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The Commercial and FINANCIAL CHRONICLE

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Don't Predict Post-War Deflation—Prevent It!

By DR. ALBERT HAHN

Holds Profits and Employment Go Hand in Hand and if Governmental Policies Make It Possible for Entrepreneurs to Thrive There Will Be Jobs for All; Otherwise Not, and Deflation Will Follow. Declares "New Era" Economic Theories Will Not Bear Analysis.

The country is swamped with predictions about Post-War Business. They run all the way from lasting prosperity to hopeless depression. How much weight should be attached to these predictions?

Photo: H. N. Rubien
Dr. L. Albert Hahn

In this author's opinion their value is very limited. All estimates about how many millions of workers will be released and how many can be absorbed by industry after the end of the war must be considered as highly questionable. The respect they command in this country—more than elsewhere—is not justified. Unlike Communist and Fascist economies, a free economy is not directed by government orders but by the calculations, hopes and fears of millions of people; *the objective conditions with which these people will have to reckon, and the subjective reactions, even more so, are as unpredictable as the future in general.* Therefore, estimates of

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Equilibrium Creates Purchasing Power

A Refutation of Keynes' Attack on the Doctrine That Aggregate Supply Creates Aggregate Demand—Basic Fallacies in the Keynesian System

By BENJAMIN M. ANDERSON, Ph.D.

(Dr. Anderson is Professor of Economics at the University of California, Los Angeles. He was formerly Economist of the Chase National Bank of the City of New York. He is Consulting Economist of the Capital Research Company, Los Angeles, is a member of the Executive Committee of the Economists' National Committee on Monetary Policy, and is a member of the Post-War Committee of the California Commission on Interstate Cooperation.—Editor.)

The central theoretical issue involved in the problem of post-war economic readjustment, and in the problem of full employment in the post-war period, is the issue between the equilibrium doctrine and the purchasing power doctrine.

Benj. M. Anderson

Those who advocate vast governmental expenditures and deficit financing after the war as the only means of getting full employment, separate production and purchasing power sharply. Purchasing power must be kept above production if production is to expand, in their view. If purchasing power falls off, production will fall off.

The prevailing view among economists, on the other hand, has long been that purchasing power grows out of production. The great producing countries are the great consuming countries. The Twentieth Century world consumes vastly more than the Eighteenth Century world because it produces vastly more. Supply of wheat gives rise to demand for automobiles, silks, shoes, cotton goods, and other things that the wheat producer wants. Supply of shoes gives rise to demand for wheat, for silks, for automobiles and for other things that the shoe producer wants. Supply and demand in the aggregate are thus not merely equal, but they are identical, since every commodity may be looked upon either as supply of its own kind or as demand for other things. But this doctrine is subject to the great qualification that the proportions must be right; that there must be equilibrium.

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Germany—After the War

By DR. MELCHIOR PALYI

Economist Contends Hope of Establishing an Effective Peace Organization Disappeared Even Before Dumbarton Oaks and Doubts Allies Are in Agreement Regarding Post-War Germany. Predicts a Political Vacuum Which Cannot Endure Because of the Economic Importance of Germany to Surrounding Nations as a Market for Their Foodstuffs and Raw Materials and as a Source of Imported Products. Recommends Germany Be Required to Have Freedom of Trade in Agriculture and Holds That Although Germany's "Substitute" Industries Will Disappear, Her Industrial Capacity Will Be Great Because of Her Standardized, Rationalized, Mechanized and Cartelized Organization. Contends German Philosophy Is Not Rigid and That German Political and Economic Policies Readily Change.

I

At the risk of disappointing the reader, I have to begin with the confession that I have no ready-made plan for solving the German problem, or what to do about Germany. I carry no blueprints of the future in my vest pocket, although I am fully appreciative of the fun derived from the pleasant hobby of engineering a brave new world, a hobby in which so many of us indulge. Nor is excessive

Dr. Melchior Palyi

modesty the reason for my reluctance to predict the future. For one thing, I don't believe in formulating wishful projects and forecasts in the rarified atmosphere of assumptions. How can one propose anything sensible without being thoroughly familiar with the underlying circumstances?

We know little about the Germans today, what they think, what kind of revolution they will have next, about the conditions under which Germany will labor, depending in turn also on a further unknown, namely, the duration of the war in Europe. Ending of hostilities this winter, which is very unlikely, will leave one kind of Germany; ending of the war next summer, another kind; and if their desperate resistance should be prolonged into 1946, which is at least a theoretical pos-

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Missouri Securities Section on page 370; Ohio on page 372.
Index of Regular Features on page 424.

Guaranteeing Employment and Purchasing Power

By PHILIP MURRAY*

President of the Congress of Industrial Organizations

Labor Leader Asserts That the Wartime Guarantees to Industry to Further War Production Can Be the Basis for Facilitating Full Production and Employment When Peace Returns. Advocates a Guaranteed Annual Wage "As a Working Mechanism Through Which Industry and Labor Can Cooperate Toward the Common Good of Full Production and Full Employment" and Attacks the Little Steel Formula as Tending to Hold Back the War Production Program. Says Present Savings Cannot Act as a Reservoir of Purchasing Power Because They Are Held by a Few People. Holds Free Enterprise Alone Is Not Capable of Guaranteeing Post-War Employment and Although Opposed to the Outright Guarantee by Government of Employment, Urges That With the Adoption of the Annual Wage, Industry, Labor and Government Get Together to Meet the Challenge of Post-War.

Almost seven years have passed since I last spoke to the National Industrial Conference Board. The subject then was "The part workers and their organizations should play in the development of the principles and methods of a practical program of coordination of management, labor, and government in the task of promoting economic prosperity and stability." This was in May, 1938, and in addition to myself, six speakers from industry and government addressed themselves to this very general subject. Tonight I am privileged to participate in a discussion of the subject "Government Guarantee of Employment and Purchasing Power."

Philip Murray

By way of introduction to this evening's subject, I want to say a word to anyone who may hold the idea that America, or his industry, or his company, or he himself personally can survive another period of chronic mass unemployment. If anyone holds this idea, I want to disabuse his mind of it, because it is an extremely unrealistic appraisal of the postwar outlook.

We are all in this war together

*An address by Mr. Murray before the 226th meeting of the National Industrial Conference Board, at the Waldorf-Astoria Hotel, New York City, Jan. 18, 1945.

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George W. Schultz Is With Carter Corbrey

CHICAGO, ILL.—George W. Schultz has become manager of the trading department of Carter H. Corbrey & Co., 135 South La Salle Street. Mr. Schultz was formerly associated with Leason & Co. In the past he was assistant secretary and treasurer and manager of the trading department of the Chicago offices of Bond & Goodwin.

Wm. Prugh to Visit N. Y.

William B. Prugh of Prugh, Combest & Land, Inc., 1016 Baltimore Avenue, Kansas City, Mo. will be in New York City from Feb. 11 to Feb. 14. While in New York Mr. Prugh will stay at the Commodore Hotel.

Foreign Trade and Exchange Risks

By RUDOLPH BERDACH

Manager, Foreign Department,

The National Safety Bank and Trust Co., New York

Writer Points Out That Bretton Woods Agreements Do Not Assure Stable International Exchange Rates Required to Foster Foreign Trade and Maintains That the Foreign Exchange Dealer or Speculator Will Be Required, as in the Past, to Carry Out This Function if Free Exchange Markets Are to Prevail. Opposes Government Guaranty of Exchange Rates But Holds That Central Banks, by Assuming a Monopoly of Exchange Transactions, Can Manipulate Rates. This, However, He Asserts, Would Permit a Political Rather Than an Economic Basis of Exchange Control.

Sixty million jobs, 150 billion national income, 10 billion foreign trade are some of the slogans by which—without much concern for the relation of cause and effect—the post-war economic problems are usually expressed. Advertising experts say that slogans are very effective means to attract buyers in a sales campaign or even voters in an electoral campaign, but I really doubt that they are as effective to clarify complicated economic problems. I believe that this purpose will be served better focusing our analysis one by one on the multiple questions involved in the general problem. Within the limits of this article I shall try to find some answer to the question with which the foreign trade will be faced: Who will bear the risks of exchange fluctuations?

Rudolph Berdach

I do not intend to discuss here the problem of foreign trade on a broad basis. I want only to observe that although about 90% of the production of the United States is consumed in the country, it is not necessary to be familiar with the theory of marginal utility to understand the importance for the price structure, of a surplus of 10% of the production and to appreciate the overwhelming necessity of foreign trade for the economy of this country.

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Rigid Wages, Unionization And Reconversion Problems

By FREDERIC E. LEE
Professor of Economics, University of Illinois

Writer Notes Rapid Growth in Trade Unions in Wartime and Estimates Unions' Memberships as Now Exceeding 14,000,000 Persons. Contends This Will Mean That More Than One-Third of the Payrolls of American Industry Will be Determined by Collective Bargaining. Points Out That This Situation Is Likely to Lead to Wage Rigidity After the War With Difficult Problems for Industry, and He Points to the British Experience in Coal Mining After World War I, as a Case Where Unions Were Forced to Abandon Wage Rigidity Because of Foreign Competition, and Suffered a Severe Reduction in Membership. Holds Wage Rigidity Discourages Venture Capital and in Post-War Readjustments, Unionized Labor May Defeat Its Own Ends if It Insists on Wage Rigidity.


Dr. Frederic E. Lee

A common phenomenon of wartime—if World War I and World War II may be taken as a criterion—is the rapid growth of trade and labor unions and the increased unionization generally of the gainfully employed people of a country. The cyclical influence of war-engendered prosperity with its attendant high wages, labor unrest, and authorized and unauthorized strikes all give to labor an artificial sense of power and of its own strength and importance. Other policial and economic influences are also at work in such periods which are highly favorable to the growth of organized labor. In this country in World War I the unending demand for goods through the unprecedented flow of orders from Europe, coupled with the later tremendous purchases by the American government for its war effort created a great demand for their labor. This as has been pointed out,[1] was augmented and intensified by the stoppage of immigration and the huge

[1] Cf., Recent Social Trends, 1933, pp. 831-33.

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An Unsound Philosophy Which Should Be Repudiated By SEC

There Is No Foundation in Law or Ethics for Mr. Treanor's Statement: (1) That a Retailer Is the Agent of His Customer, or (2) and That the Agency Method of Doing Business Represents the True Relationship That Exists Between a Securities Firm and the Average Public Customer. The Philosophy of Mr. Treanor and the "Punitive" Measures of the SEC Should Not Be Superimposed Upon the Securities Business in an Effort to Enforce a "Disclosure Rule." The Alleged Ignorance of the Average Investor as a Reason for Disclosure Is "Shopworn." There Is No Valid Reason Why a Securities Dealer Should Be Placed in Any Other Category Than Any Other Merchant.

In a recent address before the National Association of Securities Commissioners at St. Louis, made by James A. Treanor, Jr., Director of the Trading and Exchange Division the the SEC, Mr. Treanor said, amongst other things "Now I believe that in making retail sales to a customer, the firm, in the eyes of the common law, is usually an agent for the customer."

Of course Mr. Treanor is entitled to his opinion.

We, however, challenge the existence of any such common law doctrine.

To us it seems purely a matter of contract, an agreement between the parties. Their decision on the subject of whether the transaction involved is one between broker and customer, or one between dealer and customer is controlling. Once made, such agreement, if adhered to, leaves no room for the belief that "in the eyes of the common law" a firm selling at retail is usually the agent for the customer.

Each transaction stands on its own feet. The common law will presume neither the one relationship nor the other. The facts in each case will control.

Mr. Treanor also said: "In my opinion, the agency method of doing business more clearly represents the true relationship which usually exists between a securities firm and the average public customer."

As to this, we can only repeat that Mr. Treanor is again entitled to his opinion, but that each sale must stand upon its own foundation.

In the street, the duties and obligations which characterize these trading and distinct relationships are well recognized in trade practice and usage.

Is it true, as generally believed, that a number of security retailers enjoying broker-dealer privileges under SEC registration have quietly gone over to an agency basis, in some instances "on consent" after "persuasion" by the Commission? If it is, then the "persuasion" was a punitive measure.

The difference between the broker and dealer relationship amongst other duties, is a difference in the question of disclosure characterizing each. Whilst the broker, as agent,

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Shall the Government Guarantee Employment?

By HON. ROBERT A. TAFT*
United States Senator from Ohio

Asserting That It Seems Impossible for the Government to Guarantee Full Time Employment, Senator Taft Points Out That to Do So Would Mean That Government Would Ultimately Assign Every Man and Woman to a Job, and Would Therefore Destroy the Very Freedom for Which Our Armies Fight. Holds that "Productive" Public Works Spending Will Be Inadequate as a Means of Full Employment and If Extended Would Lead Government to Compete With Private Enterprise. Estimates That a Full Employment Program Would Mean a Post-War Budget of $50 Billions, Which Would Destroy the Economic Machine Upon Which Our Prosperity Is Based.


Robert A. Taft

In the last year or two we have seen the announcement of a new theory of government or economics that every man is entitled to a full time

*An address by Senator Taft at the 266th meeting of the National Industrial Conference Board, Waldorf-Astoria Hotel, New York City, Jan. 18, 1945.

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Observations On the Bretton Woods Program

By HERBERT M. BRATTER*

Monetary Expert Stresses the Position of the United States in Inaugurating the Bretton Woods Program, Since No Other Government Will Act Before Congress Acts. Maintains That the Program Fits in Perfectly With the Administration's Policy Which Calls for Large American Exports on Credit, Particularly as a Means Toward Full Employment. Says Operation of the Fund and the Bank Will Be Influenced by Political, as Well as Economic Factors, With "A Great Deal of Political Log-rolling." Contends That Proposed Fund Ignores Our Past Lending Experience, the U. S. Will Furnish the Funds at the Virtual Behest of Other Member Countries, and Therefore Urges That Congress Examine the Program Carefully.

The Bretton Woods program will shortly be put before Congress in the form of legislation. Congress doubtless will be advised that the program is indispensable to our foreign relations and that it should be enacted without alteration. Actually, as was made clear by public statements before and at Bretton Woods, the program is merely before the 44 governments for their consideration. They are at liberty not only to "take it or leave it." They may amend it.

Herbert M. Bratter

What Congress does about the Bretton Woods program is vital to the program's inception. No other Government will act before our Congress acts; and if our Congress rejects the program, it is scarcely conceivable that the remaining nations will put it into effect.

What the Bretton Woods Program Is

For months now we have been reading about the Bretton Woods program. It has been put under glass and inspected microscopically, article by article and clause by clause. All of us here know that the program provides for an international monetary fund and an international bank for reconstruction and development. We all know that there are numerous provisions about "quotas," "scarce

*An address by Mr. Bratter before the Institute on Money and the Law, New York City, Jan. 16, 1945.

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Ray T. Miller Partner In Merrill Lynch Firm

CLEVELAND, OHIO — Ray T. Miller, Chairman of the Cuyahoga County Democratic Committee and former Cleveland Mayor, has become a limited partner in the firm of Merrill Lynch, Pierce, Fenner & Beane.

Mr. Miller is a member of the law firm of Miller & Hornbeck. John J. Tressel is Manager for the Merrill Lynch Cleveland office, 216 Superior Ave., N. E.

Admission of Mr. Miller to partnership in Merrill Lynch was previously reported in the "Financial Chronicle" of Dec. 21st.

H. S. Ullmann Joins William Blair & Co.

CHICAGO, ILL. — Herbert S. Ullmann, formerly Vice-President of Revere Copper and Brass, Inc., has become associated with William Blair & Company, 135 South La Salle Street, members of the New York and Chicago Stock Exchanges, it is announced. His activities will be mainly concerned with new corporate financing. A veteran of 31 years with Revere, Mr. Ullmann was for the past 14 years in charge of that company's operations in Chicago and the Middle West.

Paul & Co. Elects

PHILADELPHIA, PA. —Maurice H. Campbell and William E. Hansen have been elected assistant secretaries of Paul & Co., Inc., 1420 Walnut Street, members of the Philadelphia Stock Exchange.

Carter H. Corbrey & Co. Now Members of NASD

CHICAGO, ILL. — Carter H. Corbrey & Co., 135 South La Salle Street, have become members of the National Association of Securities Dealers, Inc.

SEC Proposed Ban On Floor Trading A Step In the Wrong Direction —Away From Free Markets

By RAYMOND MURRAY

Writer Points Out That the Broadest Market Possible Is the Safest Market and That a Broad Market Does Not Exist in All Stocks and Therefore the Activities of Floor Traders, Speculators and Informed Investors Are Required to Correct the Situation. Holds SEC Could Aid in Stabilizing Values by Providing Full and Complete Information, Puncturing All Rumors and Making the Truth Immediately Known on Both Present Conditions and Future Happenings. Says Complete Separation of Floor Trader Activities From Specialists Is Hair Splitting Task, and Urges Re-examination of Rules of SEC for the Public Interest.

The ideal market conditions for stocks and bonds can never be accomplished. Every stock and every bond is different. Every change and event of time affects values. Individual knowledge and lack of knowledge about any company, or relative comparisons between two companies affect values. No one can look into the future for a single day and tell in advance what is going to happen to change the individual evaluation of any stock or bond. Moreover no one knows when he has evaluated a stock or bond at a given instant of time that he is right or wrong. His decisions are largely guess work based upon a bundle of probabilities. For these reasons, and a thousand others, time and experience have proved that the broadest market possible is the safest market. What is the broadest market possible? Perhaps a broad market can be described best by taking a single stock which we will call "PUSS." This stock is the shares of a strong, well managed, widely diversified company engaged in many lines of business. Both its business and its properties are so widely distributed that the closing of one plant, or one line of production, or any new invention will not ma-

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Collins With Rice; Firm in New Office

CHICAGO, ILL. — Daniel F. Rice and Company, members of the New York Stock Exchange, and other principal exchanges, announce that Timothy A. Collins has become associated with them in charge of their trading department in the Chicago office.

Announcement is also made of the removal of the Chicago office to new and larger quarters on the third floor of the Board of Trade Building.

Mr. Collins' association with the firm was previously reported in the Financial Chronicle of January 18th.

Opportunities For Industry

Commerce Union Bank, 400 Union Street, Nashville, Tenn., have prepared an informative booklet on Tennessee's resources, which offer interesting opportunities for industry after the war. Copies of this booklet may be had from Commerce Union Bank upon request.

NSTA Notes

BOND TRADERS CLUB OF CHICAGO

Bond Traders Club of Chicago announces the election of new officers for 1945-46 fiscal year.

President—Paul Yarrow, Clement, Curtis & Co.
Vice-President—William C. Kegley, Rogers & Tracy, Inc.
Secretary—Lawrence H. Norton, Remer, Mitchell & Reitzel.
Treasurer—E. J. Bourbeau, Straus & Blosser.

TWIN CITY BOND TRADERS CLUB

President Charles Rieger of Jamieson & Co. announces that the annual winter meeting of the Twin City Bond Traders Club will be held at the Covered Wagon, Minneapolis, Wednesday afternoon and evening, Feb. 21, 1945, to be featured by prizes, games and entertainment.

The members of the Entertainment Committee are:
Bob McNaghten, Chairman, Williams-McNaghten Co.
Ted Pelton, Northwestern National Bank.
Bill Howard, J. M. Dain & Co.

Calendar of Club Events

National Committee of the National Security Traders Association—Meeting, Jan. 31, at 1 p.m., Palmer House, Chicago.
Baltimore Security Traders Association—Annual Winter Dinner, Jan. 26.
Boston Security Traders Association—Annual Winter Dinner, Feb. 21.
Chicago, Bond Traders Club of—Annual Banquet and Presentation of Incoming Officers, Jan. 30.
Twin City Bond Traders Club—Annual Winter Meeting, Feb. 21.

Stevens & Legg to Admit

Stevens & Legg, 11 Wall Street, New York City, members of the New York and Chicago Stock Exchanges, will admit Christine C. Peck to limited partnership on Feb. 1.

Delafield to Admit

Delafield & Delafield, 14 Wall Street, New York City, members of the New York Stock Exchange, will admit Mary L. Delafield to limited partnership in the firm as of Feb. 1.

The Securities Salesman's Corner

The Foundation for Successful Security Salesmanship.

By JOHN DUTTON

There are so many things you have to do in order to be a successful security saleman. All of them are important. For instance, *you should have knowledge*. You should know and understand what makes our economic system "tick." You should know your securities and something about several hundred others. You should know how to read a balance sheet, study an income account, understand something of timing, and of bull and bear markets. You should know a great deal about various types of industries, their peculiarities and their "ups and downs." You should be up to date on the latest developments in science, in new products, and new ideas of the things to come, and that are happening every day. You should BE INFORMED regarding current events, politics, the war news, and with it all, as Kipling said, "don't look too good, nor talk too wise." This is only the barest outline of the kind of knowledge and background a good salesman of securities must have if he is to reach the top in his profession.

Then you must know something *about human nature*. You must have patience and self control. You must be tolerant of others. You must know how to win the confidence and RESPECT of others. You must know when to talk and when to let the other fellow talk. You must judge whether or not the people you are contacting are the type of people with whom your personality seems to "fit." Security salesmanship is a type of work that is personal in the extreme. People are human and some people will like you a lot. Others will not like

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Public Utility Securities

Central & South West Utilities

The principal problem in the "unscrambling" of the Middle West system is the recapitalization of its major sub-holding company, Central & South West Utilities, which controls over half the system. The latter company has three subsidiaries, Central Power & Light (located in Texas), Southwestern Gas & Electric (in Texas, Arkansas, Louisiana and Mississippi), and Public Service of Oklahoma; also West Texas Utilities, controlled through another sub-holding company, American Public Service.

Both Central & South West and American Public Service accumulated substantial preferred stock dividend arrears in the 1930's, but extra payments in recent years have substantially reduced the amounts. Central & South West $7 prior lien preferred, currently around 132, paid $12.25 in 1944 and a payment of $10.50 will be made Feb. 15th (ex-dividend on the Chicago Stock Exchange Jan. 25th), reducing arrears as of March 21 to $11.96. Similarly, American Public Service 7% preferred, nominally about 130, paid $12.25 last year and will pay $3 Feb. 15th, reducing arrears to $30.25. Central & South West $7 preferred, recently around 85, has arrears of about $90 (since it is a second preferred nothing can be anticipated until the prior preferred dividends are cleaned up).

Last year, Central & South West earned $28.52 a share on the prior preferred on a consolidated basis and $13.67 on a parent company basis; the figures on the plain preferred were $20.92 and $6.55, respectively. Earnings for the first nine months of 1944 were running slightly ahead of 1943, both on a consolidated and parent basis, although the third quarter statements were less favorable. American Public Service is making about the same 1944 showing; last year it earned $17.62 a share on a system basis, and $11.83 on a parent company basis.

There have been several proposed plans for merging and recapitalizing Central & South West and American Public Service. The plan now before the SEC was submitted Aug. 3, 1943 and (if precedent is followed) will probably be modified by the SEC, particularly as dividend payments have now reduced the amount of arrears. Under the plan, Central & South West $7 prior lien preferred would obtain $22.20 in cash and 11 shares of new common (the $6 stock, wholly owned by Middle West, slightly less); the $7 proferred, 7½ shares of new common; the common stock .0275 share; and American Public Service preferred would be given $24.59 cash and 11 shares.

According to a pro forma earnings estimate based on 1943 operations, the new common stock would have earned $1.13 a share on a consolidated basis and 71 cents on a company basis. Based on current prices for the two senior preferred stocks, this would indicate a "when issued" price of around 10 for the new common, or less than nine times system share earnings.

However, Middle West owns a very substantial amount of all these stocks: 47% of Central & South West $7 prior lien, all the $6 stock, 57% of the plain preferred, 61% of the common and 48% of American Public Service preferred. The SEC in its findings and opinion of June 5, 1942 (rejecting the previous plan) recited various arguments advanced for the subordination of Middle West holdings in the subsidiary holding companies, but held that the record at that time was "inadequate to pass upon these contentions" and that the matter would be reopened at some future time. Decision was also deferred regarding the holdings purchased by Middle West at market prices considerably below current levels. Substantial proportions of Middle West holdings were bought at average share costs of about $88 for the $7 prior lien and $47 for the second preferred stock; and $65 for the American Public Service preferred.

There seems to be some precedent for the opinion that the SEC may, regardless of subordination, require Middle West to "contribute" the difference between current market prices and its original costs for these holdings. If that should be the case, the terms of the proposed plan might be improved for the plain preferred stock with its heavy arrears; possibly even the common stock (39% of which is held by the public) might get a better "break" (the current price discounts some improvement, however). The facts and the issues are so intricate that it is hazardous to attempt any calculations. Those interested in the history of the case, so far as it is available, might begin by studying SEC release No. 3580 under the Holding Company Act, the accompanying Stipulations and Statements of Facts (File Nos. 46-205 and 59-18), and the detailed plan now before the SEC. Doubtless much more is available in the detailed files and exhibits at SEC headquarters, including the record of 1943 hearings. There is no indication at this time as to how soon the question may again become a "live issue"; no hearings appear to be currently scheduled.

Tomorrow's Markets Walter Whyte Says—

Prices now on edge of cliff. Sharp reversal or a dead-stop now necessary if break is to be avoided. Watch stops carefully.

By WALTER WHYTE

As this is being written, the market is again behaving in a manner to send a chill through any optimist. A few weeks ago its action indicated that a top, even though temporary, had been seen. A little later, as public opinion veered from bullishness to caution, or even outright bearishness, the signs of an end to the reaction began to appear.

* * *

Two weeks ago the much-feared and more discussed 150 level in the Dow averages was penetrated. At once, or almost at once, the clouds of doubt passed. The nascent bulls became active again. The bears began to look to cover. It is true there were a few bears actually in the market compared to the optimists as indicated by the comparative little covering that went on during the break-through of the 150 level.

* * *

At the time of the rally this column said that there was a possibility that the heavily advertised overcoming of the generally known 150 obstacle might bring about a concerted buying surge which could carry stocks up fast. I wrote that such a move would be fed almost entirely by public participation. Yet I have seen this kind of participation take stocks up to levels that no market-wise person would willingly sit through. For once the public is on a buying rampage there is no yardstick

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Our Productive Capacity And Post-War Prices

By STEPHEN M. FOSTER
Economic Advisor, New York Life Insurance Company

Insurance Economist Contends That Since 1943 There Is Evidence That an Equilibrium Has Been Attained in Production and Demand Which Has Led to Price Stability. Maintains the Increase in Currency and Bank Deposits Has Been Largely Offset by Heavier Industrial Production, Higher Earnings and Larger Gross National Product. Holds Heavier War Demands Can Be Countered by Reducing Civilian Consumption and That an Inflationary Post-War Rise in Prices and Business Activity Is Not Likely Since the Effect of Increased Civilian Spending Can Be Met by Tremendous Reserves of Productive Capacity.

The wartime economic and monetary equilibrium which became apparent in 1943 has continued through 1944.

Stephen Foster

Prior to 1943 many economic observers anticipated a period of rapidly rising prices. It was known that the Government was to absorb, for war purposes, the major portion of the country's production, and it was felt therefore that there would be a drastic curtailment in the supply of goods and services for civilian consumption. On the other hand, the public, because of increasing wages and increasing employment was to have vast amounts of spending money. And as economists foresaw an ever widening inflationary gap between civilian demand and available supplies, many of them felt that we were headed for a period of sky-rocketing prices.

To some extent these economists were right. By May, 1943 commodity prices had, on the average, risen about 35% above the pre-war level, and the cost of living, as usual trailing somewhat behind commodity prices, has risen about 25% according to statistics, but had pretty nearly doubled according to most housewives.

But now, nineteen months later, many people, still impressed with the fact that prices are far higher than before the war, seem to overlook the fact that the upward movement of prices practically stopped in May 1943. It is true, of course, that some prices have risen during the past year or so; others, however, have dropped. And the Commodity Price Index and the Cost of Living Index of the United States Department of Labor are now both within 2% of where they were nineteen months earlier.

By the end of 1943 this stability of prices in a wartime economy characterized by a Government spending program of $100 billion per year and a deficit of close to $50 billion per year, was a situation worthy of enthusiastic comment. But twelve months later, at the end of 1944, it has, as I remarked in the first paragraph, become one of our important wartime phenomena. And the curious part of it all is that few people realize that comparative price stability is here and has been here; still fewer appreciate the significance of this stability; and one still hears people in informed quarters saying that we are moving rapidly in the direction that Germany went during and after the last war.

Of course, it would be folly to suppose that the price stability of the past 19 months is a natural equilibrium brought about by an unrestricted supply of goods and services nicely balanced against

(Continued on page 411)

Available On Request

Schenley Distillers Corporation have prepared an attractive booklet containing the first article in the series they have been running in the "Financial Chronicle." Copies of this booklet may be had upon request by writing to Mark Merit, in care of Schenley Distillers Corporation, 350 Fifth Ave New York 1, N. Y.

Railroad Securities

Last week all sections of the speculative rail market (stocks, defaulted bonds and second grade bonds in the solvent group) fell prey once again to the development of a peace psychology. The changing fortunes of the western front, whereby the German counter-offensive in Belgium was turned back decisively, the initiation of the strong Russian offensive with substantial gains all along the eastern front, and general successes in the Pacific theater all combined to revise optimism. Hopes for an almost immediate end to the European phase are certainly not as high as early last fall before the German counter-offensive got under way, but, on the other hand, the abject pessimism and talk of a war of indefinite length which characterized late December and early January are also notably absent.

There was no particularly heavy selling in any of the groups last week but prices, which had been quite buoyant prior to the opening of the Russian winter offensive, faded sharply. The size of the declines was apparently due primarily to a general withdrawing of bids rather than to any great pressure or any concerted desire to withdraw from rail securities regardless of prices. More than anything else the action of the market points the fact that the progress of the war is, and will presumably continue to be, the dominant market factor. If the Russian campaign continues so highly successful as it has been to the date of this writing there appears to be little question but that additional weakness will be witnessed in speculative rail securities regardless of the statistical background.

