gene :

I am attaching copy of letter
received from Mr. McCabe under date of June 3rd.

Kind regards,

Most sincerely,



C h a i r m a n .

Encl.,

Board of Governors
of the
Federal Reserve System

Washington

June 3, 1949.

Mr. Louis S. Cates,
Chairman of the Board,
Phelps Dodge Corporation,
40 Wall Street
New York, 5, New York.

Dear Mr. Cates :

We are very grateful for the kind words expressed in your letter of June 1 regarding our amendments to Regulations T and U. All of the comments which we have received regarding this action have been favorable.

I hope that you will pay us a visit the next time you are in Washington as I would like to have the benefit of your views on some of our other problems.

With warmest regards,

Sincerely,

(s) Thomas B. McCabe

Chairman.

COPY

June 8, 1949

Dear Louis:

Thanks for the copy of your letter to McCabe
and copy of his reply.

I am glad you saw fit to write him.

With kind regards, I remain,

Sincerely yours,

Mr. Louis S. Cates, Chairman,
Phelps Dodge Corporation,
40 Wall Street,
New York 5, N. Y.

June 9, 1949

Dear Mr. Mullendore:

The enclosed may be of interest, if you have not already seen it.

Sincerely yours,

Eugene Meyer

Mr. W. C. Mullendore, President,
Southern California Edison Co.,
601 West 5th Street,
Los Angeles, California.

Similar letter to:

Encl.

Via Air Mail

Robert V. Russell
R. Roy Dunn
Clyde L. Rogers
A. Chas. Schwartz
Louis S. Cates
Leroy A. Wilson
John M. Hancock
Stanley Carr
Winthrop H. Smith

Chesapeake & Potomac Tel. Co.
Potomac Electric Power Co.
Natl Ind. Conf. Bd.
Bache & Co.
Phelps Dodge Corp
American Tel & Tel
Lehman Brothers
Merrill Lynch
Merrill Lynch

PERSONAL

June 10, 1949

Dear Mr. Jennings:

I have been intending to write you ever since I read some time ago your remarks at the annual meeting of the stockholders of your Company on April 28.

I have been interesting myself in the question of equity capital and spent some time discussing the matter with the Federal Reserve Board here. No doubt you have seen the amendment to the regulations published some time ago. I enclose copy herewith.

The Chamber of Commerce of the United States put out a bulletin this week which mentions the subject, following a luncheon I had with Mr. Steinkraus. Copy of the bulletin is enclosed, although I assume you have seen it.

I discussed the matter with Mr. Leroy Wilson, President of the Telephone Company, when I saw they were raising \$400,000,000 on convertible debentures. I told him what I thought should be done. He wrote me a letter in connection with it and authorized my sending a copy to my friends in the Federal Reserve Board.

The idea seemed acceptable from the beginning, although it took some time to iron out the technical questions that were involved in this particular kind of a new regulation.

The problem now is to activate the use of the powers granted by the recent amendment to the regulations. Some of the larger firms in the Stock Exchange are giving the matter special attention--Merrill Lynch, among others. You live in New York and I live in Washington, so I think through your friends and connections in the banking and brokerage world you can do more to excite interest in more people in the new attitude shown by the Federal Reserve Board to the financing of new equity capital.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. B. B. Jennings, President,
Socony-Vacuum Oil Company, Inc.,
26 Broadway,
New York 4, N. Y.

Encls.

THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANIES ✓

725 THIRTEENTH STREET, NORTHWEST

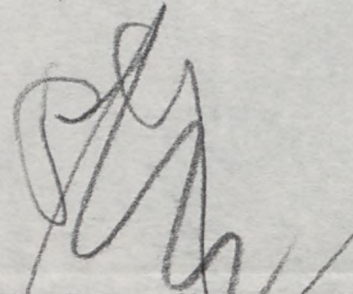
WASHINGTON 5, D. C.

ROBERT V. RUSSELL
SECRETARY

TELEPHONE
METROPOLITAN 9900

June 10, 1949

JUN 11 1949



Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

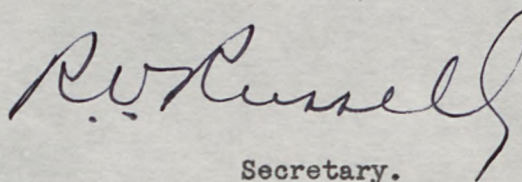
Dear Mr. Meyer:

While I had previously seen the article which you sent me with your note of June 9th, nevertheless I appreciate your thoughtfulness in calling it to my attention.

Since we talked about the matter in your office, the action of the Federal Reserve Board in relaxing margin requirements has received much favorable publicity in financial journals and business publications and it seems generally agreed that it was an important step in the direction of encouraging the flow of capital funds into equity securities.

May I take this occasion to express again my pleasure at meeting you and my thanks for your generous hospitality.

Sincerely yours,



Secretary.

See page 3

50000 Circulation

Washington, June 10, 1949

BUSINESS ACTION

VOLUME 6 • NO. 13

A WEEKLY REPORT FROM THE CHAMBER OF COMMERCE OF THE UNITED STATES

COMMERCE—INDUSTRY—LAWS—ADMINISTRATION

THE MUCH HARRASSED HOUSEWIFE has just concluded that prewar peace-of-mind is unattainable. With the return of a buyers' market—for which she so fervently prayed during the straitened days of war—she now finds herself merely transferred from a standing position in one line to the receiving end of another. Daily, a veritable queue of salesmen seems to form at her door, eager to tell her of newer and better things now coming off the postwar production lines.

★ ★ ★

NOT ONLY ARE the Soviet authorities purging the staff of Taegliche Rundschau, official Moscow mouthpiece in Germany; they are purging the Russian secret police assigned to check-up on the editorial purgees. Sooner or later the Kremlin may order a purge of the purgers.

★ ★ ★

DR. MORTON KAHN of Cornell University has been applying the Lorelei technique in Cuban swamps. With phonograph records, he played over and over the female mosquito's mating call, and trapped male skeeters by the countless thousands. There is no truth in the report that one night he put on a rhumba record by mistake and was overwhelmed by responsive Cubans.

★ ★ ★

PERSONS with rheumatic heart condition make good workmen and are not likely to collapse and die on the job, says Dr. Maurice Eliaser, Jr., a specialist, of San Francisco. Labor union organizers may now be expected to pressure patients in cardiac hospitals.

Seek Compromise Labor Bill . . .

AT THE OPENING of the Senate debate on Taft-Hartley repeal this week, it was clear that the Thomas-Lesinski bills have been written off as a mistake.

The Democratic leadership in both Senate and House, as a result, is casting about for a compromise bill which will win over enough votes for passage.

The emphasis, unfortunately, is not on what kind of a labor law will adequately meet the need but upon determining what is the minimum that Congress will demand and the maximum that labor will accept.

In the House, the task of drafting another new compromise bill has been entrusted to a subcommittee, chairman of which is Augustine B. Kelley (D-Pa).

The new Democratic venture at compromise on the House side is hoped for by late June. By that time the Senate probably will have indicated what kind of bill it will write.

As far as the House Labor Committee is concerned, the crucial issue, one upon which compromise efforts may quickly reach deadlock, is the question of government powers in national emergency situations.

The determined resistance of three Democratic Congressmen on the House Labor Committee to any use of the injunction may mean that a compromise bill will not secure Committee approval. On vital issues the vote has been 13-12, with the Administration at best able to count on only thirteen of the sixteen Democratic members.

In the Senate, the Democratic attempts at compromise opened with a series of proposals offered by Democratic Senators Paul H. Douglas (Ill.), Lister Hill (Ala.), Hubert H. Humphrey (Minn.), and Garrett L. Withers (Ky.), which Republican Senators Aiken (Vt.) and Morse (Ore.) are reported ready to support.

The proposals add up to a re-submittal of the original administration bill with five minor amendments. These provisions relate to plant seizure in national emergencies, free speech for employers, bargaining in good faith by both unions and employers, filing financial reports of both groups, and the signing (See LABOR LAW, page 2)

Labor Law

(Continued from page 1)

of non-communist and non-fascist affidavits by both.

Senator Robert A. Taft (R-Ohio) has proposed 22 changes in the Taft-Hartley Law which, though easing the impact upon labor organizations, retains its basic objectives. It has evoked favorable comment from Senator Thomas (D-Utah), chairman of the Senate Labor and Public Welfare Committee, who considers that Mr. Taft's bill, with some changes, may be made the basis for a Senate compromise.

Senator Thomas found unacceptable, however, the provision for a 60-day injunction in national emergency situations. He specifically mentioned as easy matters for compromise the independence of the Federal Mediation and Conciliation Service, non-Communist affidavits and a requirement upon unions to bargain in good faith. In addition, he indicated he would be willing to change that provision in the present Thomas bill which nullifies state anti-closed shop laws.

Republicans are expected to seek an early showdown on the proposals for government seizure in national emergencies, advanced by the group headed by Senator Douglas.

White House Attitude

Speculation has centered upon the attitude President Truman will take toward compromise. The White House has shown little friendliness toward compromise efforts, it is believed, although minor concessions might be accepted. However, if Congress were to enact a new labor law which adheres much closer to the Taft-Hartley Law than any of the Democratic proposals so far advanced, the veto may be conceivably used to brush it aside for the purpose of throwing the whole problem into the 1950 elections.

Labor's Views

Clear statements endorsing compromise possibilities have been made by William Green, AFL president, and by Arthur J. Goldberg, CIO general counsel. Except for the injunction provisions of the bill drafted by House leaders one month ago, Mr. Green has indicated that that particular set of proposals might be a suitable basis for writing a new law. Mr. Goldberg kept open the possibility for compromise by stating in a letter to Senator Thomas:

We are mindful that in the legislative process there is room for alteration in any bill—particularly one dealing with so complex a problem as labor relations.

Included among the items in Mr. Taft's measure to which Mr. Goldberg indicated unrelenting opposition are the provisions on state closed-shop restrictions, on economic boycotts, on non-Communist affidavits and on the use of injunctions.

Social Security

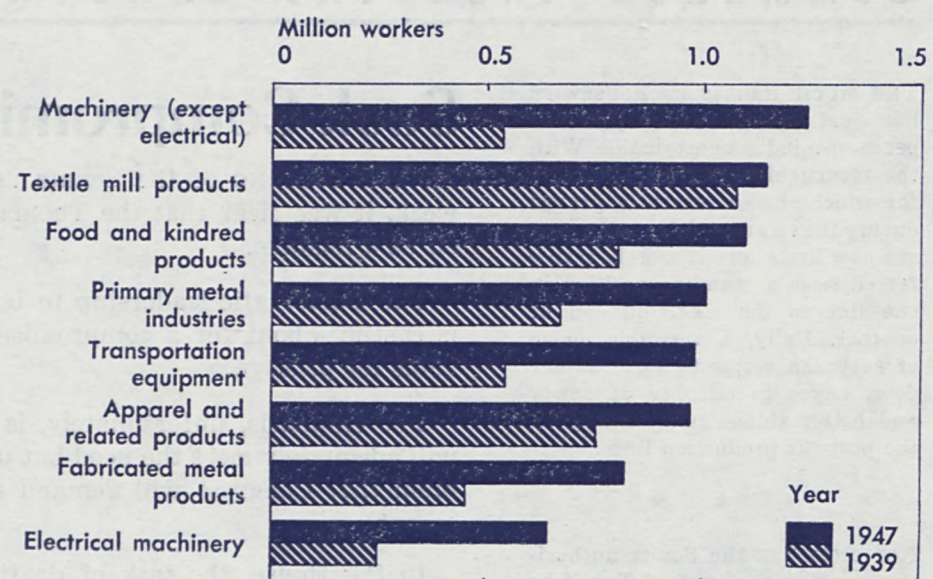
The social security committee of the Chamber of Commerce of the United States says the basic idea of social security is good. But, says the report, there is a danger of overexpansion.

The chamber of commerce position is quite in line with the original ideas advanced when social security under auspices of the federal government was adopted.—*Dodge City, Kan., Globe.*

Quotable Quote

"It must occur to sensible people to ask themselves how it is, if the American system is wrong, that the American democracy of 140 million hard working people are able to keep themselves at a far higher standard of life than we are and are able to lend us a helping hand and give us so much aid and bear so large a part of our burden."—WINSTON CHURCHILL.

Manufacturing Employment Up 53% in Eight Years



Production and related workers in manufacturing industries rose from 7,808,000 in 1939 to 11,918,000 in 1947, according to a recent release of the *Census of Manufactures: 1947*. This increase in manufacturing employment was 53%, while population was increasing only 10%.

Most spectacular increase was in the machinery (except electrical) group, which was sixth in 1939, but first in 1947. Employment was 1,244,000 in 1947, but only 536,000 in 1939, an increase of 132 per cent.

Second largest industry group in 1947 was textile mill products, with 1,147,000 employees. In 1939 this industry group was first with 1,081,000 employees, an increase of only 6% in eight years.

Third largest industry group was food and kindred products, with 1,098,000 employees. This industry group was second largest in 1939, with a 37% increase during the eight years.

Other major industry groups were: primary metal industries (fourth in both 1947 and 1939); transportation equipment (fifth in both 1947 and 1939); apparel and related products (sixth in 1947, third in 1939); fabricated metal products (seventh in both 1947 and 1939); and electrical machinery (eighth in 1947, 14th in 1939).

Preliminary reports on the almost quarter-million manufacturing establishments covered by the 1947 *Census of Manufactures* are now being made available by the Government's Bureau of the Census. More detailed reports will be issued during the next few months.

ECONOMIC RESEARCH DEPARTMENT

Margin Reduction Eases Capital Financing . . .

NEW EQUITY CAPITAL from the sale of stock may be forthcoming in somewhat larger amounts as a result of a recent relaxation of security margin requirements by the Board of Governors of the Federal Reserve System.

Margin requirements for purchases of securities under subscription rights are now 25 per cent instead of 50 per cent. The importance of this relaxation, which was effective May 16, has been quite generally overlooked. Between 40 and 50 per cent of the number of stock offerings during the past year is estimated to have been under subscription rights of persons previously holding stock in the particular companies. The relaxation of margin requirements applies both to original holders and subsequent buyers of subscription rights.

Under the revised regulations of the Reserve Board, subscription purchasers must pay another 25 per cent of the total cost in cash within nine months to be eligible for further purchases with 25 per cent down payments.

Will Stimulate Investment

Maintenance of a high level of capital investment is especially desirable in view of the current downward trend of business. By permitting increased use of credit for the purchase or carrying of securities, the easing of margin requirements may stimulate the flow of funds needed to finance such capital investment.

Funds obtained from the sale of stock have been small, relative to total capital expenditures during recent years. Stock issues in the three years 1946-48 inclusive accounted for only \$3.7 billion, or 4½ per cent of the \$82.2 billion of capital invested in corporate business. To finance their capital expenditures, corporations have retained a high proportion of their earnings and have borrowed substantially from banks and life insurance companies.

Under existing conditions even some of the larger and more successful corporations have had difficulty in recent months in marketing new stock issues under subscription rights. The situation has been especially serious for public utility corporations, including local concerns in various cities. The relaxation of margin requirements already has had a favorable effect where subscription rights are dealt with in the market.

Need for Expansion

The easier financing for the needs of expanding business is of such importance as to warrant the attention of corporation officials and bankers. The greater availability of new equity capital should

make it possible for business and particularly the public utilities to keep pace with the growth of population and the need for expanded services as well as to avoid unemployment.

Margin requirements are imposed by the Reserve Board under the authority of the Securities Exchange Act of 1934. Regulation T of the Board relates to extensions of credit by brokers and dealers on listed securities and Regulation U to loans by banks on stocks. Prior to World War II the margin requirement on both classes was 40 per cent, which meant that 60 per cent of the market value could be borrowed. From January 1946 to the end of January 1947 the margin requirement was fixed at 100 per cent, which meant that there could be no use of credit for purchasing or coupling securities. From February 1, 1947 to March 29, 1949, the margin requirement was 75 per cent, purchasers being able to borrow 25 per cent of the value of listed securities. Effective March 29, 1949, the Board reduced margin requirements to 50 per cent in the light of the general credit situation of the country.

A 50 per cent margin requirement was established December 1, 1946 for the purchase of securities offered under subscription rights, and this was continued to May 16, when the present provision as to subscription rights was introduced. Margin requirements, except for subscription rights, continued at 50 per cent.