From the intermediate and longer term point of view there appears to be little danger in maintenance of a constructive attitude towards the securities of fundamentally sound rail situations, whether these securities are the stocks or the junior bonds. On a short term basis no such clear cut stand can be taken at this time. There is fairly general agreement among security analysts that we are faced with a fairly prolonged period of broad industrial prosperity after the war. If this is true (and the belief is certainly reflected in the price level for industrial stocks) there is little question but that railroads will be reporting good earnings. The railroad industry is a volume one; and given a high level of traffic the railroads can make money regardless of the increased wages or other considerations.

As opposed to the eventual outlook for post-war operations there is admittedly considerable uncertainty as to immediate post-war results. There will necessarily be a period of reconversion when the national effort is transferred from war production to the production of civilian goods. The more intense the war effort remains up to the day of victory the more serious the problem of reconversion is bound to be. With the sad experience of over-optimism last fall it now seems quite probable that war production will be kept at a high pitch until victory is actually achieved. This prospect in turn points to the likelihood that the period of reconversion will be longer and more severe than had been anticipated in most quarters a few months ago.

To say the least, the reconversion period will almost certainly have an adverse influence on railroad earnings. The railroads are traditionally slow to bring expenses down into line with any sharp recession in traffic and revenues. In the present instance this normal trend may be modified somewhat by the fact that a drop in traffic will bring the immediate discarding of much obsolete, and expensive, equipment now being used. This factor will not, however, completely take up the slack brought about by cessation of war production. Even if traffic should decline only a level which over the long run would be profitable, this level would almost certainly mean unprofitable operations in its initial stage. It is this potentiality that brings weakness into the market on favorable war news. While it may be ignored by long term investors it is an important factor to speculators and traders.

St. Louis Bank Stock Manual Ready Feb. 1

The 1945 edition of their comprehensive Manual of St. Louis Bank Stocks containing data on 31 local institutions will be available early in February at G. H. Walker & Co., 503 Locust Street, St. Louis 1, Missouri. Copies may be had by dealers on request to G. H. Walker & Co.

Egly Group Head of Beekman Hosp. Fund

Henry H. Egly, partner of Dillon, Read & Co., 28 Nassau Street, New York City, has become Chairman of the Underwriting Committee of the Beekman Hospital 1945 Maintenance Fund, Elisha Walker, Chairman, announced. The 1945 goal of the drive is $125,000.

Real Estate Securities

10 EAST 40th STREET 1st 5's 1953 CALLED AT 103

Attention Directed to This Issue at 83 in November, 1942 Time Propitious for Other Refunding

The 10 East 40th Street Building, Inc. has notified the Manufacturers Trust Co., trustee, that it intends to redeem on March 1, 1945 the balance of $1,833,200 outstanding first mortgage 5's of 1953 at 103 and accrued interest. At the time of reorganization of this property in 1933 first mortgage bonds were issued in the amount of $3,054,600.

The property owned by the corporation comprises the land owned in fee and the 44-story store and office building erected thereon, at 10-14 East 40th Street and 7-11 East 39th Street. The land area approximates 15,000 square feet and the building completed in 1928 contains more than 340,000 square feet of rentable area. Arnold Constable & Co. occupy the first six floors and basement under lease for a period extending to Sept. 30, 1957.

This column directed attention to this issue in November 1942 at which time the bonds were quoted in the low 80's. The article dealt with the record of the property since reorganization in 1933 calling attention to the fact that the indenture provided that all net income after 5% interest, up to $100,000 per annum, be used as a sinking fund for purchase and retirement of bonds. The issue had been reduced to $1,916,000 through the operation of the sinking funds which had retired $1,138,600. We believed that the equity position of the first mortgage bonds had been so materially improved since reorganization that the issue was underpriced.

We believe that many other properties that have substantially reduced funded debt are today in a position to refund such debt on more favorable terms than those imposed by the reorganization indentures.

A. B. Fox Is Now With Stern, Frank & Meyer

LOS ANGELES, CALIF.—A. B. Fox has become associated with Stern, Frank & Meyer, 325 West Eighth Street, members of the New York, Los Angeles and Chicago Stock Exchanges. Mr. Fox was in the past manager of the investment department for A. W. Morris & Co. and prior thereto was an officer of the Union Bank & Trust Co.

Attractive Real Estates

New York Title & Mortgage Series BK-C2-F1 and Prudence Collateral Series A-AA-3 to 18 offer interesting possibilities, according to a circular prepared by Siegal & Co., 39 Broadway, New York City. Copies may be had from the firm upon request—ask for circular F-1.

Seaboard All-Florida

L. H. Rothchild & Co., 52 Wall Street, New York City, have prepared a resume of "The Present Status of the Seaboard All-Florida." Copies may be had upon request from L. H. Rothchild & Co.

NY Dealers 19th Dinner To Be Held Feb. 15

The New York Security Dealers Association will hold its 19th anniversary dinner in the Grand Ballroom of the Waldorf-Astoria Hotel on Thursday, Feb. 15, at 7:30 p. m.

Among the many outstanding personalities available, the governors of the Association have selected as the principal speaker at the dinner, Patrick B. McGinnis of Pflugfelder, Bampton & Rust, who will address the assembly on a subject relating to the securities business as a whole.

Arrangements for tables or individual tickets can be made through John J. O'Kane, Jr., 42 Broadway, New York City, or through any other member of the Dinner Committee, or Alfred E. Loyd, executive secretary of the Association. Subscription is $8.50 plus Federal Tax of seventy cents. A limited number of sleeping accommodations at the Waldorf-Astoria have been reserved for out-of-town guests and others; those desiring to stay over-night should make arrangements through Wellington Hunter of Hunter & Co.

Applications already received for entire tables are such as to make the Association feel certain this dinner will have the largest attendance of any in its history.

Members of the Dinner Committee are:

T. Reid Rankin, R. H. Johnson & Co., Chairman; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.; Hanns E. Kuehner, Joyce, Kuehner & Co.; Richard F. Abbe, Van Tuyl & Abbe, Vice-Chairmen; and Herbert Allen, Allen & Co., George L. Collins, Huff, Geyer & Hecht, James Currie, Jr., Troster, Currie & Summers, Irvin Hood, Cohu & Torrey, Wellington Hunter, Hunter & Co., Louis S. Lebenthal, Lebenthal & Co., John F. Sammon, J. F. Sammon & Co., Lee D. Sherman, Lee D. Sherman & Co., Herbert Singer, Luckhurst & Co., Otto H. Steindecker, New York Hanseatic Corp., Erwin Stugard, Bond & Goodwin, Inc., John F. Wark, Merrill Lynch, Pierce, Fenner & Beane, J. Arthur Warner, J. Arthur Warner & Co., and Stanley M. Waldron, Wertheim & Co.

Interesting Situations

Public National Bank & Trust Co. and National Radiator Co. offer interesting situations according to analyses prepared by C. E. Unterberg & Co., 61 Broadway, New York City. Copies of these analyses are available for dealers only on request to C. E. Unterberg & Co.

Parsons New Chairman Of NASD Committee

CLEVELAND, OHIO — Edward E. Parsons, Jr., Secretary of Wm. J. Mericka & Co., Cleveland, is the new Chairman of the Ohio-Kentucky Committee of the National Association of Securities Dealers, Inc. He succeeds Neil Ransick partner in Charles A. Hinsch & Co. of Cincinnati, who completed a three-year term on the district committee and as 1944 district Chairman.

Ed. E. Parsons, Jr.

Mr. Parsons, who has been a member of the committee for the past two years, also is President of the National Security Traders Association.

Sheldon D. Clark of Cleveland, Secretary of the Committee, reported to the meeting held in Cincinnati last week, that every one of the 125 members of the district were examined during 1944 either by staff or by business practice questionnaires. It was necessary for the business conduct committee to hold formal hearings on complaints in only three cases in this district, he said.

J. Allison Dryden of Dryden & Co., Cincinnati, was elected Chairman of the district quotations committee which cooperates with newspapers in supplying market quotations on over-the-counter securities.

Otto C. Ruth Jr. of Jas. C. Willson & Co., Louisville, Ky., was elected Chairman of the uniform practice committee which interprets the code of trade practice promulgated by the N. A. S. D. to govern buying and selling between members.

J. K. Stewart Opens

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—John Kenneth Stewart has opened offices at 156 Montgomery Street to engage in the securities business. Mr. Stewart in the past was a partner in Stewart, Rice & Ducato and in Dickey & Co.

Comparative Tabulation

White & Company, Mississippi Valley Trust Building, St. Louis have prepared an interesting comparative tabulation of insurance stocks and bank stocks. Copies of this information may be had from the firm upon request.

Sidney Bailey, Jos. Curry To Be Hawkes Co. Partners

Sidney T. Bailey and Joseph P. Curry will become partners in Hawkes & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, as of Feb. 1. Mr. Bailey, who in the past was a partner of Avery & Co., will act as alternate on the floor of the Stock Exchange, for Frank L. Hawkes.

Paul H. Davis Director Of Celotex Corporation

CHICAGO, ILL.—Paul H. Davis, senior partner of Paul H. Davis and Co., 10 South La Salle Street, investment bankers and members of the principal stock exchanges, has been elected a director of the Celotex Corporation, it was announced by Bror Dahlberg, President.

PEP Developments

Scherck, Richter Company, Landreth Building, St. Louis, Mo., are distributing an interesting summary of developments affecting Portland Electric Power 6s of 1950 entitled "PEPS Enter the Home Stretch." Copies are available to dealers on request.

State of Trade

Roger W. Babson Says Buyers Are Getting Tired

Babson Park, Mass.—There has been a slump in many lines of business since January first. Retailers naturally expect a letup in sales after Christmas; but their sales usually pick up again before this.

Steel Industry Steps Up

On the other hand, some basic industries are again speeding up. The shell steel needs have been increased to 500,000 tons per month; while the demand for plates, bars, etc. for heavy tanks is very great. Crude oil output is continuing to show an increase over the same period last year; it is producing the incredible amount of about 5,000,000 barrels per day! Paper products, which are in such great demand for packing ammunition for shipment, are being increased above previous requirements. Lumber products also are ahead of a year ago. Farmers received 10% more money for their crops in 1944 than in 1943 and 5% more for live stock and live stock products. Railroad gross earnings, however, which are the best barometer of general business, have ceased to increase; while electric production has begun to decline.

Roger W. Babson

Various reasons are given for this slackening in general business. Some families have decided to buy no more cheap war goods; others are mixed up by the various changes in ration points; while many are thinking only of their boys abroad and have no heart to buy much; while everyone is getting tired. Certainly a cloud of some kind has shut the sunshine off Main Street since the bad news came from France. However, it will be found that this cloud has a silver lining.

Farmers Are Looking Ahead

Recently several important addresses have been made to farm organizations. Farmers are being told by their friends that they must expect a severe slump in agricultural prices after the war. This fact is now "sinking in" and many farmers are rather solemn. Railroad labor, which has been riding high and handsome, is likewise realizing that railroad traffic will fall off terribly after the war. Most of the railroad employees, taken on during the past two years, will be then out of work.

Most post-war "new inventions" will be labor-saving in effect. They will result in fewer people being employed. Since the November Election, even the Government has had the courage to tell women workers that they will be laid off *first*. Bankers and investors who have been counting on a big foreign post-war demand are realizing that this is possible only by their loaning money to European Governments.

Congressmen Becoming Conservative

When Congressmen were home for Christmas, they explained that most of our Allies are, more or less, communistic. These Congressmen asked their constituents if the U. S. should loan these Allies money to start socialistic and nationally-owned industries? What has happened in Belgium, Greece and elsewhere is making many ask for what we are fighting.

People are beginning to wonder whether the talk by Churchill and Roosevelt demanding "unconditional surrender" is either Christian or wise? We are coming to realize that world peace will exist only as every nation surrenders unconditionally to God, rather than to the British Empire or to Mr. Stalin or even to us Americans.

Post-War National Income

Talk about a post-war national income of $160 billions continues. Such talk is crazy. With the inevitable post-war depression in agriculture, railroads, shipping, aviation, and all kinds of war work, there will be much unemployment. This can temporarily be relieved by more government borrowing and inflation, but would mean continued high taxes. *Some day taxpayers will rebel.* The only permanent cure for unemployment is for most cities to throw out their present School Boards and train children to work and think instead of to play and complain.

1945 business will not be up to 1944,—probably off a little more than 10%. The stock market may suffer "communistic scare" sometime during 1945, but many selected stocks should ultimately sell at higher figures than now prevailing. Commodity prices will strengthen until Germany collapses. There will be many labor strikes as the "take-home" pay declines; but hourly rates will hold up. Building prospects are especially bright. I am bullish on suburban real estate and small subsistent farms—not big farms. We have much for which to be thankful, but from now on we should think soberly. If our losses in Europe will make us do so, they will be a blessing in disguise.

Increased Dividends?

A study of the situation in Iowa Electric Light & Power Co. indicates that the time may be approaching when dividend payments on the preferred stocks may be increased from the half rates paid over the past six years, according to G. A. Saxton & Co., Inc., 70 Pine Street, New York City. Copies of this study and a copy of the "Preferred Stock Guide," which contains some investment suggestions for 1945 in addition to interesting comparative figures on public utility preferred and common stocks, may be had from G. A. Saxton & Co. upon request.

The Traditional Reason for Expecting Higher Common Stock Prices

The spread between obtainable yields from high-grade bonds and common stocks has long been regarded by many market students as a dependable clue to the future price-pattern of common stocks. This has meant, more specifically, that when an investor received a return from common stocks at their prevailing prices not much higher than that thrown off by high-grade bonds, it became time to exercise extreme caution. And contrariwise, when there existed a substantial gap between stock yields and bond yields there was little fear of a bear market developing in the near-term future.

Eight years ago, in the early days of 1937, high-grade bonds produced an average income of 3.2%; at the same time an investment in representative common stocks fetched at their then prevailing prices an income of 3.7%. In other words, an investor was able to obtain a return only one-seventh larger from equities than from high-grade bonds; a narrow differential, and stock prices shortly thereafter turned sharply downward.

What is the ratio today? High-grade "corporates" will produce an average return of 2.7%; representative common stocks at current dividend rates throw off 4.3% or 60% more of a return than can be obtained from high-grade bonds. Accordingly, followers of this theory do not reason that a bear market is likely to get under way with the current gap between stock yields and bond yields as considerable as now exists. For this is the classic reason in the minds of believers of this approach for expecting higher common stock prices; the gap between dividend and interest yield is still wide and substantial and based on historical precedent it may narrow considerably. Of course, it can narrow in one of two ways. Equity prices can work higher or dividends on a widespread basis may be subject to considerable shrinkage. But the latter possibility appears to be more academic than real, for dividends by and large during the war and have been maintained at cautious levels.

One more comment, however, needs to be made. It must be emphasized that capital can quickly lose its confidence, develop extreme timidity and lose all desire to earn a return. Conceivably, this may occur at the war's end; funds may no longer be confident funds and the ratio between bond return and equity return can become a purely academic matter. Particularly this may happen in the case of so-called war stocks, companies with so-called "dull" peace-time records but who have been generous beneficiaries of the war effort.

So, in brief, if our huge stock of money begins to worry seriously about inflation, or conversely does not worry about post-war problems, the gap between bond return and equity return may narrow substantially. This in all likelihood will occur through a slow, gradual process of rising equity prices unless investor apprehension becomes widespread; in which event all consideration of income-return disappears and "an ounce of safety outweighs a pound of income," to mint our own aphorism.—RALPH E. SAMUEL & CO.

NASD Dist. 13 Group Elects Lindsay Head

The District No. 13 Committee of the National Association of Securities Dealers, Inc., at its annual meeting elected for the ensuing year, as Chairman, George N. Lindsay, President Swiss American Corporation, New York; as Vice-Chairman, T. Jerrold Bryce, partner of Clark, Dodge & Co., New York; and Frank L. Scheffey as Executive Secretary and George E. Rieber as Assistant Secretary.

George N. Lindsay

The other membersof the committe are: Herbert F. Boynton of F. S. Moseley & Co., New York; Philip L. Carret of Carret Gammons & Co., New York; James Currie, Jr. of Troster, Currie & Summers, New York; Roy W. Doolittle of Doolittle, Schoellkopf & Co., Buffalo; Wright Duryea of Glore, Forgan & Co., New York; Tracy R. Engle of Buckley Brothers, New York; A. James Eckert of Mohawk Valley Investing Co., Utica; Wilbur G. Hoye of Chas. W. Scranton & Co., New Haven; George J. Leness of Merrill Lynch, Pierce, Fenner & Beane; New York; and Julius A. Rippel of Julius A. Rippel, Inc., Newark.

District No. 13 Committee comprises the states of New York, New Jersey and Connecticut and has a present membership of about one third of the membership of the entire Association.

Speculative Possibilities

Common shares of E. G. Budd Manufacturing Co., which has an excellent post-war outlook for its products, have interesting speculative possibilities according to a memorandum of the situation prepared by H. Hentz & Co., Hanover Square, New York City, members of the New York Stock Exchange and other leading national exchanges. Copies of this memorandum may be had from the firm upon request.

Attractive Situation

Common stock of National Gas & Electric Corporation offers interesting possibilities according to a detailed report on the situation issued by Peter Morgan & Co., 31 Nassau Street, New York City. Copies of this report may be had from the firm upon request.

Missouri Brevities

International Shoe Report

The dollar value of International Shoe Company's shipments in the fiscal year ended Nov. 30, 1944, was the greatest in its history, with net sales of $156,642,087 being 9.6% over the previous year. However, net profit, reflecting higher costs, declined to $5,969,125 or $1.78 per share compared with $6,737,648 and $2.01 per share in 1943. Company's balance sheet as of Nov. 30, 1944, continued to show the extreme liquidity of recent years, cash and U. S. Government securities of $24,685,084 being over three times current liabilities of $8,028,204. Total current assets of $72,020,135 were nine times current liabilities.

Rice-Stix Dry Goods Company

Rice-Stix Dry Goods Company common stock was active and higher on the St. Louis Stock Exchange and New York Curb, following release of the Annual Report for the year ended Nov. 30, 1944. Sales of $46,707,115 compared with $46,936,752 in the preceding year. Net profit totaled $1,610,920 equal, after preferred dividends, to $5.40 per share of common compared with $1,720,880 and $5.56 per share in 1943.

Book value of the common stock amounted to $40.66 per share including the $2,500,000 Reserve for Contingencies set up over the past four years to provide for possible post-war adjustments.

St. Louis Bank Stocks

St. Louis bank stocks are attracting continued investor and trading interest because of the uniformly excellent year end statements. Indicated earnings per share, 1944 dividends, book values, and total resources for the leading downtown institutions are as follows: First National Bank in St. Louis $4.95 per share vs. $4.26 dividend $2.20; book value $38.13 total resources $459,229,659. Mercantile-Commerce Bank & Trust Company $15.53 per share vs $12.57; dividend $6.50; book value $194.12; total resources $340,852,741. Mississippi Valley Trust Company $3.59 per share vs. $2.98 dividend $1.75; book value $45.90; total resources $223,007,458. Boatmen's National Bank $4.56 per share vs. $4.30; dividend $1.60; book value $45; total resources $143,039,388. St. Louis Union Trust Company $3.44 vs. $2.92; dividend $2.75; book value $54.67; total resources (does not accept deposits) $17,537,000.

St. Louis Bank Promotions

The following St. Louis banks have recently announced a number of promotions:

Mississippi Valley Trust Company—Charles Herman, Counsel; O. Wayne Fosher, M. C. Hook, Jr., A. W. Huey, Assistant Vice-Presidents. Hord Hardin and **William J. Bramman, Executive Vice-Presidents,** were elected to the **Board of Directors.**

First National Bank in St. Louis—Alfred C. Pohle, Vice-President; Ray J. Miller and **Frank Fuchs Assistant Vice-Presidents; George C. Conrad, Assistant Cashier; E. A. Tabbert, Assistant Manager of the Credit Department. William D. Meacham,** formerly of the **First National Bank of Clarksville Tennessee,** was elected an **Assistant Vice-President.**

Emerson Electric Experiences Large Gain in Sales and Profits

Outstanding among annual reports released in January is that of Emerson Electric Manufacturing Company, a St. Louis company, which has shown tremendous development during the war.

Sales for the year ended Sept. 30, 1944, totaled $113,819,611 compared with $83,207,190 in 1943, $52,869,704 in 1942, $7,652,833 in 1941 and $4,881,855 in 1940.

These gains reflect the company's activity in production of gun turrets primarily, although sales in the electrical division exceeded such sales for any previous year in the company's history.

Net profit for 1944 amounted to $2,892,715 equivalent after preferred dividends to $6.39 per share of common compared with $898,658 and $2.01 per share in 1943.

The company does not expect renegotiation of 1944 business to result in any refund to the Government. Balance sheet shows an increase in working capital from $3,277,801 to $4,802,679. Common stock of the company listed on the New York and St. Louis Stock Exchanges has been increasingly active in recent weeks, selling at new highs coincident with the release of the 1944 figures.

OUR REPORTER'S REPORT

The shifting fortunes of war again are playing a major role in shaping the day to day course of the seasoned market, according to those who keep in close touch with current movements.

A recurrence of marked weakness in speculative and reorganization railroad liens is held forth as the principal reflection of this psychology.

Meanwhile the investment bond market has remained relatively free from pressure of liquidation in fact observers report the emphasis still is on the buying side with the market presumably aided by the fact that new offerings since the turn of the year have not been as extensive as had been originally forecast.

Through the latter part of last year lesser grade railroad issues suffered a sinking spell coincident with talk of early peace prospects and widespread discussion of plans for industrial reconversion.

But a short three weeks ago the German breakthrough in Belgium served to reverse such reasoning abruptly and rallying tendencies were in order thereafter until the current drives against Germany from the east and the west.

Railroad bonds in those categories have enjoyed a rise that is little short of spectacular in the course of their war-created prosperity and traders recognize that return of peace would change the picture materially for many of them. But there is the question in many people's minds whether or not the selling could not be overdone. This is particularly potent, they argue, with regard to the new bonds of roads which have gone through the "wringer" in the course of the depression and had their capitalizations materially down and fixed charges in proportion.

Wabash Tries Again

Wabash Railroad Co. has revamped its projected refinancing operation and has called for bids, for a new issue of $47,000,000 first mortgage bonds, to be submitted by February 5 next.

The road originally undertook this piece of refunding last October when it rejected the single bid made for the bonds. Under the present setup it is expected that at least two banking groups will be in the field competing for the business.

As now set up, the company has asked bidders to fix a rate not to exceed 3½%, and at that figure it is prepared to reject any bid of less than par. Bankers may shave the coupon, but in that event the company will not accept a bid of less than 98 for the bonds.

South Carolina Power

Subject to release of the deal by the Securities and Exhange Commissiion public offering was due today on $8,000,000 first and refunding mortgage 3% due in 30 years.

The company received a total of seven bids for the bonds which were sold in open competition on Monday at a price of 100.609. Several of the bidders had sought the issue with a 3⅛% coupon.

The price fixed for public offering is 101.375 and inquiries around since the sale by the company have convinced dealers that a fairly quick placement is in prospect.

Big Utility Deal Looms

Underwriting bankers are making preparations to compete for new securities, which it is assumed, could arise from a refinancing by New York Power & Light Corp., of about $55,000,000 of bonds and two of preferred stock issues outstanding.

Should the company decide to undertake the operation it would take advantage of the present market situation to retire outstanding 3¾% bonds, 7% and $6 preferred stocks on a lower cost basis.

The bonds involved were sold originally in the fall of 1930 direct to a group of insurance companies. One banking group is reported planning a "basket" bid for both new issues, while another probably will seek only the bonds and a third the preferred stock.

Oklahoma Gas & Electric

Oklahoma Gas & Electric Co. is expected to issue a call for bids early next month, to be opened around Feb. 19, for its projected offering of $35,000,000 of new 30-year first mortgage bonds.

Foreign Trade and Exchange Risks

(Conitnued from page 362)

In a recent speech, Dean Acheson, Assistant Secretary of State, called for "the creation of circumstances favorable to increase trade." In these circumstances he included "a reasonable rate stability for considerable period of time; assurance that the exporters will be paid not in some blocked foreign currency, but in dollars; elimination of exchange discriminations and multiple currency systems." This is, of course, a fine program and about the same with which the monetary conference in Bretton Woods concerned itself.

Now how far was this program carried out in Bretton Woods? The monetary plan which finally was accepted—with more or less reservations to be sure—by 44 nations, granted to every member nation the right to change its exchange rates within the limits of 10% on short notice and to propose other depreciations to adjust a fundamental disequilibrium. The fund would have to agree to a proposed depreciation on the ground of "fundamental disequilibrium," but this term is undefined and the only provision is of a negative nature, i.e., the fund may not question a disequilibrium on the ground that it was caused by domestic, social and political policies. There is no provision in the fund excluding the possibility for one or the other nation to use these stipulations as a "usual" method of international trade adjustment.

It is a question of interpretation whether the rates established under these rules may be considered as "reasonably stable for a considerable period of time," but I feel quite sure that the foreign trader will not consider them as such. He will therefore have to find ways and means to eliminate these exchange risks which are suspended over his head as a permanent menace which may materialize every moment.

Even in the 25 years preceding World War I, when the exchange risks, under the general rule of the gold standard, were reduced to a minimum, the foreign trader found it advisable to cover his foreign exchange risks in the, then large, future exchange markets.

The function of a large future exchange market assumes the existence of certain conditions: freedom of international capital transactions and the existence of a certain amount of international speculation. A class of speculators is as indispensable for the functioning of an exchange future market as it is for a large stock or security market. It is commonplace to judge speculation as something unethical, yet it fulfills an economic task. It carries the burden of certain risks, inevitable in our capitalistic economic system of production for the market, and in so doing removes it from the traders' shoulders. It is obvious that the totality of the exporters who have to secure the exchange rate of the products they have sold against future payment cannot possibly hope to find an equal totality of importers who are desirous to secure the exchange rate of the merchandise they have bought against future payment. This would only be possible if the volume of the outstanding obligations resulting from sales and purchases in one particular exchange at one particular date were always equal. The problem can be solved only by the professional dealer or speculator who is ready to step in straightening out the difference between demand and offer.

Besides, the speculator has to fulfill the further task of being responsible for certain conditions which he exploits without having created them. A government, for instance, which by its monetary policy has disorganized its monetary system, usually makes the speculator the scapegoat. In reality the speculator is as responsible for the depreciation of a currency as a man who pours a cup of tea into a river is responsible for a flood.

Another factor in the future exchange market is the banks, who by switching short term capital from one country to another in order to exploit differences, which may exist for seasonal or other reasons, between the interest rates on the international capital markets, produce a leveling effect on these differences and in so doing, contribute to the establishment of fair future rates. It is not possible to explain here the details of these somewhat complicated transactions, but it is obvious that they involve international capital transactions.

As the monetary plan, while asking for free exchange markets, excludes capital transactions from such freedom, I cannot see how a future exchange market could operate under it.

Another way to exonerate the foreign trade from the exchange risks would be a state guaranty. The idea of a governmental insurance of exchange risk seems to be under discussion.

Such insurance is in effect in Great Britain since 1940, organized under the Board of Trade, and in Canada. This insurance covers not only the exchange risks but commercial risks as well. A government insurance would mean, of course, further penetration of the government in the field of business and further interference with the activity of the foreign trade.

Still another way would be to turn over the future exchange business to the Central Banks as a monopoly.

The activity of the Central Banks in the future exchange markets is an extremely interesting chapter in the history of the evolution of the monetary technique. It would require a special study to tell the whole story, so I can give but a superficial picture of it at this time.

Reluctant for a long time to participate in any future exchange transaction, because they misunderstood the real nature of this branch of business and considered it as a mere speculation, the Central Banks appeared in the future markets in the early years of the 20th Century. As far as I know, it was the Austro-Hungarian Bank which as the first Central Bank used the manipulation of future exchange rates as an alternative to changing the bank rate. I think it was in 1905 that this Central Bank, in a situation in which the continuous outflow of capital peremptorily asked for a raise of the bank rate which on the other hand appeared unjustified owing to the low state of trade, used the manipulation of the future exchange rate as a way out of this dilemma.

The idea was to make the margin between the spot rate and the future rate of the Krone wide enough to induce foreign banks to buy spot Krone while selling simultaneously the same amount on future delivery and give the spot Krone so acquired to Austrian banks as a time deposit. The result was a full success: the Central Bank succeeded in changing the movement of funds from outflow to influx.

The same technique, although in the opposite sense, was used in the late twenties by the Banque de France to avoid an inflationary increase of credit and money. At that time gold and foreign exchange was offered from abroad to the Banque de France in very great amounts against which the bank was forced to create franc deposits or issue money. To counteract this movement the Banque de France manipulated the future exchange rates of the franc in a way to make it attractive for foreign banks to sell spot francs and simultaneously buy future delivery, which resulted in the reflux to the Banque de France of the francs she had created.

Later, partly under the influence of Keynes's "Tract on Monetary Reform" in which he recommended the future exchange rate policy as an alternative to bank rate policy, all the central banks became active in the future exchange markets. These few examples show that the central banks, in manipulating the future exchange rates, were not concerned with the needs of the foreign trade, but only with matters of monetary policy. These transactions presuppose two conditions: First, the freedom of international capital movements, for their purpose is to regulate these capital movements, and second, the existence of future markets capable to absorb future transactions on a large scale. This brings us back to the question of freedom of international capital movements.

It would of course, be possible, to conceive a system in which future transactions would take place exclusively between Central Banks. This would mean free spot exchange markets and restricted future exchange markets. In this case the freedom of exchange markets would be a mere fiction because the foreign trader who would have to buy or sell future exchange would depend on the Central Bank. With other words the foreign trade would be controlled by the Government.

Thus we are once again faced by the same question we encounter everytime we try to foresee a solution of a post-war problem, i.e., free enterprise or government controlled economy? The answer to this basic question, which will shape our post-war economy, will be a political and not an economic one. Economic thinking does not make much sense outside definite political limits because any economic activity is determined by the political space in which it takes place.

Ohio Municipal Comment

By J. AUSTIN WHITE

Generally speaking, it's activity, more than rising prices, that most people in the bond business like to see—and certainly we have seen a decided improvement in activity in the Ohio municipal market during the past several weeks. Many investors who had not been seen in the market place for some time again were noticed picking up bonds here and there. As a consequence, practically nobody has any worth-while inventory of Ohios.

J. Austin White

Yet, with all this interest, prices have not, at least as yet, moved much higher than the level of a year ago. Decidedly the market has been firm; there have been some mark-ups of .05 in price, and it has been easy to sell anything out of inventory. Yet, though prices have risen some, it does not appear that they have moved up as much in Ohios as in some other markets.

Supreme Court Ruling a Favorable Factor

By now, everybody, of course, knows that the entire municipal market was given a substantial boost by the refusal of the U. S. Supreme Court to review the decision of the lower courts to the effect that bonds of the Port of New York Authority were not subject to present Federal income taxes. Probably the full beneficial effect of this news on the municipal market generally has not yet been felt. Among many substantial buyers of municipals, there had been a latent fear that the Supreme Court would take this case under consideration and would rule that Congress had the power to tax all municipal bonds. Such a fear has certainly been alleviated, and possibly should even be put completely at rest, at least for a few years, by the refusal of the Court even to hear the case.

This news is, indeed, one of the most favorable fundamental developments that the municipal market has seen for several years.

Yet, other factors have also contributed to the improvement in activity and prices. The Sixth War Loan Drive ended just before the Christmas holidays, and, while the more astute buyers were already busy picking up attractive offerings, many investors did not come back into the market until after the usual year-end statements had been compiled, and by that time the "pickins" already were not so good. Another factor appears to be the growing realization of the value of tax-exemption, probably just accentuated by a study of income tax liabilities for 1944 and probabilities for 1945, sharpened further for many banks by an ever narrower margin between present growing profits and the level of income at which the excess profits tax begins.

Recent Sales in Ohio

Early this month Akron joined the ranks of those communities which have 1% bonds outstanding. The city sold an issue of $150,000 limited tax bonds due 1946-50 as 1's at a premium of $1.00. A few weeks before this sale the previous issue of Akron refunding bonds that had sold as 1½'s, running up to 1952, was rather sticky. The account had been split up with the individual members each taking down bonds. **These remaining bonds were being put away slowly, usually at concessions in price, until a few days before the latest sale of 1's (for shorter maturities), when all the balance of the 1½'s were apparently placed readily.**

Jefferson Local School District, in Franklin County, just northeast of Columbus, sold an issue of $240,000 bonds due 1946-69 as 1½'s, in line with previous sales for such paper. Delaware, Ohio, sold $75,000 bonds due 1946-69 as 1¼s, at 100.33, a new high for this type of high-grade security, with the other bids being for 1½s at heavy premiums in line with previous sales for such paper. Even as 1¼s, however, the bonds were reported sold readily on the reoffering.

There is definitely a need for a greater supply of Ohios than at present is immediately foreseeable. Despite the ease with which bonds were voted in November, 1944, in Ohio as elsewhere, there is no worthwhile supply now on the calendar to be sold soon—only odds and ends.

Relief Costs May Again Become Troublesome in Some Cities

In considering the point, often mentioned in this column, of the advisability of looking closely for quality in municipals purchased today, one would do well to consider the possible future expense that municipalities will again be called upon to carry in the way of relief burdens, and the probability that such burdens will be far heavier in the post-war years than they are today. Financing poor relief is causing no trouble for any community in Ohio at present, but the day may very likely come when such financing will again be a problem, as it was for many cities not many years ago.

The following figures are taken from reports of the Ohio Municipal Advisory Council and, while they are not uniform in the presentation of the data, they all clearly tell the story of how poor relief expenses have declined drastically from a few years ago—due, of course, to the fact that jobs are now more plentiful than are employees. One would do well to consider if these expenses will again rise to previous high levels in the post-war period.

In Cleveland the average expense of poor relief over the six-year period 1938-43 was $6,006,000 per year, with the peak in 1940 when the cost was $9,416,000. The expense had declined in 1942 to $2,844,254, and in 1943 to only $1,012,854. In Columbus the average cost for the five-year period 1938-41 was $1,140,500, with a decline to $372,864 in 1943. In Toledo the cost was $2,165,000 in 1938, $1,278,000 in 1941 and only $354,418 in 1943. In Dayton the expense was $1,410,302 in 1939, which declined to only $140,003 in 1943 and an estimated $100,000 in 1944.

The history of these expenditures in other sections of the State is similar. These costs were heavy even in the seemingly fairly prosperous years of 1938-40, and during even those years the financing of this cost of poor relief was a troublesome problem for some communities. None of the cities had to carry the burden alone, for the State supported a large part of the cost, and at present is meeting practically all of the drastically lower expense, through State aid for poor relief. The cities have carried their share of the expense in the past by various means, ranging all the way from voted tax levies and appropriations from the general funds, as was done in Cincinnati, where poor relief expense has never been a serious financial problem, to borrowing through the issuance of bonds and even refunding bond maturities so that the tax levy that would have been used to retire the bonds could be used to meet operating expenses, including relief costs, as was done annually in Cleveland until a few years ago (when the then Mayor Lausche, now the new Governor of Ohio, put a stop to such practice).

It would seem reasonable to expect that, when the present war boom passes, relief financing will again become a serious problem, especially for those communities that do not enjoy diversified economic pursuits and do not boast of a stable, thrifty populace.

Ohio Brevities

Continued improvement in the liquid position of Cleveland banks highlighted year-end condition statements.

Total assets in the five largest institutions exceed $2,105,000,000, compared with $2,065,000,000 at June 30, 1944, and $1,958,828,000 at the end of last September.

Combined cash and U. S. Government bond holdings in these five banks totalled $1,571,034,000, an increase of approximately $120,000,000 from three months previous.

Governments alone climbed nearly 58 millions in three months to $1,162,358,000 with cash on hand showing a gain of over 60 millions to $408,675,758. Cash is up about 27 millions from a year ago and governments around 182 millions.

Total deposits reached a new record of $1,889,777,000, an increase of 265 millions during the year. This total was 46 millions over the former high set last June 30.

The "Big Five" includes the Cleveland Trust Co., National City Bank, Central National Bank, Union Bank of Commerce and Society for Savings.

Cleveland Trust announced it was establishing banking facilities at Crile General Hospital in Parma, Cleveland suburb. This will be the first military hospital in this section to have such service.

* * *

Oversubscription was reported shortly after the offering of 20,000 shares of $5 cumulative preferred stock of Weatherhead Co. by Merrill Lynch, Pierce, Fenner & Beane. The stock, without par value, was priced at $97.50 a share. Cleveland houses in the Merill Lynch group included Otis & Co., Hawley, Shepard & Co., and First Cleveland Corp

* * *

President C. E. Newton of Chesapeake & Ohio Railway, announced the road's No. 1 postwar plan is the establishment of train service enabling passengers to travel from coast to coast without changing trains en route.

He predicted that transcontinental passenger train trips of less than four days will be common after the war if the plan is adopted, adding, "We will approach other railroads when we have completed our own survey." The plan would eliminate the wait-over of passengers at Chicago and St. Louis, breaking points of present cross-country train travel.

* * *

Raymond G. Hathorn, Cleveland broker, reported purchase of the Laganke Electric Co. of Cleveland for investment purposes. Wilbur Leganke, who founded the company 25 years ago, will continue with the concern, name of which has been changed to Leganke Electric Manufacturing Co. James Dillon, president of Acme Engineering Co. of Wooster, O., will join in the active management of the new company.

* * *

Ball, Burge & Kraus, New York Stock Exchange members, is moving into larger quarters in the Union Commerce Building tomorrow.

The new offices will have complete brokerage facilities, including an electric board, and a private wire system for coast-to coast service for clients.

It was also announced that William T. Robbins, veteran in the Cleveland security business and former partner in Robbins, Gunn & Co., has become associated with the firm. Another newcomer is Fred W. Hudson, formerly with Moore, Leonard & Co., of Pittsburgh, and more recently a major in the U. S. Air Corps in the Pacific theater.

Ohio Municipal Price Index

Date—	*	†	‡	§
Jan. 17, 1945	1.33%	1.49%	1.17%	.32%
Jan. 10	1.33	1.49	1.17	.32
Jan. 3	1.34	1.50	1.18	.32
Dec. 13, 1944	1.34	1.51	1.18	.33
Nov 15	1.36	1.53	1.19	.34
Oct. 18	1.35	1.53	1.18	.35
Sep. 13	1.32	1.50	1.14	.36
Aug. 16	1.31	1.49	1.13	.36
July 12	1.31	1.48	1.15	.33
June 14	1.31	1.46	1.16	.30
May 17	1.31	1.46	1.16	.30
April 12	1.32	1.46	1.17	.29
Mar. 15	1.34	1.50	1.19	.31
Feb. 16	1.37	1.53	1.21	.32
Jan. 19	1.40	1.57	1.23	.34
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

*Composite index for 20 bonds. †10 lower grade bonds. ‡10 high grade bonds. §Spread between high grade and lower grade bonds.

Foregoing data compiled by J. A. White & Co., Cincinnati.

Cleveland Men Head MBA 1945 Committee

CLEVELAND, OHIO — Six Cleveland men are among the more than 200 mortgage bankers appointed to 1945 committees of the Mortgage Bankers Association of America, President L. E. Mahan reports.

They are: C. A. Mullenix, Post-War Planning; H. R. Templeton, Commercial Banks Advisory; Miller B. Pennell, Resolutions, Constitutions and By-Laws; A. D. Fraser, Finance and Post-War Planning, and O. L. Rieder and Norman R. Lloyd, Local and State Associations.

Gerard Townsend Asst. To Erie R.R. Pres.

Gerard B. Townsend, formerly with Lazard Freres & Co., New York, and Union Trust Co., of Pittsburgh, has been made assistant to President Robert E. Woodruff of Erie Railroad.

Born in New York, Mr. Townsend was associated with various investment banking houses and banks as railroad statistician before going to Lazard Freres, where he headed the railroad division of the Corporate Underwriting Department from 1935 to 1943.

Wyatt With Gradison

(Special to The Financial Chronicle)

CINCINNATI, OHIO—Thomas W. Wyatt, Jr. has become associated with W. D. Gradison & Co., Dixie Terminal Building, members of the New York and Cincinnati Stock Exchanges. Mr. Wyatt, who was recently serving in the armed forces, in the past was with Westheimer & Co.

Postpone Floor Trading Prohibition: Schram

In Letter to Treanor, Director of Trading and Exchange Division of SEC, He Asks Opportunity to Discuss Plans. Says Exchange Has Been Studying the Question.

Emil Schram, President of the New York Stock Exchange, on Jan. 18 sent the following letter to Mr. James A. Treanor, Jr., Director of the Trading and Exchange Division of the Securities and Exchange Commission:

"I wish to acknowledge your letter of Jan. 15 and the receipt of the Trading and Exchange Division's Report on Floor Trading, together with the proposed rule relating thereto. The fact that the Commission has invited the comments of the Exchanges affected and of other interested groups or persons is noted with appreciation.

"At the time you and I discussed certain aspects of Floor Trading, a few months ago, we were in agreement that a careful study should be made. To that end, I instructed our staff to cooperate with you and to supply you with such data as you requested. This was done. As I told you at that time, I was most anxious to assist and I assured you that if there was anything wrong, we in the Exchange would correct it.

"As you know, the New York Stock Exchange has been studying the whole subject of trading by members on the floor, one phase of which involves the so-called floor trader. As the result of our studies, we reached certain conclusions and decided upon a course of action with respect to floor traders. In this connection, we have had a number of meetings with floor traders and other members, the last such meeting on Friday, Jan. 12, prior to the issuance of your report.

"We had hoped to have an opportunity to discuss with you our conclusions and proposed course of action before any definite decision by the Trading and Exchange Division was announced with respect to this matter.

"I have consulted a great many men of sound judgment who have spent their lives in the securities business. These men appreciate fully, as the Exchange does, that, in the conduct of this market, the public interest must always be the paramount consideration; and those consulted have the strong conviction that trading by members on the floor is an essential function in a public auction market such as ours.

"Trading by members on the floor, as you know, is a long established and important factor in our market organization. Its functions are the result of an evolutionary process extending over a great many years.

"Your proposed rule would have the effect of eliminating floor trading, with unforeseeable consequences so far as the usefulness of our market and the interests of the millions of investors whom it serves are concerned. Your proposed rule, the immediate adoption of which you have recommended to the Commission, may amount to a major surgical operation upon one of the most delicately-adjusted segments of our national economy.

"On behalf of the New York Stock Exchange, I request an opportunity to discuss with the Commission the plans which we have developed relating to floor trading. I am hopeful that a frank discussion of the whole matter, in the cooperative spirit which has always characterized my relations with the Commission and its staff, will result in a solution that would not involve a serious dislocation of our market machinery and that would be in the public interest.

Very truly yours,
(Signed) Emil Schram,
President."

Phila. Securities Ass'n Elects McKenzie Pres.

PHILADELPHIA, PA.—At the annual meeting of the Philadelphia Securities Association, William V. McKenzie of Paine, Webber, Jackson & Curtis was elected president, succeeding Harold F. Carter of Hornblower & Weeks.

Other officers elected were: H. Clifton Neff, Schmidt, Poole & Co., vice-president; Francis Goodhue, 3rd, Calvin Bullock, treasurer; and William B. Ingersoll, Stroud & Co., secretary.

Norman P. Fernon, Jr., W. H. Bell & Co., William V. McKenzie, H. Clifton Neff and Wm. E. Slack of Bioren & Co. were elected for three-year terms on the board of governors.

N. Y. Life Postpones Centennial Celebration

Although the New York Life Insurance Company's Centennial Anniversary falls on April 12, 1945, the Company is deferring until a more appropriate time in the future its plans for commemorating the event with a national meeting of its leading field representatives in New York City. This action has been taken in view of the Government's request that wartime travel be kept to a minimum.

George L. Harrison, President of the New York Life, stated in a letter to the Company's field organization that, "all of us have been looking forward hopefully to this significant occasion, and only a few months ago we felt justified in making hotel reservations. However, as you know, we have necessarily kept in mind the possibility that war conditions might require the postponement of our celebration to some later time."

Mr. Harrison pointed out to the agents that "with recent developments in the progress of the war, with the necessity of redoubling our efforts on the Home Front, and with the statement with respect to national meetings made by James F. Byrnes, Director of War Mobilization and Reconversion, it will come as no surprise to you that the Officers of the Company have decided that the observance of our Centennial should be deferred until some more appropriate time."

Bull Phase Divisions

Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of the New York Stock Exchange, have an interesting memorandum discussing the three divisions of the past 2¾ year bull phase and the market now. Copies of this memorandum may be had from the firm upon request.

Sees No Change in Business Activity When European War Ends

Dr. Marcus Nadler Holds Post-War Unemployment Problem Will Not Arise Until Several Years After Peace. Says Post-War Financial Position of Business Will Be Marked by High Liquidity.

In a speech delivered before the Wholesale Dry Goods Institute on Jan. 17, Dr. Marcus Nadler, Professor of Finance at New York University stated his views on the outlook for business during the coming year and the prospective post-war problems.

Dr. Marcus Nadler

"Unless there is a considerable change in war developments," Dr. Nadler stated, "the supply of commodities available for civilian consumption during 1945 is bound to be smaller than during any year since the outbreak of the war. Since the purchasing power in the hands of the people will increase in the meantime, the danger of an increase in prices has become more acute than ever and this imposes an added responsibility on the authorities in Washington to 'hold the line.' So long as hostilities in Europe last no change in the business pattern is to be expected.

"The end of the war in Europe," he continued, "will not be followed by a pronounced decline in business activity accompanied by a decrease in unemployment because the economy of the country will be mixed, i.e., a considerable portion will still be devoted to the production of war materials while an increasing portion will be made available to meet the huge demands of the public."

Continuing, Professor Nadler said, "The business pattern during the so-called catch-up period is also quite clear. It will be marked by a high degree of business activity accompanied by satisfactory employment. To a large extent the high level of business activity will be based on the needs to fill the huge economic void created during the war.

"It is, however, already evident that great efforts will be made in the post war period to reduce the cost of distribution in order to keep down prices paid by the ultimate consumer. Among others, the following measures may be taken to bring about a decrease in the cost of distribution:

"1. Pooling of buying by several large department stores. Some steps have already been taken in that direction.

"2. It is also possible that contracts will be made between several large retailers and producers of certain types of durable as well as non-durable goods whereby the entire output of the latter is taken by the former. Such an arrangement would assure the manufacturer full and steady production and would naturally reduce his cost of selling.

"3. There is also a possibility that the cooperative movement may spread, particularly in the rural districts.

"4. Many retailers may endeavor to keep services rendered to the buying public at a lower level than prevailed before the war.

"5. It is also possible that mergers may take place among medium-sized distributors in order to reduce their overhead. The facts that in the post-war period the seller's market will become a buyer's market and that the competition for the family income dollar will be very keen will further hasten the desire to reduce the cost of distribution.

"If the above developments materialize they are bound to have an effect on the activities of the wholesalers. They have performed and will continue to perform a sound economic function. They act as a buffer between the manufacturer and the thousands of small, medium-sized and large retailers scattered all over the country. They are as a rule much better qualified to handle the distribution problem than the manufacturer. Very often, too, the wholesaler acts as a buffer as regards credit extension.

"However, unless the wholesalers themselves endeavor to reduce their own cost of distribution it is quite evident that their role and importance will decrease. There are a number of measures they might adopt in order to strengthen their own position in the distribution system of the country. For example, a group of wholesalers could combine with manufacturers as regards the distribution of commodities produced by the latter and thus achieve the same results as such large distributors as department stores, chain and mail order houses. Wholesalers may also consider the possibility of reducing overhead expenses by curtailing the number of lines they carry. There could also be mergers among wholesalers and the pooling of warehouses in order to enable retailers to operate with less inventory and yet be able to receive all their requirements within a short period of time. The important thing is that considerable changes may take place in the distribution system of the United States after the war and every distributor in the country ought to analyze his own position carefully and make sure that he will fit into the new system."

"The greatest economic problem that seems to be in the minds of many people," Dr. Nadler concluded, "is whether in the post-catch-up period the United States will be able to provide employment for the increased labor force. In all likelihood this problem will not arise for several years. However, it is quite obvious that plans must be made as soon as possible to handle the situation, for a sharp decline in business activity in the future coupled with a material increase in unemployment would constitute a serious threat to the democratic institutions of the country. However, there is no cause for undue pessimism. The resources of this country are larger than ever before. The financial position of business in the post-war period will be marked by high liquidity. The demand for American products all over the world is bound to be substantial. If good will and cooperation exist among government, business and labor, there are no reasons to assume that the high level of business activity which will prevail during the catch-up period should not continue over a prolonged period of time."

Trubee, Collins & Co. Will Admit Chester Gale

BUFFALO, N. Y.—Trubee, Collins & Co., M. & T. Building, members of the New York Stock Exchange, will admit Chester O. Gale to partnership in the firm on Feb. 1.

An Unsound Philosophy Which Should Be Repudiated By SEC

(Continued from page 363)

takes no position in the security, the dealer, as principal, does.

Speaking of punitive measures, and disclosure, the Securities and Exchange Commission, in its release No. 3641 of Jan. 16, 1945, granted an application for broker-dealer registration upon terms.

Amongst these terms was a provision that the applicant, in all purchases from, or sales to, the public shall act solely and exclusively as broker and not as dealer.

As one of its reasons for imposing a limited registration, the Commission, in its opinion, found that the applicant had heretofore wilfully violated a section of the Securities Act of 1933.

Clearly, this punitive restriction was imposed as a penalty for that violation, which brings us to another of Mr. Treanor's statements in the address to which we have referred: "As a Commission, we are dedicated to the disclosure principle. We believe that there are no material facts which should be withheld from investors or potential investors."

With that statement, where there is a duty to make disclosure, the "Chronicle" finds absolutely no fault. However, what we do object to, and strenuously, is the philosophy of Mr. Treanor which would have dealers under an obligation to disclose cost price to the customer. Our reasons for that are manifold.

The punitive measures that we have hereinbefore referred to should not be superimposed upon the securities business in an effort to enforce a "disclosure rule." The term "disclosure rule" in itself is very deceptive.

Insofar as disclosure acts as a fraud preventative and enforces the common law obligation existing between principal and agent (i.e., broker and customer), we are for it 100%. The problem, however, is a much larger one, and the philosophy of Mr. Treanor attempts to accomplish a purpose with which we are not in sympathy. That is, to create obligations on the part of security dealers and duties for the dealer-customer relationship which we think are neither sound law nor sound business. We speak particularly of cost price disclosure.

These are ominous times. Markets must be kept in a liquid state. Channels of trade should not be interfered with. Unseasoned philosophies must be carefully watched.

Mr. Treanor has urged the alleged ignorance of the average investor as a reason for the disclosure of cost and market prices.

We believe that argument to be shopworn. We have no reason to doubt that the average investor casts about for the best buys and makes reasonable inquiry just as if he were purchasing any other item of value—jewelry, a piano, etc. He is not limited to any one dealer.

Of course, there may come a day in Mr. Average Investor's business life when, as a result of faith growing out of experience, he does limit himself to one dealer. That is as it should be, since it is the product of confidence. There is no valid reason why the dealer in securities should be placed in any other category than any other merchant.

Once before, the tocsin of the full disclosure rule was beaten but it met with such an avalanche of protest, that it died a natural death.

It is high time that the Commission repudiated this philosophy of Mr. Treanor relating to the full disclosure rule.

Not only the securities field but business generally is waiting to see what will be done.

Unless such repudiation comes soon it bodes no good in the reconstruction period.

The protection of small business, the creation of new jobs, the investment of venture capital, the continuance of free, open and liquid markets require such repudiation and the sooner it comes, the better.

Three With Nelson Douglass

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—Charles Hodge, Lewis M. Dunckel and Edward P. Engle have become associated with Nelson Douglass & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Engle was previously with the trading department of Wyeth, Hass & Co. Mr. Hodge was with Searl-Merrick Company.

Pineo Opens

MILO, MAINE—Bert W. Pineo is engaging in a securities business from offices at 60 Main St.


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Germany—After The War

(Continued from first page)

sibility, every plan concocted at present might be completely out of date.

Another unknown is the future attitude of the Allies themselves. It is easy to draw up a hard peace, but will we and the British enforce it permanently? What if the Allies should change their minds at some later date, as they did after Versailles, and regret having been hard on the Germans? On the other hand, if we choose soft terms, as they are called today, is there not a real danger that the boiling German temperament will misuse them again for another war of revenge?

And the biggest unknown of all is—what will Russia do? What will be Stalin's policies tomorrow, and won't they be reversed the day after?

Moreover, one has to face the confusing facts that our post-war planning proceeds along different lines which contradict one another. This much is clear, that problem Number One we want to solve in connection with the European enemy is to guarantee his neighbors against another aggression. That, at any rate, is given as the reason for all sorts of plans, Allied and Russian, for not only disarming Germany, but also dividing her up, as Mr. Welles wants it, neutralizing her chief industrial areas, controlling everything for years or decades to come, psychoanalyzing and re-educating her population, if not enslaving and decimating it, as suggested in Russian proposals, or destroying its industries, as the more humanitarian Mr. Morgenthau proposes.

It is obvious this time, even if it was doubtful 30 years ago, that the burden of war guilt is all on Germany, and it is within reason and justice to stop her from repeating it. But the confusing thing about the present status of the discussion is that those who make the projects for permanently subduing Germany beyond disarmament, so as to prevent her from starting another war, don't seem to take notice of the blueprints for an international organization to prevent wars altogether. What's the use of the Dumbarton Oaks agreement of a United Nations' organization with teeth in it, with all the military might of the big powers at its disposal? What is the use of providing the President with the power to turn America's forces against a prospective aggressor at a moment's notice without asking the consent of the Senate, if all that preparation doesn't keep a defeated, impoverished and disarmed enemy in check?

If Dumbarton Oaks means anything, it means that peace will be guaranteed by what is called the "peace-loving" nations, supposedly the vast majority of all, and if so, there is no reason to worry any more about German aggression. If we do worry, it's because we do not believe in the prospect of an effective peace organization to which we pay so much lip service.

Unfortunately, all indications are that we have lost hope in establishing an effective peace organization even before it has started. The mere fact that we intend to carry compulsory military training over into the peace, indicates that we are going to rely for security on ourselves, rather than on international cooperation or on a Super-State. The others do the same, as is shown by the French program to build up a peacetime army of some 500,000 men—a bigger army than France ever had.

There are good reasons for this skepticism. At the conclusion of the Dumbarton Oaks meetings, the President said that 90% of all differences had been straightened out, leaving only 10% for later solution. It might have been more correct to say that 1% was taken care of and 99% left open. The essential point, on which the whole structure of enforcing the peace rests, has been left open. So far, the Russians insist that each permanent member of the future United Nations' Council shall have veto power on all issues of aggression, including those arising from their own aggressions. In other words, the Council will be able to stop aggression by the small fry, but will be helpless if one of the big powers should do the aggressing.

Obviously, the Russians would not give up an atom of their unrestrained sovereignty and wouldn't trust the majority of the future League Council. They realize that their conception of what constitutes an act of aggression is as different from ours as their totalitarian spirit is from the ethics of democracy. They may be just as much peace-minded as we are, but their brand of peace is a far-cry from ours.

Be that as it may, even an emasculated and ineffective international organization of the kind that has been produced at Dumbarton Oaks should be sufficient to keep down a country like Germany, which will not be a permanent member of the Council, probably not a member at all. If so, one can't help feeling that all the arguments for the dismemberment and permanent weakening of Germany, based on the alleged necessity to take the poison of aggression out of her, are as many pretexts to hide the real motive, namely, the desire to punish the German people as a whole for the Nazi mischiefs—to take revenge.

II

That brings us to the crux of the question. What shall be the main objective to be pursued in imposing peace terms? Should the United Nations constitute a sort of International Court of Eternal Justice to mete out punishment not only to the individuals responsible for atrocities, but to the 80,000,000 Germans as a whole? Or is it our purpose to establish something workable, a world order in which the enemy, too can find a place? Let's have no illusions about the fundamental fact that the two aims are not compatible with one another. If the prime purpose is to mete out justice, and if we know what we mean by that, which is rather doubtful, then the best way to accomplish it is by killing off the Germans. To think one can put them into the dog-house and at the same time re-educate them to democracy, or what have you, is just plain naive. To think that we can enslave them in one form or another is tantamount to the belief that we can have a civilized world in which a substantial minority—the Japanese presumably would share the same fate—would be actual slaves while the rest would enjoy democracy. A world half slave and half free, a world in which the free are busy whipping millions of slaves, is not only an ethical self-contradiction, but also an economic monstrosity; we would have to take care of the slaves and provide them with livelihood.

It is instructive to note that the loudest advocates of a so-called hard peace for the Germans belong to the same groups and are often the identical individuals who were equally lound not so long ago against the Versailles Treaty because it was allegedly too hard on the Germans. Take Dr. Varga, chief spokesman of the Soviet government on economic problems. Like all Bolsheviks, Dr. Varga was violently agitating against reparations throughout the period between World Wars. He blamed them on the imperialistic greed of the capitalist West, and incited the Germans by all means to refuse to pay. Time and again he pointed out the economic impossibility to pay the huge sum the French demanded, such as $40 billions. Now, the same Dr. Varga demands on behalf of the Soviets reparation payments of a minimum of $300 and up to $500 billions, equal to ten times the national income of Germany at maximum production, if all their national income is given into reparations. Of course, when the Bolsheviks were agitating against German reparations, it was because they needed Germany in the European picture as a balance against Anglo-French supremacy and because they hoped to fish in troubled European waters. If they now ask for twelve times more reparations than the amount which they have denounced as impossible and intolerable, it isn't because they have forgotten their previous point of view.

There is nothing enigmatic or mysterious about this apparent reversal of Russian policy. It only shows the kind of realism which animates the Soviet leadership—a realism that is based traditionally on a dogmatic distrust of everybody else.

To them, future Anglo-American policies are as much of an enigma as is Russian diplomacy to us. They read in our papers one day that Germany will be destroyed; the other day, that she will be restored. Then, too, the mere fact that two-thirds or more of Germany will be occupied by Allies whose policy might be bent on creating a new and powerful German state, is a reason for caution and for leaving every door open.

In short, Germany remains just as important an item in the European balance of power as she ever was. The only difference is that for the time being she will become a passive quantity as she did after Versailles. But a quantity she remains.

Whoever controls Germany controls Europe. If the Russians can organize the 80 million Germans into Soviets, Russia would be supreme on the Continent. But that will not be permitted, and therefore, the policy of the Soviets aims at destroying Germany, under one pretext or another, so that she shall not be a danger to them again, as she might be in British hands.

At any rate, the political vacuum which Germany's elimination as a power will create in Europe cannot endure. Given the Russian policy of bloc building, or spheres of influence, the British will tend to create offsetting blocs—under another name—and the 80,000,000 Germans squeezed in between the two spheres will be the natural and unavoidable balancing item—the football of the power game that is looming on the post-war horizon.

III

But all of this is closely interwoven with economic problems and complications. Provided we do not intend to massacre or starve the German population, we have to face the fact that it can live only with the aid of imports which in normal times averaged as much as 18% of the value of their total national output, and for which they can pay through two channels only: either by exporting commodities, or by importing capital. There is a third alternative, namely, exporting men. But that may be virtually negligible, unless we let the Russians do the job, who still have plenty of empty space in the concentration camps of northern Siberia. Otherwise, there will be no outlet for millions of Germans anywhere.

That leaves two ways of providing a living for the Germans, or rather, a combination of both. Probably there will be no difficulty once hard feelings are overcome to provide the ex-enemy with foodstuffs and raw materials. If there is something certain about the economic picture of the post-war world, it is the prospect that it will be a world in which most foodstuffs and industrial raw materials will be available in excessive quantities. Scrap metals, e.g., will be cheap as they never have been before. The wheat carryover in the exporting countries is double what it was on the average in the 1930's, when it was excessive. One can go down the line of raw materials and will have a difficult time to find even a few which will be short, if only temporarily, once transportation, which presumably will be cheaper than ever, will no longer be needed for war and demobilization.