The Chamber answers assertions that

Medical Bill a Menace to Health

WITH THE PUBLIC spending—as of 1947—\$10 billion for intoxicating drinks, \$4 billion for tobacco and \$2 billion for cosmetics, a doctors' bill of \$1.7 billion the same year does not indicate the need for socialized medicine to make medical service more widely available, the National Chamber points out.

A brochure just published by the Chamber under the title, *You and Socialized Medicine*, says:

If Americans want to double, or even triple, this \$1.7 billion, they could easily do so by cutting down a little on unnecessary things.

A socialized medicine law, says the pamphlet, would injure the health of the people and jeopardize traditional American liberties. It would, the Chamber declares, constitute a big step towards socialism in general, since "a huge new government bureaucracy would be created, with a widespread destruction of voluntary institutions."

a serious health crisis exists with the statement that, on the contrary, the nation's health is extremely good.

Socialized medicine, says the Chamber, would be "bad medicine" in the United States. Five reasons are given:

1. The present shortage of doctors would be made worse, as physicians were taken out of general practice to fill administrative jobs with the government.

2. Physicians would have to waste untold hours treating malingerers and hypochondriacs who would rush in to get something free.

3. None of the three methods so far proposed for paying the doctor under socialized medicine works satisfactorily.


4. The cooperative interrelationships of thousands of health organizations would be destroyed.

5. The government's past failures in the medical field suggest an even more dismal failure if a compulsory health insurance law is enacted.

Single copies of the pamphlet, *You and Socialized Medicine*, are free. The quantity price is \$3 a hundred.

GERMAN CHEMICAL PATENTS: Among U. S. Patents now available for licensing by the Office of Alien Property, Department of Justice, on a royalty-free, non-inclusive basis, are two which were formerly owned by a subsidiary of I. G. Farbenindustrie, A. G., the German chemical trust, and were seized by the Attorney General as enemy property. David L. Bazelon, Assistant Attorney General in charge of the Office of Alien Property, said that these patents cover important processes by which substantial savings can be realized in the production of acetic and other acid anhydrides. The patents are Nos. 2,166,997 and 2,177,494.

MOVIES: The Commerce Department reports a total of 90,097 motion picture theaters with a seating capacity of 48,750,147. Some of these, however, are outside the U. S., and are probably called cinema houses.



BUSINESS ACTION
Published weekly
by the
CHAMBER OF COMMERCE OF THE UNITED STATES
1615 H ST., N. W., WASHINGTON 6, D. C.
Subscription rate, \$2.00 a year
Subscriptions accepted from members only
Entered as second-class matter February 7, 1943, at the post office at Washington, D. C., under the Act of March 3, 1879.

Compromise Seen In Tidelands Fight

AT ISSUE between the federal and state governments since the late 30's has been the question of ownership of the California and Gulf states offshore oil lands. Advanced forcefully by official representatives of most of the states is the argument that the question is one of states rights.

It is contended that, should the federal government establish title to these coastal areas, it might well extend its control to the lands beneath all navigable waters.

The Supreme Court in 1947 held that the federal government had paramount rights in the oil lands off the California coast. This decision was limited to California and the question of actual ownership remains unresolved.

A bill to establish states ownership of coastal tidelands was enacted by Congress in 1946, but was vetoed by President Truman. A similar measure passed the House last year but failed of Senate action.

States Fight Decision

Now the federal government is seeking to establish control over the Gulf tidelands contiguous to the shores of Texas and Louisiana. Last month the Supreme Court authorized the government to sue the Gulf states. The states are offering vigorous resistance.

Meanwhile, representatives of Louisiana, Texas and California have been in conference with government representatives in an attempt to work out a solution of the dispute for control of the oil and mineral rights beneath coastal waters.

Perpetual Lease Proposed

The states are reported suggesting that they should receive what is tantamount to a perpetual lease on their immediate offshore waters, three miles seaward of the low-water mark in most cases, 10½ miles seaward in the case of Texas.

Within this belt the federal government would retain "paramount right," but the state governments would exercise actual control—the right to let leases, police power, and control of revenue from the area.

The states would turn over to the federal government 37½ per cent of the revenue collected from oil wells and other exploitation of the submerged areas in this belt.

The federal government would have the paramount rights and control over the waters beyond the marks indicated. The U. S. would pay to the states 37½ per cent of any revenue from operations in this area.

The federal government would sur-

render to the states full rights and control of all inland waters—including bays and harbors.

If a possibility of settlement along the lines suggested by the state authorities appears feasible, a bill embodying their proposals is expected to be introduced in the Senate by Chairman O'Mahoney, of the Interior and Insular Affairs Committee. Such action, however, will be taken only if Administration approval is forthcoming.

States Would Ratify

Under terms of the proposed legislation, state legislatures would be given a two or three year period to ratify, the legislation applying only to states that have ratified.

A policy declaration of the National Chamber is to the effect that Congress should give statutory recognition to state ownership and disposition "of all lands beneath navigable waters within the boundaries of each of the respective states, including lands beneath tidal waters."

AID TO EDUCATION: Officials of Marshall Plan countries are to be brought to the U. S. by the ECA to brush up on the finer points of government administration, including how to improve fiscal policies. Planned cost—\$500,000. An additional \$800,000 is earmarked for sending ECA envoys abroad to spread the American gospel of faultless financial management. In view of the U. S. Treasury's prospect of a deficit of considerable size, the two-way educational effort may appear to observant Europeans as ingenious rather than ingenious.

So, if the "visionary" conquerors are to make good their Utopian claims in the eyes of the Chinese people, they must demonstrate their qualifications at Shanghai. Should they flounder in their attempts to administer the affairs of the metropolis, the fact will not long remain unknown to the people of China.

Civic maladministration will in time reveal to an enlightened populace incompetence of the Communist high command to govern the country as a whole. What may be the eventual outcome from this is problematical, because Oriental behaviorism under any set of circumstances seldom follows the Occidental pattern.

GAS DETECTOR: One part carbon monoxide gas in half a billion parts of air can be detected by a small supersensitive instrument developed by the National Bureau of Standards. One part of this poisonous element which occurs in the exhaust of automobile engines, to 10,000 parts of air can affect human beings. The detector is about the size of a fountain pen.

National Chamber Calendar

- JUNE 12-18—Western Institute, Whittier College, Whittier, Calif.
- JUNE 17-18—Board of Directors.
- JUNE 19-25—Southeastern Institute, Univ. of North Carolina, Chapel Hill.
- JULY 10-16—Southwestern Institute, Baker Hotel, Dallas.
- JULY 17-23—Rocky Mountain Institute, University of Montana, Missoula.
- AUG. 7-13—Northeastern Institute, Yale University, New Haven, Conn.
- AUG. 14-20—National Institute, Northwestern University, Evanston, Ill.

Shanghai a Problem For Red Conquerors

FIRST MAJOR TEST of the Communist Chinese' capacity to govern China is now in process at Shanghai. That great metropolis of the East presents a problem, even an approximate solution of which will strain to the utmost the concerted skill and ingenuity of the Red leadership.

Whether organization ability commensurate to the administration of China's Westernized gateway city exists in the Communist forces—composed, as for the most part they are, of combat elements—will soon become apparent.

From its complex character, Shanghai presents a much more formidable difficulty than anything the Chinese Red "reformers" have ever encountered. The city, one of the world's largest and Asia's most populous, long has had to depend for its very existence upon outside aid. For its growth and prosperity, it has relied upon foreign experience, trade and control.

What may be the eventual outcome from this is problematical, because Oriental behaviorism under any set of circumstances seldom follows the Occidental pattern.

However, while such cruel serfdom can be maintained in Eastern Europe, China may make manifest difficulties which the Communist dictatorial zealots might well find insurmountable. There are so very many Chinese.

What has too frequently been demonstrated in the West is that a well-organized, adequately armed, closely knit, ruthless minority can maintain an authoritarian regime in power almost indefinitely, regardless of the popular will or what the dictatorship does to or for the populace as a whole.

WORLD'S BEST CAR: With customary Muscovite modesty, the Soviet automobile industry announces it will soon produce the world's best car. Inasmuch as Pravda probably claims that a Russian retroactively invented the gas buggy back in the early 60's, this perfection effort is by no means overdue.

Steinkraus Commends Efforts to Cut Spending . . .

PLEDGING SUPPORT of the National Chamber and its member organizations, Chamber President Herman W. Steinkraus in a letter sent during the week to all members of the Senate commended current efforts to develop a formula for keeping proposed government expenditures below probable revenues.

Mr. Steinkraus urged that all expenditures be weighed against benefits to be derived from balancing expenditures against such revenues as can be raised without undue strain on the national economy. Congress would perform a public service, he added, by balancing the budget without an increase in an already oppressive burden of taxation.

Difficulties Recognized

Mr. Steinkraus' letter said:

With full appreciation of the difficulties confronting the Congress, I desire, on behalf of the Chamber of Commerce of the United States, to express approval of efforts by members of both parties to find a method of reducing proposed expenditures below the level of probable revenues.

The approaching critical stage in the fiscal affairs of the government, by reason of mounting expenditures and declining receipts, calls for recognition that national financial stability is vital for economic strength.

I am fully aware that national defense, international affairs, veterans' benefits and interest on the public debt account for about three-fourths of the 1950 budget and that praiseworthy, even essential, projects are included in the remainder.

Balanced Budget Essential

The Chamber of Commerce of the United States stands for a strong defense and favors adequate foreign aid, but the importance of these and other budget items, taken separately, must be weighed against the benefit to be derived from balancing expenditures as a whole against such revenues as can be raised without undue strain upon the economy.

I recognize the exceedingly perplexing problem faced by members of Congress in deciding upon appropriation bills one by one. It is all the more important, therefore, that Congress devise means by which all government costs may be appraised and adjusted to meet the realities of the crucial budget situation which is developing. Attainment of a balanced budget, without an increase in the already oppressive burden of taxation, would be a service in the public interest.

State and Local Projects

The member organizations of the Chamber, in their recent annual meeting, gave strong emphasis to the importance of curtailing government expenditures and requested business organizations to refrain, and use their influence to persuade others to refrain, from exerting pressure upon members of Congress for the appropriation of funds for the benefit of individual states and local communities.

The Chamber and its member organizations

desire to do their part in support of a program to hold down expenditures, and looking toward curtailment of the debt and reduction rather than increase of present taxes. These objectives are basic in a solution of our fiscal problems. Your efforts to accomplish them will be appreciated by all thoughtful citizens.

CALLED THE SHOT: In his biography of John Nance Garner, Bascom N. Timmons quotes the Democratic leader in connection with his receiving the information in 1933 that President Roosevelt had extended U. S. recognition to Soviet Russia. Said the then Vice President: "It's all through and the dishes wiped, so far as I am concerned. I hope it turns out better than I think it will."

Eleven Countries in Education Exchange

AGREEMENTS concluded with the Netherlands and Norway for exchange of teachers and students under the Fulbright Act bring to 11 the number of countries which will cooperate with the United States in this enterprise.

Besides the two which have just agreed to participate, the following earlier had signed agreements: Belgium, Luxembourg, Burma, China, France, Greece, Italy, New Zealand, the Philippines and Great Britain.

Foreign Currencies Used

The Fulbright Act, signed August 1, 1946, provides that some of the currencies and credits of other countries acquired through the sale of U. S. surplus property abroad may be used for educational exchanges. There are no American dollars available under the program, consequently the expenses paid must be those for which foreign currencies will be accepted.

Americans approved for graduate study abroad under the program receive maintenance, tuition and incidental expenses. Those approved for teaching or research may have a stipend in addition. Travel expenses may be paid where this can be done with the foreign currency available, which usually means that the student must finance his own ocean crossing.

Scholarships a Help

For foreign students, on the contrary, the fund can pay traveling expenses to this country, but not tuition or maintenance here. Universities and other institutions in this country which grant scholarships to foreign students can obtain funds under the Act to pay the travel expenses of such students, often a great help.

Foreigners who study or teach in American institutions in the participating countries may obtain maintenance, tuition and incidental expenses as well as travel. The number benefiting under the Act naturally is limited.

To help in the administration of the Act, the Government has created a Board of Foreign Scholarships, composed of 10 members, made up of distinguished educators from different parts of the country, together with representatives of the U. S. Office of Education and the Veterans Administration.

MEMORY MACHINE: For tabulation of census information, a "memory machine" is being constructed for the U. S. Bureau of the Census. It operates by magnetic impulses from a tape to which have been transcribed the several elements of the mathematical problem it is required to solve. Should an error occur on the tape, the machine stops so far as this part of the problem is concerned, but proceeds with the remainder. After the tape error is corrected, the machine picks up the relinquished computation and completes it.

Institute Denies Power Shortage

WHAT the Edison Electric Institute calls a reply to government claims of an acute power shortage has been released by the nation's privately owned and operated power systems.

It is in the form of an up-to-the-minute survey, based on an institute study of the over-all situation, and showing power surpluses in all areas of the country except the Pacific Northwest.

Record installations of generating equipment, said Walker C. Cisler, executive vice-president of the Detroit Edison Co., who is spokesman for the group, will enable the industry to attain a safe margin of reserve for peacetime and national defense requirements by 1951.

Reserve margin is the amount of generating capacity in excess of probable demand and the normal or desirable figure is 15 per cent. Mr. Cisler expects reserves to reach 12 per cent in 1950 and 15.6 per cent in 1951.

The industry is engaged in a \$9 billion four-year expansion program, the most ambitious ever undertaken. It is scheduled for completion in 1951 and will have added 23,500,000 kilowatts to the electric power systems when finished.

Capacity at the end of the last war year was slightly in excess of 50,000,000 kilowatts.

Delivered Pricing Practices . . .

PROSPECTS for legislation designed to prevent prosecution of sellers who independently sell on a delivered price, or absorb freight rates, appeared brighter with passage during the week of a new bill offered by Senator O'Mahoney (D., Wyo.).

The O'Mahoney measure was introduced as a surprise substitute for the so-called Moratorium Bill put forward by Senator Myers (D., Pa.). It has bipartisan support.

The House Judiciary Committee quickly moved to discuss the merits of the O'Mahoney Bill as compared with its previously reported Moratorium Bill. The prospects are that with some possible minor amendment the new bill will be substituted for the Moratorium Bill, with probable early House action.

Provisions of Bill

The bill provides that independent use by a seller of delivered pricing or freight absorption would not constitute an unfair method of competition in violation of the Federal Trade Commission Act. Combinations or collusive agreements involving the use of such pricing practices, however, would continue to be subject to prosecution under this Act.

New language proposed to be added to the Robinson-Patman sections of the Clayton Act specifies, among other things, that independent selling at identical delivered prices shall not constitute an unlawful price discrimination. Absorption of freight "to meet the equally low price of a competitor in good faith" would also be permitted, except where the effect of such absorption "will be to substantially lessen competition."

Mill-Net Definition Discarded

"Price" is defined as having the meaning given that term under the commercial law applicable to the transaction. A principal effect of this and other provisions would be to nullify the so-called "mill-net" definition of price. Under the definition followed in several court cases, the net return to the seller after deducting his freight costs has been treated as the basis for determining whether or not there has been a price discrimination.

By making the delivered price paid by

a purchaser the test of price discrimination, rather than the "mill-net" of the seller, there would be no discrimination where a seller markets a product to all competing buyers at the same price. If delivered prices charged to purchasers in competition with one another vary, such differences could be held to be unlawful where the FTC finds that they would have the effect of "substantially lessening competition."

Purpose to Dispel Fear

The bill aims primarily to dispel widespread fears that the law might ultimately be construed to require all sellers to market their products solely on an f.o.b.-plant price basis. Such fears have been heightened by action of the Supreme Court recently in upholding the FTC order in the *Rigid Steel Conduit Case*. This action has been generally viewed as opening the way for attack upon individual delivered pricing or freight absorption practices, whether or not involving a combination, conspiracy, or illegal agreement.

Questions which arise where several competing sellers offer a product to buyers at a particular destination at identical prices would not be clarified by this bill. Such price identity has heretofore been viewed by the Federal Trade Commission and the courts as suggestive of conspiracy or collusion among sellers. Because of its complexities, no likelihood appears of legislation this session which would deal with this problem.

At its recent annual meeting the Na-

THREE DIMENSIONAL FILM: Egon Wendelboc Schriwer, Danish scientist, has solved the long baffling problem of third dimensional plastic film, according to a Copenhagen dispatch. Apparently, this will transplant to the motion picture screen the visual effects revealed by the stereoscope of half a century ago.

The new invention is based on a special system combined with a new type screen, details of which are withheld pending the granting of international patents. The Copenhagen report states that the system will bring to motion pictures depth, perspective and a natural appearance to an astonishing extent.

tional Chamber urged prompt congressional action to assure to sellers that, in the absence of a conspiracy, combination or illegal agreement to fix prices, they may sell at delivered prices, and may compete with other sellers located closer to prospective customers by equalizing transportation costs or by absorbing part or all of such transportation costs, in order to have a competitive price.

Byrd Asks Public To Support Savings

SEEKING TO AVOID any increase in taxes, Senator Harry F. Byrd, of Virginia, is striving to mobilize public sentiment in support of a bipartisan program for reduction in spending.

In a memorandum accompanying a reprint of a recent speech in the Senate, Senator Byrd draws attention to two proposals. The first is a scheme for a cut from \$2 to \$3 billion under a formula yet to be perfected and suggested as an amendment to the last appropriation bill of the session. The second is a plan for consolidation of all appropriation bills in a single measure, as provided in a resolution sponsored by Senator Byrd and seven other Senators.

Senator Byrd said that approval of a blanket retrenchment formula would be of incalculable value in the general program for economy. He predicted that it will be bitterly opposed, but expressed hope of its approval providing the citizens of the nation realize its importance and impress upon their representatives in Congress their desire that this course be followed.

With respect to the single appropriation bill plan, which the House Appropriations Committee intends to adopt next session, Senator Byrd described it as "vital to any general program for retrenchment because the appropriation picture is now so confused by the provisions of twelve to twenty separate money bills it is impossible for members of Congress or the people intelligently to consider the matters at issue."

Senator Byrd warned against "disastrous results of imposing huge new taxes upon a declining business economy."

6 ★

BUSINESS ACTION • June 10, 1949

ENTERED AS SECOND CLASS MATTER AT WASHINGTON, D. C.

BUSINESS ACTION • June 10, 1949

★ 5

Washington, June 10, 1949

BUSINESS ACTION

VOLUME 6 • NO. 13

A WEEKLY REPORT FROM THE CHAMBER OF COMMERCE OF THE UNITED STATES

COMMERCE—INDUSTRY—LAWS—ADMINISTRATION

THE MUCH HARRASSED HOUSEWIFE has just concluded that prewar peace-of-mind is unattainable. With the return of a buyers' market—for which she so fervently prayed during the straitened days of war—she now finds herself merely transferred from a standing position in one line to the receiving end of another. Daily, a veritable queue of salesmen seems to form at her door, eager to tell her of newer and better things now coming off the postwar production lines.

★ ★ ★

NOT ONLY ARE the Soviet authorities purging the staff of Taegliche Rundschau, official Moscow mouthpiece in Germany; they are purging the Russian secret police assigned to check-up on the editorial purgees. Sooner or later the Kremlin may order a purge of the purgers.

★ ★ ★

DR. MORTON KAHN of Cornell University has been applying the Lorelei technique in Cuban swamps. With phonograph records, he played over and over the female mosquito's mating call, and trapped male skeeters by the countless thousands. There is no truth in the report that one night he put on a rumba record by mistake and was overwhelmed by responsive Cubans.

★ ★ ★

PERSONS with rheumatic heart condition make good workmen and are not likely to collapse and die on the job, says Dr. Maurice Eliaser, Jr., a specialist, of San Francisco. Labor union organizers may now be expected to pressure patients in cardiac hospitals.

Seek Compromise Labor Bill . . .

AT THE OPENING of the Senate debate on Taft-Hartley repeal this week, it was clear that the Thomas-Lesinski bills have been written off as a mistake.

The Democratic leadership in both Senate and House, as a result, is casting about for a compromise bill which will win over enough votes for passage.

The emphasis, unfortunately, is not on what kind of a labor law will adequately meet the need but upon determining what is the minimum that Congress will demand and the maximum that labor will accept.

In the House, the task of drafting another new compromise bill has been entrusted to a subcommittee, chairman of which is Augustine B. Kelley (D-Pa.).

The new Democratic venture at compromise on the House side is hoped for by late June. By that time the Senate probably will have indicated what kind of bill it will write.

As far as the House Labor Committee is concerned, the crucial issue, one upon which compromise efforts may quickly reach deadlock, is the question of government powers in national emergency situations.

The determined resistance of three Democratic Congressmen on the House Labor Committee to any use of the injunction may mean that a compromise bill will not secure Committee approval. On vital issues the vote has been 13-12, with the Administration at best able to count on only thirteen of the sixteen Democratic members.

In the Senate, the Democratic attempts at compromise opened with a series of proposals offered by Democratic Senators Paul H. Douglas (Ill.), Lister Hill (Ala.), Hubert H. Humphrey (Minn.), and Garrett L. Withers (Ky.), which Republican Senators Aiken (Vt.) and Morse (Ore.) are reported ready to support.

The proposals add up to a re-submittal of the original administration bill with five minor amendments. These provisions relate to plant seizure in national emergencies, free speech for employers, bargaining in good faith by both unions and employers, filing financial reports of both groups, and the signing (See LABOR LAW, page 2)

Labor Law

(Continued from page 1)

of non-communist and non-fascist affidavits by both.

Senator Robert A. Taft (R-Ohio) has proposed 22 changes in the Taft-Hartley Law which, though easing the impact upon labor organizations, retains its basic objectives. It has evoked favorable comment from Senator Thomas (D-Utah), chairman of the Senate Labor and Public Welfare Committee, who considers that Mr. Taft's bill, with some changes, may be made the basis for a Senate compromise.

Senator Thomas found unacceptable, however, the provision for a 60-day injunction in national emergency situations. He specifically mentioned as easy matters for compromise the independence of the Federal Mediation and Conciliation Service, non-Communist affidavits and a requirement upon unions to bargain in good faith. In addition, he indicated he would be willing to change that provision in the present Thomas bill which nullifies state anti-closed shop laws.

Republicans are expected to seek an early showdown on the proposals for government seizure in national emergencies, advanced by the group headed by Senator Douglas.

White House Attitude

Speculation has centered upon the attitude President Truman will take toward compromise. The White House has shown little friendliness toward compromise efforts, it is believed, although minor concessions might be accepted. However, if Congress were to enact a new labor law which adheres much closer to the Taft-Hartley Law than any of the Democratic proposals so far advanced, the veto may be conceivably used to brush it aside for the purpose of throwing the whole problem into the 1950 elections.

Labor's Views

Clear statements endorsing compromise possibilities have been made by William Green, AFL president, and by Arthur J. Goldberg, CIO general counsel. Except for the injunction provisions of the bill drafted by House leaders one month ago, Mr. Green has indicated that that particular set of proposals might be a suitable basis for writing a new law. Mr. Goldberg kept open the possibility for compromise by stating in a letter to Senator Thomas:

We are mindful that in the legislative process there is room for alteration in any bill—particularly one dealing with so complex a problem as labor relations.

Included among the items in Mr. Taft's measure to which Mr. Goldberg indicated unrelenting opposition are the provisions on state closed-shop restrictions, on economic boycotts, on non-Communist affidavits and on the use of injunctions.

Social Security

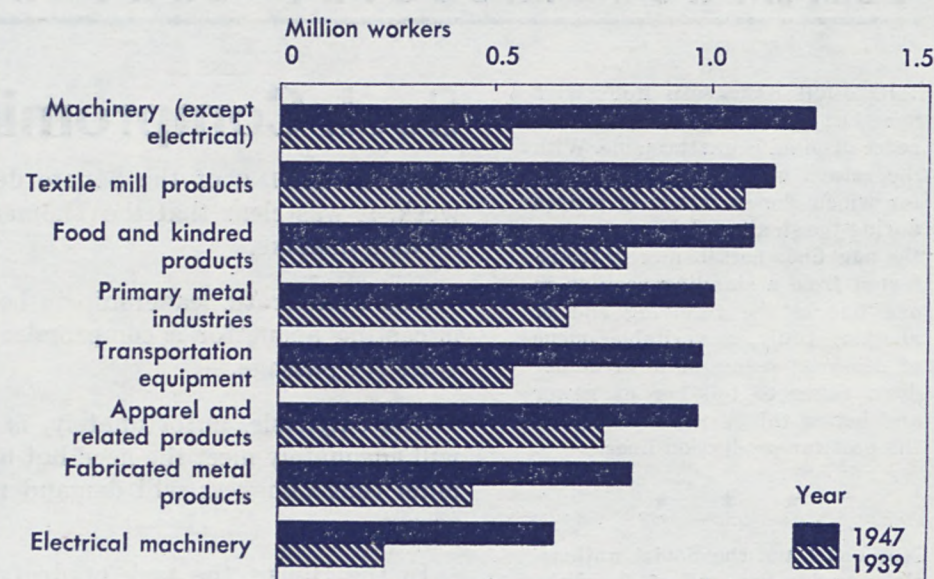
The social security committee of the Chamber of Commerce of the United States says the basic idea of social security is good. But, says the report, there is a danger of overexpansion.

The chamber of commerce position is quite in line with the original ideas advanced when social security under auspices of the federal government was adopted.—*Dodge City, Kan., Globe.*

Quotable Quote

"It must occur to sensible people to ask themselves how it is, if the American system is wrong, that the American democracy of 140 million hard working people are able to keep themselves at a far higher standard of life than we are and are able to lend us a helping hand and give us so much aid and bear so large a part of our burden."—WINSTON CHURCHILL.

Manufacturing Employment Up 53% in Eight Years



Production and related workers in manufacturing industries rose from 7,808,000 in 1939 to 11,918,000 in 1947, according to a recent release of the *Census of Manufactures: 1947*. This increase in manufacturing employment was 53%, while population was increasing only 10%.

Most spectacular increase was in the machinery (except electrical) group, which was sixth in 1939, but first in 1947. Employment was 1,244,000 in 1947, but only 536,000 in 1939, an increase of 132 per cent.

Second largest industry group in 1947 was textile mill products, with 1,147,000 employees. In 1939 this industry group was first with 1,081,000 employees, an increase of only 6% in eight years.

Third largest industry group was food and kindred products, with 1,098,000 employees. This industry group was second largest in 1939, with a 37% increase during the eight years.

Other major industry groups were: primary metal industries (fourth in both 1947 and 1939); transportation equipment (fifth in both 1947 and 1939); apparel and related products (sixth in 1947, third in 1939); fabricated metal products (seventh in both 1947 and 1939); and electrical machinery (eighth in 1947, 14th in 1939).

Preliminary reports on the almost quarter-million manufacturing establishments covered by the *1947 Census of Manufactures* are now being made available by the Government's Bureau of the Census. More detailed reports will be issued during the next few months.

ECONOMIC RESEARCH DEPARTMENT

Margin Reduction Eases Capital Financing . . .

NEW EQUITY CAPITAL from the sale of stock may be forthcoming in somewhat larger amounts as a result of a recent relaxation of security margin requirements by the Board of Governors of the Federal Reserve System.

Margin requirements for purchases of securities under subscription rights are now 25 per cent instead of 50 per cent. The importance of this relaxation, which was effective May 16, has been quite generally overlooked. Between 40 and 50 per cent of the number of stock offerings during the past year is estimated to have been under subscription rights of persons previously holding stock in the particular companies. The relaxation of margin requirements applies both to original holders and subsequent buyers of subscription rights.

Under the revised regulations of the Reserve Board, subscription purchasers must pay another 25 per cent of the total cost in cash within nine months to be eligible for further purchases with 25 per cent down payments.

Will Stimulate Investment

Maintenance of a high level of capital investment is especially desirable in view of the current downward trend of business. By permitting increased use of credit for the purchase or carrying of securities, the easing of margin requirements may stimulate the flow of funds needed to finance such capital investment.

Funds obtained from the sale of stock have been small, relative to total capital expenditures during recent years. Stock issues in the three years 1946-48 inclusive accounted for only \$3.7 billion, or 4½ per cent of the \$82.2 billion of capital invested in corporate business. To finance their capital expenditures, corporations have retained a high proportion of their earnings and have borrowed substantially from banks and life insurance companies.

Under existing conditions even some of the larger and more successful corporations have had difficulty in recent months in marketing new stock issues under subscription rights. The situation has been especially serious for public utility corporations, including local concerns in various cities. The relaxation of margin requirements already has had a favorable effect where subscription rights are dealt with in the market.

Need for Expansion

The easier financing for the needs of expanding business is of such importance as to warrant the attention of corporation officials and bankers. The greater availability of new equity capital should

make it possible for business and particularly the public utilities to keep pace with the growth of population and the need for expanded services as well as to avoid unemployment.

Margin requirements are imposed by the Reserve Board under the authority of the Securities Exchange Act of 1934. Regulation T of the Board relates to extensions of credit by brokers and dealers on listed securities and Regulation U to loans by banks on stocks. Prior to World War II the margin requirement on both classes was 40 per cent, which meant that 60 per cent of the market value could be borrowed. From January 1946 to the end of January 1947 the margin requirement was fixed at 100 per cent, which meant that there could be no use of credit for purchasing or coupling securities. From February 1, 1947 to March 29, 1949, the margin requirement was 75 per cent, purchasers being able to borrow 25 per cent of the value of listed securities. Effective March 29, 1949, the Board reduced margin requirements to 50 per cent in the light of the general credit situation of the country.

A 50 per cent margin requirement was established December 1, 1946 for the purchase of securities offered under subscription rights, and this was continued to May 16, when the present provision as to subscription rights was introduced. Margin requirements, except for subscription rights, continued at 50 per cent.

The Chamber answers assertions that

Medical Bill a Menace to Health

WITH THE PUBLIC spending—as of 1947—\$10 billion for intoxicating drinks, \$4 billion for tobacco and \$2 billion for cosmetics, a doctors' bill of \$1.7 billion the same year does not indicate the need for socialized medicine to make medical service more widely available, the National Chamber points out.

A brochure just published by the Chamber under the title, *You and Socialized Medicine*, says:

If Americans want to double, or even triple, this \$1.7 billion, they could easily do so by cutting down a little on unnecessary things.

A socialized medicine law, says the pamphlet, would injure the health of the people and jeopardize traditional American liberties. It would, the Chamber declares, constitute a big step towards socialism in general, since "a huge new government bureaucracy would be created, with a widespread destruction of voluntary institutions."

a serious health crisis exists with the statement that, on the contrary, the nation's health is extremely good.

Socialized medicine, says the Chamber, would be "bad medicine" in the United States. Five reasons are given:

1. The present shortage of doctors would be made worse, as physicians were taken out of general practice to fill administrative jobs with the government.

2. Physicians would have to waste untold hours treating malingerers and hypochondriacs who would rush in to get something free.

3. None of the three methods so far proposed for paying the doctor under socialized medicine works satisfactorily.

4. The cooperative interrelationships of thousands of health organizations would be destroyed.


5. The government's past failures in the medical field suggest an even more dismal failure if a compulsory health insurance law is enacted.

Single copies of the pamphlet, *You and Socialized Medicine*, are free. The quantity price is \$3 a hundred.

GERMAN CHEMICAL PATENTS:

Among U. S. Patents now available for licensing by the Office of Alien Property, Department of Justice, on a royalty-free, non-inclusive basis, are two which were formerly owned by a subsidiary of I. G. Farbenindustrie, A. G., the German chemical trust, and were seized by the Attorney General as enemy property. David L. Bazelon, Assistant Attorney General in charge of the Office of Alien Property, said that these patents cover important processes by which substantial savings can be realized in the production of acetic and other acid anhydrides. The patents are Nos. 2,166,997 and 2,177,494.

MOVIES: The Commerce Department reports a total of 90,097 motion picture theaters with a seating capacity of 48,750,147. Some of these, however, are outside the U. S., and are probably called cinema houses.



BUSINESS ACTION
Published weekly
by the
CHAMBER OF COMMERCE OF THE UNITED STATES
1615 H ST., N. W., WASHINGTON 6, D. C.
Subscription rate, \$2.00 a year
Subscriptions accepted from members only
Entered as second-class matter February 7, 1943, at the post office at Washington, D. C., under the Act of March 3, 1879.

Compromise Seen In Tidelands Fight

AT ISSUE between the federal and state governments since the late 30's has been the question of ownership of the California and Gulf states offshore oil lands. Advanced forcefully by official representatives of most of the states is the argument that the question is one of states rights.