Given our policy of guaranteeing full employment, which should be called more precisely, the policy of guaranteeing every one's full income, there is little doubt that our farm administration will find it an excellent combination of devotion to Christian principles and of practical service to the farmers, to give away the excess inventories of our Never Normal Granary, even to the Germans. They might be more than welcome to absorb some of the wartime accumulations in stock-piles, and to take off our hands the worry for submarginal mines.

However, humanitarianism, if carried far enough, interferes with economics. If, for example, we go on dumping foodstuffs on the Germans, the Central European agricultural countries, from Finland and Poland to Bulgaria and Greece, will lose a main outlet for their own crops, on the sale of which their prosperity depends. With the exception of Czechoslovakia, all countries around the Danube valley prosper or starve, as it may be, on the export of farm and forest products, with Germany and Italy their best and second-best customers.

Little as this so-called Central Europe means to Germany as an export market—normally only 4%, and even under the Nazis not more than 14% of German exports went to that area between the Baltic and the Aegean seas—the German market for foodstuffs is absolutely vital to the Danubian and Balkan countries. It will be even more so after the war, when those countries will be equipped with modern machinery, thereby increasing their production in competition with an equally rising farm output on other continents.

Indeed, the candle of the world's agricultural and plantation economy is sure to burn at both ends. Production and exportable supplies will increase, while the import demand for the products tends to remain stationary if not to fall, due to self-sufficiency policies in countries like Great Britain. Under these circumstances, Germany will become a very important factor on the consuming end of the international farm economy. The more so, since her population is likely to rise if Germans from non-German countries and from territories to be severed from Germany should be dumped into the Reich, as it is planned. Such an overcrowded Germany, already one of the world's most densely populated countries, with a limited and none too good arable land, probably minus agricultural East Prussia—the importance of such a nation as an international buyer of foodstuffs cannot be easily overestimated.

As a matter of fact, Germany used to be one of the most important buying countries of the world. In the 1930's, her average annual imports of about $2 billions were almost the same as those of the United States, this despite a 40% smaller population, and a lower per capita wealth. The Germans buy per capita more foreign goods than the Americans, and they buy more than what they export, which makes them a very desirable member of the international business community. Nor was their importance as buyers limited to the southeast of Europe. They were among the major customers of the U. S. and Brazil, of Argentina and of Japan, and of many other countries. But, of course, they were particularly important as a market outlet within Europe where the intra-continental trade, except for the particular case of Great Britain, is far more significant than the trade with other continents. But even in the instance of Britain, Germany was the second best buyer of her products.

IV

Europe has developed a most delicate and elaborate system of intra-continental trade which survived and grew throughout all the vicissitudes of business cycles, tariff policies and wars. It was not a simple division between agricultural and manufacturing countries. A substantial part was based on the division of labor between the manufacturing countries themselves. It was not planned that way, but it worked smoothly, and to every one's satisfaction. The biggest single buyer of German products, absorbing on the average more than 8% of her exports, almost entirely manufactured articles, was Great Britain, with only one other country, the Netherlands, importing nearly an equal amount of German goods, and with France, Switzerland and Italy the next best customers of Germany. Germany, on the other hand, was the second largest market for British industrial goods, second only to the U. S.

This intricate mechanism of international trade, in which Germany played such an essential role, how will it be affected by the outcome of the war? Of course, it all depends on what the Allies do to the defeated enemy, but assuming that they do not destroy him, some intriguing sequences may emerge. For one thing, southeastern Europe had been completely telescoped into the German economic orbit. For a decade or longer, at least 60% and up to 90% of their exports went to Germany, and it will be quite an operation to disentangle them. As a matter of fact, it cannot be done in a hurry, unless the Soviets use their predominance in that area to crush its foreign trade altogether, which would lower the living standards and completely upset the social stratification of those countries.

Another consequence of the German domination of Europe has to do with industrial property rights and corporate structures. This is not so important in the agricultural east as it is in the industrial and financial west where it will lead necessarily to a great deal of government ownership. Who should inherit the intricate corporate structures created by the Germans if not the governments of the liberated nations? That gives a strong excuse for nationalization, in addition to other excuses, and indirectly, Hitler will be responsible for the spreading of socialistic practices all over Europe, especially in France and in Belgium, to say nothing of the aftermath of Mussolini's corporate state in Italy and of the widespread Bolshevik influence.

But coming back to the fundamental aspects of the German economic picture after the war, of course, the country's dependence on the import of foodstuffs and raw materials will be as great, or even greater than ever. As mentioned before, her agricultural potential, limited as it was, will be further reduced, and it would not be a bad idea to use the peace treaty to impose agricultural free trade on the Germans as well as on the Italians. For once, a peace treaty would use force to make the vanquished swallow something that is to its own benefit and to the benefit of every one else, in addition to eliminating a major cause of European wars.

Even under very high protective tariffs, and a very rigorous hoof and mouth disease administration, the Germans were the world's second largest cattle and veal importers, second only to the United Kingdom. They were second, also, in butter and cheese imports. Three-fourths of their total imports consisted naturally of foodstuffs and industrial raw materials. An overcrowded Germany might become under free trade a godsend to the hard-pressed farmers not only of

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Germany—After The War

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southeastern Europe, Holland, and Scandinavia, but also of this hemisphere as well.

V

Turning to the prospects of German industry, and assuming that it will not be completely destroyed, or else that it will be reconstructed, the first striking thing about its development under the Nazis is the growth of substitute industries. They have made Germany virtually independent of natural petroleum, natural rubber, and to an extent also of textiles by substituting rayons and cell. wool, as they have substituted plastics for metals. If the military poison is taken out of the German national body, most of these industries will disappear automatically. They have to do chiefly with war preparation and are uneconomic. Without armaments, and with access to the raw material sources, there will be no interest on the German side to foster such substitutes beyond the economic margin.

However, their industry has undergone very far-reaching transformations under Hitler which no peace treaty is likely to cancel out entirely. German industry has been rationalized, mechanized, standardized, unified, "normalized," and concentrated under the Nazi regime, so that its picture of ownership, management and production has been practically revolutionized.

Before the Nazi regime, German industry was leading in Europe, but it was modern in the American sense only in its superstructure. It is typical, for example, that one-man units in the iron and steel trades were eliminated only a few years ago. Middle sized and small-scale plants prevailed, and quality products rather than mass-production were characteristic.

That the drab pre-fabricated house, with no embellishments, now dominates German architecture is not only a natural consequence of the bombing of their cities, but it is also symbolic of the trend of their production. It has virtually abandoned even before the war much of the quality production which gave it international reputation. With German thoroughness, it has turned to large-scale mass production and assembly lines.

A recent study of the German command economy points out how far standardization, or what the Germans call "rationalization," has gone. "The types of axes have been reduced from 5,000 to 60; out of 180 types of fountain pens only two are left; 65% of all types of metal-processing machines are no longer produced; the number of rolling mills was reduced from 150 to six; only 26% of armatures are still made; more than 800 of the 1,000 types of agricultural machinery fell to the standardization axe. The average time needed to make a barracks was cut down by half, as 6,000 factories and 97% of the types were eliminated."*

All this has been accomplished by way of a pell-mell combination of private initiative and public control, largely under the pressure of labor shortage.

Competition, as we know it, is non-existent in Nazi Germany. Every plant is a member of a compulsory cartel or of some similar monopolistic organization with prices and wages fixed, raw materials and labor allocated, production lines prescribed, and efficiency supervised. But cartels no longer serve to regulate markets. They are instruments to enforce regulations and to raise efficiency. The profit motive is fully utilized for the governmental purpose. Profits cannot be raised by way of price or quality competition, but on the basis of technological efficiency. The entrepreneur who manages to introduce a new invention, to spare raw materials, to intensify the machine, to squeeze more work out of his fully regimented labor, to reduce costs one way or the other, and to improve precision, gets most of the additional profit that accrues, and he enjoys subsidies and incentive tax reductions, too.

But he enjoys more than that. The entire German production management, which appears to the outsider as a vastly complicated bureaucratic set-up, is run in reality by the industrialists themselves, whether members of the Nazi party or not. Professional Nazis, of course, are interspersed, but they enter industry mostly as corporate directors and vice-presidents and become the firm's representatives, too.

Except for the over-all political interference emanating from the army rather than from the party, and for the general planning, the direction of industrial production is in the hands of the industrialists themselves, or of trade association secretaries, who exercise price control and every other public function under the so-called leadership principle which gives them virtual sovereignty in their respective spheres. The efficient industrialist not only earns profits, and plenty of them, but also becomes the head of his entire industry and can squeeze his competitors out of business or compel them to join with his firm.

Indeed, the last remnants of free (marketwise) competition have been eliminated, small business exterminated and the bureaucratic control of industry has been greatly simplified. It is a cartel system, but very different from the old German cartels. In the heavy machinery industry, for example, before Hitler there were scores of cartels. Now, that industry is organized into a single cartel, and the number of member-plants has been vastly reduced.

The industrial organization that emerges in Germany is a very curious one. It is not capitalistic in the traditional sense; the Nazi entrepreneur exercises economic as well as political power, power to issue governmental orders and to enforce them by meting out punishment for infraction. Nor is it collectivism or state capitalism in the bolshevik or any other sense. It is a marriage between the Nazi party and the upper elite of the industrialists and technicians, combining them into one single group, provided with political and capitalistic supremacy. Call it managerial revolution, if you please, but be sure to remember that those who indulge in picturing the industrial future as run by the so-called managers really take a leaf from the Nazi book.

One result of this Nazi industrial organization is the fact that a bureaucratic management that seemingly manages everything operates with comparatively few bureaus and with very few employees. The reason is that the central government in economic matters as a rule provides general outlines only and serves largely as a coordinating agency between the different industrial self-administration bodies in which the leading entrepreneurial class and the upper crust of the Nazi party merged.

Incidentally, a similar relationship as between the Nazi party and the big industrialists has developed between the party and the general staff of the army. In the military sphere, too, the "upper crust" had been provided with almost unlimited powers, but party members have infiltrated into that magic circle, until the two, the party and the general staff, are merged into one indivisible unit. This does not mean that everything is working smoothly in the German political set-up, but it means that whatever political struggle occurs takes place within the party itself. That is why resistance against the Hitler clique can come from only one of two sources: from the general staff, members of which attempted the abortive coup d'etat last summer, or from the business leadership, whose resistance against Hitler's intuitive policies took the form lately of the two leading bank presidents' refusal to buy more government bonds. It takes courage in a totalitarian state to sabotage the financing of the war effort, and if the bankers dared to make an attempt, it was because they were backed by the industrial leadership which, in turn, had absorbed many of the top Nazis.

Be that as it may, the important thing is that Germany has been converted to mass production, especially in the capital goods industries. That is a very significant fact for the post-war in which productive machinery, transport equipment and consumers' capital goods will be short for years to come, with their prices tending to rise. If we destroy or isolate German industry, we shall eliminate the world's second-most important source of capital goods, and help to inflate the price structure of the latter—more than it is bound to be inflated anyway.

VI

But, turning back to the Nazi brand of economic system, one wonders what kind of an economic philosophy motiviates it. The answer is that the Nazis have no economic philosophy at all. Indeed, that is the trouble with them, they have no philosophy of any kind. They are opportunists of the first water. They don't believe in capitalism, and still less in socialism. They believe in what fits their purpose best. They sanctify the property rights of the peasantry, but interfere with its freedom of management at every step. They provide labor with full employment, but take away every bit of its freedom. They believe in what they regard as the national interest, which they identify with the ideas of those who stand for the most violent nationalistic egotism.

That is the essence of Nazism: overbearing nationalistic egotism.

All theories that the Germans are traditionally imbued with this or that political or economic ideology are text-book rationalizations with no basis in the facts. The average German burger used to be a liberal at the time of the French revolution. Under Napoleon, who mistreated him, and under the influence of the post-Napoleonic reaction, he turned into a reactionary. When the wave of free trade swept Europe after 1850, the average German, too, became a believer in liberal capitalism, but his liberalism was shaken soon by the fact that German unity had been accomplished not with the aid of ideology and justice, but by Bismarck's "blood and iron" methods. The victories of World War I made him a supernationalist, but the defeat turned him literally over-night into a Wilsonian democrat. Disillusioned in the peace, disappointed in his expectations of full employment to be provided under the semi-managed economy of the Weimar Republic, and encouraged by the apparent success of the bolshevik and fascist examples, he blundered into the arms of totalitarianism which swept Europe in the 1930's. He will turn again, always with the tide.

*H. Paechter, in **Journal of Political Economy**, September, 1944, p. 218.

Bolivia to Contract Loan

La Paz, Bolivia, Associated Press advices Jan. 5 stated:

"The Government today promulgated a law adopted by the National Convention authorizing Bolivia to contract a loan of $4,420,000 from the United States Export-Import Bank for airport construction and improvements. The interest rate will be 4%.

Guaranteeing Employment and Purchasing Power

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Both free enterprise and free labor unions are fighting for their very existence; they could not survive defeat in this war. That is why both institutions have achieved, and are continuing to achieve, miracles of war production. That is why we are both responding with our every energy to the immediate crticial demands of war production. Working together industry and labor will meet these demands, as they have all previous ones. Working together we shall continue to assure the materials with which our Armed Forces shall win complete and final victory. We—labor and industry—jointly realize that our future free and prosperous existence depends upon winning the war as quickly as possible. And I hope we are agreed that winning 60 million jobs in the postwar is essential to the continued free and prosperous existence of what you gentlemen call "free enterprise," and what I call free labor unions. Yet this fact is no less true than is the accepted fact that our joint future depends upon winning the war. Let me, briefly, explain why:

War does things to human beings, especially those who experience actual combat. The returning soldiers and sailors will hardly tolerate a condition of mass unemployment for long; they may well be inclined to greatly alter or abolish a system of doing business that condemns millions upon millions to idleness. This is no less true in the case of war workers who have actually experienced a state of full production and employment. Therefore, unless we can abolish mass unemployment in the post-war, it may abolish free enterprise and free labor unions.

2. To those who say that five to ten million unemployed would be a good thing, I say: "Wake Up!" Because once you open the sluice gates of unemployment, the deflationary flood will be uncontrollable; it will engulf your business, your industry, your country, and, yes, your world as well. How will you (1) care for the unemployed, and (2) pay an annual six billion dollar carrying charge on the national debt with mass unemployment and the accompanying low level of national income? Clearly America's future does not lie along the dark, dismal road of "a manageable level of unemployment," as mass unemployment, like a rampaging flood, cannot be controlled. It will run its course, and that course may well be the destruction of America's free institutions.

This being so, the only post-war road America can safely take is that of full production and full employment. Whether this is 60 million or 57.5 or 58.2 million I leave to the statisticians to argue. Personally I like the 60 million figure, and, judging from last November, so do a majority of the American electorate.

II. Government Guarantees in Wartime

Sixty million jobs is admittedly a desirable post-war road. But how do we get on it?

This may startle some of my anxious and conservative business friends, but do you gentlemen realize that we now are—at this very moment—actually on the road of full employment?

"Yes, Mr. Murray," you reply, "but this is war. We are talking about peacetime, and that is a different thing."

Well, is it? I do not think that it is necessarily different. To paraphrase this evening's subject, the war economy has been built upon a program of "Government Guarantee of War Production and Profits." Let us examine the elements of this program, which consists of a series of government guarantees.

1. The government needed expanded capacity to meet war production needs. Industry said to government: "You may need more capacity for war, but we doubt that we will need it after the war." The government replied with a guarantee: the right of industry to amortize new facilities over a five-year period. More than a thousand certificates of necessity for this shortened amortization period have been issued. Hence industry was guaranteed against the loss of money in building new facilities, and war production and profits followed.

2. But the government needed still more capacity to produce for the war. Industry said to government: "We cannot finance it." Whereupon the government built over 15 billion dollars' worth of production facilities. Defense Plant Corporation holdings of plants, facilities and machine tools alone amount to $10.7 billion. These government-financed plants have guaranteed industry against the hazards of building them, and war production and profits have flowed from them.

3. Still the government needed more war production, and industry's facilities readily adaptable were converted to war orders. Industry said to government: "These war orders are increasing our costs, and what looks like profits in a war year might turn out later to be costs." The government replied with still another guarantee: the carry-back, carry-forward provisions of the Federal Tax Laws. With all of the publicity given these provisions by CIO, I trust you gentlement are all familiar with them. In effect, they guarantee any corporation—for two year after the war—a level of profits that compares very favorably with the pre-war 1936-39 level. And so the tax laws have also been used to provide guarantees that assure war production and profits.

I do not want to create the impression that industry demanded these guarantees as a condition of engaging in war production. What I am emphasizing is the fact that the war economy is based upon a series of guarantees to industry that have been devised to facilitate war production. Few of these guarantees end with the war; they carry over into the post-war. Coupled with a few other guarantees they can be the basis for facilitating full production and employment when peace returns.

III. The Guaranteed Annual Wage Proposal

A year ago the United Steelworkers of America proposed to the steel industry the guaranteed annual wage. We requested a guaranteed minimum weekly wage for each week during the life of a proposed two-year col-

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lective bargaining contract; the wage to be computed on the basis of a forty-hour week and straight time average hourly earnings. The purpose of the guarantee is to shake steel management out of its "prince-and-pauper" complex, provide management with a financial incentive for stabilizing operations and regularizing employment, and to assure steelworkers a minimum annual wage so that they, in turn, could most effectively raise the level of active purchasing power and consumer expenditures.

The desirability of the annual wage is conceded. The War Labor Board Steel Panel found:

"Both parties (industry and labor) readily agree that regularized and steady employment would be highly desirable."

Religious leaders likewise agree, and also point out the need for the annual wage. Reverend James Myers, of the Federal Council of the Churches of Christ in America, says:

"Guaranteed weekly earnings by all industries would not only inject new life into the entire national economy in normal times, but would tend to nip in the bud the first signs of the creeping paralysis of cyclical economic depression."

Father B. J. Masse, of *America* magazine says:

"Human beings, unlike animals, do not naturally live from hand to mouth. They require food, shelter, clothing, education, medical care and recreation not just for a day, or a week, or a month. They need these things regularly and continuously . . .

"Every normal adult workingman whose only access to the wealth of nature is his pay envelope has a right to an annual family living wage."

I cannot improve upon these eloquent statements. It is obvious that industry should guarantee a minimum annual wage. The question is: Can industry make such a guarantee? Is it practical?

The President of U. S. Steel does not think so, and argues:

"It is both impractical and illusory for the steel industry, of all durable goods industries, to attempt to grant its employees a guaranteed annual wage in the future."

I am unimpressed by these disclaimers of practicality, because it so happens that steel management among others has an unbroken record of having denounced as impractical every social and economic advancement made in the Twentieth Century. History reveals that industry leaders said that (1) the eight-hour day was impractical, (2) that genuine collective bargaining would not work, (3) that the 40-hour week was impractical, and (4), yes, four decades back, they said that Workmen's Compensation was impractical. They were wrong in all instances. On the last measure Tom Girdler, head of Republic Steel, has confessed:

"In steel mills, laborers and executives commonly said: 'You can't help having accidents in this kind of work' . . . Nevertheless, industry found out that it could help having accidents, a force was applied to safety work—the profit motive . . . Legislation (Workmen's Compensation) spurred safety work into really effective performance."

By the same taken that accidents have been substantially reduced, the steel industry can, and will, largely eliminate chronic unemployment when it becomes more costly to have its workers unemployed than to provide them with year-around work. The measures that steel management said were impractical in the past have since proved practical. A hard-headed newspaper, the Philadelphia Bulletin, said in an editorial last May:

"In view of the great resources of this country as revealed in the war, a future guaranteed annual wage cannot be dismissed as utopian."

Though confined to steel, in reality the annual wage proposal is directed toward industry generally. Many years ago the senior J. P. Morgan is reported to have said:

"I have always been taught in a business way to regard the iron and steel industry as an accurate barometer to general business conditions, and likewise to believe that no other power would exert as important a bearing on the general prosperity of America."

It so happens that on this point I agree with this great financier, and in proposing the annual wage the steelworkers' union afforded the steel industry the opportunity of rendering great service to America. Assuming that J. P. Morgan, Sr. agreed with the annual wage—a sizable assumption, of course—he would also agree that its adoption in steel would have a profoundly beneficial effect "on the general prosperity of America." And he would be right because the ramifications of steel run to the very heart of American industry.

Steel is the main raw material of the nation's most important industries. To stabilize steel operations, through the means of a guaranteed annual wage to steelworkers, would be reflected in the automotive industry, construction, railroad equipment, can manufacturing, shipbuilding, and other industries that go to make up the main steel consuming industries. Let's take a look at what is involved. Using the pattern of finished steel production in the last peacetime year, 1940, we find the following picture.

1. The biggest consumer of steel is the automotive industry. It takes 16%. I know of no economic or legal law that requires the auto companies to purchase their steel seasonally. In fact, the sales and model-changing policies of the auto industry lend themselves to improvement toward the end that (a) steel purchases can be made on an annual basis, and (b) auto and steelworkers can be employed and paid on an annual basis.

2. The second largest outlet for steel is jobbers, dealers, and distributors. Warehouses take 15%. With the experience gained during the war, and the post-war development of steady steel demand, the steel shipments to warehouses lend themselves to regularization which, in turn, can be reflected in year-around employment in steel.

3. The construction and railroad industries respectively consume 11 and 8% of steel output. Both of them for many years have received a great deal of attention from Congress. Is it too much to expect the development of industry and government policies that will regularize the consumption of steel by these industries on a year-around basis? I hardly think so.

4. The container industry consumes 7% of steel output, where much progress has already been made toward year-around tinplate production, and more progress is possible.

5. In 1940 steel exports were at least twice their level of the Nineteen Thirties, being 18%. But in the post-war this might not be abnormal. Steel exports may well be this high for several years after the termination of hostilities.

I shall not take the time to go into the other steel outlets. These that I have mentioned account for 75% of 1940 production. Each one, it can be seen, has possiblities for the development of annual programs of steel purchases. To be sure, each industry has many problems, and to get them operating on a year-around basis is not as simple or as easy as may appear from my remarks. The point—the undeniable fact—is, however, that it can be done. Given the will to accomplish the organization of America's basic industries on an annual wage, sales, and production basis, the difficult practical problems can be solved. I am one who believes that for each problem that the Lord has created, He has also created a solution. All we mortals have to do is find it.

Fortunately, President Roosevelt is in the process of creating a Presidential Commission On The Annual Wage in which, it is hoped, labor and industry will have representation. Here is a working mechanism, soon to be created, through which industry and labor can co-operate toward the common good of full production and full employment. The problems of the annual wage on which I have briefly touched can be fully explored by this Commission, and solutions found for them. Will leaders of industry, especially steel leaders, accept this challenge?

The guaranteed minimum annual wage is a specific, constructive proposal in which industry as well as labor can find the solution to many of their vexing problems. The "prince-and-pauper" steel industry may well hold the key to full production and employment, because, as J. P. Morgan has observed, "no other power (can) exert as important a bearing on the general prosperity of America." Embrace the idea of the annual wage and co-operate with labor to make it work, and you leaders of industry will not have to worry about "Government Guarantee of Employment and Purchasing Power."

IV. The Wage Situation

Before continuing my remarks on this specific subject, I want to discuss another important and equally specific proposal that has to do with purchasing power. That is the question of wages.

The Little Steel Formula of the War Labor Board is tending to hold back the war production program. You will recall with this formula, which is more than two years old, holds wages and salaries down to a level but 15% above January, 1941. The formula was based upon conditions in May, 1942 when living costs supposedly had risen only 15% above January, 1941. Wages and salaries, being tied to living costs by the Formula, were frozen at this 15% point. This freezing of wages and salaries has worked a great hardship upon the vast majority of American people, because the cost of living has multiplied—not twice as much as the Little Steeel Formula allows, but three times as much.

As a consequence, the Little Steel Formula cries out for revision upon an equitable and realistic basis. The manpower needs of critical war production programs demand a prompt lifting of the Formula so that our Armed Forces will not be lacking in needed materials. The great victories of our Armed Forces are not yet complete. Final victory will not come until the last shot is fired. In the meanwhile, the Little Steel Formula, and the hardships and injustices it imposes, cannot be permitted to continue, except at the peril of our war needs.

To speed up final victory, war production, which is so dependent upon a realistic wage and salary policy, cannot—for any reason—be permitted to lag. The mounting cost of living, and its attendant consequences, make it imperative that the 15% limit of the Little Steel Formula be substantially raised. The President's Committee on the Cost of Living found that since January, 1941, retail prices —which is only one element in total cost of living — show that they have risen 30%, twice as much as the Formula, while social studies conducted by CIO show that total living costs have risen 45%—three times as much as the Formula, since January, 1941.

We therefore seek a wage adjustment to compensate American workers for the loss they have suffered as a result of the rising cost of living—an adjustment in the Little Steel Formula that will bring wages back into their proper relationship with current prices. The stabilization policy, thus restored, can—and must—be held by effective price controls, overall democratic rationing, effective limitation of profits, and the stabilization of wages.

From the viewpoint of post-war it is equally necessary to raise wages now. This is emphasized by the maldistribution of the nation's savings. It is commonly believed that post-war prosperity will be built upon the accumulated savings of the American people. But the facts are to the contrary. The Office of Price Administration studies show that for 1942, 66% of the spending units—families and single consumers—received $2,500 or less in annual income, and they have only 11.6% of the total savings. The huge wartime savings, unfortunately, are not in the hands of the people who make up the vast majority of the buying public.

Many people ask, in the face of these facts, where is the money going? I do not profess to know, except some indication is afforded by a recent report on the nation's "billionaire" banks. It appears that there has been a 100% increase since 1939 in the number of banks in this classification. In 1944 16 banks had total assets above one billion as compared to only eight at the close of 1939. And the combined total assets of the "billionaire" banks rose from $20.8 billion dollars in 1939 to $38.1 billion at the end of 1944, or an increase of 83%.

Thus savings, which some count on as a huge reservoir of post-war purchasing power, are for the most part held by too few people to be highly effective in creating a demand for consumer goods. Even those savings being held for the purchase of goods after the war may be withheld from the market if the economic security of the holders is jeopardized; and may be spent very sparingly for bare necessities by the worker who finds himself either unemployed or his job security highly uncertain. This underlines the necessity for providing American workers with a guaranteed annual wage. Because, unless the mass of American consumers has the prospect of sustained earnings, the post-war can hardly be a period of prosperity.

Another development that makes an upward revision of wages necessary is the tremendous technological gains made during the war. These are even recognized by the National Association of Manufacturers which recently referred to the "incredibly increased productivity" of American industry during the war. The meaning in the post-war of this greatly increased man-hour output of American industry is that fewer workers will be required to produce war goods, and unless their wages are substantially raised there will not be the purchasing power to employ the displaced workers.

The steel industry provides a good example. From 1940 to 1944 steel ingot capacity rose by more than 15% to a total of more than 94 million tons. Industry sources report that at least "10% of the present steel capacity will be written off after the war with Japan ends as being too obsolete and too high cost to keep in operation." Assuming these industry sources are correct, this means that approximately 12 million tons of the most modern low-cost facilities will replace almost 10 million tons of the oldest and most obsolete parts of the steel industry. What this will mean in terms of increased man-hour productivity can be seen from the fact that at a modern DPC steel plant in Homestead, compared to an old unit there, the tonnage produced per hour is 60% higher. The new unit requires 15% fewer workers and produces 26% more tonnage than the old steel plant. Unless the remaining workers receive higher wages, the displaced workers can hardly be absorbed in our economy.

The inequity of the Little Steel Formula is again demonstrated by the fact that it has frozen wage rates while productivity — man-hour output—has been rapidly increasing. America cannot afford to permit the basic wage rates of its workers to lag behind the rise in productivity. The Little Steel Formula, therefore, must be abandoned. In its place there must be an upward revision in wages to enable them to catch up with the constantly rising productivity of American industry. Consequently, over and beyond the several other important reasons why the Little Steel Formula should be abandoned, a change in the national wage stabilization policy is

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Don't Predict Post-War Deflation — Prevent It!

(Continued from first page)
future billions of working hours, of the national income and the goods to be produced are nothing but a toying with figures. There is little that is scientific about it. All calculations about the so-called deflationary gap—the gap between the purchasing power needed for the maintenance of full employment and the purchasing power to be counted on—will prove to be fallacious; as fallacious as all the calculations of the inflationary gap during this war have proved to be; and post-war planning based on such specific calculations will turn out to be impractical.

During the last few months the proponents of the pessimistic school of thought—which predicts depression and deflation—seem to have gained in popularity. It has been adopted by an important group of economists in this country as well as abroad. Lately, it has been propagated by the distinguished Swedish economist, Gunnar Myrdal, in the Swedish, Swiss and American press.

This school of thought is not only pessimistic, it is fatalistic. It describes post-war mass unemployment as something that follows more or less forcibly from the working of the capitalist system. Such an approach has obvious dangers. Let us, therefore, examine the validity of its arguments a little more closely:

The arguments seem to be threefold. They are: (1) The Argument of Increased Population; (2) The Argument of Increased Productivity, and (3) The Argument of the Delayed Rising of the Standard of Living, generally known as the Oversavings Argument. They are based, at least in part, on certain factual assumptions made in S. Morris Livingston's well known study, "Markets After the War."

The Argument of Increased Population

According to Livingston, around 10,000,000 more people will be seeking jobs in 1946 than in 1940. How can these 10,000,000 people be employed? The question sounds rather distressing. It seems quite impossible to provide jobs for all these newcomers, even if the labor market absorbs the supply which existed before. However, the question in itself only shows how far the thinking of some economists, even if thoroughly acquainted with the classicists of economics, deviates from the orthodox lines of economic thinking and disregards certain basic truths.

Othodox thinking precludes unemployment as a consequence of an increase in population. For every newcomer is not only a potential producer, but also a potential consumer. According to classical economic thinking, production and consumption equal each other. Growth of population can be the reason for unemployment only under very exceptional conditions, the most important one being lack of capital necessary for the productivity of the new labor forces. This condition certainly does not exist in our times of very low interest rates.

Unless compelling reasons to the contrary are put forward, an increase in population can never lead to unemployment.