It is contended that, should the federal government establish title to these coastal areas, it might well extend its control to the lands beneath all navigable waters.

The Supreme Court in 1947 held that the federal government had paramount rights in the oil lands off the California coast. This decision was limited to California and the question of actual ownership remains unresolved.

A bill to establish states ownership of coastal tidelands was enacted by Congress in 1946, but was vetoed by President Truman. A similar measure passed the House last year but failed of Senate action.

States Fight Decision

Now the federal government is seeking to establish control over the Gulf tidelands contiguous to the shores of Texas and Louisiana. Last month the Supreme Court authorized the government to sue the Gulf states. The states are offering vigorous resistance.

Meanwhile, representatives of Louisiana, Texas and California have been in conference with government representatives in an attempt to work out a solution of the dispute for control of the oil and mineral rights beneath coastal waters.

Perpetual Lease Proposed

The states are reported suggesting that they should receive what is tantamount to a perpetual lease on their immediate offshore waters, three miles seaward of the low-water mark in most cases, 10½ miles seaward in the case of Texas.

Within this belt the federal government would retain "paramount right," but the state governments would exercise actual control—the right to let leases, police power, and control of revenue from the area.

The states would turn over to the federal government 37½ per cent of the revenue collected from oil wells and other exploitation of the submerged areas in this belt.

The federal government would have the paramount rights and control over the waters beyond the marks indicated. The U. S. would pay to the states 37½ per cent of any revenue from operations in this area.

The federal government would sur-

render to the states full rights and control of all inland waters—including bays and harbors.

If a possibility of settlement along the lines suggested by the state authorities appears feasible, a bill embodying their proposals is expected to be introduced in the Senate by Chairman O'Mahoney, of the Interior and Insular Affairs Committee. Such action, however, will be taken only if Administration approval is forthcoming.

States Would Ratify

Under terms of the proposed legislation, state legislatures would be given a two or three year period to ratify, the legislation applying only to states that have ratified.

A policy declaration of the National Chamber is to the effect that Congress should give statutory recognition to state ownership and disposition "of all lands beneath navigable waters within the boundaries of each of the respective states, including lands beneath tidal waters."

AID TO EDUCATION:

Officials of Marshall Plan countries are to be brought to the U. S. by the ECA to brush up on the finer points of government administration, including how to improve fiscal policies. Planned cost—\$500,000. An additional \$800,000 is earmarked for sending ECA envoys abroad to spread the American gospel of faultless financial management. In view of the U. S. Treasury's prospect of a deficit of considerable size, the two-way educational effort may appear to observant Europeans as ingenious rather than ingenious.

GAS DETECTOR:

One part carbon monoxide gas in half a billion parts of air can be detected by a small supersensitive instrument developed by the National Bureau of Standards. One part of this poisonous element which occurs in the exhaust of automobile engines, to 10,000 parts of air can affect human beings. The detector is about the size of a fountain pen.

National Chamber Calendar

- JUNE 12-18**—Western Institute, Whittier College, Whittier, Calif.
- JUNE 17-18**—Board of Directors.
- JUNE 19-25**—Southeastern Institute, Univ. of North Carolina, Chapel Hill.
- JULY 10-16**—Southwestern Institute, Baker Hotel, Dallas.
- JULY 17-23**—Rocky Mountain Institute, University of Montana, Missoula.
- AUG. 7-13**—Northeastern Institute, Yale University, New Haven, Conn.
- AUG. 14-20**—National Institute, Northwestern University, Evanston, Ill.

Shanghai a Problem For Red Conquerors

FIRST MAJOR TEST of the Communist Chinese' capacity to govern China is now in process at Shanghai. That great metropolis of the East presents a problem, even an approximate solution of which will strain to the utmost the concerted skill and ingenuity of the Red leadership.

Whether organization ability commensurate to the administration of China's Westernized gateway city exists in the Communist forces—composed, as for the most part they are, of combat elements—will soon become apparent.

From its complex character, Shanghai presents a much more formidable difficulty than anything the Chinese Red "reformers" have ever encountered. The city, one of the world's largest and Asia's most populous, long has had to depend for its very existence upon outside aid. For its growth and prosperity, it has relied upon foreign experience, trade and control.

So, if the "visionary" conquerors are to make good their Utopian claims in the eyes of the Chinese people, they must demonstrate their qualifications at Shanghai. Should they flounder in their attempts to administer the affairs of the metropolis, the fact will not long remain unknown to the people of China.

Civic maladministration will in time reveal to an enlightened populace incompetence of the Communist high command to govern the country as a whole. What may be the eventual outcome from this is problematical, because Oriental behaviorism under any set of circumstances seldom follows the Occidental pattern.

What has too frequently been demonstrated in the West is that a well-organized, adequately armed, closely knit, ruthless minority can maintain an authoritarian regime in power almost indefinitely, regardless of the popular will or what the dictatorship does to or for the populace as a whole.

However, while such cruel serfdom can be maintained in Eastern Europe, China may make manifest difficulties which the Communist dictatorial zealots might well find insurmountable. There are so very many Chinese.

WORLD'S BEST CAR: With customary Muscovite modesty, the Soviet automobile industry announces it will soon produce the world's best car. Inasmuch as Pravda probably claims that a Russian retroactively invented the gas buggy back in the early 60's, this perfection effort is by no means overdue.

Steinkraus Commends Efforts to Cut Spending . . .

PLEDGING SUPPORT of the National Chamber and its member organizations, Chamber President Herman W. Steinkraus in a letter sent during the week to all members of the Senate commended current efforts to develop a formula for keeping proposed government expenditures below probable revenues.

Mr. Steinkraus urged that all expenditures be weighed against benefits to be derived from balancing expenditures against such revenues as can be raised without undue strain on the national economy. Congress would perform a public service, he added, by balancing the budget without an increase in an already oppressive burden of taxation.

Difficulties Recognized

Mr. Steinkraus' letter said:

With full appreciation of the difficulties confronting the Congress, I desire, on behalf of the Chamber of Commerce of the United States, to express approval of efforts by members of both parties to find a method of reducing proposed expenditures below the level of probable revenues.

The approaching critical stage in the fiscal affairs of the government, by reason of mounting expenditures and declining receipts, calls for recognition that national financial stability is vital for economic strength.

I am fully aware that national defense, international affairs, veterans' benefits and interest on the public debt account for about three-fourths of the 1950 budget and that praiseworthy, even essential, projects are included in the remainder.

Balanced Budget Essential

The Chamber of Commerce of the United States stands for a strong defense and favors adequate foreign aid, but the importance of these and other budget items, taken separately, must be weighed against the benefit to be derived from balancing expenditures as a whole against such revenues as can be raised without undue strain upon the economy.

I recognize the exceedingly perplexing problem faced by members of Congress in deciding upon appropriation bills one by one. It is all the more important, therefore, that Congress devise means by which all government costs may be appraised and adjusted to meet the realities of the crucial budget situation which is developing. Attainment of a balanced budget, without an increase in the already oppressive burden of taxation, would be a service in the public interest.

State and Local Projects

The member organizations of the Chamber, in their recent annual meeting, gave strong emphasis to the importance of curtailing government expenditures and requested business organizations to refrain, and use their influence to persuade others to refrain, from exerting pressure upon members of Congress for the appropriation of funds for the benefit of individual states and local communities.

The Chamber and its member organizations

desire to do their part in support of a program to hold down expenditures, and looking toward curtailment of the debt and reduction rather than increase of present taxes. These objectives are basic in a solution of our fiscal problems. Your efforts to accomplish them will be appreciated by all thoughtful citizens.

CALLED THE SHOT: In his biography of John Nance Garner, Bascom N. Timmons quotes the Democratic leader in connection with his receiving the information in 1933 that President Roosevelt had extended U. S. recognition to Soviet Russia. Said the then Vice President: "It's all through and the dishes wiped, so far as I am concerned. I hope it turns out better than I think it will."

Eleven Countries in Education Exchange

AGREEMENTS concluded with the Netherlands and Norway for exchange of teachers and students under the Fulbright Act bring to 11 the number of countries which will cooperate with the United States in this enterprise.

Besides the two which have just agreed to participate, the following earlier had signed agreements: Belgium, Luxembourg, Burma, China, France, Greece, Italy, New Zealand, the Philippines and Great Britain.

Foreign Currencies Used

The Fulbright Act, signed August 1, 1946, provides that some of the currencies and credits of other countries acquired through the sale of U. S. surplus property abroad may be used for educational exchanges. There are no American dollars available under the program, consequently the expenses paid must be those for which foreign currencies will be accepted.

Americans approved for graduate study abroad under the program receive maintenance, tuition and incidental expenses. Those approved for teaching or research may have a stipend in addition. Travel expenses may be paid where this can be done with the foreign currency available, which usually means that the student must finance his own ocean crossing.

Scholarships a Help

For foreign students, on the contrary, the fund can pay traveling expenses to this country, but not tuition or maintenance here. Universities and other institutions in this country which grant scholarships to foreign students can obtain funds under the Act to pay the travel expenses of such students, often a great help.

Foreigners who study or teach in American institutions in the participating countries may obtain maintenance, tuition and incidental expenses as well as travel. The number benefiting under the Act naturally is limited.

To help in the administration of the Act, the Government has created a Board of Foreign Scholarships, composed of 10 members, made up of distinguished educators from different parts of the country, together with representatives of the U. S. Office of Education and the Veterans Administration.

MEMORY MACHINE: For tabulation of census information, a "memory machine" is being constructed for the U. S. Bureau of the Census. It operates by magnetic impulses from a tape to which have been transcribed the several elements of the mathematical problem it is required to solve. Should an error occur on the tape, the machine stops so far as this part of the problem is concerned, but proceeds with the remainder. After the tape error is corrected, the machine picks up the relinquished computation and completes it.

Institute Denies Power Shortage

WHAT the Edison Electric Institute calls a reply to government claims of an acute power shortage has been released by the nation's privately owned and operated power systems.

It is in the form of an up-to-the-minute survey, based on an institute study of the over-all situation, and showing power surpluses in all areas of the country except the Pacific Northwest.

Record installations of generating equipment, said Walker C. Cisler, executive vice-president of the Detroit Edison Co., who is spokesman for the group, will enable the industry to attain a safe margin of reserve for peacetime and national defense requirements by 1951.

Reserve margin is the amount of generating capacity in excess of probable demand and the normal or desirable figure is 15 per cent. Mr. Cisler expects reserves to reach 12 per cent in 1950 and 15.6 per cent in 1951.

The industry is engaged in a \$9 billion four-year expansion program, the most ambitious ever undertaken. It is scheduled for completion in 1951 and will have added 23,500,000 kilowatts to the electric power systems when finished.

Capacity at the end of the last war year was slightly in excess of 50,000,000 kilowatts.

Delivered Pricing Practices . . .

PROSPECTS for legislation designed to prevent prosecution of sellers who independently sell on a delivered price, or absorb freight rates, appeared brighter with passage during the week of a new bill offered by Senator O'Mahoney (D., Wyo.).

The O'Mahoney measure was introduced as a surprise substitute for the so-called Moratorium Bill put forward by Senator Myers (D., Pa.). It has bipartisan support.

The House Judiciary Committee quickly moved to discuss the merits of the O'Mahoney Bill as compared with its previously reported Moratorium Bill. The prospects are that with some possible minor amendment the new bill will be substituted for the Moratorium Bill, with probable early House action.

Provisions of Bill

The bill provides that independent use by a seller of delivered pricing or freight absorption would not constitute an unfair method of competition in violation of the Federal Trade Commission Act. Combinations or collusive agreements involving the use of such pricing practices, however, would continue to be subject to prosecution under this Act.

New language proposed to be added to the Robinson-Patman sections of the Clayton Act specifies, among other things, that independent selling at identical delivered prices shall not constitute an unlawful price discrimination. Absorption of freight "to meet the equally low price of a competitor in good faith" would also be permitted, except where the effect of such absorption "will be to substantially lessen competition."

Mill-Net Definition Discarded

"Price" is defined as having the meaning given that term under the commercial law applicable to the transaction. A principal effect of this and other provisions would be to nullify the so-called "mill-net" definition of price. Under the definition followed in several court cases, the net return to the seller after deducting his freight costs has been treated as the basis for determining whether or not there has been a price discrimination.

By making the delivered price paid by

a purchaser the test of price discrimination, rather than the "mill-net" of the seller, there would be no discrimination where a seller markets a product to all competing buyers at the same price. If delivered prices charged to purchasers in competition with one another vary, such differences could be held to be unlawful where the FTC finds that they would have the effect of "substantially lessening competition."

Purpose to Dispel Fear

The bill aims primarily to dispel widespread fears that the law might ultimately be construed to require all sellers to market their products solely on an f.o.b.-plant price basis. Such fears have been heightened by action of the Supreme Court recently in upholding the FTC order in the *Rigid Steel Conduit Case*. This action has been generally viewed as opening the way for attack upon individual delivered pricing or freight absorption practices, whether or not involving a combination, conspiracy, or illegal agreement.

Questions which arise where several competing sellers offer a product to buyers at a particular destination at identical prices would not be clarified by this bill. Such price identity has heretofore been viewed by the Federal Trade Commission and the courts as suggestive of conspiracy or collusion among sellers. Because of its complexities, no likelihood appears of legislation this session which would deal with this problem.

At its recent annual meeting the Na-

THREE DIMENSIONAL FILM: Egon Wendelboe Schriwer, Danish scientist, has solved the long baffling problem of third dimensional plastic film, according to a Copenhagen dispatch. Apparently, this will transplant to the motion picture screen the visual effects revealed by the stereoscope of half a century ago.

The new invention is based on a special system combined with a new type screen, details of which are withheld pending the granting of international patents. The Copenhagen report states that the system will bring to motion pictures depth, perspective and a natural appearance to an astonishing extent.

tion Chamber urged prompt congressional action to assure to sellers that, in the absence of a conspiracy, combination or illegal agreement to fix prices, they may sell at delivered prices, and may compete with other sellers located closer to prospective customers by equalizing transportation costs or by absorbing part or all of such transportation costs, in order to have a competitive price.

Byrd Asks Public To Support Savings

SEEKING TO AVOID any increase in taxes, Senator Harry F. Byrd, of Virginia, is striving to mobilize public sentiment in support of a bipartisan program for reduction in spending.

In a memorandum accompanying a reprint of a recent speech in the Senate, Senator Byrd draws attention to two proposals. The first is a scheme for a cut from \$2 to \$3 billion under a formula yet to be perfected and suggested as an amendment to the last appropriation bill of the session. The second is a plan for consolidation of all appropriation bills in a single measure, as provided in a resolution sponsored by Senator Byrd and seven other Senators.

Senator Byrd said that approval of a blanket retrenchment formula would be of incalculable value in the general program for economy. He predicted that it will be bitterly opposed, but expressed hope of its approval providing the citizens of the nation realize its importance and impress upon their representatives in Congress their desire that this course be followed.

With respect to the single appropriation bill plan, which the House Appropriations Committee intends to adopt next session, Senator Byrd described it as "vital to any general program for retrenchment because the appropriation picture is now so confused by the provisions of twelve to twenty separate money bills it is impossible for members of Congress or the people intelligently to consider the matters at issue."

Senator Byrd warned against "disastrous results of imposing huge new taxes upon a declining business economy."

6 ★

BUSINESS ACTION • June 10, 1949

ENTERED AS SECOND CLASS MATTER AT WASHINGTON, D. C.

JUN 13 1949

MERRILL LYNCH, PIERCE, FENNER & BEANE

SEVENTY PINE STREET

NEW YORK 5, N. Y.

TEL. WHITEHALL 4-1212

June 10, 1949

Mr. Eugene Meyer
The Washington Post
Washington, D. C.

Dear Mr. Meyer:

Mr. Winthrop H. Smith, who is out of town today, has asked me to write you regarding any special effects of the recent change in Federal Reserve Board Regulations permitting the carrying of securities subject to Rights on a 25% margin basis.

In order to obtain the most reliable information possible upon which to base conclusions, I addressed the following message to a number of our offices in various parts of the country:

"ON MAY 16TH FEDERAL RESERVE LIBERALIZED RULES PERMITTING THE CARRYING OF SECURITIES SUBJECT TO RIGHTS ON 25% MARGIN. SO FAR HAS ANYTHING HAPPENED TO INDICATE CLEARLY THAT THIS MODIFICATION WAS HELPFUL TO BUSINESS AND APPRECIATED BY CUSTOMERS. RACE REPLY."

At this writing, a number of replies have been received. These replies vary in nature from complete indifference to real enthusiasm, and representative ones are quoted below:

"RE YOUR WIRE, NEW RULING 25 PER CENT ON RIGHTS SUBSCRIPTION WE HAVE RECEIVED ONLY SMALL AMOUNT OF BUSINESS SO FAR BUT EVERYONE WE EXPLAINED TO WAS FAVORABLY IMPRESSED AND WE DO FEEL WILL EVENTUALLY PROVE BENEFICIAL."

"RE YOUR WIRE, THERE HAVE NOT BEEN MANY OPPORTUNITIES COME UP SINCE THE NEW RULING. HOWEVER, WE HAD ONE MAN GO FOR 1700 SOUTH CAROLINA NATURAL GAS RIGHTS AND HE BROUGHT IN A FRIEND WHO OPENED A NEW ACCOUNT AND BOUGHT 2000. THESE WOULD NOT HAVE TAKEN PLACE ON OLD BASIS."

"RE YOUR WIRE ON 25PERCENT ON SUBSCRIPTION, WHILE WE HAVE NOT AS YET PRODUCED ANY BUSINESS THIS BASIS THE ACCOUNT EXECUTIVES THINK IT IS A BUSINESS GETTER AND GLAD THEY HAVE THIS TO WORK WITH."

"ABSOLUTELY NOTHING HAS HAPPENED HERE AS YET TO INDICATE THIS MODIFICATION OF RIGHTS MARGIN HAS HELPED BUSINESS OR IS APPRECIATED BY CLIENTS. IT SEEMS THOSE WHO WANT TO SUBSCRIBE STILL HAVE SOME MONEY LEFT."

Mr. Eugene Meyer

June 10, 1949

"RE YOUR WIRE FEDERAL RESERVE RULES PERMITTING THE CARRYING OF SECURITIES SUBJECT TO RIGHTS ON 25 PER CENT BASIS, HAVE HAD SEVERAL INQUIRIES FROM CUSTOMERS ABOUT IT BUT NONE OF THEM ACTUALLY ACTED ON IT AS YET. HOWEVER, FEEL THAT BECAUSE OF THE LACK OF GENERAL BUYING INTEREST SINCE THIS RULING WENT INTO EFFECT IT IS TOO SOON TO LEARN FULL EFFECT THIS MIGHT HAVE."

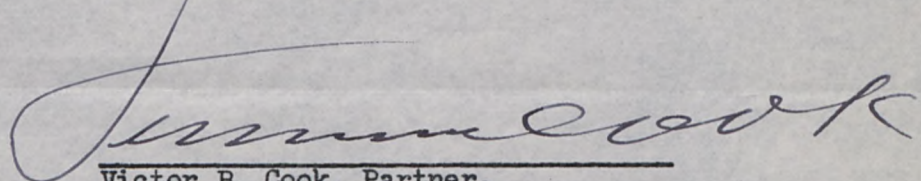
"RE YOUR WIRE RE SUBSCRIPTION RIGHTS ON 25 PER CENT MARGIN WE HAVE NOT HAD A CUSTOMER TAKE ADVANTAGE OF THE PRIVILEGE AND AS FAR AS I CAN FIND NONE INTERESTED SO FAR."

"YOURS RE 25 PER CENT MARGON ON EXERCISED RIGHTS, AS FAR AS WE ARE CONCERNED CAN SEE ABSOLUTELY NO DIFFERENCE TO DATE. THE THING THAT WOULD REALLY HELP TO UNFREEZE MONEY FOR RISK CAPITAL WOULD BE PERMITTING NEW STOCK OF LISTED ISSUES TO BE CARRIED ON MARGIN. FOR EXAMPLE, WE COULD HAVE SOLD TWICE THE AMOUNT OF CLINTON IF COULD HAVE BEEN CARRIED EVEN ON 75 PER CENT MARGIN."

"ANSWERING YOURS RE FEDERAL RESERVE RULING ON 25 PER CENT MARGIN ON RIGHTS SUBSCRIPTIONS, AT THIS OFFICE WE HAVE NOT NOTICED ANY RESULT WHATSOEVER."

After we have had an opportunity to study the question further, undoubtedly Mr. Smith will wish to make additional comments. As a firm, however, we believe that the change was a most constructive one and are grateful to you for your efforts to bring it about.

Yours very truly,



Victor B. Cook, Partner.

VBC:ACR

JUN 14 1949

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N. Y.

LEROY A. WILSON
PRESIDENT

EXCHANGE 3-6000

June 13, 1949

Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

Your letter of June 9 attaching a copy of BUSINESS ACTION is much appreciated. I hope before too long I have the opportunity to meet you personally, not only to thank you for your activity in this respect but also you may be interested in some of our problems and objectives which lie ahead.

Sincerely yours,

Leroy A. Wilson

2
JUN 14 1949

CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON



HERMAN W. STEINKRAUS
PRESIDENT

June 13, 1949
(Dictated 6/10/49)

Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

Your nice letter of June 1 awaited me upon coming to Washington.

I understand that you have already been sent copies of the bulletin that was issued as a result of our original conversation and your later conference with John O'Connor. Of course this bulletin gets very wide distribution and may have a beneficial effect. I greatly appreciated your mentioning this matter because it is the type of thing on which we should serve our members.

I am here for a very short period on some special appointments, but will look forward to seeing you, I hope, on my next visit.

With kind regards,

Sincerely yours,

Herman W. Steinkraus
President

This document is protected by copyright and has been removed.

Author(s):

Article Title: Copper, Zinc Prices Dropped Again Last Week; Lead Unchanged

Journal Title: Wall Street Journal

Volume Number:

Issue Number:

Date: June 13, 1949

Page Numbers:

June 15, 1949

Dear Mr. Wilson:

Thank you for your letter of the 13th. I shall be delighted to meet you personally. At this time of the year I live in Mount Kisco over the week-ends, at Byram Lake not far from Walter Gifford's place. I also pass some time in downtown New York. I will permit myself to give you a ring on the phone and have a visit at a time mutually convenient.

I was glad to hear that your new issue is assured of going over the top. It is a rather large and formidable undertaking. The market conditions during the period in which the offer was open were, to say the least, not the most favorable. But I personally had no doubts that the stockholders would exercise their rights or sell them to those who would, at a price that would make the issue a complete success.

I enjoy knowing your representatives here in the Chesapeake & Potomac.

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. Leroy A. Wilson, President,
American Telephone and Telegraph Company,
195 Broadway,
New York 7, N. Y.

June 15, 1949

My dear Mr. Cook:

Thank you for your letter of June 10. On the whole I think the replies are encouraging because, in spite of some showing no interest, others show definite results.

It must be borne in mind that practically all of the time that this amendment to the regulations has been in effect has been a period of sharply declining markets and liquidation rather than accumulation. Had it been the reverse, I think the receptivity might have been quite important.

I would be glad to hear from you or Mr. Smith anything on this front that you may see develop, if anything should develop.

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

Mr. Victor B. Cook,
Merrill Lynch, Pierce, Fenner & Beane
70 Pine Street,
New York 5, N. Y.



JUN 16 1949

SOCONY-VACUUM OIL COMPANY

INCORPORATED

26 Broadway, New York 4, N. Y.

OFFICE OF THE PRESIDENT

June 15, 1949

Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

Thank you for your letter of June 10th. I have been concerned regarding the dearth of equity capital for some time, and your constructive interest in this question and your efforts in promoting the recent amendments to the regulations of the Federal Reserve Board are deeply appreciated by the management of our company and by industry generally. It is fortunate that an increasing number of the country's leaders are calling attention to this extremely serious matter, and I hope that as the problem becomes better understood, constructive changes also will be made in our fiscal policy.

I shall, of course, do my best to follow the suggestion in the next to the last paragraph of your letter.

Yours very truly,

B. B. Jennings



FOUNDED 1916

NATIONAL INDUSTRIAL CONFERENCE BOARD

INCORPORATED

247 PARK AVENUE, NEW YORK 17, N. Y.

JUN 17 1949

CLYDE L. ROGERS
SECRETARY

June 16, 1949

Hon. Eugene Meyer
The Washington Post
1337-43 E Street, N.W.
Washington 4, D. C.

Dear Mr. Meyer:

Thanks for sending me that interesting item
in the most recent Chamber of Commerce weekly report.

With all best wishes, I remain

Cordially yours,

Clyde L. Rogers
Secretary

CLR:LG

CRANES CREST

Smith circular sent without letter to

Stevenson, Jordan & Harrison, Inc.
New York.

B. B. Jennings, President,
Socony-Vacuum Oil, New York

Floyd R. Harrison (10)

John S. Sinclair

James B. Black

John M. Hancock

William C. Mullendore

Winthrop H. Smith

Murray Shields

Alexander C. Nagle

Louis S. Cates

NATIONAL ASSOCIATION OF ELECTRIC COMPANIES

SUITE 510, 1200 EIGHTEENTH STREET, N. W.

WASHINGTON 6, D. C.

P. L. SMITH
PRESIDENT

June 20, 1949

TO ALL MEMBER COMPANIES AND OTHER
ELECTRIC LIGHT AND POWER COMPANIES:

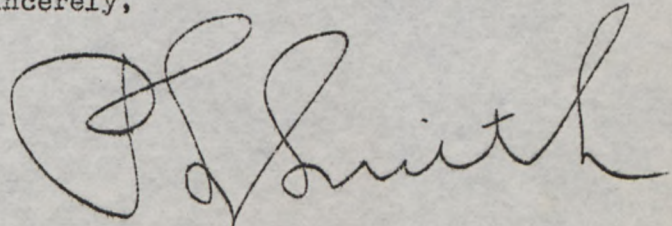
Mr. Eugene Meyer, owner of the Washington Post, has suggested that we recommend to all companies in our industry that when advising your stockholders of, or when mailing to them stock subscription or convertible debenture rights, that you call their attention to the amendments made May 16th, 1949 by the Board of Governors of the Federal Reserve System, to regulations "T" and "U" (margin requirements); increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights.

Mr. Meyer, many years ago, was Governor of the Federal Reserve Board (equivalent to Chairman as of today) and also for a while was the first Chairman of the Reconstruction Finance Corporation. He is very much interested in furthering equity financing. We are happy indeed to pass on this suggestion to you and recommend its adoption by the various companies when appropriate.

If any of you would like copies of these two amendments we would be glad to send them to you, but of course they are easily obtainable from your banks and investment brokers.

The Chamber of Commerce of the United States, in its weekly report entitled "Business Action" of June 10, on page 3, contained a description of this action by the Federal Reserve System but did not contain the suggestion that companies sending out rights should call attention of the stockholders to the relaxed borrowing provisions.

Sincerely,



PLS:oj

NATIONAL ASSOCIATION OF ELECTRIC COMPANIES

SUITE 510, 1200 EIGHTEENTH STREET, N.W.

WASHINGTON 6, D. C.

P. L. SMITH
PRESIDENT

June 20, 1949

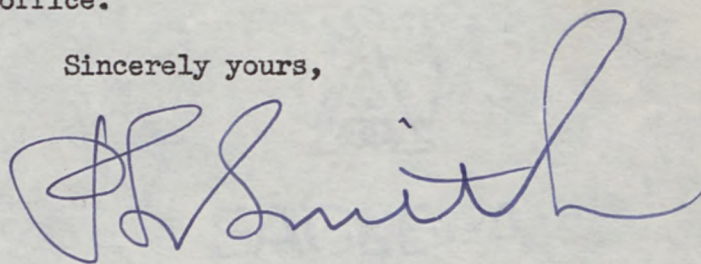
JUN 21 1949

Mr. Eugene Meyer
The Washington Post
1337 E Street, N. W.
Washington, D. C.

Dear Mr. Meyer:

In line with our conversation of Friday,
I am enclosing six copies of the letter sent out today
which were requested by your office.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "P. L. Smith". The signature is fluid and cursive, with a large initial "P" and "S".

PLS/t
Encl-6

NATIONAL ASSOCIATION OF ELECTRIC COMPANIES

SUITE 510, 1200 EIGHTEENTH STREET, N.W.

P. L. SMITH
PRESIDENT

WASHINGTON 6, D. C.

June 20, 1949

TO ALL MEMBER COMPANIES AND OTHER
ELECTRIC LIGHT AND POWER COMPANIES:

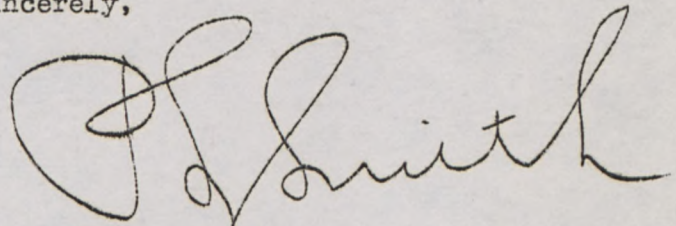
Mr. Eugene Meyer, owner of the Washington Post, has suggested that we recommend to all companies in our industry that when advising your stockholders of, or when mailing to them stock subscription or convertible debenture rights, that you call their attention to the amendments made May 16th, 1949 by the Board of Governors of the Federal Reserve System, to regulations "T" and "U" (margin requirements); increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights.

Mr. Meyer, many years ago, was Governor of the Federal Reserve Board (equivalent to Chairman as of today) and also for a while was the first Chairman of the Reconstruction Finance Corporation. He is very much interested in furthering equity financing. We are happy indeed to pass on this suggestion to you and recommend its adoption by the various companies when appropriate.

If any of you would like copies of these two amendments we would be glad to send them to you, but of course they are easily obtainable from your banks and investment brokers.

The Chamber of Commerce of the United States, in its weekly report entitled "Business Action" of June 10, on page 3, contained a description of this action by the Federal Reserve System but did not contain the suggestion that companies sending out rights should call attention of the stockholders to the relaxed borrowing provisions.

Sincerely,



PLS:oj

June 21, 1949

My dear Mr. Bennion:

I am enclosing copy of a circular letter sent out by Mr. P. L. Smith of the National Association of Electric Companies. I mentioned the Edison Electric Institute to him and I think he said he would send you a copy.

I am sending it to you with the idea that, if you should deem it appropriate to do anything in connection with your memberships which may not belong to his Association, it would be advisable to mention the fact that the 25% margin loans authorized under the amendment to the regulation of the Federal Reserve Board are applicable for a period of 9 months after which the loans become subject to margin requirements on the basis of other collateral loans, namely, 50%.

It seems to me that the 25% figure for 9 months might be constructively helpful in connection with the new issues of utility companies for equity financing.

Very truly yours,

Eugene Meyer

Mr. Howard S. Bennion,
Edison Electric Institute,
420 Lexington Avenue,
New York, N. Y.

June 21, 1949

Dear Mr. Steinkraus:

I am sure you will be interested in the enclosed letter to the members of the National Association of Electric Companies.

Sincerely yours,

Eugene Meyer

Mr. Herman W. Steinkraus, President,
Bridgeport Brass Company,
30 Grand Street,
Bridgeport 2, Conn.

Encl.

June 21, 1949

Dear Phil:

The enclosed letter from the President of the National Association of Electric Companies here in Washington will perhaps be of interest to you.

It has to do with the amendment to the regulations of the Federal Reserve Board which was announced recently, which I think is capable of being made useful in the equity capital account of industrial companies in general, but particularly in the utility field. The General Electric has, I understand some interest in this field.

I also enclose a bulletin which the U. S. Chamber of Commerce got out, which also discusses the subject on page 3. This bulletin goes to about 50,000 business people.

With kind regards, I remain,

Sincerely yours,

Mr. Philip D. Reed, Chairman,
General Electric Company,
570 Lexington Avenue,
New York 22, N. Y.

Encl.

June 21, 1949

My dear Mr. Schwartz:

The enclosed will interest you if you have not seen it, which probably is the case.

Sincerely yours,

Eugene Meyer

Mr. A. Charles Schwartz,
Bache & Co.,
36 Wall Street,
New York, N. Y.

Encl. [National Association of Electric Companies circular]

JUN 24 1949

EDISON ELECTRIC INSTITUTE

420 LEXINGTON AVENUE, NEW YORK 17

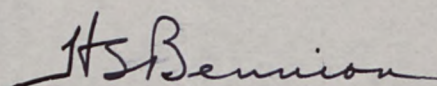
June 23, 1949

Mr Eugene Meyer
The Washington Post
Washington 4, D C

Dear Mr Meyer

Thanks ever so much for your letter of June 21 calling to my attention the advantageous possibilities of the new Federal Reserve regulations on margin requirements from the standpoint of utility equity financing. I am calling it to the attention of our members.