The Argument of Increased Productivity

Productivity, according to Livingston, is increasing at a rate of 2½% or even 3% yearly. Where will the purchasing power and the demand come from to absorb the output increased by the higher productivity of labor, once the government no longer requires more than half of the national production? Will the management of industry suggest a huge rise in wages in order to create sufficient purchasing power to absorb the output under full employment?

Let us put aside the highly controversial question as to whether productivity really is increasing at the presumed rate—there are authors who reach entirely different conclusions; and let us assume that the productivity of labor will have increased at the rate of 2½%-3% during the war; does this mean that unemployment is inevitable? Again, this question in itself implies the disregard of basic economic truths; it is based on a fallacy.

High productivity of labor means that labor produces more units of goods per unit of labor. Generally speaking, wages increase with the units of goods produced per hours of labor, for the simple reason that competition in industry is likely to raise wages until the extra profit of the increased productivity has disappeared. At least this is the case if the adjustment does not take place through declining prices with unchanged wages, i.e., with rising real wages, an eventuality not probable in the inflationary atmostphere of the post-war world. In no case can higher productivity result in a deficit of purchasing power. What has been paid out, chiefly in form of wages, will be sufficient to buy the output of labor, whether large or small, because increased productivity will either force wages to rise or prices to fall. To presume that productivity of labor rises while wages remain low—or prices high—at the same time, means to make two presumptions incompatible with each other; at least, this is so in a static world in which maladjustments are leveled out.

Of course, in a dynamic reality, wages can remain too low relative to labor productivity. But this would cause a boom and not unemployment, as every cost alleviation does. For new enterprises would appear profitable and would absorb elements so far unemployed. Also, wages could be too high relative to labor productivity. But this would not cause full employment—rather a depression and declining employment, as certain enterprises would be forced to close down because of too high costs of production. In a static world with which the Increased Productivity Argument primarily deals, wages must be considered as adjusted to productivity. There is no reason to worry as to where the purchasing power for the increased product is to come from; purchasing power creates itself.

Higher productivity means higher potential wealth of the country; and a country does not suffer because of increased wealth. Therefore, the pessimistic attitude concerning the post-war economy must be considered as unjustified on this basis.

The Oversavings Argument

Even if the Increased Population argument and the Increased Productivity argument are fallacious, i.e., if the purchasing power in the hands of labor always would be sufficient to buy the whole output of the economy, even then, according to the pessimists, full employment could not be maintained: the purchasing power, although sufficient, would remain partly unspent, because the standard of living, i.e., consumption, would rise neither as rapidly nor to the same degree as is necessary to maintain full employment. This, clearly, is the well known Oversavings Argument. In our time it has been used by J. M. Keynes and his school to explain unemployment of a secular character. According to this school, modern economy has reached a state of maturity in which new possibilities for profitable investments are scarce. The economy therefore is in a chronic state of underinvestment which prevents savings from being readily absorbed; thus the resulting oversaving must lead to a deficit in purchasing power or, as it is commonly expressed, in effective demand.

It is not possible to deal here with the highly controversial question of the validity of the oversaving - underinvestment theory; the following remarks are merely designed to show that this theory can hardly be used as a basis for such vital matters as our diagnosis of and planning for the post-war world. The factual as well as the theoretical foundation of the theory is too weak for this purpose.

The conception that the higher output of labor does not lead to a correspondingly higher consumption by labor cannot be proven to be valid over a longer period of time. Indeed, labor's fight for higher wages can be considered as the fight for a higher standard of living. As far as the period immediately after the war is concerned, it can happen that the average person will spend more than he earns, not less, because the high cash reserves accumulated during the war allow for many an extra outlay.

However, even if we assume that underconsumption and consequently excessive savings will be a feature of the post-war period, does this necessarily mean that these savings will lead to underinvestment followed by underemployment? Here, too, it must be realized how far such an assumption deviates from the classical one and, by the way, also from common sense. Larger savings mean a greater supply of credit to industry, therefore expansion of industry and consequently higher employment.

Quite apart from this: the assumption that our economy is mature and unable to provide new opportunities for investment has never really been proven. The phenomenon of underemployment and underinvestment before the war proves only that enterprise was averse to expand but it does not explain the psychological and factual reasons for this behavior. As Professor Schumpeter in his criticism of Harold L. Laski's "Reflections on the Revolution of Our Time" has stated quite correctly, the theory of the mature economy is nothing but the reflection of the group interest of the modern intellectual. One writer after another repeats this theory, without any one of them giving valid proofs of it. ("American Economic Review," 1944, p. 163.)

But even if it could be proven that there are no opportunities for profitable new investments, unemployment would not necessarily follow. Only a short time ago Professor Pigout has proven this convincingly ("Economic Journal," 1943 p. 351). Even if the investment of *new capital* should prove to be unprofitable, the employment of *additional labor* could still be profitable, provided the cost of labor is not too high relative to the price of the finished product. Thus, low profitability of capital could lead to underinvestment, but not necessarily to underemployment. The number of workmen which an entrepreneur can employ—capital being ample and cheap—depends on what he has to pay for labor rather than for the use of capital.

Profits Create Purchasing Power and Employment

Does all this mean that everything will be of the best in the post-war economy? Not at all. It simply means that there is nothing inherent in the capitalist system that inevitably creates unemployment. Neither growth of population, nor increase of productivity, nor larger savings necessarily lead to depressions. A free economy does not work like a machine at a given speed. It is a living organism in which cells permanently are born and die. The fact that more cells are born than die, or vice versa, influence the effective demand so greatly that all other factors are only of secondary importance. This is why—and herein we agree with the pessimists—the great demand for goods and the large amount of cash that will exist at the end of the war should not be overrated in its importance. In a free economy demand must come from money paid for the cost of production, money which eventually flows back to buy the output; an economy relying for any length of time on pent-up demand is doomed to failure anyway.

On what will it depend whether more economic cells are born than die; in other words, whether the economy will expand or contract? It will depend on whether the entrepreneur feels that the returns in new or expanded enterprises will be greater than the costs; in short, on whether new business will seem profitable. If this is the case, a boom and high employment will ensue; if not, the result will be a depression and low employment.

Profitability or non-profitability of business will depend on the many different factors which are now so widely discussed. It will be of great importance to what extent the future corporation tax will mitigate the double taxation of the investor, existing under the present corporation tax law and deterring him from putting new money into enterprises. It will also be of fundamental importance whether wages rise at a quicker rate than productivity of labor.

Problems in this field will certainly be difficult to solve; but it should not be forgotten that the economic difficulties in the United States have their origin not in natural conditions (as is the case in Europe with the problems she had to face after the last war and will have to face, to an even greater extent, after this war), but rather are created by man and can therefore also be overcome by man. It is true, they must be handled with understanding, care and, most important of all, with common sense rather than with conceptions based on unproven theories. If this is accomplished, American Business will prosper. If not, it will face depression.

"Brownout" Ordered By WPB Over Entire Nation

J. A. Krug, Chairman of the War Production Board, on Jan. 15 announced a nationwide "brownout" order effective Feb. 1, 1945, prohibiting certain specified types of electric lighting as one phase of the program to alleviate the critical fuel shortage. This virtually eliminates use of electricity for outdoor advertising, ornamental and display lighting.

"It is estimated that the order will save 2,000,000 tons of coal annualy," Mr. Krug said. "This is approximately 10% of the 25,000,000 ton bituminous coal conservation goal mentioned by James F. Byrnes, Director of War Mobilization and Reconversion, on Jan. 10." Justice Byrnes had requested voluntary curtailment of unnecessary lighting, pending issuance of this order.

Effective Feb. 1 under terms of the new WPB order, no electricity may be used for the following purposes:

1. Outdoor advertising and outdoor promotional lighting.
2. Outdoor display lighting, except where necessary for the conduct of the business of outdoor establishments.
3. Outdoor decorative and outdoor ornamental lighting.
4. Show window lighting, except where necessary for interior illumination.
5. Marquee lighting in excess of 60 watts for each marquee.
6. White-way street lighting in excess of the amount determined by local public authority to be necessary for public safety.
7. Outdoor sign lighting, except for:

(a) Directional or identification signs required for fire and police protection, traffic control, transportation terminals or hospitals; or directional or identification signs for any similar essential public services the lighting of which is specifically certified to be necessary by local public authority. Certification shall be made in writing to the electric supplier.

(b) Directional or identification signs using not more than 60 watts per establishment, for doctors and for hotels, and for other public lodging establishments.

Outlook For the Oil Industry

By MICHAEL PESCATELLO

Writer Says There Are Indications That Oil Industry Will Embark on an Intensified Program of Exploration and Development After the War Though Faced With a Diminished Demand in the Immediate Post-War Period. Predicts Motor Fuel Will Continue to Be the Money Product of the Industry With Heavy Fuel of Secondary Major Importance and Domestic Light Fuel Oil Increasing in Use. Holds the Industry for a Period of Months Will Have to Contend With Mounting Stocks and Because of Market Competition, Sees a Likelihood of a Deterioration in the Price Structure of Principal Petroleum Products. Contends That New Petroleum Chemical By-Products Will Play an Increasing Role so That the Industry Can Look Forward to the Post-War Period With Equanimity.

Michael Pescatello

Petroleum has literally gone to war. With hostilities far removed from the major sources of dependable supply, transportation has become a factor of major significance, and it is liquid fuel that keeps transport moving, whether by land, sea or air. Modern warfare, developed to such a high degree of mechanization, makes oil the link without which the whole chain is useless. It is providing the life blood that powers motor vehicles, trucks, tanks, planes and water-borne craft of every type and description.

War has resulted in the expansion of oil production, refining capacity and transportation to a degree that could hardly be imagined in 1941. It has, moreover, brought about a phenomenal development and output of chemicals and products derived from petroleum. In the process of girding itself for war, the industry has, however, experienced a contraction in two major phases of its normal activities. Its marketing division, over a period of years has been built up to a high degree of efficiency to service civilian consumers, has now been necessarily curtailed. The volume of products flowing into these channels has been cut down in favor of the enormous demand from the war machines. Exploration and development has also been curtailed due to manpower shortages and the limited quantities of equipment and supplies available. In view of the abnormal drain on our petroleum reserves in the past three years, it is a circumstance that cannot easily be ignored. There is every indication that the industry, in order to replenish oil consumed and supplement the remaining country's oil reserves, will embark on an intensified program of exploration and development when the war ends.

Shifts in Oil Output

One of the most significant changes that has occurred during the war years has been a shift in the output of principal products. Notable is that of 100-octane motor fuel. Before the war, the daily production of this high quality fuel was about 40,000 barrels. Production is now estimated to be approximately 550,000 barrels a day. Similarly, there has been a very large shift into the production of special fuels and chemical ingredients for use in the manufacture of explosives, synthetic rubbers and numerous other strategic products required in the armed forces.

In transportation, the change in the oil industry has been marked both in capacity and types. Our tanker fleet, which prior to the war consisted of 416 tankers, now exceeds that number by a big margin despite the heavy toll taken by enemy submarines in 1942. Estimates, based on the present number already built and a monthly rate of approximately 20 tankers being constructed in shipyards, indicate that our tanker fleet will comprise some 1,200 ships at war's end. This threefold expansion since 1941 is even of greater significance in view of the fact that our present tanker fleet has a carrying capacity much larger than pre-war ships; that is, an average of 140,000 tons per ship as against 100,000 tons. In addition, the average speed has been increased to approximately 15 knots compared with 10 knots on the older vessels. In pipe-line transportation there also has been a very significant expansion and readjustment highlighted by the construction of the "Big Inch" line running from Texas to the Atlantic Seaboard and now carrying more than 300,000 barrels of crude a day; and the "Little Inch," transporting more than 200,000 barrels of petroleum products a day from the Gulf area to the Eastern markets.

The high volume of output and good prices received for products in the past four years have combined to give the industry excellent earnings. This situation is certain to prevail so long as the war continues. The pertinent question is: What will be the position of the oil industry when the influence of the war is removed or greatly diminished?

Post-War Demand

Petroleum is perhaps the most important major industry faced with a diminished demand in the immediate post-war period. The industry's principal products in peacetime are consumer items which, unlike durable and semi-durable goods, are purchased for immediate consumption. A backlog of demand cannot be built up for gasoline or fuel oil as has been the case with such things as automobiles, tires, radios and washing machines. There is little question that the long upward trend in the civilian use of the principal petroleum products, interrupted by the war, will eventually be resumed. The element of uncertainty concerns itself with the so-called "catching-up" period after the war when an abnormally large demand for many products of industry is expected to materialize. It appears that the oil industry may have to contend with a shrunken market when other industries are engaged in catching up to meet the requirements of customers deferred during the war years. If this is so, an analysis of the demand factors is pertinent at the outset.

Motor fuel was, is and will continue to be for a long time the money product of the oil industry. It accounts for approximately one-half of the total volume of petroleum products sold. In the last pre-war year of 1941 there were some 658,000,000 barrels of motor fuel sold. The distribution by major uses was approximately as follows:

	Million Bbls.	% of Total
Passenger cars	418	63%
Trucks and busses	150	23
Aviation	11	.2
Others	79	12
Totals	658	100%

The principal mortality since 1941 has been the disappearance of passenger cars on the road. On Jan. 1, 1942, there was an estimated 27,000,000 million such cars in service. Old age, the lack of parts and tires has resulted in retirement of 100,000 to 150,000 cars a month. By the end of this year there probably will be 23,000,000, or 4,000,000 fewer cars on the road. If it is assumed that the automobile companies can place cars on the market in six months after the end of war in Europe, there will be probably another 1,000,000 additional cars, at least, off the road in the meantime. Furthermore, if it will take at least a full year to reach peak production, it will be 18 months before the gap created by the disappearance of cars is filled. For a period of time, therefore, it would appear that the oil industry will be serving its major market which has shrunk by about 20% since 1942; and is still shrinking.

The industry's second major volume product is heavy fuel oil. In 1941 the demand totalled 381 million barrels. The principal outlets are industrial consumers, while the chief source of competition is coal. The war has resulted in a considerable increase in the demand for heavy fuel oil, a factor which is reflected in its price, but, due to the uncertainties that have prevailed regarding the adequacy of supplies, many important consumers have switched to coal. This was encouraged also by the fact that coal is cheaper than oil. As industrial activity declines the abnormal demand for heavy fuel oil will also be materially lessened. It is probable that, in order for the industry to retain its markets and arrest any encroachment by coal, the price will be reduced to pre-war levels. The effect of such a development on the industry's earnings is not as important as is indicated by the volume of demand. This is due to the fact that the unprecedented requirements, created by war activities, have been met largely by reducing the yield of gasoline in refining operations. Normally a part of the domestic demand is met by imports as is the case today.

Light Fuel Oil Use to Increase

In all probability there is not likely to be any significant change in the demand for light fuel oil in the immediate post-war years as compared to consumption prior to rationing. Demand for such oils amounted to 172 million barrels in 1941. The conversion of household burners, using this type of fuel, to equipment using coal, has been of negligible proportions. Any threats that may exist, with respect to the development of efficient equipment designed for the use of solid fuels or consumer preference for gas-fired furnaces, do not appear to be of any immediate consequence. Over a period of years there has been a strong growth trend in oil burner use, and it is likely that this will be resumed after the war in view of the prospect of intensified building activity. A fourth major product of the industry is lubricating oils of which some 42 million barrels were consumed in 1941. In view of the smaller number of cars on the road, the demand may be less, although not to the same extent as gasoline, because of the age and condition of the cars in operation. Furthermore, an immediate important offsetting factor is the much larger market that is present by virtue of the expansion of air transportation.

Future Supply

The second question to be considered is that of supply. Despite the considerable amount of attention and comments in recent months concerning the adequacy of our crude oil reserves, the fact is that they are now and are likely to be for a number of years ample for all our needs. Whatever the merits of the claims expressed by some that we are running out of oil, this question does not enter into an analysis of the oil industry's position in the immediate postwar period. Production of crude oil is now running at a rate between 4.5 and 5 million barrels daily, or about one-third above the pre-war level. The decline in crude oil stocks during the war period is comparatively small. The high rate of production would indicate that these stocks could be built up fairly rapidly, especially if the volume of war demand falls off rather quickly. The same situation prevails in both civilian gasoline and fuel oil production and stocks. There exists, therefore, a possibility that the oil industry may have to contend with mounting stocks of oil and its products. Oil operations have been built up to the present rate of high production over a period of months, and it is questionable whether there exists a sufficient amount of flexibility to curtail these operations sufficiently when the largest customer, the Government, begins to modify its demands. That is not to say that many large producers will not welcome an opportunity to cut down production. In some areas, oil is being produced at rates higher than is economically sound with a consequent harmful effect on recoverable reserves. A tapering off of oil requirements would make the adjustment less difficult for the whole industry, but the large scale use of motor fuel and other oil products in military, air, and ground operation now under way is more likely to cease abruptly rather than diminish gradually. There are too many units in the industry to make an orderly contraction of output possible. The industry never has had to face a similar situation in respect to its products in the past. If its experience with crude oil production can be used as a guide, operations do not "deflate" easily.

Prices

This brings us to the question of prices. From the earnings standpoint, it is the most important of all. The market for petroleum products is extremely competitive, but since the start of the war there has been a tight control of prices as well as volume. As a result, the price of gasoline has been practically unchanged for the last three years. The retail price excluding taxes has averaged approximately 2 cents per gallon higher since 1941 than the average price prevailing in 1940. What this means in the way of earnings can easily be seen when it is noted that in 1941 the demand for gasoline amounted to about 28 billion gallons. A change of 1 cent in prices means a difference of $280 million to the oil industry.

Stable prices for crude oil and gasoline combined with capacity operations of refineries have resulted in an unusual combination of favorable circumstances from the point of view of earnings for the oil industry. There has been at the same time an important increase in refinery capacity, all of which utilizes new or improved processes which result in better quality products and greater yields of ordinary gasoline. At the beginning of this year, there were some 100 new catalytic cracking refining units in operation. The large capacity now devoted to the production of aviation quality fuel requires more crude oil per barrel of end product than does ordinary grades of civilian gasoline. When, eventually, there is a sharp curtailment in output of this premium fuel, a comparatively rapid accumulation of civilian type fuel may occur. The volume of aviation demand in peacetime, including military consumption will be materially less than it is at present, although well above the pre-war years. One modifying factor in this situation may be the intensified activity of operations in the Pacific theatre of war when the European phase ends. The availability of additional crude oil and refined products from other areas, such as the Middle East, may serve to offset this factor in part, at least, however.

In ordinary times almost one-half of all the gasoline consumed in this country is accounted for by the 17 states on the Eastern seaboard. About 1,600,000 barrels of crude oil daily was required to supply the civilian demand in this area. With nearly 5 million barrels daily now being produced in this country and another million barrels daily rate about to be reached in Venezuela alone, it is apparent that potentialities for a rapid accumulation of stocks for civilian use, once the flow is diverted away from the war machine, are quite imposing. In these circumstances a deterioration in the price structure of the principal petroleum products can result. Oil companies continually strive to maintain or improve their competitive positions, and prices are the most potent instruments used. The industry was faced with a bad price situation in the period between the latter part of 1937 to 1940. An excess accumulation of gasoline stocks resulted in a decline in the retail prices from an average of 14.6 cents a gallon, excluding taxes, in 1937 to an average of 12.7 cents in 1940, a reduction of nearly 2 cents a gallon. The B. L. S. price index of petroleum products (1926-100) was reduced from 60.5 in 1937 to 50 in 1940, from which point it has since risen to 64. In 1938 fuel oil prices averaged $1.05 a barrel, while the price of 33 gravity mid-continent crude oil averaged $1.11 a barrel. In other words, the industry was selling

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Allied Military Currency In Constitutional And International Law

By DONALD L. KEMMERER*
Assistant Professor of Economics, University of Illinois

Professor Kemmerer Holding That It Is as Essential to Provide Soldiers With Money as With Munitions Lists Four Kinds of Military Money, Viz: (1) Local Currency; (2) U. S. Currency, Definitely Marked; (3) "Spearhead" Money, Definitely Marked; and (4) "Military" Currency, a Special Type Tailored to the Invaded Area. Describes the "Military Lire" Used in Italy, Which Is Convertible Into Dollars for Which No Redemption Agency Has Been Provided, So That It Sells at 50% Discount. Maintains Military Currency and the Fixing of Its Exchange Rate Is Legal Under International Law and the Constitution, if Within Congressional Appropriations, and Criticises the Treasury's Hesitant and Vague Policy in Defining Its Status, as Well as the Poor Quality of the Notes.

An Invading Army's Money Problem

Donald L. Kemmerer

A modern invading army has to take almost everything it needs with it including money. International law requires armies to pay cash for what they requisition. Supplies need to be purchased locally. Labor may have to be hired to help repair bombed airfields or help erect barracks. Soldiers on furlough or off-duty want entertainment. Our armies are working and fighting in many parts of the world, from Luxembourg to Luzon, Italy to Iceland, Australia to Alsace, and North Africa to New Caledonia. Everywhere their job and their leisure is simplified if they have a money the inhabitants already know. It is as much the War Depuartment's job to provide money as it is to provide munitions. In England or Australia the currency of the country is satisfactory and so payments are made in it; but in recently fought-over areas, the situation is different. Because the peace-time currency has been destroyed or inflated or the amountin circulation is unknown, we supply our own. It is intended to supplement the native currency, not take its place Where British and American armies both invade, each may bring its own invasion money. Thus there are sometimes several kinds of money in circulation. The currencies that armies use can be reduced to four basic types. Each has its advantages, each its disadvantages.

First of all there is the local currency of each country. In Belgium and Holland that is the only kind that circulates; in Italy, France, Greece and occupied Germany it is one of the kinds circulating. It is dangerous to depend on local currency alone because the amounts issued are unknown; the enemy may have withdrawn most of it when he departs, or he may flood the country with counterfeit bills before he leaves—the Germans did this in Sicily[1]—or pour quantities back through sympathizers later. Lack of monetary control may create economic chaos and delay military progress.

Second, we might use our own currency wherever we went. Our men would be better acquainted with it, and it must be admitted the dollar is well known throughout the world. Yet if we did this the enemy could easily use previously acquired stocks — much was gotten when Paris was overrun[2]—to pay for fifth column and sabotage activities. When Hawaii was threatened in 1941-42, we hastily marked all American bills there "Hawaii" so that if the Japs got them they could not use that money against us. In Italy it is illegal for an American soldier to carry American money, usually called "blue seal" money[3]. Soldiers are obliged to exchange all such money at staging points as they move up to the front. However, the circulation of "blue seal" money apparently does take place away from the fighting front.[3]

Third we have issued what is known as "spearhead" money which is American money with a distinctive marking. It has a yellow seal in the Mediterranean; it has a brown seal and is marked "Hawaii in the central Pacific.[4] Our men are familiar with such money, yet it is different from any the enemy has of ours. If the enemy should acquire some, it can be replaced with money of another seal or marking. Incidentally this money can be spent in the United States where it is legal tender and counted as part of our monetary stock. This sort of money was first used by us in North Africa and in Sicily and some still circulates.[5] It represents a fairly good solution of the problem: The chief objection is that the natives may not be familiar with it.

Last of all, there is what is known as military currency, a special type of money tailored to the customs of the area being invaded. It has the advantage of providing the local inhabitants with a money they are used to; it is in a form the soldiers can soon understand; it is different from anything the enemy has, and if he gets hold of it, it can easily be replaced.

Allied Military Currency

Perhaps the best idea of military currency can be had by examining the kind we use in Italy. It is known as Allied Military Currency although we are chiefly responsible for it.[6] It comes in eight denominations of 1, 2, 5, 10, 50, 100, 500 and 1,000 lire. The four smaller denominations of 1, 2, 5, and 10 lire are half the size of the American dollar bill and have respectively blue, lavender, green and black borders surrounding a brownish picture of what is apparently a wheat field. The four larger denominations are the size of the American dollar and also have respectively blue, lavender, green and black borders around a powder blue center with an ornate design in the center. The four freedoms appear on the back of the notes in English. All look like cigar coupons. Because they had to be prepared in a hurry, they are only lithographed on a cheap appearing but special paper. They are more attractive and easier to handle than the cumbersome dull appearing Italian notes alongside which they circulate. This money is legal tender in Italy but not in the United States. The rate of exchange is 1 cent to the lire, thus the highest note is worth the relatively moderate sum of $10.

Soldiers receive their pay in this money, at least that part of it which they elect to carry in their pockets and not remit home. Local supplies and materials for the army use may be paid for in this money and Italian workers receive their wages in it. All this is for military account and a careful record is kept of such disbursements.[7] These military expenditures may some day be recovered through indemnities. The money is also spent for another purpose. In order to help bankrupt municipalities pay their clerks, teachers, policemen and firemen and maintain water and sewage plants, some of the currency is allotted to them. A separate account is kept of this for it is undoubtedly in the nature of a loan. This aid to municipalities while probably necessary and defensible is probably the most debatable of the uses to which our military currency is put.

Allied Military Currency has appeared in Italy, and Germany in the European theater but not in Belgium, Holland or Greece.[8] President Roosevelt remarked about a year ago that more such currency was being prepared for other European countries.[9] Since very little of Germany has yet been occupied that experiment is only beginning. Thus the best example of our military currency experience is found in Italy. The money we issued in France was not called "Allied Military Currency" and responsibility for it has now been assumed by De Gaulle's Committee of National Liberation.[10]

Military currency had a bad reputation before invasion of Italy because of the way it was used by Japanese and German armies to despoil invaded peoples quickly and quietly. Some thought we were going to imitate this practice of our enemies and for a time we failed to make clear that we were not.[11] Our military currency differs from the German and Japanese in at least one very important respect, namely, it can be converted into dollars and so soldiers may, and do, send most of their pay home to America. Ger-

All footnotes at end of article.

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man and Japanese soldiers cannot convert the military currency given them into currency of the homeland and so they must spend it in the invaded country. Thus the occupied land is shortly stripped of much of its wealth.[12] However, it is a mistake to assume that enemy military currency is without value.[13] It all boils down to this: we pay a large share of our invasion while the Germans and Japanese make the defeated peoples pay as much as possible. Of course, we may collect a considerable indemnity ourselves when the war ends but that is another procedure.

Economic Aspects

It now seems reasonable to say that the use of military currency has no inflationary effect on *our* economy that could be avoided by using some other American money. Using military currency does not add to the cost of an expensive war which has already had inflationary consequences and probably will have more. True it is more costly and presumbably more apt to produce inflation in this country than forcing Italians to pay day-to-day occupation costs with bank-notes they printed themselves, which is what Germany did in France.[14] The point many critics of military currency miss is that the pay of American soldiers and the cost of Italian materials supplied our forces must be met with some kind of money.[15] It really matters not a whit if payment is made in American dollars, blue or yellow seal variety, in checks on the Treasury, or in military currency. The military currency is really a military IOU that must be redeemed eventually in dollars or checks out of a fund that has been set aside for the purpose. This is all clear now and has become plainer since last Spring but for months before that it was not apparent who would eventually redeem the military lire.[16] According to international law the country occupied pays the costs of occupation and this custom was several times referred to by Treasury officials.[17] Obviously the chances of military lire being redeemed in full was less if a prostrate and defeated Italy was saddled with the responsibility than if the United States assumed it. The reasons for Treasury vagueness on the point are not clear. Perhaps it was to encourage soldiers to send most of their pay home and lessen the inflationary pressure in Italy. Or perhaps the full peace terms for Italy had not been decided upon and the Treasury really didn't know.

If for any reason quantities of Allied military lire are left floating about and are not redeemed in full it will hurt American prestige. Even if Italy is supposed to redeem them, it will be recalled more vividly that we issued them. In this connection, it seems a careless oversight on our part that military lire apparently cannot be redeemed in this country because there is no agency established to handle them. Money traders will pay about half their face value for them.[18]

While there has been inflation in Italy, France and Germany and more will probably come, it seems absurd to place any appreciable amount of the blame for it on the Allied Military Currency itself. Since 1940, prices in Rome have risen 750% and wages have gone up 230%.[19] Much of this took place before our troops arrived. Of the 260 billions of lire in circulation only 35 billions are Allied Military Currency according to Minister of Finance Saleri.[20] American troops send home 86 to 90% of their pay.[21] Italian inflation would seem to be owing to an increase of money resulting from four years of a losing war, scarcity of goods in a war-torn country, and perhaps the stimulus we added by undervaluing the lire.[22]

In France there has been a sharp rise in prices during the war caused by an increase in money circulation and bank deposits which grew out of Germany's impositiion of occupation costs in France. The monetary forces promoting inflation have been assisted by an acute transportation crisis and manpower shortages which cut the nation's productivity to an estimated 20% of normal. France planned some months ago to deflate her currency.[23] Belgium has recently deflated hers. Large denomination bills were called in and exchanged for 40% as much new money. Larger than pre-1940 bank accounts were blocked.[24] Having witnessed these operations some wealthy Frenchmen, especially black market operators and collaborationists, have tried to convert their money into goods and have bid up prices. Thus we have the strange spectacle of the fear of deflation apparently promoting inflation.[25] Although the French preferred to exchange their Bank of France notes for pounds and dollars, some seemed to favor the anomalous military currency we brought.[26]

The military currency used in Germany has been unofficially valued at 10 cents, which is less than half the pre-war value of the travel mark, but three times the value the Swiss black market puts on marks.[27] Prices in Germany have been kept under control during the war and rationing has been effective so that little inflation has yet taken place.[28] Our undervaluation of the mark may promote some as it did in Italy.

Four Basic Facts

Before taking up the legal aspects, let me emphasize four facts; namely, (1) Allied Military Currency was issued during a war; (2) it was issued outside the boundaries of this country; (3) it is not accepted as money in this country; and (4) the rather modest amounts thus far issued are well within Congress' appropriations for paying soldiers and otherwise carrying on the war. If this economist in sheep's clothing, or a woolsack, has any case for what he is about to say, it must rest largely on those facts.

International Law Aspects

First af all, what is the justification for military currency in international law. For the benefit of economists present international law includes primarily (1) customary rules and usages to which states have given tacit assent and (2) the law-making provisions of treaties and conventions which have been ratified. The last international conference which codified the laws and customs of land warfare met at the Hague in 1907 and drew up the fourth Hague convention. This was ratified by virtually all the major belligerents of the present war, including the United States. A few additional agreements have been added since but the Hague convention is still basic. Several articles of the regulations amended to the Hague convention have a bearing on the issuance of military currency.