Very truly yours



H S Bennion
Managing Director

HM

BACHE & Co.

36 WALL STREET
NEW YORK

JUN 24 1949

June 23, 1949

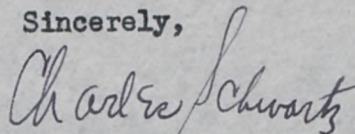
Mr. Eugene Meyer
The Washington Post
Washington, 4, D. C.

Dear Mr. Meyer:

Thanks very much for your enclosure re regulations "T" and "U".

We naturally were informed of this, as it is necessary in turn to keep our customers informed, but it is always nice to hear from you, and I appreciate your interest.

Sincerely,



A. Charles Schwartz

ACS:CB

16

*Please return
to EM*

FEDERAL OPEN MARKET COMMITTEE
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release

June 28, 1949

The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market, and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.

11

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Thursday, March 3, 1949

March 2, 1949

The Board of Governors announced today modification of Regulation W, effective next Monday, March 7, making the maximum maturity uniformly 21 months, instead of 15 to 18 months, on all extensions of consumer instalment credit, and reducing down payments on furniture, appliances, etc., from 20 per cent to 15 per cent, while retaining the 33-1/3 down payment on automobiles.

This modification is based on continuous study of the operations of the Regulation since it was reinstated last September, and on the experience of Federal Reserve Banks and their branches in its administration in the field.

In recommending last summer that Congress authorize reinstatement of the Regulation, the Board stated that the authority would be used flexibly and that the Board would be ready at all times to tighten or relax the terms in accordance with the objectives of the authority and with a view to sound credit conditions. The amendment also contains two minor modifications of a technical nature.

The text of the amendment is attached.

Attachment

AMENDMENT NO. 3 TO REGULATION W

Issued by the Board of Governors of the Federal Reserve System

Regulation W is hereby amended in the following respects, effective March 7, 1949:

1. By inserting the following immediately after the words "structure or" and immediately before the number "(2)" in section 7(g) of the regulation:

"other entire unit designed for residential occupancy, or"

2. By changing "20 per cent" and "80 per cent" in Part 1, Group B of the Supplement to read, respectively, "15 per cent" and "85 per cent".

3. By changing Part 2 of the Supplement to read as follows:

"Part 2. Maturities. - The maximum maturity for all listed articles and for unclassified instalment loans is 21 months."

4. By changing the figure "20" to "24" in Part 3 of the Supplement.

12

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers,
Tuesday, March 29, 1949.

March 28, 1949

The Board of Governors of the Federal Reserve System, effective Wednesday, March 30, 1949, amended its Regulation T "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges" and its Regulation U "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange" so as to reduce the margin requirements for purchasing registered securities from 75 per cent to 50 per cent. These requirements are applicable both to purchases of securities and to short sales. The Board's action was taken under its statutory responsibilities and in the light of the general credit situation.

14

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers,
Friday, April 29, 1949

April 28, 1949

The Board of Governors has reduced the amount of reserves required to be maintained with Federal Reserve Banks by banks which are members of the Federal Reserve System as follows:

<u>On net demand deposits</u>		<u>Effective</u>
Central reserve city banks	From 26 to 24 per cent	May 5, 1949
Reserve city banks	" 22 to 21 " "	May 5, 1949
Non-reserve city banks	" 16 to 15 " "	May 1, 1949
 <u>On time deposits</u>		
Central reserve and reserve city banks	From 7-1/2 to 7 per cent	May 5, 1949
Non-reserve city banks	" 7-1/2 to 7 " "	May 1, 1949

The effect of these decreases will be to lower the required reserves of banks in central reserve cities by approximately 500 million dollars, of banks in reserve cities by approximately 350 million dollars, and of banks in non-reserve cities by 350 million dollars.

On September 8, 1948, the Board increased reserve requirements of member banks to the higher figures given above, under the temporary additional authority granted by Congress in the preceding August. This supplemental authority permitted a maximum of 4 per cent to be added to statutory reserve requirements on demand deposits and of 1/2 per cent on time deposits.

"The present action" Chairman McCabe stated "was taken in furtherance of the Board's policy of adjusting all of its credit regulations in accordance with changing economic conditions and the credit requirements of the current business situation. Since the first of the year there has been a decline of approximately one and one-half billion dollars in loans at member banks. About one billion of this decline has occurred at member banks in New York and Chicago -- the central reserve cities. The remainder of the decline was largely at banks in reserve cities. In view of this trend of loans and the fact that requirements at the New York and Chicago banks had been increased from 20 to 26 per cent during 1948 the Board felt that it was appropriate at this time to reduce the requirements for the central reserve city banks somewhat more than for other member banks. We have frequently stated that credit regulations are not a one-way street. They should be tightened or relaxed as general economic conditions require."

500
350
350
1200

The Column 13

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Saturday, April 23, 1949

April 22, 1949

The Board of Governors has modified Regulation W effective Wednesday, April 27, 1949, making the maximum maturity 24 months instead of 21 months on all extensions of consumer instalment credit and reducing down payments on all articles of furniture, appliances, etc., from 15 per cent to 10 per cent. The one-third down payment required on automobiles is retained. Furniture, appliances and other articles costing less than \$100 are exempted from the scope of the regulation. Previously articles costing less than \$50 were exempted.

In commenting on the Board's action, Chairman McCabe said:

"This further step in liberalization of the regulation of consumer instalment credit is in conformity with the Board's policy of using flexibly credit and monetary authority entrusted to the Reserve System. It is in accordance with the System's broad purpose of contributing to the national objective of stable economic progress.

"Most of the commodities subject to the regulation are now in supply at prices more favorable to the consumer than prevailed last year. Although the regulation is of limited scope, as it affects only a relatively small segment of the credit structure, nevertheless it has made a worthwhile contribution to the maintenance of sound credit conditions and helped to prevent the consuming public from contracting an excessive amount of instalment debt during the period of inflation.

"In relaxing the regulation at this time the Board had in mind not only current credit developments and current trends in employment and business but also the relation of the total volume of instalment credit to national income. Any increase in that credit to which relaxation of the regulation might contribute would not under present circumstances be a significant element in reviving inflationary pressures. If, however, such a condition were to arise again, I am sure the Board would act promptly to meet the situation."

The text of the amendment is attached.

Attachment

J
352
352
1300.-

AMENDMENT NO. 4 TO REGULATION W

Issued by the Board of Governors of the Federal Reserve System

Regulation W is hereby amended in the following respects,
effective April 27, 1949:

1. By changing "\$50.00" in Part 1 of the Supplement to read "\$100.00".

2. By changing "15 per cent" and "85 per cent" in Part 1, Group B of the Supplement to read, respectively, "10 per cent" and "90 per cent".

3. By changing Part 2 of the Supplement to read as follows:

Part 2. Maturities. - The maximum maturity for all listed articles and for unclassified instalment loans is 24 months.

4. By changing the figure "24" to "27" in Part 3 of the Supplement.

4/22/49

25

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers,
Saturday, May 14, 1949

May 13, 1949

Effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75 per cent the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50 per cent basis generally applicable under the regulations.

Copies of the amendments are attached.

Attachments

AMENDMENT NO. 9 TO REGULATION T

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation T is hereby amended by striking out section 6(1) of said regulation and by adding the following subsection at the end of section 4 of said regulation:

"(h) Special subscriptions account. - In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that -

"(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75 per cent of their current market value as determined by any reasonable method;

"(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a

debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

"(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

"In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation."

5-13-49

AMENDMENT NO. 10 TO REGULATION U

Issued by the Board of Governors of the Federal Reserve System

Effective May 16, 1949, Regulation U is hereby amended by changing section 3(p) of said regulation to read as follows:

"(p) A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75 per cent of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than 9 months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation."

5-13-49

GENERAL  ELECTRIC
COMPANY

JUN 29 1949

GENERAL ELECTRIC BUILDING
510 LEXINGTON AVE. AT 51ST ST., NEW YORK 22, N. Y.

PHILIP D. REED
CHAIRMAN OF THE BOARD

June 24, 1949

Hon. Eugene Meyer
THE WASHINGTON POST
Washington 4, D. C.

Dear Gene:

Thanks greatly for your note of June 21st enclosing a copy of a letter recently issued by Mr. P. L. Smith, President of the National Association of Electric Companies.

You may recall we discussed this change in regulations "T" and "U" in Washington last month, and I congratulate you on the part you played in getting the modification through. I haven't the slightest doubt that it will be helpful.

Warm regards.

Sincerely yours,



PDR:HA

JUL -8 1949



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

July 7, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D.C.

Dear Mr. Meyer:

Thank you for letting me see Richard Smith's memorandum to Time's Business Department. I return it herewith.

He gets the general idea very clearly. I am glad you urged the statement to correct Mr. Eccles' position. Otherwise it would not have been issued in all probability.

Faithfully,

A handwritten signature in cursive script, appearing to read "Elliott Thurston".

Elliott Thurston,
Assistant to the Board.

Enclosure.

25
WASH/NY

TO: BIRMINGHAM
FROM: DICK SMITH (WASHINGTON)

JUNE 30, 1949
(SLC)

FED'S OPEN MARKET OPERATIONS - BIZ

WHEN TWELVE MEN GET TOGETHER TO TAKE ACTION ON ANYTHING AS SENSITIVE AS THE MONEY MARKET, THEY STOP USING THE ENGLISH LANGUAGE AS A VEHICLE OF COMMUNICATION. FED'S OPEN MARKET COMMITTEE IS NO EXCEPTION. APPARENTLY THE COMMITTEE WAS TRYING TO INTIMATE, RATHER THAN DECLARE, ITS INTENTIONS WHEN IT ANNOUNCED FURTHER EFFORTS TO LOOSEN CREDIT. BUT EVEN SO THE STATEMENT WAS AS CRYPTIC AS CODE.

BRIEFLY, THE OMC EXPECTS TO CREATE A BETTER ATMOSPHERE FOR BORROWING BY ALLOWING THE PRICE OF GOVERNMENT SECURITIES TO RISE. SINCE THIS WILL REDUCE THE YIELD ON SUCH SECURITIES, THEY BECOME LESS ATTRACTIVE TO BANKS WHO THEN SEEK OTHER OUTLETS FOR THEIR FUNDS AND, WITH BANKS LOOKING FOR INVESTMENT POSSIBILITIES, IT'S THEREFORE EASIER FOR BUSINESS TO BORROW. PREVIOUSLY, FED HAD MOVED INTO THE MARKET AND BROUGHT ADVANCING BOND PRICES DOWN BY SELLING GOVERNMENTS FROM ITS OWN PORTFOLIO; NOW, PRESUMABLY, IT WILL ALLOW PRICES ON GOVERNMENT SECURITIES TO RISE BEYOND THE POINT WHERE IT WOULD ORDINARILY HAVE SOLD SOME OF ITS OWN TO INCREASE THE SUPPLY, CHEAPEN THE PRICE. THIS IS JUST ANOTHER WAY OF TRYING TO STIMULATE CREDIT, OR AS ONE FED GOVERNOR DESCRIBED IT, "PUSHING ON THE CREDIT STRING."

AS THINGS NOW STAND, ABOUT THE ONLY OTHER METHOD FED HAS OF EASING THE MONEY MARKET IS TO REDUCE THE RESERVE REQUIREMENTS. TODAY, WITH

THE EXPIRATION OF AUTHORITY GRANTED IT BY THE 80TH CONGRESS TO INCREASE (UNDERLINE INCREASE) RESERVE REQUIREMENTS, IT HAS CUT ITS PREVIOUSLY HIKED REQUIREMENTS BACK TO THE STATUTORY LEVEL. THIS HAS BROUGHT ABOUT AN \$800 MILLION REDUCTION IN REQUIRED RESERVES OF MEMBER BANKS, CONSEQUENTLY MADE THAT NOT INCONSIDERABLE AMOUNT AVAILABLE FOR OTHER PURPOSES. IF NECESSARY, FED COULD REDUCE THE REQUIRED RESERVES BELOW THE STATUTORY MAXIMUM, SAY, CUT THE RESERVES REQUIRED FOR ALL CENTRAL RESERVE CITY MEMBER BANKS FROM 24 PERCENT TO 22 PERCENT, RELEASING EVEN MORE MONEY FOR BUSINESS INVESTMENT.

-0-0-0-

MARRINER ECCLES' VETERANS SPEECH WAS OFF-THE-CUFF AND (HE THOUGHT) OFF-THE-RECORD. HOWEVER, HIS TALK WAS AN ITERATION OF ONE HE MADE BEFORE THE COMMONWEALTH CLUB OF CALIFORNIA LAST APRIL. SAID ECCLES THEN:

"WHEN SOME EARLY EVIDENCES OF THE CURRENT DEFLATIONARY MOVEMENT WERE BEGINNING TO APPEAR, I EXPRESSED THE HOPE THAT NEEDED READJUSTMENTS WOULD BE PERMITTED TO OCCUR. IT IS IMPORTANT NOT TO DISSIPATE OUR BASIC ELEMENTS OF STRENGTH AND OUR CUSHIONS AGAINST THE CURRENT RECESSION IN AN ATTEMPT TO SHORE UP THE ECONOMY AT PRESENT INFLATED LEVELS, THUS PERPETUATING ECONOMIC DISLOCATIONS THAT DEVELOPED IN THE INFLATION PROCESS. THE DEFLATIONARY DRIFT OF RECENT MONTHS HAS BEEN PAINFUL TO SOME, BUT BENEFICIAL TO OTHERS. IT WAS CERTAINLY UNAVOIDABLE AT SOME STAGE AND LESS ONOROUS NOW THAN IT WOULD BE IF FURTHER DELAYED BY USING ONE COSTLY PROP AFTER ANOTHER.

"ONE DANGER IS THAT WE WILL NOT FACE UP TO THE NECESSITY FOR ADEQUATE READJUSTMENTS. IT IS POLITICALLY DIFFICULT TO RESIST THE NUMEROUS MINORITY PRESSURE GROUPS. EACH ONE WANTS THE BENEFITS OF INFLATION FOR HIMSELF, BUT HE WANTS THE OTHERS TO PAY FOR THEM. THE FARMER WANTS A FLOOR UNDER HIS PRICES AT PRESENT HIGH LEVELS, BUT HE WANTS LOWER LABOR AND LIVING COSTS. LABOR HAS FOUGHT FOR LOWER PRICES, BUT RESISTS LOWER WAGE COSTS. BUSINESS WANTS COMPETITIVE FREE ENTERPRISE, BUT DOES NOT WANT TO MAKE COMPETITIVE PRICE REDUCTIONS.

"NEEDED PRICE READJUSTMENTS SHOULD NOT BE POSTPONED BY PUMPING MORE EASY CREDIT INTO THE ECONOMY. IN MY OPINION, TOO MUCH CREDIT HAS ALREADY GONE INTO HOUSING AND PURCHASES OF CONSUMER GOODS AT INFLATED PRICES."

ECCLES, HOWEVER, DID APPROVE OF THE OMC EFFORT TO STIMULATE CREDIT; THE TIMES INCORRECTLY REPORTED HIM AS DISAPPROVING IT.

-0-0-0-

PACKETING OMC RELEASE AND FED'S ANNOUNCEMENT OF THE RETURN OF RESERVE REQUIREMENTS TO THE STATUTORY MAXIMUM.

MM...6:55P

CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON



HERMAN W. STEINKRAUS
PRESIDENT

July 8, 1949

JUL - 9 1949

Mr. Eugene Meyer
The Washington Post
Washington, D. C.

Dear Mr. Meyer:

Thank you very much for your note of June 21 inclosing the statement by Mr. P. L. Smith of the National Association of Electric Companies. I'm sorry that we failed to embody the suggestion that companies sending out rights should call attention of the stockholders to relaxed borrowing provisions.

Mrs. Steinkraus and I enjoyed the visit at your Mount Kisco home very much that Sunday. We not only enjoyed visiting with you, but were delighted at the opportunity of meeting your charming and brilliant wife, as well as other members of your family and friends.

I think I'm beginning to see the job that is cut out for me over here. I shall try my best to do something about it. If I get in too deep, I'll be coming over and asking for advice.

With kindest regards, I am

Very sincerely yours,

A handwritten signature in cursive script that reads "Herman W. Steinkraus".
President

THE EQUITY CAPITAL SITUATION

Until recently there has never been a general unwillingness on the part of investors in this country to take reasonable risks with their savings. At times we have experienced an actual shortage of savings, but never a significant lack of interest in risking those that were available if there was a prospect of sizable return. Such risk-taking became an American tradition. It resulted in the rapid development of our resources, expanding production, and a steadily rising standard of living.

At times the desire to take risks became so great that serious social problems arose, as, for instance, in the case of the speculative common stock boom of the twenties, and it was necessary to adopt measures to protect the economy from such over-exuberance.

Since the war we have been faced with the opposite situation. In spite of an abundant supply of savings, the market for common stocks was sluggish in its response to what historically were stimulating circumstances of inflation and high earnings. Stock prices continue low in terms of dividends as well as sustained earnings. As the following table shows, common share values, measured in relation either to cash dividends or to earnings, have undergone a radical change since prewar:

Interest Rates, and Bond and Common Stock Yields
(In per cent)

	<u>1949*</u>	<u>1948</u>	<u>1939</u>	<u>1929</u>
Rates on commercial loans of banks	2.7	2.6	2.8	5.8
Bond yields (Aaa)	2.7	2.8	3.0	4.7
Industrial Common stock yields <u>1/</u>				
Dividend/price ratios	7.1	5.9	3.9	3.8
<u>Earnings/price ratios</u>	<u>14.3**</u>	<u>14.8</u>	<u>6.4</u>	<u>6.1</u>

1/ From Moody's Investors Service and based on 125 stocks.

* First half.

** First quarter.

When the apathy to risk-taking reflected in these figures was first apparent it was ascribed to a natural "burnt fingers" reaction to the 1929-32 stock market collapse. Later a plausible reason seemed to be investors' fears of a serious postwar depression. However, by now it appears that this apathy may go much deeper. Clearly its persistence is to be viewed with concern.

As everyone recognizes, the supply of equity or ownership capital is of vital importance to a dynamic, expanding economy. By equity capital I mean those funds supplied to a business free of any fixed lien or debt obligation. Equity capital is essential to a business because it permits growth and risk-taking without fear that a temporary period of poor earnings will mean hardship. The use of equity rather than borrowed capital by industry renders the economy less vulnerable to debt liquidation. Moreover, enterprises which maintain high equity ratios are better able to get credit in a depression if it is needed. Thus the sources, availability, and flow of equity capital are of primary importance as they relate to the national objective of economic stability at high levels of production and employment.

Stock financing by business corporations has been particularly low since the fall of 1946. New common stock issues have averaged only about 10 per cent of total new corporate security issues. In earlier periods of expanding economic activity the ratio averaged approximately 15 per cent. Since the fall of 1946 businesses have obtained new funds for capital outlays primarily from bank and insurance company loans and retained earnings, rather than from sales of stock on the market. In the interests of future economic stability it would probably have been better if both large and small business enterprises had financed more of their recent investment expenditures with equity and less with borrowed capital.

I should like to discuss three major aspects of the equity capital situation as follows:

- (1) Why are individuals not buying more shares in business enterprises?
- (2) Why are business enterprises not obtaining more funds through stock sales?
- (3) My suggestions as to what can be done about the situation.

Why are Individuals not Buying More Shares in Business Enterprises?

Desire for Security. There is no single reason why investors do not buy equity shares in business. We know that the volume of individual savings today is tremendous, and it is not therefore a shortage of available funds that prevents people from buying common stock. I am firmly convinced that an important reason for people not buying common stocks is the increased emphasis which they place upon security and safety of their savings rather than upon prospects of gain. Security rather than opportunity has recently become more and more a part of our national philosophy. The disappearance of the frontier and the end of geographic expansion, the unsettled state of international affairs since the turn of the century, and the dark memories of financial collapse and depression in the early thirties have caused people to seek security in investment as well as in Government intervention to mitigate economic and social disparities and instability.

The desire of individuals for safety in investments has been revealed in the Surveys of Consumer Finances conducted in postwar years for the Board of Governors of the Federal Reserve System by the Survey Research Center of the University of Michigan. These surveys suggest that an overwhelming majority of the population as a whole save primarily for security

reasons, such as for a rainy day, old age, and emergencies. In the survey conducted early in 1948, covering all groups in the community, 62 per cent of those interviewed were opposed to holding common stock in business enterprises. Twenty-six per cent felt that common stock was not safe, while 30 per cent were not familiar with stock as an investment opportunity. In interpreting these results it should be remembered, of course, that ownership of common stock has never permeated all groups in the community.

The emphasis on safety is reflected in the large volume of individual savings currently being held in the form of Government bonds; of deposits, shares, and reserves in such non-commercial bank and financial institutions as life insurance companies, savings and loan associations, and savings banks; as well as of reserves in private and Government pension and trust funds. A big proportion of individual savings is channeled into and through these institutions. In 1948, for example, the flow of individual savings into life insurance companies, savings and loan associations, and mutual savings banks alone totaled almost 6 billion dollars. The flow of funds over the past fifteen years into these channels exceeded 75 billion dollars. None of these institutions are permitted to include equity securities in the portfolio which they hold against these savings. The fact that the dollar volume of funds flowing through recognized savings institutions is now greater than ever before has been a major influence in the recent large supply of debt relative to stock money available to business enterprise.

Increased Taxes. The increased rates of taxation imposed to finance the Government's heavy expenditures of recent years is another factor that has affected the flow of individual savings into business equities. High

taxation at prevailing levels of national income, however, seems to be affecting the incentives to invest much more than it has the availability of funds. The dollar volume of individual saving and the volume of such saving in the hands of individuals with relatively large incomes are now much greater than they have ever been. In addition, the proportions of incomes that people save has been considerably greater since the end of the war than it was in prior prosperous years. In 1947, the 10 per cent of individuals with highest income (roughly \$6,000 upwards) were still responsible for somewhat over half of the total volume of saving and the dollar volume of saving by these individuals was far above that of earlier prosperous years. However, since the highest rates of the progressive income tax apply to this group, their incentive to invest in risk assets that may yield high returns are diminished in favor of tax exempt investments.

Tax-Exempt Investments. The investment of upper income savings in State and local government securities and insurance policies has been accelerated by the tax-free status of such securities and, for practical purposes, of all life insurance company investment income. The technical problems involved in applying individual income taxes to State and local security holdings and life insurance investment income are numerous and difficult of solution. There is no question, however, that the current tax-free status of these forms of income has drawn funds of many wealthy individuals away from investments in business enterprises.

Small Cash Dividends Relative to Earnings. Some investors are not buying more stock because they observe that many companies are retaining a large proportion of their earnings rather than paying dividends. The new stock money that businesses might obtain if they paid out higher dividends would have to be balanced, of course, against the smaller volume of retained

earnings directly available for investment expenditures. More thought and study might very well be given to the relative advantages to the nation of the form that equity financing takes, that is, equity financing through retained earnings or through the proceeds from stock sales.

Lack of Knowledge. Despite the general trend to safety and security there are many who are willing to take the risks and invest their funds in expectation of gain. Among these are a new group of people with savings, including farmers, skilled laborers, proprietors of small businesses and professional men. Many of these potential investors, however, lack knowledge about stock investment.

Why are Business Enterprises not Obtaining more Funds through Stock Sales?

There have been powerful inducements for business enterprises to finance their recent expenditures in ways other than through stock sales.

High Cost of Equity Capital. Perhaps the most important of such inducements has been the low cost of debt money both absolutely and relative to the dividend disbursements prevailing on common stocks. Interest rates on bank loans and long-term bond money, as is indicated above in the table, are currently much below those of previous years while yields on common stocks are exceptionally high.

Availability of Retained Earnings. An especially attractive source of equity funds has been undistributed profits. This form of equity capital has been a very important source of business funds since the end of the war. Undistributed profits can in a sense be considered free of carrying charge, for their volume is determined by management decisions concerning dividend disbursements. In 1948, a year of abnormally high profits in relation to

capital investment, business corporations as a group retained over half of their profits after income taxes as compared with less than a quarter in 1929. Inventory profits, however, represented a much larger proportion of earnings in 1948 than in 1929. Inasmuch as these inventory profits were largely the result of price increases and might be offset in whole or in part by subsequent inventory losses resulting from price declines, they were considered in many cases to be unavailable for distribution as cash dividends.

As was mentioned earlier, these decisions of corporate managements to retain a larger proportion of earnings have probably had some effect on the failure of stock prices to rise. Had dividend disbursements been larger, undoubtedly stock prices would have been more attractive and more new stock issues would have been sold.

Study of stock market behavior over the period 1895-1946 indicates that dividend/price ratios of stocks were much more stable than earnings/price ratios and reflected better the changes in stock market sentiment. These data suggest that investors attach more significance to the dividends they get from stock ownership than to the reported earnings. In the recent inflationary period investors have been especially uncertain as to whether undistributed earnings would eventually result in higher dividends and capital gains.

Tax Advantage of Debt Financing. The tax structure has also affected the businessman's choice as between debt and equity financing. In the case of corporate enterprise, interest on debt is a business expense and therefore a deduction in determining earnings subject to taxes. After these earnings have been reduced by the full amount of the component income

tax, any dividends paid from the remainder to individuals are included in their taxable income. These aspects of the tax structure provide a strong inducement for corporations to finance their expenditures with debt rather than stock financing. The fact that interest payments are, and dividend payments are not, deductible from corporate income in computing taxes means that the spread between the cost of stock and bond financing after allowing for the tax advantages of bond financing is appreciably greater, as the following illustration shows:

Cost of \$5,000,000 of New Equity vs. Debt Capital

<u>Capital Structure (after flotation)</u>	<u>Company A</u>	<u>Company B</u>
Bonds - 3% coupon*	\$ 0	\$5,000,000
Common stock	9,500,000	4,500,000
Surplus	500,000	500,000
Total Capital	<u>\$10,000,000</u>	<u>\$10,000,000</u>
 <u>Earnings for current year</u>		
Before taxes and fixed charges	\$1,000,000	\$1,000,000
Less: Bond interest	0	150,000
Before Federal incomes taxes	1,000,000	850,000
Less Income taxes (38%)	380,000	323,000
After Federal income taxes	620,000	527,000
Less Dividends on common stock of 7% *	665,000	315,000
Balance transferred to surplus	<u>\$ - 45,000</u>	<u>\$ 212,000</u>
 <u>Cost of New Capital</u>		
Interest on bonds	\$ 0	\$ 150,000
Additional income tax	57,000	0
Dividends on additional stock	350,000	--
	<u>\$ 407,000</u>	<u>\$ 150,000</u>
 As a % of capital employed	 8.14%	 3.00%

* Current yield, as per Table 1.

My Suggestions as to What Can Be Done About the Situation

I would like to make certain suggestions which I think will help solve this problem of the impediments on businesses who might wish to sell, and the reluctance of investors who might be induced to buy, common stock. As such they do not necessarily represent those of the Board.

Taxation. My first suggestion is that Congress initiate a thorough review of the tax situation from the point of view of its effect, frequently inadvertent, upon the availability of equity capital. Unfortunately there never seems to be a convenient time for such a basic overhaul of the tax structure. Last year, when we had a substantial surplus, we elected to reduce taxes without revamping the tax structure. Now with deficit financing facing us, we hesitate to do anything that will cause a loss of revenues. Therefore, a fundamental reform of the tax system tends to be neglected and postponed in times of receding business as well as in times of prosperity. We should have the courage at any time to correct the basic inequities that exist. Among the many suggestions that have been made, the ones discussed below seem to me the most important.

There is no doubt that some additional investments in corporate equities would result from a reduction of income tax rates, particularly those applicable to the higher brackets. It is difficult to tell how much additional investment would be induced by a given lowering of tax rates. Since the aggregate amount of income in the high tax brackets is relatively not large, only a small volume of new funds would be directly made available for new investment by a reduction in the personal income tax rate in those brackets. The indirect effects in attracting previously accumulated wealth that is now held in other forms than equity investment, however, might be significant.

Some attention should also be given to the problem of tax exemption of individual income derived from State and local government securities and the special tax status of life insurance company investment. Such action might divert the flow of individual savings from the purchase of such securities, annuities, and insurance into listed stocks or small business enterprises.

There is another type of adjustment of the personal income tax structure that should be considered in connection with the equity capital situation, that is, more liberal provisions for carrying forward and backward losses growing out of business operations. Such a change in the tax structure would encourage direct investment by owners of small unincorporated enterprises and partnerships.

Another feature of our income tax structure to consider is the double taxation of corporate dividends. There is little reason on equity grounds to tax both the corporation and the individual investor on the same income. However, there is the practical problem of levying a tax on that part of corporate income not paid out in dividends and therefore not received and taxed as personal income. One solution to this problem that has been proposed is to continue a moderate corporate income tax and permit corporations to deduct from their taxable income the dividends they pay to stockholders. This solution would not only encourage more corporate financing through equity securities but would also encourage more individual purchases of corporate stocks by tending to decrease the proportion of corporate profits retained in the business.

If the basis of corporate income taxes were to be changed in the manner suggested Government revenues from this source would undoubtedly decline somewhat, though not by an equivalent amount. The Congress would

of course have to devise alternative taxes to offset their decline in revenue, but the potentialities for stimulating productive investment of equity capital are sufficiently promising to warrant such action.

Attention might also be directed toward a revision of the tax laws which would permit more rapid depreciation of plant and equipment. Allowing business concerns to amortize the cost of additions and betterments over a relatively short period of time, and to deduct these depreciation charges in computing their taxable net income, would provide a stimulus to business investment at this time. Moreover, by permitting larger tax-free recovery, through increased depreciation charges, of funds invested in plant and equipment, the short-run contraction of internal sources of funds that characterize a downward drift in business activity would be lessened. In the long-run, of course, total business depreciation charges would be the same despite the acceleration, and ultimate Treasury tax receipts would not be affected appreciably.

A final feature of the income tax problem is the treatment of capital gains and losses. The volatility of capital gains over a period of time deserves more consideration than it has received. From an investment point of view some of the objection to the capital gains tax might be met if a method were devised enabling individuals to average their capital gains and losses over a number of years in order to determine their taxable income. However, I mention this only in passing, as it is a complicated question and one which would require careful study.

Life Insurance and Fiduciary Investments

My second major suggestion for alleviating the equity capital problem is to liberalize the investment opportunities open to fiduciary

institutions, particularly the life insurance companies. One of the most fruitful areas of study for constructive action on the equity capital problem is the investment activities of these institutions. In view of the large volume of individual savings flowing into private pension and insurance reserves, the legal restrictions on insurance companies and other fiduciaries which prohibit them from investing in corporate stocks should be modified. I feel strongly that these restrictions, rightly established many years ago as safeguards needed at that time, are now out of date in the light of changed savings and investment patterns. I recommend that the life insurance companies, in cooperation with the proper state authorities, explore fully the opportunities for investing in common stock with the aim of modifying these restrictions.

Two of the most common arguments against relaxing the legal restrictions on the investment opportunities of life insurance companies and fiduciaries are:

- (1) The risks of equity investments.
- (2) Possibility of a concentration of industrial control in large life insurance companies.

I do not deny that there is a certain element of risk involved in the ownership of equity shares. Yet there is little ground in past experience to support the broad premise that many permitted bond investments involve less risk than carefully selected common stock. Informed and flexible investment policy together with sound judgment are much to be preferred to rigid legal restrictions. The experience of endowment funds of educational institutions, as well as of the fire insurance industry,

which operate under fewer investment restrictions, has demonstrated that diversified investment in common stocks along with other types of securities can produce better than average return.

The alleged fear that insurance companies might gain control of industries through common stock ownership is probably exaggerated, particularly in view of their need for investment diversification. However, to preclude any possibility of such control it would be a simple matter to limit the proportion of the securities of any one enterprise that a single life insurance company would be permitted to hold.

Education and Merchandising

I would like to urge the securities business to give extraordinary consideration to ways and means of informing the public more fully about the investment opportunities in stock ownership. It should be recalled that 30 per cent of the individuals interviewed in the 1948 Consumer Finances Survey conducted for the Board of Governors of the Federal Reserve System said they were against holding common stocks because they were not familiar with them. Moreover, some of the largest gains in income since the prewar period have been among groups like farmers, skilled labor, proprietors of small businesses and some professional people whose knowledge of common stocks is very limited. These facts pose an educational and merchandising challenge to the securities industry.