To begin with, Article 46 contains the simple statement, "Private property shall not be confiscated."[30] However, the belligerent may requisition property or services for the needs of the army of occupation. Article 52 says, "These requisitions and services shall be levied only by authority of the commander in the locality occupied. Supplies furnished in

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Allied Military Currency In Constitutional And International Law

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kind shall be paid for in cash as far as possible, otherwise a receipt shall be given therefor, and the amounts due paid as soon as possible."[31] The second sentence is generous to the invader and purposely vague—notice the phrases "as far as possible" and "as soon as possible" which are definitely avenues of escape. The fact that invading forces are expected to pay in cash for what they take represents an advance in the practice of warfare. For centuries, invading armies seized what they wanted and went their way; some still do. But in the 18th and 19th centuries the practice grew of giving a receipt for what was taken so that the costs of war might be somewhat equitably distributed among all the peoples of the overrun nation. And in the late 19th and 20th centuries some kind of cash, usually that of the invading nation, was paid.[32] The step from giving a receipt to giving cash was a very short one, particularly when taken in conjunction with the facts that by Article 49 the invaded nation must pay for the costs of occupation, that by Article 53 the occupying army may seize the "specie, funds and collectible securities" which are the property of the invaded state, that by Article 43 the invader may virtually take over all powers of government, and that by the custom of war the victor may eventually impose an indemnity with which to back up or retire the cash he once paid for requisitions. Therefore the use of military currency to pay for requisitions seems amply justified. Moreover, according to Oppenheim's well-known work on *International Law* neither in the case of ordinary requisitions nor in the case of quartering troops is a commander compelled to pay the prices asked by the inhabitants. On the contrary, he may fix the prices himself, although it is expected that they shall be fair."[33]

However, it may be asked if the issuance of currency may not take place in such a way as to amount to confiscation of private property. The rate of exchange would seem to be the crux of the matter. If it undervalues the native currency and provokes further inflation, it would appear to verge on partial confiscation. However, Fauchille points out that the invader has several times in the past been accorded the right to undervalue the invaded country currency. Bustamente admits that the invader must have the right to fix the rate between the two currencies and enforce it; for otherwise those receiving his money might not be able to provide for their own needs. A mild undervaluation such as Germany practiced in France in 1914-18 or we enforced in Italy is apparently permissible.[34] A large undervaluation or excessive issuance of currency to produce runaway inflation could logically be interpreted as confiscation.

The practice of soldiers spending their pay in the form of military currency in the invaded region is consistent with Articles 52 and 46 so long as the inhabitants market their goods or services voluntarily. No requisition is involved; no confiscation has occurred. But if soldiers force the inhabitants to "sell" goods for paper money of little value, as the Germans and Japanese are reported to have done, the act would seem to infringe Article 46 which says "Private property shall not be confiscated."

The occupying army takes the responsibility of government in very large part, according to Article 43 of the Hague convention. The Commander-in-chief of our army is the President. Our War Department has issued a manual entitled, "U. S. Army and Navy Manual of Military Government and Civil Affairs, FM 27-5" to be used as a general guide. It is based on international law, particularly on the Hague convention.[35] It tells war theater commanders what they may do.[36] Under article II, section 12 of this manual is paragraph L on money and banking which tells them they have the power of "providing interim banking and credit needs . . . execution of policies on currency fixed by higher authority, such as the designation of type of currency to be used and rates of exchange; supervisioin of the issue and use of all types of money and credit."[37]

Constitutional Law Aspects[38]

The issuance of Allied Military Currency also seems justified under constitutional law. Article I, Section IX paragraph 7 of the Constitution provides, "No money shall be withdrawn from the Treasury but in Consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time." From this Congress derives its control of the purse. By article I, Section VIII, paragraph 12, Congress is given the power to raise and support armies, etc. Congress' war appropriations are necessarily rather general. Last year it took only two pages to tell how over six billions for soldiers' pay should be allocated.[39] Congress merely wants to make sure afterward that the money has been prudently spent. War and Treasury department spokesmen have repeatedly said that strict account is kept of the military currency issued and spent and these amounts deducted from the War Department's appropriations for carrying on the war.[40] If this is so, critics can have little objection. About all Congress could question is the rate of exchange fixed between the American and foreign currencies on the ground that it favored the foreigners. But it is commonly admitted that we undervalued both the lire and the mark.[41] However, our overvaluation of the franc may cause some difficulty.[42]

Objection has also been made to Allied Millitary Currency on the grounds that it violates Congress' sole power "To coin money, regulate the value thereof, . . ." If the objector is a person residing in occupied territory like Italy or small parts of Germany at present, he probably has no case. International law is what governs here. The conqueror pro-

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vides the government. The commander-in-chief of our armies and navies is the President. Professor Corwin has recently said of the President, "His powers in conquered territory are measured only by the Laws of War as interpreted by himself"[43] That is true even if the occupied territory has been annexed by the United States as long as Congress has not yet taken steps to provide government. The Canal Zone was governed under presidential authoriation from 1905 to 1912. There are other precedents in cases settled by the Supreme Court after the Mexican and the Spanish-American wars.[44]

Returning again to the objection that Allied Military Currency is unconstitutional because it violates Congress' power "To coin money, regulates the value thereof, . . . ", that would also seem unfounded if the objector is an American residing in this country. Allied Military currency is not money in the United States; it circulates only in occupied areas where it is a War Department I.O.U., so to speak. A record has been kept of the amount issued and these issues have aparently been within the limits of Congress' appropriations to carry on the war in those areas. Last autumn it was announced that a reserve had been set up to redeem the notes when presented.[46] It is difficult to see how the issuance of Allied Military Currency has any appreciable influence on the value of our dollar at home. If military currency were not used, presumably regular American money authorized by Congress would have to be, and the effect would be the same.[47]

It would, of course, be another matter if the President issued Allied Military Currency abroad in excess of Congress' appropriations. That would be an infringment of Congress' control of the purse. If Congress then refused to provide funds to retire the military currency, the credit of the United States could be impaired and perhaps the value of the American dollar lessened. However there is nothing at present to indicate Congress's appropriations have been exceeded. An advantage of using "spearhead" or "yellow seal" dollars is that these are part of our regular money in circulation and infringement of Congress' control of the purse and powers over money are even less likely.

Perhaps one other consideration is worth noting. In a war emergency there is very little in practice that the President cannot do. It is quite true that under the Constitution Congress has a number of so-called war powers, — Article I, section VIII, paragraphs 11-16 and 18,[48] such as declaring war, raising and supporting an army and navy, and making rules for the government and regulation of the land and naval forces. In contrast, the only war power the President has specifically is found in Article II, Section II, paragraph 1, which says, "The President shall be Commander-in-Chief of the Army and Navy of the United States, . . . ". However, this last power, combined with the President's responsibility to act quickly to save the very life of the nation, have, in practice, permitted him tremendous authority in wartime. Of course, as soon as the emergency has passed there should be a return to the normal way of government. Congress and the Supreme Court may or may not approve what he has done, but they usually do, or at least they avoid the issue. President Lincoln was the first to expand the war powers of the president. Professor Corwin has pointed out that Lincoln did not call Congress for four months after taking office and ten weeks after Fort Sumter fell. In the intermediate period "he embodied the militia into a volunteer army, added 23,000 men to the Regular Army and 18,000 to the Navy, pledged the credit of the United States for a quarter of a billion dollars, paid out two millions from unappropriated funds in the Treasury to persons unauthorized to receive it, closed the Post Office to 'treasonable correspondence,' proclaimed a blockade of the Southern ports, suspended the writ of habeas corpus in various places, caused the arrest and military detention of persons 'who were represented to him' as being engaged in or contemplating 'treasonable practices' — and all this either without one whit of statutory authority or with the merest figment thereof."[49] In World War I, Woodrow Wilson likewise stretched the powers of the Executive without serious objection by Congress or Supreme Court. And in World War II, Franklin Roosevelt has done a number of things within Congress' province with the expectation that Congress would back him up snortly. The Office of Price Administration was established by executive order April 15, 1941, under the broadly interpreted authority of the Firs. War Powers Act but Congress did not pass the Emergency Price Control Act until Jan. 30, 1942.[50] The War Labor Board was established by executive order Jan. 12, 1942 but the first congressional authority for it came June 25, 1943.[51] Persons of Japanese extraction were accorded special treatment in certain Pacific coast areas by Presidential orders on Feb. 20, March 2 and 18, but Congress did not act until March 21, 1942. When a Japanese citizen, named Hirabayashi brought suit against the United States for this (320 U. S. 81), the Supreme Court dodged the issue of the right of the President to act alone, saying it was moot, because Congress had already upheld the action of the President.[52]

Whether the President could extend his war powers to the point of issuing military currency beyond previous congressional appropiations for the war is debatable. Presumably Congress and Court would avoid facing the issue if it should arise, but it has not yet arisen.

Criticisms

While admitting that Allied Military Currency is legally justified, I do not wish to imply that its inauguration and administration is not subject to criticism. The Treasury and War departments' first explanations of the working of the currency were brief and vague on essential points. The Treasury Department was nearly two months in replying to Dr. Spahr's queries concerning the authority for it.[53] It was not until more than six months had passed that some government spokesmen said the money would be redeemed by the United States and even then others were saying that Italy would have the responsibility of redeeming it.[54] True, soldiers could send as much of their pay home as they wanted, and did, but they were not sure how long that

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Bretton Woods Agreements and the Freedom of Trade

By HENRY HAZLITT*
Member of Editorial Staff, the New York "Times"

Asserting That the Proposed International Monetary Fund Is Bad From So Many Aspects That It Is Difficult to Know in Advance Which Danger Will Prove the Most Serious, Mr. Hazlitt Points Out as Its Serious Defects Its Inability to Enforce Sound Domestic Currencies and Its Provisions Permitting Devaluation. Holds Fund Will Encourage World Inflations Since It Makes Resort to Inflation Easy, Smooth and Respectable. Says Our Experience With Foreign Loans Will Hamper Future Flotations Under the International Bank, and That Lending Abroad by Private Interests Has Brought About "Anti-Capitalistic Ideology" Which Regards the Foreign Lender as an "Exploiter of Native Economy." Contends a Governmental International Lending Institution Should Be Temporary, and Be Confined to Exchange Stabilization Loans Only, and That the First Step Should Be to Stabilize Our Own Currency.

Henry Hazlitt

Freedom of trade, in the eyes of Adam Smith and his nineteenth century successors in the liberal tradition, meant freedom from government interference. All that the classical economists asked of governments in the field of international trade was that they should permit it to occur. They wanted a removal of prohibitions and of nearly all tariffs. But they did not ask for positive "encouragement" or artificial stimulants. They were as much opposed to bounties as they were to barriers.

What the older liberals meant by freedom, in short, was freedom of the individual citizen. They asked that he be free to sell his goods to whatever country and whatever market would pay him the best price for them. They asked that he be free to buy whatever he wanted wherever he could get it cheapest. They argued that these freedoms were not only good in themselves, but that they represented by far the best means to bring about the most efficient division of labor and to maximize world production and world consumption. All they asked of government was that it enforce the laws against fraud, force and theft, and that it refrain from debasing the currency.

The world barriers to international trade in the nineteen thirties, for which every large nation was in part responsible, but in the erection of which the totalitarian governments went to the greatest lengths, brought about such chaos that few responsible persons now undertake to defend them. High tariffs, import quotas, export subsidies, competitive currency depreciation, blocked currencies, bilateral arrangements, forced barter—all these are today deplored by lip in all respectable circles. The demand now is for International Cooperation.

But when the concrete proposals for this international cooperation are examined, it turns out to be something radically different from the international cooperation hoped for by the older liberals. It is not the freedom of the private citizens of any country to trade with the private citizens of any other. It is not primarily the cooperation among private citizens of different countries at all. It is primarily cooperation among governments. As in the thirties, it is governments that are going to take the matter in hand. But instead, as in the wicked thirties, of restricting trade and making economic war upon each other, this time, we are told, the governments are going to direct and stimulate trade in the interests of peace.

It is a pleasant fantasy; but there are the gravest reasons for doubting that it will ever be realized. There are the strongest reasons, on the other hand, for fearing that this kind of intergovernmental cooperation will break down, and that when it does the resulting chaos in international trade and economic relations will be greater than ever.

For government officials, even when they understand (which is rarely) the basic economic forces that they are trying to control, are almost never disinterested. They are almost certain to reflect the special interests of some political pressure group. The interests of the pressure groups represented by the bureaucrats of one nation are certain to clash with those of the pressure groups represented by the bureaucrats of another. And these conflicting interests, precisely because they are represented by their respective governments, are far more likely to clash openly, directly and politically than in a world of genuine free trade.

But perhaps, before we come back to these larger issues, it would be well to examine in detail the leading proposals so far put forward for the post-war economic world.

The agreements reached by the experts at Bretton Woods seem to typify the intended shape of things to come. The proposed International Monetary Fund has as one of its ostensible purposes the promotion of "exchange stability." Now the way to secure exchange stability, as worked out before the first World War, was clear. A nation kept its own currency sound. It made it convertible on demand into a definite and fixed quantity of gold. To make sure that the promise to pay that fixed quantity of gold would be kept, it saw to it that there was not an excessive expansion of bank credit. It saw to it also that the central government did not issue such a volume of debt that its ability to maintain interest on that debt and to retire it would come into question. A nation saw to it that the government's bonds were sold to the public, so that they were paid for out of real savings and not merely out of the creation of additional bank credit. If a government were to meet all these requirements it had to balance its budget, or at least make certain that its budget was not too long or too heavily out of balance.

When the public was confident, as a result of these conditions, that the promise of gold convertibility would be kept, a nation's currency in the foreign exchange market was stabilized (with comparatively minute fluctuations) in terms of this fixed gold value. The currencies of other countries were likewise fixed in terms of definite gold values. As each currency was held, by each country's own policy, to the value of a fixed quantity of gold, it followed that each gold currency was necessarily fixed in terms of every other. In this way general exchange stability was preserved.

This was the international gold standard. It was a form of international cooperation worked out and improved through the centuries. It reached its highest development in the present century before the first World War.

One will look in vain through the Articles of Agreement on the International Monetary Fund for any reference to balanced budgets, to limitations on internal credit expansion, or to any definite requirement for gold convertibility. How, then, does the Fund propose to maintain international currency stability? Instead of contemplating that each currency shall be separately anchored to gold, and that each nation shall be responsible for maintaining that link so far as its own currency is concerned, the Fund proposes that every currency be tied directly to every other. This is to be done by forcing the strong currencies automatically to support the weaker.

Suppose, to take a fictitious example, that the Ruritanian rurita has a par value of twenty cents in terms of American dollars. Suppose it has a sinking spell, or that everybody shows a sudden desire to get rid of ruritas and to acquire dollars instead. It becomes the duty of the Fund to supply these dollars, at least up to an amount stipulated in advance in the Articles of Agreement. The Fund must keep buying the ruritas at twenty cents. It must do this regardless of whether the rurita is sinking because the Ruritanians are buying more goods from the outside world than they have the exports or credit to pay for, or because Ruritania is having a revolution, or because it has a Fascist government that has just announced that it is expropriating the property of some minority group, or because it has a budget deficit brought about by a heavy armament program, or simply because it is grinding out too much paper money on its printing presses.

Now the real value of the rurita, left to the natural play of supply and demand, may be only two cents. Nevertheless, it must continue to be bought by the Fund at twenty cents. But if, as is most probable, it is being bought by dollars, this means that American taxpayers are buying two-cent ruritas for twenty cents, thereby immediately losing 90% of their investment on each purchase, while they pay for Ruri-

*An address by Mr. Hazlitt before the Institute on Money and the Law, New York City, Jan. 16, 1945.

tania's luxury imports, her armament program or her Fascist experiment.

But does the International Monetary Fund, though it explicitly lists that objective among its purposes, even contemplate exchange stability? On the contrary, it clearly contemplates a great deal of exchange instability. It provides, first of all, that any nation may at any time devalue its currency 10%. It is explicitly stipulated that "the Fund shall raise no objection." Any nation may propose a devaluation of its currency by another 10%, and the Fund must either concur or object within seventy-two hours. The practical effect of this pressure for a quick answer will be to give the benefit of the doubt to the nation that wants to devaluate. If a nation wishes to devalue its currency even further, it must consult the Fund. But if the Fund refuses its request the member can simply withdraw, without advance notice, if it prefers further devaluation to whatever additional automatic credit it might still be entitled to in the Fund.

But the most ominous provision of the Fund, from an inflationary standpoint, is that which permits it by a majority of the total voting power to make "uniform proportionate changes in the par value of the currencies of all members." Each such change must be approved also by every member that has 10% or more of the total of the quotas. It is true that an individual member of the Fund, if it decides within seventy-two hours, may be allowed to keep the par value of its currency unchanged; but as devaluation of all other currencies would be certain to cause a prompt drop of commodity prices within a non-devaluing nation, all nations would be virtually forced to participate in the devaluation.

Now this provision of the Fund is a provision for periodic world inflation. The historic instances in which the par value of the monetary unit has been increased are so rare as to be negligible. The practical political pressures are always in the other direction. So we are safe in assuming that the "uniform proportionate changes" referred to by the Fund mean uniform proportionate **devaluation**. Devaluation is the modern euphemism for debasement of the coinage. It always means repudiation. It means that the promise to pay a certain definite weight of gold has been broken, and that the devaluing government, for its bonds or currency notes, will pay a smaller weight of gold.

When a nation devalues by acting alone, all this is plain enough. Foreigners who hold bank deposits in that nation, or exchange bills drawn on that nation, or any obligation of that nation stated in terms of its own currency, know that they have been cheated. The value of their claims in terms of their own currency immediately drops by the percentage of the devaluation. They will be paid only 90 or 80 or 50 cents on the dollar. All this makes devaluation morally embarrassing to the devaluing nation.

There are other embarrassing effects. Devaluation seldom comes out of a clear sky. It follows an overexpansion of the government's debt or currency notes or an over-expansion of internal bank credit. Foreigners, reading these signs, begin to withdraw their deposits. The nation's own citizens, seeking to protect their own position, begin to transfer their deposits to other countries that look safer. This is called the flight of capital. The politicians in power, and economic writers who reflect their point of view, seek to put the blame, not on the government that has made its credit and intentions questionable, but on the creditors who question them. They call the money of these creditors hot money—though it is, of course, merely money that is trying to leave hot places. In spite of this modern vocabulary, nations are still embarrassed by this flight of capital and this public evidence of distrust. Moreover, it is a blow to national pride and prestige for a nation's currency to sell at a discount in the foreign exchange markets.

It is obvious that a **uniform** depreciation of **all** currencies would either remove or conceal most of these embarrassing results to a single government. Though the dollar, say, would go to a discount of 25 or 50%, the man in the street would hardly suspect it at first because all the external measuring rods would have shrunk in exact proportion. A hundred dollars would still be worth the same number of pounds, francs, marks, lire, rubles, and so on, as before, and vice versa, because they would be different pounds, francs, and rubles as well as dollars. Relative foreign exchange rates would remain unchanged. There would be no flight of capital, because every place to which it could go would be equally disadvantageous. The provision in the Fund for world inflation, in brief, is a provision to make resort to inflation easy, smooth, and respectable.

But the real harm that inflation would do would be no less under world-wide inflation than under national inflation. Commodity prices would rise. Everybody's cost of living would go up. Those who lived on pensions, either private or part of government social security systems, would find them buying less than before. The holders of government securities would find the real value of their securities greatly cut. All those with fixed incomes would find themselves subjected to an invisible but real and ungraduated income tax (in addition to the government's acknowledged graduated income tax). All those with savings accounts and insurance policies would find them cut by an invisible but real and uniform capital levy. In short, private citizens, as before, would be cheated

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Future Prospects in Rubber

By DR. R. P. DINSMORE*
Vice-President, Goodyear Rubber & Tire Company

Rubber Company Executive Reviews Accomplishments in Synthetic Crude Production and States That Although Problems Remain Serious, Rubber Supply Is No Longer Critical, Though Military Demands Will Increase. Whether Synthetic Production Can Be Maintained After the War Depends on Rehabilitation of Far East Plantations and the Growth of the Automobile Business as Well as New Uses for Rubber Products. Says It May Not Be Feasible to Use High-Cost Grain and Alcohol for Synthetic, but Looks for Technological Improvements Reducing Costs. Sees an Excess of Crude in 1949 and U.S.A. Synthetic Capacity Greater Than Maximum Requirement but Concludes That It Will Add Stimulus to Rubber Industry's Progress and That a Tremendous Growth Is Still Possible.

Dr. R. P. Dinsmore

Last May I presented facts with respect to the rubber situation and some figures with respect to the potential post-war demand. At that time it was assumed that the war would be completely over by the end of 1946 and that the European war would be over about the middle of 1945. Since that time, our troops have invaded Europe and major progress has been made in the Japanese war in the Pacific. However, since there is no certainty as to the exact dates for the endings of these wars, it is believed that these assumptions are still as good as any. The demand of the military services for large truck tires has been increased by the development of the European war. When our forces invaded Normandy, they blocked railroads ahead of them. As they advance, supplies reached them by truck. Today they are at the Rhine, and the famous Red Ball Express truck line, operating from ports to the front lines, is chewing up 5,000 heavy tires every day, much more than had been anticipated. It seems extremely probable that rubber-goods production both during the war and for some time afterwards, will be diminished by reason of the recalcitrance of labor, as evidenced by strikes, sit-downs, slow-downs and insistance on raising the already high wage levels. This is an important consideration in view of the fact that present and potential demands for rubber products would seem to require capacity output.

Nevertheless, since potential demand, is modified by ability to buy, it is considered necessary to modify the figures for future rubber consumption to conform more nearly to probable capacity to absorb.

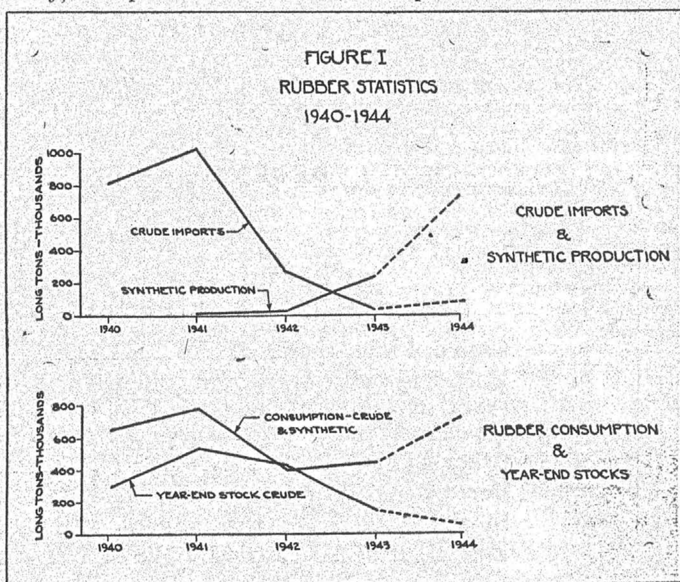
There are many factors bearing upon the future of the Rubber Industry, the potential effects of which today are not clear. Because of the Japanese seizure of most of the rubber-growing territory, the industry has just passed through the worst crisis of its history. To counteract the rubber shortage, the rubber, oil and chemical industries constructed, in record time, a huge synthetic rubber producing project, which is now capable of full production. What part will this new material play in the post-war future of the industry? Consider further that in the years before the war, the rubber producing capacities of the crude rubber plantations were so much in excess of market demand that the British and the Dutch restricted the output in order to maintain a profitable price. Will this huge volume of rubber wipe its new synthetic cousin off the market? Will rubber be cheaper? Will it fluctuate widely in price, as it did in the past? Are we reaching the saturation point for rubber absorption or do new fields await us? How will the new plastics affect the use of rubber? These are some of the questions that arise and for which answers will be suggested.

Rubber Supplies

I would like to show what happened to rubber supplies in the past four years and the projection for this current year (Figure 1). The year 1941 as you will see from a later, more complete set of curves, was the year of highest rubber consumption in United States' history, although on two occasions, 1937 and 1939, world consumption hit its maximum which was higher than for 1941. You will observe that Crude Rubber Imports dropped sharply in 1942 and were very low in 1943. You will notice that consumption of rubber was curtailed drastically in 1942 and '43, but even so, that the year-end stocks went steadily downward. The synthetic production story is seen at a glance and you will note that 1944 is the real turning point.

These figures show how close we have been to disaster, how the high imports of crude in 1941 gave us the breathing space which enabled us to build the synthetic program just in the nick of time to pick up the burden of the exhausted crude rubber. The figures do not show the things that nearly prevented the timely completion of the synthetic program, nor do they indicate the problems which this new material placed in the laps of the rubber goods manufacturers. The rubber production is rolling in. The production of rubber goods from this new material is rolling out. We still have serious problems, but rubber supply is no longer critical.

It is true that we have not yet learned to do everything with synthetic that we can do with natural rubber. In some places we could not at the moment do a very satisfactory job with 100% synthetic. A notable example is the large, high-speed truck and bus tire. The tendency of synthetic to heat up faster, under flexing produced by heavy loads and high speeds at summer temperatures, has made this problem difficult of solution. Yet with the 8% or so of crude which we expect to be able to continue to import from South and Central America, Ceylon and Africa, we shall be able to fortify these



*An address by Mr. Dinsmore before the Society of Security Analysts, New York City, Dec. 20, 1944.

doubtful spots sufficiently to do a satisfactory job. Improvements in compounding the rubber have been progressive and will continue. Rubber improvements have been definite though less extensive, but in all probabilities, will increase in magnitude and frequency. Our greatest problem now is the drastic increase in demand for large military tires to give necessary mobility to our artillery in Europe. This has again crowded back civilian production. So much for the immediate situation.

When the Japanese over-ran the greater part of the rubber-producing area, the plantation acreage was something over eight million acres and had a production capacity of about 1,600,000 long tons per annum. This acreage was nearly evenly divided between native and European ownership. The capacity of the synthetic rubber plants, of all types, is about 1,075,000 long tons per annum for USA, 46,000 tons for Canada, 36,000 tons (in 1946) for England, and 200,000 tons plus for the rest. Thus there is a potential post-war capacity of crude and synthetic rubber of 2,957,000 long tons, of which a synthetic capacity of 236,000 tons are of very doubtful economic significance, except in a nationalistic program. The highest world consumption of rubber was 1,104,000 tons in 1937. This country's highest consumption was 783,000 tons in 1941. Hence you will understand the reason for the questions about how the rubber plantations will survive the war, how soon they may again be in production and to what extent synthetic will be competitive.

Synthetic Rubber Costs

Then there is the matter of cost (Figure II). When a commodity can be delivered to the United States' market for three years, as in 1931-33, at average yearly prices of 6.1¢ per pound, 3.4¢ per pound and 5.9¢ per pound, it raises some questions in the minds of those who know that synthetic rubber (GR-S) of the most abundant type probably costs between 30 and 40¢. Several authorities have stated that crude rubber can be produced on high-yielding efficient plantations and sold at a profit in this country for from 10¢-12¢ per pound. Statements have been made that the cost of crude production might even be brought below 4¢ per pound. Other authorities state that synthetic may be produced at a cost of from 12¢-16¢ per pound. Certainly we must examine these possibilities, in our attempt to define a post-war picture.

In every undeveloped situation there are potentialities ranging from complete failure to outstanding success. When a salesman attacks a new market, he may develop 5% of its potential or 80%. A production man, faced with losses, may cut his costs by trimming here and there, or he may adopt revolutionary methods that achieve huge savings. And so on throughout all human activities. In appraising the future, only potentials can be developed with any accuracy. To what extent potentials are realized, if at all, depends upon many factors, some of which are now unknown. Therefore, I wish to make it clear that I do not propose to predict the volume of rubber to be used in the future, nor the price at which it will be sold. I shall simply show what potential possibilities the present facts indicate.

Future Potentialities

I have observed that the rubber consumption figures for the United States, in the past thirty years or so, tend to fluctuate around a normal line, much as economic activity does. This line to be sure is not one of constant volume, but rather one of constant increase. The figures for world consumption are somewhat less certain in this respect and it is possible that they follow a curve or that the normal line is broken.

I am quite aware that the period observed is inadequate for safe generalization. It is also important to observe that the major use for rubber, in this country and in the world, is for tires and tubes, in which the automobile tire preponderates. Therefore, to some extent, rubber consumption figures for the past 20 or 30 years merely reflect the growth of the automobile business. Certainly any major change in the pattern of that industry would alter the rubber consumption curve. Perhaps such a change is in the making. I shall make no effort to decide that question. For some time, however, tires and tubes have used about 70% of our rubber. As to world consumption of rubber, it is obvious that in a world of two billion people, it cannot be expected that a country of 133 million will continue to consume a major proportion of such a useful commodity. From 1910 to the late twenties, this country used very nearly 75% of the world's consumption. From then until 1940 the trend was much more nearly

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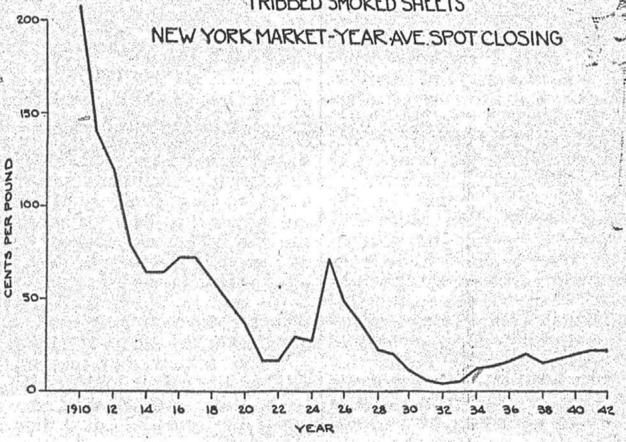
FIGURE II
CRUDE RUBBER PRICES
#1 RIBBED SMOKED SHEETS
NEW YORK MARKET-YEAR AVE. SPOT CLOSING



International Monetary Cooperation—A Strand of Economic History

By F. CYRIL JAMES*
Principal and Vice-Chancellor of McGill University

Canadian Educator Traces Evolution of Money From Early Times to Present Day and Concludes That Money Development Has Been a Function of Economic Rather Than Political Forces. Contends That the Predominance of the London Market, Together With the British Gold Standard and the Free Movement of Gold, Led to An International Money Based on the Pound Sterling, but Because of London's Decline After World War I, an Essential International Monetary Authority Has Been Lacking. Says Bretton Woods Proposals Aim to Reestablish an International Monetary System Required for World Economic Stability.