There are, of course, many problems involved in the merchandising of risk investments to the general public. We do not want the over-selling of stocks to receivers of small incomes that characterized the years of the late twenties. There are many small income recipients who should not

assume the risks of business ownership. But it seems clear that certain merchandising adjustments can and should be made by the securities industry. It should adjust itself to a changing market and seek to serve more adequately the majority of upper-middle-income savers who invest, rather than focus on the minority who trade in equity securities mainly in search of capital gains.

I doubt if the great majority of small investors are familiar with investment trust shares. Investment trusts have diversified holdings of preferred and common stocks and other securities, and thus can offer the small saver diversification of risk together with the higher income to be derived from equity shares. There has been a great increase in the amount of new money placed in investment companies since the passage of the Investment Company Act of 1940. During the four years 1945-48 sales of new open-end investment company shares totaled almost 700 million dollars. Although investment company funds are rarely used to buy new issues of securities, the money used to purchase existing issues becomes available to other shareholders for the purchase of new issues.

Considerably more attention could be given by corporations themselves to cultivation of the market for future equity financing. Certain ones have gone to great lengths to prepare their future market by giving the general public, particularly their stockholders, more information about their operations, their financial position and their earnings. Some companies have also cultivated equity ownership by their employees. Such ownership can improve working relationships and enhance community goodwill toward the company as well. This and other measures of developing good

public relations in the areas in which the plants are located often results in a high percentage of stock ownership in those areas.

New financing agencies

There might still remain a long-run equity capital problem for business even if legislative changes in regard to taxation and investment outlets for fiduciary institutions were feasible and if the securities industry and businesses themselves did a more aggressive job of informing the public about the advantages of stock ownership. Many individual concerns, particularly small ones, do not at present have convenient access to the savings that seek investment and others have no access to such funds at all. In the long-run, there may be a need in this country for new types of financing agencies to meet this problem, particularly for the channelling of equity capital to small and medium-sized enterprises. At least three types of financing agencies have been suggested and deserve further consideration:

- (1) Private financing companies;
- (2) Special community funds and development corporations; and
- (3) Capital banks.

Examples of the first two types of financing agencies are already functioning. An illustration of the type of private financing company I have in mind is the American Research and Development Corporation of Boston. Established in 1946, this corporation obtains money from insurance companies, trust funds, research and educational foundations, established investment companies, and individuals, and invests such funds in equities of new and established business concerns that have some product or process to be developed that is of scientific importance. Thus, the corporation provides

a channel whereby equity risks can be pooled and financed, in part at least, by previously unavailable funds of fiduciary institutions.

Community development corporations are usually privately sponsored and obtain their funds from leading citizens and established business enterprises in the community. Their primary purpose is to bring enterprises that need capital into contact with a pool of funds composed of small amounts of money that might separately not be available for investment. These plans have the advantage of diversifying risks and yet at the same time leaving the financing decisions with local individuals who are familiar with the capabilities of the business men in their communities. Among the communities with prewar plans that are still operating are Baltimore, Maryland; Louisville, Kentucky; and Easton, Pennsylvania. More recent plans aimed at aiding the reconversion or relocation of business concerns after the war have been developed at Albert Lea, Minnesota and Ashtabula, Ohio.

The capital bank proposal has been advanced by many individuals and organizations in the past and most recently by the Committee for Economic Development. The general purpose of the proposal is to add to our present banking structure a set of new banks to provide long-term loan and equity capital to business, particularly to small enterprises.

Concluding Remarks

Thus far I have treated debt and equity financing largely as alternative means of raising capital for a business enterprise. This emphasis may create a somewhat distorted impression of the part which each plays. Debt and equity are actually complementary ways of financing business though they must be properly balanced in order to achieve a sound financial structure.

There is another aspect of the relationship to which attention should be directed. We generally assume that debt expansion increases the financial resources of a business, and that debt repayment reduces those resources. This is a correct view in the short-run, but over the longer-run, debt financing may be a means of building up equity. I have reference to debt incurred on a basis that calls for its gradual repayment out of the retained earnings of enterprise. Thereby, resources originally acquired with borrowed capital are gradually refinanced out of equity capital. Over the past two decades, there have been important technical developments along these lines in the credit field. The five to fifteen year term loan extended by many larger banks and most insurance companies, with repayments budgeted in accordance with expected earnings, is an illustration of this type of credit. Another example is market borrowing through the convertible debenture. This type of obligation offers important incentives to management to retain earnings in order to expand operations and build up profits so that holders will be induced to convert their bonds into the company's common stock.

As you will gather, I am a confirmed optimist regarding the future of America. I firmly believe that the basic characteristics of our economy are expansion and growth. Economic expansion presents a strikingly different challenge than it did a hundred years ago. Then, the frontier of development was the opening up of our great western resources. The geographic frontier is gone, but we still have a frontier of development. That frontier is technology--the technology of producing more and better goods with the resources we know are available and the technology of distributing those goods on a mass basis for the constant improvement of the standard of

living of all. To realize our potential sustained expansion, we need to be concerned with assuring a steady and adequate flow of savings into equity ownership. I sincerely believe that if we are in earnest, ways and means can be found for accomplishing this purpose that are fair and equitable to everyone concerned.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JUL 21 1949

OFFICE OF THE CHAIRMAN

July 20, 1949.

Dear Mr. Meyer:

I was asked by the Senate Banking and Currency Committee to prepare a statement on the problems in connection with equity capital financing, together with suggestions for solution of these problems. Subsequently I was also asked by the Committee on the Economic Report, of which Senator O'Mahoney is Chairman, to write a brief on the same subject.

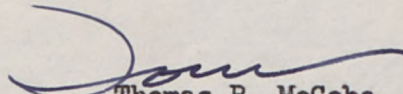
Since I have such a high regard for your opinion I am imposing on our friendship to solicit your assistance in giving me your critical comments and suggestions on the enclosed rough draft of my preliminary thoughts on the subject.

You realize, of course, that this draft is a confidential one and that I would be embarrassed if there was any leak at this stage. I have no objection to your discussing it with some of your close associates, but please do not let it get out of your hands.

I would like to complete the final draft by the first part of next week and would therefore appreciate your comments as soon as possible.

With warmest regards,

Sincerely,


Thomas B. McCabe

Mr. Eugene Meyer,
The Washington Post,
Washington, D. C.

Enclosure

The Washington Post

WASHINGTON 4, D. C.

July 22, 1949

Dear Mr. McCabe:

I received your letter and the enclosure. It touches all the high spots of the subject, but I have a few opinions which I make free to express.

On page 2 you estimate new common stock issues as about 10% of new corporate security issues. I have seen a figure in Business Week or some similar publication of less than 5%. I do not have the means of checking this.

As you mention, a main reason for the lack of equity capital is that equity capital used to come from large-income individuals out of their earnings, leaving them, after taxes and living expenses, capital to invest. Such is practically not the case nowadays. Tax exempt issues pay a much higher income net in twenty-year 1-1/2% to 2% good investments than do most dividend paying common stock investments for the upper income brackets. I firmly believe that lower upper bracket tax rates would produce more income as well as more equity capital.

On the subject of more rapid depreciation of plant and equipment, the problem is difficult when approached from a theoretical point of view. I have heard many good accountants discuss this subject and their opinions run from extremes of no change at all in the present depreciation on original cost to a depreciation on the basis of what the company management wants to make it. I think you have to get away from the theoretical approach and try to be practical and compromise on the basis of something in between the two extremes. Generally, I am against compromise but the present replacement cost is so very much higher than the depreciation on the original cost of plants that it seems to me to justify a compromise.

There is no precedent for the present situation in replacement cost of obsolescence. I believe that a modification on this front would be helpful, particularly to new business enterprise.

I do not agree with you on inviting fiduciary institutions into the common stock ownership. It would be limited in the beginning and, if it worked, the pressure

would be to raise the limit. Nothing could be worse than to have a few life insurance presidents run the industry of a country.

Risk enterprise does not fit in with trusteeship responsibilities. A company owned by life insurance institutions, even with a 5% limit in any one company, if availed of by a number of such companies, would be a business run for the widows and orphans. Widows and orphans do not belong in risk enterprise.

I have heard that the Mutual Life Insurance Company of New York found itself with goods bought as sound investment which became risk enterprises because the railroads defaulted. My understanding is that they sold them out at the bottom, in the early part of the war.

The possibility of a concentration of industrial control in life insurance companies is a real threat. The German banks used to be large owners of German industry, as well as finance it. The banking approach was not in the public interest and worked out badly.

I once advised the Chairman of a Finance Committee of Northwestern University, which had large investment funds, to buy common stocks in 1939. I recommended that they only budget as expendable the same income that they would have been able to get out of first class bonds, say, 3-1/2% at the time, and to put the balance into reserves to be used if dividend income was reduced. I suggested that they work it out for 5, 10, 15 and 20 years back, to see how it would work. It was done and my understanding is that the plan was adopted and spread into a good many other institutions of learning.

You mention the American Research & Development Corporation of Boston as a type. Of course, their operations are interesting. Professor Doriot is an old and very good friend of mine not only from the war days but long before that. They have extraordinary resources in their affiliations with Massachusetts Institute of Technology and a strong Board, among them Senator Flanders and Karl Compton and others. Not many new business enterprise organizations can possibly duplicate the technical research facilities and Professor Doriot.

I doubt therefore if the mention of this institution means much.

This is a hasty and not important contribution to

your confidential preliminary draft. I have shown it to Miss Anna Youngman, our financial and economic editor. She was formerly in the Research Division of the Federal Reserve Board and is known to your people. Miss Youngman agrees with my views on the points which I mention in this letter.

With best wishes and high regard, I remain,

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Washington 25, D. C.

COPY

July 22, 1949

Dear Mr. McCabe:

I received your letter and the enclosure. It touches all the high spots of the subject, but I have a few opinions which I make free to express.

On page 2 you estimate new common stock issues as about 10% of new corporate security issues. I have seen a figure in Business Week or some similar publication of less than 5%. I do not have the means of checking this.

As you mention, a main reason for the lack of equity capital is that equity capital used to come from large-income individuals out of their earnings, leaving them, after taxes and living expenses, capital to invest. Such is practically not the case nowadays. Tax exempt issues pay a much higher income net in twenty-year 1-1/2% to 2% good investments than do most dividend paying common stock investments for the upper income brackets. I firmly believe that lower upper bracket tax rates would produce more income as well as more equity capital.

On the subject of more rapid depreciation of plant and equipment, the problem is difficult when approached from a theoretical point of view. I have heard many good accountants discuss this subject and their opinions run from extremes of no change at all in the present depreciation on original cost to a depreciation on the basis of what the company management wants to make it. I think you have to get away from the theoretical approach and try to be practical and compromise on the basis of something in between the two extremes. Generally, I am against compromise but the present replacement cost is so very much higher than the depreciation on the original cost of plants that it seems to me to justify a compromise.

There is no precedent for the present situation in replacement cost of obsolescence. I believe that a modification on this front would be helpful, particularly to new business enterprise.

I do not agree with you on inviting fiduciary institutions into the common stock ownership. It would be limited in the beginning and, if it worked, the pressure

would be to raise the limit. Nothing could be worse than to have a few life insurance presidents run the industry of a country.

Risk enterprise does not fit in with trusteeship responsibilities. A company owned by life insurance institutions, even with a 5% limit in any one company, if availed of by a number of such companies, would be a business run for the widows and orphans. Widows and orphans do not belong in risk enterprise.

I have heard that the Mutual Life Insurance Company of New York found itself with goods bought as sound investment which became risk enterprises because the railroads defaulted. My understanding is that they sold them out at the bottom, in the early part of the war.

The possibility of a concentration of industrial control in life insurance companies is a real threat. The German banks used to be large owners of German industry, as well as finance it. The banking approach was not in the public interest and worked out badly.

I once advised the Chairman of a Finance Committee of Northwestern University, which had large investment funds, to buy common stocks in 1939. I recommended that they only budget as expendable the same income that they would have been able to get out of first class bonds, say, 3-1/2% at the time, and to put the balance into reserves to be used if dividend income was reduced. I suggested that they work it out for 5, 10, 15 and 20 years back, to see how it would work. It was done and my understanding is that the plan was adopted and spread into a good many other institutions of learning.

You mention the American Research & Development Corporation of Boston as a type. Of course, their operations are interesting. Professor Doriot is an old and very good friend of mine not only from the war days but long before that. They have extraordinary resources in their affiliations with Massachusetts Institute of Technology and a strong Board, among them Senator Flanders and Karl Compton and others. Not many new business enterprise organizations can possibly duplicate the technical research facilities and Professor Doriot.

I doubt therefore if the mention of this institution means much.

This is a hasty and not important contribution to

your confidential preliminary draft. I have shown it to Miss Anna Youngman, our financial and economic editor. She was formerly in the Research Division of the Federal Reserve Board and is known to your people. Miss Youngman agrees with my views on the points which I mention in this letter.

With best wishes and high regard, I remain,

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Federal Reserve System,
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JUL 26 1949

OFFICE OF THE CHAIRMAN

July 25, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington 4, D. C.

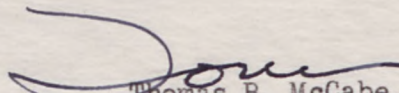
Dear Mr. Meyer:

I find that I am becoming more and more accustomed to expect wise advice from you when I come to you with my problems. I especially appreciate your prompt response to my letter about equity capital and the frank and pithy expression of your views.

Our main divergence is on the problem of permitting life insurance companies to make equity investments. I had not heard before the point you make, namely, that the managers of risk enterprise would be unduly hampered if their equities were owned by insurance companies. I want time to ponder that one and to consult on it. Personally, I am greatly impressed by the sheer magnitude of the savings funds flowing to and through the insurance companies for investment.

With warmest regards,

Sincerely,


Thomas B. McCabe.

Fed Res

July 27, 1949

Dear Mr. Smith:

Some time ago you circularized your membership and suggested that they mention the Federal Reserve ruling in connection with their issuance of rights.

Have you any reason to believe that any of your membership are doing so?

With cordial regards, I remain,

Sincerely yours,

Eugene Meyer

② Mr. P. L. Smith, President,
National Association of Electric Companies,
Suite 510, 1200 18th Street, N. W.,
Washington 6, D. C.

AUG -3 1949

NATIONAL ASSOCIATION OF ELECTRIC COMPANIES

SUITE 510, 1200 EIGHTEENTH STREET, N.W.

WASHINGTON 6, D. C.

P. L. SMITH
PRESIDENT

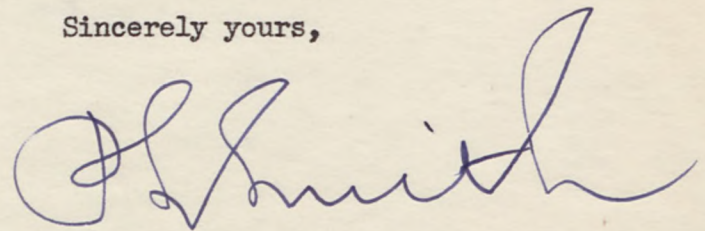
August 2, 1949

Mr. Eugene Meyer
The Washington Post
Washington 4, D. C.

Dear Mr. Meyer:

In reply to your letter of the 27th, I do not have definite information that any of our membership has mentioned Federal Reserve ruling in connection with its issuance of rights, but I am trying to ascertain if any has done so or plan to do so in forthcoming financing. I will advise you later of the facts. However, we have had several inquiries concerning the regulation so at least some are giving it careful consideration.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "P. L. Smith", written in a cursive style.

PLS/t



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

AUG - 5 1949

OFFICE OF THE CHAIRMAN

August 5, 1949.

Mr. Eugene Meyer,
The Washington Post,
Washington, D. C.

Dear Mr. Meyer:

I have sent my statement on the equity capital situation over to Senator Robertson today and also to the Joint Committee on the Economic Report. A copy is enclosed.

I am deeply grateful for all your help on this.

With warmest regards,

Sincerely,

Tom
Thomas B. McCabe.

Enclosure

August 9, 1949

Dear Mr. McCabe:

I just returned from a long week-end in Mount Kisco and acknowledge with thanks your statement on the equity capital situation, which I shall read with great interest.

With kind regards, I remain,

Sincerely yours,

Eugene Meyer

Honorable Thomas B. McCabe, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.