Dr. F. Cyril James

The first mention of money in the Bible is to be found in the twenty-third chapter of Genesis, which records Abraham's offer to "give money" to Ephron for the field at Machpelah. For untold centuries, the ancestors of the Hebrews (and the people with whom they associated) had measured a man's wealth in terms of cattle. The ox was the standard of value not only among the Jews but among the barbarian Greeks who over-ran the Aegean civilization. Homer valued the arms of Glaukos at one hundred oxen. But Abraham had studied abroad. In the commercial atmosphere of Ur of the Chaldees he had learned new economic techniques, and when the arrangements for the purchase of the field at Machpelah had been completed "Abraham weighed to Ephron. . . . four hundred shekels of silver, current money with the merchant."

This Chaldean practice of paying for things by quantities of gold and silver weighed in the balances of the merchants had greatly facilitated the development of commerce in the Mesopotamian Valley. It was the origin of all our modern monetary systems and bullion was an international currency in terms of which individuals from different nations could readily transact business. Yet from the viewpoint of a monetary economist, the innovation was not startling. Whether Abraham paid in cattle, according to the ancient tradition, or in shekels of silver, he was compelled to give up tangible articles of an intrinsic value equal to that of the field he bought. The supply of silver, like the supply of cattle, depended upon the availability of natural resources and the expenditure of human effort, so that the value of "money" in the sense in which Abraham understood that term was determined in the long run by relative costs of production, and the supply of money was determined by men's desire to acquire it. No governmental regulation was necessary, or possible, in monetary matters—and international monetary problems were identical in kind to those encountered within the frontiers of a single political community.

The origins of money in the Chaldean civilization were not, therefore, a matter of governmental policy or political decision: Money was invented by the merchants, for the simple reason that it facilitated commercial transactions, and every new development in monetary practice during the three thousand years that separate us from Father Abraham has been due to the decisions of business men. Monetary law has merely recognized the new practice after it had become established in the community—so that monetary law always tends to reflect the structure of the monetary system as it existed a decade (or a generation) before the law was passed. We cannot expect to understand the series of developments that have led us gradually from the monetary habits of ancient Mesopotamia to the complexity of our modern problems if we regard legal enactments as the motivating forces. The three great monetary revolutions that are landmarks in the economic history of mankind were each attributable to economic, rather than political, forces—but each of them was subsequently exploited by government and thus embodied in the legal framework of society.

Courage the First Monetary Revolution

The first of these great monetary revolutions occurred in the Greek cities of Lydia, during the sixth century before Christ, when enterprising merchants sought to avoid the inconvenience of weighing silver in their balances by the use of punch-marked ingots of a specific weight. In that simple fashion the art of coinage was born—and in China until a very recent date men still used such punch-marked ingots as money.

Within a very short period the skill of the coiner had developed from these primitive blobs of metal the splendid coins that we

*An address by Dr. James before the Institute on Money and the Law, New York City, Jan. 15, 1945.

know as Athenian "owls," Persian "darics" or Alexandrian staters — coins that are beautiful enough to bear comparison with any products of our modern mints. Such coins as these circulated readily, facilitating to an extent that we cannot now appreciate the development of both domestic and international trade. Such money knew no frontiers; it was international in every sense of the term and even during the years when Greek city states were defending themselves from the armed might of the Persian empire, the gold coins of Persia circulated readily among the bankers and wholesale traders of Athens.

The reason is not hard to find. The art of coinage had not changed the automatic quality of the older monetary system. Coined money was still money of full intrinsic value, while the supply of money was determined by that balance between cost of production and human desire which is the decisive force determining the supply of every marketable commodity in the long run. Governments, in the ancient world, did not assume the prerogative of coinage because regulation of the monetary systems was necessary. Far from it. They acquired the monopoly of coinage because the circulating coins were a good political advertisement for the king, or because it was easier to get rid of the output of metal mines in the form of coins than in the form of bullion. But, having acquired the prerogative, governments discovered that it could be made to yield a profit. As soon as men accepted gold ingots because of the image and superscription that they bore—instead of testing them in the balances—it became possible for the mint to debase the coinage. The specious theory that the value of money depends upon fiat, the State Theory of Money elaborated by Knapp a generation ago, had its apostles in Greek and Roman times. Indeed, there is no method of debasement known to the modern world which was not practised at some time during the checkered monetary history of Rome.

For practical purposes, however, the State Theory of Money was more wishful thinking in the ancient world. Merchants understood money better than kings and emperors, so that any attempt at debasement was soon detected and the money in question either ceased to circulate or was accepted only at its intrinsic value. Such detection was fairly prompt in the international area of wholesale trade—so that international money continued to be metallic coins of full intrinsic value by reason of mercantile rather than political decision. In the restricted area of domestic retail trade, the fiat was easier to enforce and the poorer classes were less skilled in monetary matters. Debasement had a larger opportunity, but not an unlimited one. By the time of Diocletian no man was willing to accept at its face value the imperial coinage of Rome, and the ancient balances had once again become a necessary part of the mechanism of every purchase and sale.

In the long run, therefore, the value of money was determined by the cost of production of the precious metals and, in spite of errors and lapses into unsound monetary policy on many occasions, the customs of the merchants ensured the maintenance of a sound international money for over 1500 years. From the Persian darics of the fourth, B. C., through the staters and byzants that succeeded them, to the florins of the twelfth century of our era, there were gold coins that circulated readily throughout all the countries of the world to which European trade extended. In some sense the clearing machinery of the great Fairs, and the operations of the Roman curia, might be regarded as an informal sort of international action to facilitate monetary transactions, but both of those were economic rather than political in their nature.

Bank Notes—The Second Revolution

The second great monetary revolution, which is usually associated with the origin of commercial banking, was more far-reaching in its effects upon the international monetary system. Beginning with the activities of the great international Fairs in the twelfth century, the use of bills of exchange for the settlement of commercial transactions made it possible for the merchants to monetize other marketable commodities besides gold and silver, but the full effect of this innovation was not apparent until the development of commercial banks in Great Britain and Flanders during the fifteenth century.

The man who produced gold or silver could take it to the mint and receive coins in exchange; the man who produced woolen cloth and sold it to a purchaser could draw a bill of exchange upon the latter and take it to the commercial bank, from which he would obtain either bank notes or the right to draw a cheque upon the deposit resulting from the discount of the bill. Such cheques or bank notes served all the purposes of money. They could be used in the payment of debts or taxes; they were just as useful in the acquisition of commodities, and visitors from the Continent of Europe to Great Britain during the seventeenth century point out that the use of paper money had become so general that few wealthy individuals in England still made use of gold coinage.

These changes were, to be sure, profound, but as long as all other forms of money were redeemed in gold or silver coin, and as long as the banker confined his activities to the discount of bills of exchange resulting from the sale of marketable commodities there was still a certain automatic quality in the monetary system. The total supply of money, including coins, notes and cheques, was still directly related to total volume of production. Nobody could obtain money without productive effort, and the results of such effort would be roughly equivalent, no matter whether he expended his energies in the production of the precious metals or in the production of some other commodity which he intended to sell on the market. The value of coin in terms of other goods was still a reflection of relative costs of production and it was reasonable for the monetary theorists of this period to suggest that the total supply of money of all kinds would automatically bear a fairly constant relationship to the total supply of goods available on the market.

It is important, moreover, to remember that bank notes and cheques did not customarily circulate in international commerce. The settlement of accounts between nations was still carried out in terms of full weight gold coins or occasionally of gold bullion, and in spite of all the regulations that mercantilist philosophy brought forth, the international distribution of the precious metals was determined roughly and in the long run by relative price levels among the several countries. The most interesting demonstration of this is provided by the researches of Professor Earl Hamilton in regard to the distribution of the gold and silver resources which Spain drew from Central America. In spite of all the prohibitions on export of the precious metal, gold seeped into France, Flanders and Great Britain for the simple reason that gold in those countries would purchase more of the commodities on the market than it would in Spain. Although the machinery was far from perfect, and no continuing international equilibrium of prices could be said to exist, it was broadly true that the country with low costs of production and low prices, tended to draw gold from the rest of the world, while the country with high costs was inevitably bound to find its gold drawn away from it year by year.

On the whole, therefore, we find that during this period monetary law (and the governmental regulations in which it was embodied) were negative rather than positive in their effects. In the domestic field, the law tried to prevent such practices as clipping and sweating—which were in no small measure a reflection of poor coinage technique and periodic debasement on the part of the government itself. In the international field, the general body of monetary regulation and the activities of the Exchanger Royal were intended to prevent the operation of economic forces from other parts of the world that tended to influence the value of money within a country.

At its root, the monetary system was still automatic and would continue to be so—both domestically and internationally — as long as the commercial banks confined themselves to the discounting of bills of exchange arising out of actual commercial transactions. History records that this condition was never perfectly adhered to, but the practice was so general that no governmental regulation seemed to be necessary, and, in 1913, when the original Federal Reserve Act was drafted after a very careful study of the whole problem, the new legislation was based upon the assumption that a monetary system could still operate on the basis of the apparent automaticity that characterized the sixteenth century situation.

Third Revolution—Government Paper

This assumption was dangerous, in the light of a third monetary revolution which had occurred in the seventeenth century and greatly influenced the development of American banking during the nineteenth. The concept of the landbank that was proposed in England in 1695, and the contemporary activities of the Bank of Sweden, under Palmstruch, contained the germ of a new idea. Bank notes could be issued against other forms of wealth just as readily as they could be issued, through the discount of bills, against the small group of mar-

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Inter'l Monetary Cooperation—A Strand of Economic History

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ketable commodities. John Law seized upon the idea and exploited it so rapidly that in a couple of years he became the most famous man in Europe. Catherine of Russia sent him a gold snuff-box in token of her admiration; England discharged an Ambassador who criticized him; France raised him to the office of Controller General, and he made himself Duke of Arkansas. Since the total quantity of wealth of all kinds was infinitely larger than the existing supply of money, the simple concept of a paper currency that could be issued on the basis of that wealth—the concept that all wealth could be monetized—permitted an indefinite expansion in the supply of money.

But John Law went even further. If wealth could be monetized by the machinery of banking, why not monetize debt? The public debt of France was already large, and we now know to our sorrow that public debts in all countries have an infinite capacity for growth. The total supply of money was infinite, if private wealth and public debt could both be used as the foundation of note issues and credit balances, so that (in terms of the new quantity theory that Jean Bodin had recently explained) the value of money was determined absolutely by the expansiveness of banking policy.

It is, of course, common knowledge that John Law's "System" collapsed tragically, and that France suffered for a century from his brilliant but unsound advice. It is less generally realized that the early theories of state-banking in the United States were modelled on John Law's ideas, as the history of the great State Banks of Illinois (and many another contemporary experiment) clearly demonstrates. Indeed, throughout the nineteenth century, there was a strong trend in American banking toward the monetization of wealth and debt, as is apparent from the presence in bank portfolios of single-name paper, corporate bonds and real-estate mortgages, so that if the United States was to be saved from the penalties that France had paid for inventing this technique some conscious control of the supply of bank-created money was essential. The two methods that were adopted were, as you know, the institution of legal minimum reserves (theoretically consisting of gold and silver coin), together with the requirement that all notes and deposit liabilities should be redeemable in such coin at the option of the holder.

London—Center of International Exchange

By means of thes two devices—which constitute a direct legal regulation of the monetary system—the state and federal governments were able to maintain the gold standard after 1834 (apart from the Greenback interlude of the Civil War). But these two regulations are not the essential qualities that ensured the success of the international gold standard. The center of gravity of the international monetary system, throughout the nineteenth century, was to be found in the London money market. England had amassed wealth as a result of its pioneering activity in the Industrial Revolution, and it was ready to lend capital funds to poorer nations. English merchants had developed a great international trade in many kinds of commodities: English ships sailed the seven seas, while English financiers were familiar with the economic problems of distant (and sometimes unheard of) places. The London money market was the nerve center of the world economy, and as such it was also the nerve center of the gold standard. Somebody has pointed out that, prior to 1914, the gold standard was really a sterling standard—a remark that emphasizes the fact that, whereas the policies of the United States and other nations attempted to maintain the value of the domestic currency at a parity with gold, the operations of the London money market were largely responsible for changes in the value of gold itself.

This situation was not due to any formal international agreement. It arose out of the economic circumstances, and it is worth emphasizing the fact that the London money market, from the Bank of England down to the least important company promoter, consisted of private individuals or corporations. This group of banks and discount companies, if it had attempted to conduct its affairs on the principles enunciated by John Law, could have pulled down the international gold standard in the chaos of its own twilight—but fortunately the London money market at that time operated conservatively. The reserves of all other members of the market were held at the Bank of England, so that the policies of that institution determined the aggregate supply of reserve funds and, therefore, the extreme limits of monetary expansion, while the policies of the Bank of England were based almost entirely upon the monetization of gold and marketable commodities. The prime bill of exchange was still the most important credit instrument—and anybody who owned such bills could be certain of obtaining sterling from the Bank of England—so that (by the fortunate accident of London banking practice) the supply of money still bore a more or less automatic relation to the supply of goods.

This simple fact, which depended on business procedure rather than statute law, is the first key to the operations of the nineteenth century gold standard, and the second is to be found in the fact that gold and commodities both moved with comparative freedom in international trade. In spite of tariffs, and occasional impediments to the movements of the precious metals, the movement of gold and goods across national boundaries was free enough to permit the development of an international equilibrium of price levels. Gold moved readily to areas of low prices, and the metallic reserves of the whole world could be mobilized by London (as they were in 1907) to aid a country that faced a monetary panic.

These aspects of the gold standard deserve more attention than they customarily receive. It was largely due to business and financial policies, rather than the supplementary law, that any person in any part of the world could obtain gold in exchange for his goods. It was entirely due to business and financial policy that the value of gold remained constant enough to maintain the prestige of the yellow metal. And—as a final conclusion—it was only on the assumption that London continued its traditional monetary practices that the United States could have expected the original Federal Reserve Act to operate in the automatic fashion that its framers intended. It is apparent, therefore, that effective international coordination of monetary policy already existed during the nineteenth century, although monetary law recognized no more of its real machinery than is reflected in such incidents as the Bimetallic Union.

Effects of World War

By a tragic coincidence, the whole unofficial framework of the gold standard disappeared immediately after the Federal Reserve Act was passed. The staggering costs of the first World War led, in every belligerent country, to the wholesale monetization of the public debt. England was no exception, so that the influence of the London money market ceased to be a restraining force and London itself was impoverished to the point where it could no longer fulfill the international financial responsibilities that it had carried before 1914.

No other nation was able, or willing, to assume the burden. Indeed, it may well be doubted if any nation ever could assume, openly and consciously, the position that Great Britain had vacated, since the position of London in the nineteenth century had been the unconscious result of a slow process of evolution. But, if no single country can assume the role of arbiter, it is apparent that some international machinery must be created to undertake the tasks, since, in a world where the monetization of wealth and debt are practised on a colossal scale, there is no conceivable possibility of an automatic monetary system. Unless we are willing to return to the use of full-bodied metallic coins as the only form of money, there must be some conscious principle of monetary policy and some authority strong enough to enforce that principle throughout the area in which the money circulates. If the circulation of any form of money is restricted within the political frontiers of a single nation, a national authority will suffice—and the growth of central banks throughout the world indicates the recognition of this need. If monetary transactions cross national frontiers, an international monetary authority is essential.

This is not a new idea, even to lawyers and diplomats. It was clearly stated at Brussels in 1920, and reiterated at Genoa two years later when the onset of depression had pointed the lesson. In the discussions that led up to the creation of the Bank for International Settlements, there was a clear intention to use the reparations machinery for a supplemental monetary purpose and that point was again emphasized in the Agenda for the World Economic Conference of 1933. Further lessons were learned during the subsequent era of competitive depreciation of currencies, and the Tripartite Monetary Agreement of 1936 must be regarded as the last pre-war effort to solve a problem that had attained tragic importance for the whole world.

Much could be written about each of these incidents but, in summary, we must admit that the record of international cooperation at the political level is one of failure and wasted opportunity. Today we have another chance. The Bretton Woods proposals say nothing about the policies on which the value of money is to be determined, but they do provide legal machinery by which these policies can be made effective. That is more than half the battle.

The Bretton Woods Proposals

To many people the Bretton Woods proposals seem unnecessarily complicated; to some they appear less attractive than alternative procedures. Such arguments, although perfectly valid, are of doubtful value at this time. The proposals have been debated for more than a year. They have been modified as a result of that discussion and today they are before us in agreed form. Any further modification must involve the delays of further international conferences and, unless it can be shown that the present plan is positively harmful, the only reasonable course is frank and sincere adoption.

Admittedly, the Bretton Woods proposals seek to establish a more effective and more centralized control of the international monetary system than has ever existed in the past and, at first sight, this fact is objectionable to those among us who believe that competition is apt to produce better results, in the long run, than control. But we cannot, unless we are willing to return to the sole use of full-bodied coin, expect that a monetary system appropriate to the modern world will operate satisfactorily on the basis of competition. The steady growth of control banks throughout the world indicates a widespread recognition of the need for control within the area of the domestic money market; the painful experience of foreign exchange controls, competitive depreciation and monetary chaos during the decade before this war began proves conclusively that domestic control is not enough to solve the problem that confronts us. And it should be pointed out in this context by those who believe in the importance of free enterprise, that monetary instability is the greatest enemy of business prosperity in the long run. If international action along the lines of the Bretton Woods proposals permits the creation of a satisfactory international monetary system it will, in spite of the transfer of power from commercial to political bodies, do much to render possible the continued adherence to the principle of free enterprise throughout the western world.

Other individuals will fear the implications of the Bretton Woods agreement because they tend to limit national sovereignty. Let us admit at once that they do—but let us ask whether, at any time since the Napoleonic wars, real sovereignty in monetary matters has existed in any country that wished to participate largely in the international movement of trade and commodities. Mr. Wendel Willkie brilliantly sketched some of the political implications of One World, but the economic aspects of that ideal were foreshadowed in the book that Adam Smith published at the moment when the fathers of this Republic were signing the Declaration of Independence. It has become amply apparent that we have only two choices for our children. We can organize the world along the lines of full national sovereignty and economic independence for every state—with the inevitable result that competitive policies of economic nationalism (to implement political nationalism) will bring us rapidly to a third world war—or we can decide on that minimum sacrifice of sovereignty which will permit us to organize the machinery necessary for the effective functioning of a world economy in which the nations are able to develop peacefully.

An appropriate international monetary organization is one of the basic elements in such a program. The need for some such machinery as that proposed by the men of Bretton Woods should be apparent from this brief survey of our monetary history, but the significance of the plan transcends even that aspect of our lives. The Bretton Woods program is the first detailed proposal for post-war organization on which the legislatures and the peoples of the United Nations are asked to decide—so that their decision will be interpreted in the widest possible sense of political philosophy. As economists and lawyers, we must satisfy ourselves that the plan will work, even though it may not be the precise plan that we should have preferred. As citizens we must do our best to see that this latest opportunity in the field of international monetary cooperation is not lost for any of the reasons that caused us to permit the failure of earlier schemes.

NYSE Honors Employee Killed in Action

The flag of the New York Stock Exchange was at half-mast on Jan. 18 in honor of John F. Gallagher, an employe, notice of whose death in action in Belgium on Dec. 25 had been received. Mr. Gallagher was employed by the Exchange in its Bond Department in 1928 and enlisted in the Army in March of last year. He was 34 years old. Fifty-two members of the New York Stock Exchange community have made the supreme sacrifice in this war, including three employees of the Exchange.

Dec. Cotton Consumption

The Census Bureau at Washington on Jan. 15 issued its report showing cotton consumed in the United States, cotton on hand and active cotton spindles in the month of December.

In the month of December, 1944, cotton consumed amounted to 760,740 bales of lint and 120,498 bales of linters as compared with 836,541 bales of lint and 122,304 bales of linters in November and 851,180 bales of lint and 107,368 bales of linters in December, 1943.

In the five months ending Dec. 31, cotton consumption was 4,027,236 bales of lint and 615,017 bales of linters, compared with 4,272,392 bales of lint and 553,284 bales of linters in the corresponding period a year ago.

There were 2,318,656 bales of lint and 270,851 bales of linters on hand in consuming establishments on Dec. 31, 1944, which compares with 2,209,694 bales of lint and 232,113 bales of linters on Nov. 30, 1944 and with 2,400,087 bales of lint and 458,805 bales of linters on Dec. 31, 1943.

On hand in public storage and at compresses on Dec. 31, 1944, there were 13,396,441 bales of lint and 25,747 bales of linters, which compares with 13,185,600 bales of lint and 24,515 bales of linters on Nov. 30 and 12,664,488 bales of lint and 73,139 bales of linters on Dec. 31, 1943.

There were 22,219,768 cotton spindles active during December, 1944, which compares with 22,257,040 cotton spindles active during November, 1944, and with 22,573,582 active cotton spindles during December, 1943.

Outlook for the Oil Industry

(Continued from page 387)

a finished product for less than the cost of the raw material!

The movement of prices for petroleum products in the immediate period following the end of hostilities in Europe appears to be the most important factor that must be considered in analyzing the outlook for the oil industry at this time. It is secondary, of course, to the principal question as to the end of the war itself.

Conclusion

From the standpoint of use of its product, the oil industry still possesses dynamic growth prospects, not only in its established products, but for a new and spectacular group of petroleum chemicals. The number of hydrocarbon compounds that can be derived from petroleum as a base apparently is limitless. The war has greatly stimulated development of derivatives in this comparatively new field. These chemicals have had very important applications in uses for war purposes, and they are destined to play a dominant role in industry when peace comes. Thus the integrated oil companies can be considered as being also manufacturers of chemical raw materials from which stem a wide range of other industrial raw material, semi-finished products and finished goods.

Between the end of the war in Europe and the resumption of full peacetime activity, there will be a period of time in which the industry is faced with a difficult task of readjustment rather than reconversion and not even in such a robust industry as oil, can one look forward to this period with equanimity. Experience of the past shows that any potential dangers that exist, especially in respect to prices of petroleum products, should be treated with a good deal of respect.

	*Price Index Petr. Prod.	Crude Oil Million Bbls. Prod.	Crude Oil Stocks Yr. End	Crude Oil †Price Per Bbl.	Gasoline Million Bbls. Prod.	Gasoline Stocks Yr. End	Gasoline ‡Retail Price (gal.)	Fuel Oil Million Bbls. Prod.	Fuel Oil Stocks Yr. End	Fuel Oil Price Per Bbl.
1944—	64.0	1,680	220	$1.11	730	65	14.6c	700	70	$1.70
1943—	62.5	1,500	249	1.11	614	65	14.6	630	67	1.65
1942—	58.8	1,390	246	1.11	607	71	14.5	540	83	1.61
1941—	56.9	1,400	257	1.03	690	86	13.3	530	105	1.35
1940—	50.0	1,350	276	0.96	615	78	12.7	500	116	1.35
1939—	52.1	1,270	--	0.96	607	77	13.3	470	114	1.04
1938—	55.9	1,220	--	1.11	567	66	14.1	450	126	1.05
1937—	60.5	1,280	--	1.15	570	70	14.6	460	118	1.32

*B. L. S. Wholesale Price Index 1926=100.
†Mid-Continent 33 degree gravity.
‡Average price per gallon in 50 cities excluding taxes. Taxes now amount to approximately 6 cents per gallon.

Note—1944 data based on incomplete reports for the full year.

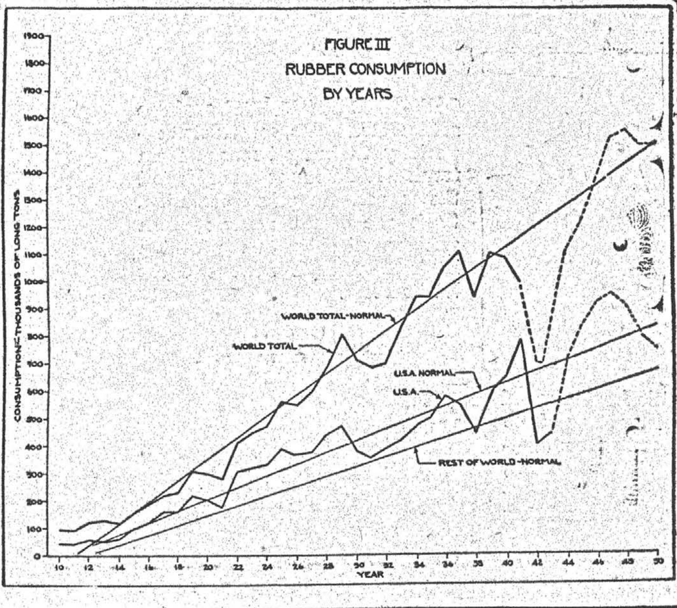
Future Prospects In Rubber

(Continued from page 395)

toward 50%. Any impetus toward industrialization abroad will tend to increase the slope of the consumption curve for the rest of the world. Any change in our automobile absorption pattern will tend to vary the slope of our consumption curve. There is little doubt that the former was under way before the war and will probably develop faster after the war. If you examine the curves for rubber absorption (Figure III) you will note the trends I have mentioned. A few years more, without war, would have established a trend for world consumption, as being either along the normal line indicated or following a new upward sweep. The normal line for the USA indicates a tendency to increase consumption, every ten years, by an annual rate of about 210,000 tons. The rest of the world increases at the rate of about 175,000 annual tons per decade giving a total world change, per decade, of 385,000 annual tons.

The advent of the war threw consumption figures far more out of line than the previous war, for obvious reasons. The actual world figures from 1941 on are not definitely known. They have been estimated on the liberal side. If the effect of striving towards a normal line average, by making up the deficiency of goods caused by war conditions, is resumed post-war, there will be a violent fluctuation above the normal line. In this connection it should be remembered that rubber consumption during the war has, so far, been heavily on the side of military equipment and very limited in the direction of supplying civilian needs.

The projected curves for 1944-1950 show a possible rubber consumption which brings the United States back to normal balance by the end of 1950. The rest-of-the-world figure does not counter-balance sub-normal consumption even by 1950, leaving it 1,138,000 tons sub-normal. However, if military uses are deducted, by 1950 the USA is still 1,500,000 tons sub-normal and the rest of the world is 2,650,000 tons sub-normal. I believe this to be the more valid use of the normal line. It also appears possible that the USA will be required to produce for part of the outside world, for a time, after the war.



In order to give a basis for the estimates of USA consumption, details are shown for potential requirements for various classes of rubber goods, based on known shortages. Tire Products are shown in Tables I and II. Non-tire products are shown in Table III.

TABLE I

Tire Products in Thousands of Long Tons

	1945	1946	1947	1948
Civilian Pass.	161	332	375	348
Civilian Truck	128	165	238	238
Civilian Tractor & Industrial	31	34	36	38
Camelback	75	40	30	20
Military	187	76	--	--
Total Tire Prod.	582	647	679	644

TABLE II

Civilian Passenger Tire Production

	Orig. Equip.	Renewals	Total
1945	1,000,000	29,000,000	30,000,000
1946	15,000,000	47,000,000	62,000,000
1947	30,000,000	40,000,000	70,000,000
1948	30,000,000	35,000,000	65,000,000

Civilian Truck Tire Production

	Orig. Equip.	Renewals	Total
1945	800,000	6,200,000	7,000,000
1946	2,000,000	7,000,000	9,000,000
1947	6,000,000	7,000,000	13,000,000
1948	6,000,000	7,000,000	13,000,000

TABLE III

Non Tire Products in Thousands of Long Tons

	1945	1946	1947	1948
Mech. Goods	95	95	100	90
Wire & Cable	30	25	20	15
Footwear	36	55	55	45
Other Civilian	30	57	100	115
Spec. Military Products	58	45	--	--
	249	277	275	265

The Mechanical Goods figure cannot be justified in detail, but it is intended to cover mostly standard items, made pre-war and is referred to a 1940 figure of 64,000 tons. Wire and cable averaged about 14 tons per annum in the three years prior to entry into the war. Footwear is more of a short-term demand, but pre-war the 1940 figure was 38,000 tons. Other Civilian Uses in 1940 amounted to 52,000 tons. The reasons for augmenting this figure will be explained shortly. The Special Military Products figure supplements military demands included in other categories. It is based partly on known requirements and partly on previous experience.

The discussion of post-war uses, so far, has centered about replacements for the most part. In the category of Mechanical Goods, some allowance was made for new products. However, this was not an important proportion of this group. Some of the potential new and accelerated uses may be of interest.

New Rubber Uses

The cushioning and energy-absorption capacities of rubber have developed certain outstanding applications that have proved their merit and are certain to advance in the post-war era. Cushioning of the human body by the use of latex sponge has proved capable of providing maximum comfort with greater durability under severe conditions of use than any other material. It has demonstrated its value in automobiles, trucks, buses, railway coaches and Pullman cars. It is likewise highly satisfactory for mattresses in Pullman cars, hospitals, hotels and homes, as well as for general furniture upholstery cushioning. No estimate has been made of potential rubber requirements for these purposes for the period up to the end of the war. The potential ranges suggested are annual figures including original equipment and replacements.

Rubber-Spring suspensions for automobiles are on the way to replace steel springs. Comfort and ease of driving are greatly enhanced and the strain on the vehicle is greatly reduced. This use may require from 10,000 to 25,000 long tons of rubber.

Vibration Dampeners for industrial machinery and for railroad trains had begun to demonstrate their value prior to the war. They reduce noise and wear and tear on the machinery and drives. The amount of rubber required per item of equipment is small, but the number of machines is tremendous. A tentative estimate is placed at from 1,500-6,000 long tons.

Rubber tires are developing the uses of farm vehicles, tractors and other implements. The use of tires has already extended the range and efficiency of such equipment and universal adoption of tires is practically certain. It is quite probable that rubber cushions and shock-absorbers will be employed to reduce the fatigue of the operator. Such vehicles and implements should require, aside from tires, from 10,000-20,000 long tons of rubber.

One further use of rubber deserves brief mention. It is the use as a starting material for chemical reactions. Rubber derivatives suitable for lacquers, adhesives and plastics can be made from natural rubber and suitable synthetics, which will be in increasing demand as the price level of the starting materials goes down. Certain uses of these products such as the packaging of fruit, vegetables, other foods and perishable materials, to protect and prolong their usefulness during transportation, are of the utmost importance in our economic development. These chemical uses may require from 25,000-100,000 long tons of rubber annually.

TABLE IV

Latex Foam Sponge

	Long Tons Rubber
Automobile Cushions	10,000-25,000
Truck Cushions	4,000-10,000
Bus Cushions	250- 500
Coach & Pullman Cushions	1,000- 2,000
Furniture & Mattresses	1,500- 2,500
Total	16,750 40,000

TABLE V

New Rubber Uses

	Long Tons Rubber
Latex Foam Sponge	16,750- 40,000
Auto Rubber Springs	10,000- 25,000
Vibration Dampeners	1,500- 6,000
Farm Implements	10,000- 20,000
Chemicals	25,000-100,000
Totals	63,250 191,000

If these various miscellaneous uses for rubber are combined they offer an annual potential of from 63,250 to 191,000 long tons of rubber. Considering a pre-war use of over 50,000 tons for miscellaneous purposes, these new possibilities amply justify the increases shown in this category.

The justification for the swing above the normal line for USA rubber consumption must apply with even greater force to the rest of the world. The rate will be governed by post-war stability, ability to process rubber and by the increase of industrialization. The projected curve for the next six years indicates the following consumption of rubber: (Table VI)

The ability of the rest of the world to process these amounts does not seem out of the question,

TABLE VI

Rubber Consumption—Long Tons

	1945	1946	1947	1948	1949	1950
Tire Products	582,000	647,000	679,000	644,000	560,000	525,000
Non-Tire Products	249,000	277,000	275,000	265,000	240,000	225,000
Total U. S. A.	831,000	924,000	954,000	909,000	800,000	750 000
Rest of World	380,000	450,000	570,000	650,000	700,000	750,000
Total	1,211,000	1,374,000	1,524,000	1,559,000	1,500,000	1,500,000

in view of the 1937 and 1939 figures, when 560,000 and 509,000 long tons, respectively, were consumed. Due consideration is given to the partial destruction of rubber producing facilities, but it is believed that these can soon be repaired or replaced and any deficiency should be more than offset by the known large increases in processing capacities in England, Russia and South America.

Future Production Capacity

In order to estimate the availability of rubber, we must consider the plantation situation. Of course, no one can say with certainty, when the plantation areas will be recovered. Undoubtedly, steps will then be taken for their rapid rehabilitation. Even so, small native estates will be the first to produce, because of simple equipment. The re-organization of labor and replacement of equipment on large estates will be a difficult and tedious job. The attitude of the natives may be uncooperative and international disputes are not unlikely. It is expected, therefore, that after complete re-possession, the first year will not deliver to users over 420,000 tons of rubber and the second year not more than 825,000 tons. It may require two more years to reach 1,500,000 tons output.

The available synthetic capacity is shown in the following table:

TABLE VII

Available Synthetic Capacity Thousands of Long Tons

	1945	1946	1947	1948	1949	1950
U. S. A.	1,075	1,075	1,075	1,075	1,075	1,075
Canada	46	46	46	46	46	46
England	--	36	36	36	36	36
Europe and Russia	75	100	135	175	205	205
Total Outside U. S. A.	121	182	217	257	287	287

The USA capacity is established, but may be subject to some fluctuations because of variation in demand for petroleum feed stocks used for part of the butadiene supply. After the war, it may not be feasible and will certainly not be economical to continue indefinitely the use of high-cost grain alcohol and certain motor-fuel cracking plants as sources of butadiene. Fortunately, 60% or 65% of the plant capacity can produce low-cost rubber. Canada, although using petroleum stocks somewhat more expensive than the cheaper US supplies, should be able to produce economically. There seems no very good reason for producing synthetic rubber in England after the war and its cost there must be high. The production in Italy, Germany and Russia is almost certain to be noncompetitive in cost, but may be continued for nationalistic or reparation reasons.

If all of the foreign synthetic capacity is used, there will be an excess of crude near the end of 1948. In 1949 there will be an excess practically equal to the production of foreign synthetic. If crude does not then displace foreign synthetic, natural rubber will be in direct competition with low-cost American synthetic. Otherwise the question will be deferred until the following year. With 50% crude then in use in the United States, the question of whether the remaining 50% will be crude or synthetic will very likely be chiefly a question of relative cost.

Table VIII shows crude and USA synthetic rubber distribution based upon the assumption that all foreign synthetic capacity, not destroyed will be utilized and that this country will want to use at least 50% synthetic.

This shows a rubber surplus starting in 1948 as is more clearly indicated in Table IX on Rubber Balance.

TABLE VIII

Estimated Crude Rubber Distribution

	1945	1946	1947	1948	1949	1950
U. S. A.	100,000	100,000	210,000	400,000	400,000	400,000
Rest of World	135,000	135,000	270,000	425,000	700,000	1,100,000
Estimated U. S. A. Synthetic Requirement						
U. S. A. Consumption	731,000	824,000	744,000	509,000	400,000	350,000
Export	124,000	133,000	143,000	----	----	----

If available synthetic capacity outside U. S. A. (250,000-290,000 long tons) is used.
1. 32,000 tons surplus crude available
2. 287,000 tons surplus crude available
3. 640,000 tons surplus crude available

This shows a rubber surplus starting in 1948 as is more clearly indicated in Table IX on Rubber Balance.

TABLE IX

Rubber—Balance—Demand—Thousands of Long Tons

	1945	1946	1947	1948	1949	1950
U. S. Consumption	831	924	954	909	800	750
Rest of World	380	454	570	650	700	750
Total Consumption	1,211	1,378	1,524	1,559	1,500	1,500
Supply						
Crude Rubber Receipts	235	235	420	825	1,100	1,500
Foreign Synthetic Production	121	182	217	257	287	287
U. S. Synthetic Production	855	957	887	509	400	350
	1,211	1,374	1,524	1,591	1,787	2,137

It is evident that the maximum requirement for USA synthetic would never demand full capacity production and, after 1947, never exceeds the capacity of the economical units, dwindling to one-third total capacity in 1950. Surplus crude capacity finally reaches 650,000 tons, always subject to a reduction of 287,000 tons, if foreign synthetic drops out.

Granted the validity of our reasoning, thus far, the world may be facing a tight rubber situation for the next three years. It is important, because it means that synthetic must not only meet our war needs, but must be able to cope with a considerable portion of our post-war requirements for two or three years, with all the changed conditions under which rubber products will be used. It is likewise evident that synthetic has four or five years in which to become competitive, in cost and quality, with the natural product.

Natural vs. Synthetic Costs

A few words about the much-debated comparison of natural and synthetic rubber costs are in order.

An efficient large estate, with high-yielding trees could lay down rubber in New York before the war for about eleven cents per pound, with about one cent profit. A considerable proportion of large estates could not do as well. Small native estates have little fixed investment and small labor costs. On a low market, these are the most tenacious of the plantation rubber producers. Except for these small operators, it is likely that the plantations, post-war, will be faced with much higher costs. Labor rates will likely increase from 50% to 100% with corresponding increases in costs of management and administration and much greater increases in local taxes. An increase of two to four cents a pound would not be unexpected, particularly in the early years, after rehabilitation. This would mean a New York cost of from 13 to 15 cents per pound. Continued lower prices might make all the rubber "go native."

GR-S synthetic probably costs between 30 and 40 cents a pound at present. This is chiefly because of high-cost alcohol used in making butadiene and because of initial operating inefficiencies. It is estimated that butadiene and styrene can each be produced at about 6¢ per pound by efficient methods. With plant values adjusted to post-war replacement costs, rubber could be sold at a profit for 13¾¢.

It would seem, then, that the elements for cost competition, between natural and synthetic rubber, are inherent in the situation. It remains to be seen which product wins the cost battle. However, the synthetic process has the well-known advantage enjoyed by chemical processes, in that it is capable of being changed quickly and relatively cheaply. It seems certain that synthetic will check wild price fluctuations and tend to create a progressive decline in rubber prices. The competitive quality of synthetic has every opportunity for improvement, in the hands of a progressive technical industry. Continued large demand over a period of several years, provides all the necessary justification for technological improvement. Increased processing costs in the rubber goods factories are being reduced and should soon be competitive.

Rubber Industry Prospects

In conclusion, I would say that the future of the rubber industry appears as bright as any that can be mentioned and far above the average. This is said despite the conservative modifications of last May's figures referred to at the beginning of this talk. It is quite probable that the new synthetic industry, which has matured so rapidly under the stress of war, will prove almost as great a stimulus to the rubber industry's future progress as did the advent of the popular priced automobile. Even under adverse social conditions, this industry should progress better than many another, less flexible or less firmly rooted in the economic needs of the world. With an enlightened and stabilized world economy, with provision for free enterprise and private initiative, it seems clear that tremendous growth is still possible. It would be foolish to attempt to delineate the character of such growth in the ensuing decades, but its reality is predicated on the same factors which in the past have proved potent in our industrial expansion.

Net Earnings of N. Y. First National Bank

Net earnings of the First National Bank of New York from loans and investments for 1944 were $17,729,511, it was indicated on Jan. 9 at the annual meeting by Leon Fraser, President, whereas actual gross revenue from these sources was $21,700,000, offset by $4,000,000 of amortization, which increased amortization reserves to $12,000,000, he declared. We quote from the New York Times of Jan. 10, which further stated: Net profit of $1,869,527 on securities also represented a balance between profits and losses, while $6,247,001 of tax and assessment reserves resented an increase in earnings as well as a decline in the proportion of tax-exempt Government bonds held. Net income for the year was $12,426,835, against $10,615,903.

It was observed in the Times that the meeting was conducted by President Fraser with the utmost informality without the use of a prepared speech. Mr. Fraser is quoted as stating that it is probable that the bank will continue its present annual dividend rate of $80 a share and improbable that the dividend will be restored in the immediate future to the $100 a share which was paid until three years ago.

According to the New York Herald Tribune, Mr. Fraser said that the ratio of capital funds to deposits for First National Bank was higher than that of any other bank of comparable size in the United States, and that, thanks to certain carry-overs, the bank was not subject to excess-profits taxes in 1944 and barring unforeseen developments this will also hold true for 1945.

At the meeting the stockholders elected as a director Frederick A. O. Schwarz, owner of the toy store on Fifth Avenue and a partner in the law firm of Davis, Polk, Wardwell, Sunderland & Kiendl. Mr. Schwarz succeeds the late Wendell L. Willkie on the board.

Frank Rysavy, after 43 years of service with the First National, resigned as Trust Officer, and was succeeded by Charles R. Beattie heretofore Assistant Cashier.

The Business Man's Bookshelf

Dynamic Economics — Charles F. Roos—Econometric Institute, Inc., 500 Fifth Avenue, New York 18, N. Y.—$5.00.

Half Century of Progress, A, 1894-1944 — Facts and Figures About the Growth of Economic Life in the United States—Investors Syndicate, Roanoke Bldg., Minneapolis—Paper

Housing Costs—National Housing Agency—Superintendent of Documents, Washington 25, D. C. —Paper—10¢.

Public Debt, The—William Withers—The John Day Company, 40 East 49th St., New York 17, N. Y.—Cloth—$1.75—Publication date: Jan. 24, 1945

Shall ~~Post-War~~ Markets for Cotton Textiles Expand or Contract?—Association of Cotton Textile Merchants of New York, 40 Worth Street, New York 13, N. Y. —Paper

Equilibrium Creates Purchasing Power

(Continued from first page)

On the equilibrium theory occasional periods of readjustment are inevitable and are useful. We shall face, in the post-war period, an immense disequilibrium. The proportions of our industries will be all wrong. We must shift from producing wartime goods to producing peacetime goods. Public policy should concern itself with restoring freedom to the markets, freedom to the movement of prices, interest rates and wages, so that the readjustment can be made quickly.[1]

The equilibrium doctrine would look upon the attempt to prevent a post-war shake-down and readjustment by the pouring out of artificial purchasing power as an utterly futile, wasteful and dangerous performance. Once a reequilibration is accomplished, moreover, it would regard new artificial purchasing power as wholly unnecessary, and further, dangerous, since it would create new disequilibria.

Lord Keynes is the leading advocate of the purchasing power doctrine, and the leading opponent of the doctrine that supply creates its own demand. The present article is concerned with Keynes' attack on the doctrine that supply creates its own demand.

I regard Keynes as a dangerously unsound thinker. His influence in the Administration is very great. His influence upon most of the economists in the employ of the government is incredibly great. There has arisen a volume of theoretical literature regarding Keynes almost equal to that which has arisen around Karl Marx.[2] His followers are satisfied that he has destroyed the long accepted economic doctrine that aggregate supply and aggregate demand grow together. It seems necessary to analyze Keynes' argument with respect to this point.

[1] See my article, "What Can the Government Do to Promote Post-war Reemployment?" in *The Commercial and Financial Chronicle* of Oct. 21, 1943.

Keynes Ignores the Essential Point in the Doctrine He Attacks

Keynes presents his argument in his *The General Theory of Employment, Interest and Money*, published in 1936. But he nowhere takes account of the law of equilibrium among the industries, which has always been recognized as an essential part of the doctrine that supply creates its own demand. He takes as his target a seemingly crude statement from J. S. Mill's *Principles of Political Economy* (Book III, chapter 14, paragraph 2) which follows:

> "What constitutes the means of payment for commodities is simply commodities. Each person's means of paying for the productions of other people consist of those which he himself possesses. All sellers are inevitably, and by the meaning of the word, buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should, by the same stroke, double the purchasing power. Everybody would bring a double demand as well as supply: everybody would be able to buy twice as much, because every one would have twice as much to offer in exchange."

Now this passage by itself does not present the essentials of the doctrine. If we doubled the productive power of the country, we should not double the supply of commodities in every market, and if we did, we should not clear the markets of the double supply in every market. If we doubled the supply in the salt market, for example, we should have an appalling glut of salt. The great increases would come in the items where demand is elastic. We should change very radically the proportions in which we produced commodities.

But it is unfair to Mill to take this brief passage out of its context and present it as if it represented the heart of the doctrine. If Keynes had quoted only the three sentences immediately following, he would have introduced us to the conception of balance and proportion and equilibrium which is the heart of the doctrine—a notion which Keynes nowhere considers, so far as I have been able to find. Mill's next few lines, immediately following the passage torn from its context, quoted above, are as follows:

> "It is probable, indeed, that there would now be a superfluity of certain things. Although the community would willingly double its aggregate consumption, it may already have as much as it desires of some commodities, and it may prefer to do more than double its consumption of others, or to exercise its increased purchasing power on some new thing. If so, the supply will adapt itself accordingly, and the values of things will continue to conform to their cost of production."

Keynes, furthermore, ignores entirely the rich, fine work done by such writers as J. B. Clark and the Austrian School, who elaborated the laws of proportionality and equilibrium, and particularly Clark's law of *qualitative* increments in capital goods and in consumers' goods. Increased ability to create capital goods would not mean a proportionate increase in the number of hoes and hammers and plows, but rather an increase in the number of complex machines and an increased complexity in machinery. It would mean, moreover, for hoes and hammers and plows *qualitative* improvements—greater hardness in the steel, better balance in the tool. Precisely this did take place, for example, in the plow between George Washington's day and 1900. The plow of Washington's day and the plow of 1900 have a similar outline, and seen together in a museum by a man who knows nothing of agriculture might even look alike, but the plowshare of Washington's day was made of iron, not highly polished steel. It would not turn a furrow. It made a trench. The American farmer of 1900, buying a plow, was accustomed to try the surface of the share with a file. If he could scratch it, he would not buy it.

The doctrine that supply creates its own demand, as presented by John Stuart Mill, assumes a proper equilibrium among the different kinds of production, assumes proper

[2] I have not read much of this elaborate literature. Keynes himself I have studied with care. I think it probable that other critics have anticipated many of the points I make here, and I would gladly give them credit if I knew.

terms of exchange (i.e., price relationships) among different kinds of products, assumes proper relations between prices and costs. And the doctrine expects competition and free markets to be the instrumentality by means of which these proportions and price relations will be brought about. The modern version of the doctrine[3] would make explicit certain additional factors. There must be a proper balance in the international balance sheet. If foreign debts are excessive in relation to the volume of foreign trade, grave disorders can come. Moreover, the money and capital markets must be in a state of balance. When there is an excess of bank credit used as a substitute for savings, when bank credit goes in undue amounts into capital uses and speculative uses, impairing the liquidity of bank assets, or when the total volume of money and credit is expanded far beyond the growth of production and trade, disequilibria arise, and, above all, the *quality* of credit is impaired. Confidence may be suddenly shaken and a counter-movement may set in.

With respect to all these points, automatic market forces tend to restore equilibrium in the absence of overwhelming governmental interference.

Keynes has nothing to say in his attack upon the doctrine that supply creates its own demand, in the volume referred to, with respect to these matters.

Indeed, far from considering the intricacies of the inter-relations of markets, prices and different kinds of production, Keynes prefers to look at things in block. I quote:

> "In dealing with the theory of employment I propose, therefore, to make use of only two fundamental units of quantity, namely, quantities of money-value and quantities of employment. The first of these is strictly homogeneous, and the second can be made so. For, in so far as different grades and kinds of labor and salaried assistance enjoy a more or less fixed relative remuneration, the quantity of employment can be sufficiently defined for our purpose by taking an hour's employment of ordinary labor as our unit *and weighting an hour's employment of special labor in proportion to its remuneration; i.e., an hour of special labor remunerated at double ordinary rates will count as two units.*" [Italics mine.][4] . . .
>
> "It is my belief that much unnecessary perplexity can be avoided if we limit ourselves strictly to the two units, money and labor, when we are dealing with the behavior of the economic system as a whole. . ."[5]

Procedure of this kind is empty and tells us nothing about economic life. How empty it is becomes apparent when we observe that these two supposedly independent units of quantity, namely, "quantities of money value" and "quantities of employment" are both merely quantities of money value. If ten laborers working for $2 a day are dismissed and two laborers working for $10 a day are taken on, there is no change in the volume of employment, by Keynes' method of reckoning, as is obvious from the Italicized portion of the quotation above. His "quantity of employment" is not a quantity of employment. It is a quantity of money received by laborers who are employed.[6]

Throughout Keynes' analysis he is working with aggregate, block concepts. He has an aggregate supply function and an aggregate demand function.[7] But nowhere is there any discussion of the inter-relationships of the elements in these vast aggregates, or elements in one aggregate with elements in another. Nowhere is there a recognition that different elements in the aggregate supply give rise to the demand for other elements in the aggregate supply. In Keynes' discussion, purchasing power and production are sharply sundered.

[3] See *The Chase Economic Bulletin*, Vol. XI, No. 3, June 12, 1931.
[4] *The General Theory of Employment, Interest and Money*, p. 41.
[5] *Ibid.*, page 43.
[6] See my criticism of the analogous procedure by Irving Fisher in his "Equation of Exchange," in my *Value of Money*, New York, 1917 and 1936, pages 158-162.
[7] *Ibid.*, page 29.

The Function of Prices

It is part of the equilibrium doctrine that prices tend to equate supply and demand in various markets, commodities, labor, capital, and so on. If prices go down in particular markets this constitutes a signal for producers to produce less, and a signal for consumers to consume more. In the markets, on the other hand, where prices are rising we have a signal for producers to produce more, for consumers to consume less, and a signal for men in fields where prices are less satisfactory to shift their labor and, to the extent that this is possible, to shift their capital to the more productive field. Free prices, telling the truth about supply and demand, thus constitute the great equilibrating factor.

The Function of the Rate of Interest

Among these prices is the rate of interest. The traditional doctrine is that the rate of interest equates supply and demand in the capital market and equates saving and investment. Interest is looked upon as reward for saving and as inducement to saving. The old doctrine which looked upon consumer's thrift as the primary source of capital is inadequate. It must be broadened to include producer's thrift, and especially corporate thrift, and direct capitalization, as when the farmer uses his spare time in building fences and putting other improvements on his farm, or when the farmer lets his flocks and herds increase instead of selling off the whole of the annual increase, and so forth. It must include governmental thrift, as when government taxes to pay down public debt or when government taxes for capital purposes instead of borrowing — historically very important! The doctrine needs a major qualification, moreover, with respect to the use of bank credit for capital purposes.[8]

Keynes' Attack on the Interest Rate as Equilibrator

It is with respect to the interest rate as the equilibrating factor that Keynes has made his most vigorous assault upon prevailing views. Where economists generally have held that saving and avoiding unnecessary debt and paying off debt where possible are good things, Keynes holds that they are bad things. He deprecates depreciation reserves for business corporations. He deprecates amortization of public

[8] See my *Value of Money*, New York, 1917 and 1936, pages 484, n; 484-89; ch. XXIV; my address before the Indiana Bankers Association, published in *The Chase*, the house organ of the Chase National Bank, November, 1920; *The Chase Economic Bulletin*, November, 1926, and May, 1936. See also my article on "The Future of Interest Rates" in *The Commercial and Financial Chronicle* of Aug. 26, 1943.

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California Business Activity Up in November

California business activity in November was estimated as 239% of the 1935-9 average, an increase of 1.8% over the October level, but 6.1% less than the November, 1943 figure, according to current Business Outlook of the Wells Fargo Bank (San Francisco). The advices also state:

"November was the fourth month this year in which there were no business failures in San Francisco. The year-to-date record shows a total of 12 failures with liabilities of $293,291 as compared with 25 failures owing $454,891 in the January-November, 1943 period.

"California continues third among the States in total war contract awards with an aggregate (inclusive of facilities projects to Sept. 30, 1944) to Oct. 31, 1944, of $18,525,280,000 out of a national total of $205,719,502,000. The San Francisco Bay Area's share of these contracts was $3,869,135,000."

ABA Pamphlet on Amendments to Home Loan Rules for Vets.

The Committee on Service for War Veterans of the American Bankers Association on Jan. 15 mailed to every bank in the nation a pamphlet containing amendments to the home loan regulations of the Servicemen's Readjustment Act. The booklet is a supplement to the Committee's November publication entitled "Home Loan Regulations Under Title III" of the so-called G. I. Bill of Rights. The announcement says:

"In addition to home loan amendments, the Committee's supplement provides a digest of the farm loan and business loan regulations of the act. The home loan amendments, it was explained, have been made to bring certain provisions of all three regulations into conformity.

"The ABA Committee on Service for War Veterans has already sent out to member banks pamphlets explaining the complete regulations for making farm and business loans, as well as copies of forms to be used in making the loans."

Postal Service for Guam

Postmaster Albert Goldman announced on Jan. 13 that information has been received from the Post Office Department at Washington that postal service for Guam, Guam, was resumed as of Dec. 1, 1944. The advices state:

"Mail articles are subject to certain restrictions issued by the Postmaster General, including maximum weight of 11 pounds and maximum dimensions of 18 inches in length and 42 inches in length and girth combined, and only one package may be sent by the same sender to the same addressee during any seven-day period.

"The regular domestic rates of postage are applicable as formerly on matter mailed to or from Guam, the eighth zone rates being chargeable on fourth-class mail.

"The air-mail rate from the United States to Guam is 40 cents for each half ounce. Air-mail is restricted to two ounces.

"For the present at least, domestic c. o. d. mail for civilians will not be exchanged with Guam, Guam. However, domestic registered and insured mail may be sent to or from Guam, Guam."

Mail to Philippines

Postmaster Albert Goldman announced on Jan. 13 that information has been recieved from the Post Office Department, Washington, that restricted mail service has been resumed to the Philippine Islands of Leyte, Samar and Mindoro. The announcement further says:

"Only first-class mail for dispatch by surface means will be accepted. The postage rate is 3 cents an ounce. Registry service will be available and the domestic registry fees, registry surcharges and limits of indemnity will apply. The indemnity conditions which will govern will be those in force prior to the suspension of registry service to the Philippine Islands.

"No letter packet may be sent which exceeds 11 pounds in weight, or 18 inches in length or 42 inches in length and girth combined. For the present, not more than one letter packet per week from the same sender to the same addressee will be accepted."

Equilibrium Creates Purchasing Power

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debt by municipalities. He deprecates additions to corporate surpluses out of earnings. His philosophy is responsible for the ill-fated Undistributed Profits Tax which we adopted in 1936 and which we abandoned with a great sigh of relief, over the President's plaintive protest, in 1938.

Keynes gives two reasons for his rejection of prevailing ideas with respect to interest and savings, and the equilibrating function of the rate of interest. The first will be found on pages 110 and 111 of his *General Theory*. I quote:

> "The influence of changes in the rate of interest on the amount actually saved is of paramount importance, but is *in the opposite direction* to that usually supposed. For even if the attraction of the larger future income to be earned from a higher rate of interest has the effect of diminishing the propensity to consume, nevertheless we can be certain that a rise in the rate of interest will have the effect of reducing the amount actually saved. For aggregate saving is governed by aggregate investment; a rise in the rate of interest *(unless it is offset by a corresponding change in the demand-schedule for investment)* [Italics mine.] will diminish investment; hence a rise in the rate of interest must have the effect of reducing incomes to a level at which saving is decreased in the same measure as investment. Since incomes will decrease by a greater absolute amount than investment, it is, indeed, true that, when the rate of interest rises, the rate of consumption will decrease. But this does not mean that there will be a wider margin for saving. On the contrary, saving and spending will both decrease."[9]

This is an extraordinarily superficial argument. The whole case is given away by the parenthetical passage, "(unless it is offset by a corresponding change in the demand-schedule for investment)." The usual *cause* of an increase in the rate of interest is a *rise* in the demand-schedule for investment. Interest usually rises because of an increased demand for capital on the part of those who wish to increase their investments; on the part of businesses which wish to expand, speculators for the rise, home-builders, and so on. Usually, when the interest rate rises, it rises because investment is increasing, and the increased savings which rising interest rates induce are promptly invested. Indeed, investment often *precedes* saving in such a situation, through an expansion of bank credit, also induced by the rising rate of interest.

Keynes is assuming an *uncaused* rise in the rate of interest, and he has very little difficulty in disposing of this. But economic phenomena do not occur without *causes*.

Keynes' second argument against the prevailing doctrine will be found in his Chapter 14 *(loc. cit.)* called "The Classical Theory of the Rate of Interest." Here (with a diagram on page 180) he complains that the static theory of interest has not taken account of the possibility of changes in the level of income, or the possibility that the level of income is actually a function of the rate of investment.

Now it may be observed that Keynes is here introducing dynamic considerations into a static analysis. By this device one may equally destroy the law of supply and demand, the law of cost of production, the capitalization theory, or any other of the standard working tools of the static analysis. Thus the static law of supply and demand is that a decrease in price will lead to an increase in the amount demanded. But with a sudden, violent general fall in prices the tendency is for buyers to hold off and wait until they see where prices are going to settle.

The static economist has known all this almost from the beginning. He has been aware that he was making abstractions. He has protected himself in general by the well known phrase, *"caeteris paribus"* (other things equal), and the general level of income has been among those other things assumed to be unchanged. Moreover, the static economist has concerned himself with delicate marginal adjustments, and with infinitesimal variations in the region of the margin, a device which Keynes is very glad to borrow from static economics in his conception of the "marginal propensity to consume" and in his initial conception of the "marginal efficiency of capital."

The Multiplier

Rejecting the function of the interest rate[10] as the equilibrator of saving and investment, Keynes is so impressed with the danger of saving, so fearful that what is saved will not be invested, that he finally convinces himself in one of his major doctrines that *no part* of what is saved is invested; that *everything saved is hoarded*. This major doctrine is the much praised Keynesian "investment multiplier." *(Loc. cit.*, pages 113-119.) If an investment is made it gives a certain amount of employment, but that is not the end of the story. Investment tends to multiply itself in subsequent stages of spending. The recipients of the proceeds of the investment spend at least part of it, and the recipients of their spending spend part of what they get, and so on. How many times does the original investment multiply itself? Keynes gives a definite mathematical answer in which his investment multiplier rests solely on what he calls "the marginal propensity to consume." The marginal propensity to consume determines how much of income is spent for consumption and how much is saved. The multiplier figure rests on the assumption that the subsequent spending consists entirely of purchases for consumption. Nothing of what is saved is invested. If any of the recipients of the proceeds of the investment should add to their expenditures for consumption any investment at all, the mathematics of the Keynes multiplier would be upset, and the multiplier would be increased. I am glad to find myself in agreement with Prof. James W. Angell on this point.[11]

I regard the multiplier concept as an unfruitful notion. In times when the business cycle is moving upward, particularly in the early stages of revival, increased expenditure, whether for investment or consumption, tends to multiply itself many fold, as Wesley Mitchell[12] has shown.

In times of business reaction there may be very little multiplication. The Soldier's Bonus payments by the Government under Mr. Hoover made no difference in the business picture. On the other hand, the Soldier's Bonus payments under Mr. Roosevelt in 1936, at a time when the business curve was moving upward sharply, appear to have intensified the movement.

The Relation of Savings to Investment

The preoccupation of the Keynesians with the varying relationship of saving to investment seems to me superficial in the extreme. Investment tends to equal saving in a reasonably good business situation, when bank credit is not ex-

[9] Harold G. Moulton, whose book, *The Formation of Capital*, was published at about the same time that Keynes' book appeared, independently presents essentially the same argument, which Moulton calls "The Dilemma of Savings." I have discussed Moulton's view in *The Chase Economic Bulletin*, Vol. XVI, No. 2, May 12, 1936, "Eating the Seed Corn."

[10] Keynes' own theory of interest I have discussed in my article, "The Future of Interest Rates," in *The Commercial and Financial Chronicle* of Aug. 26, 1943.

[11] James W. Angell, *Investment and Business Cycles*, New York, 1941, pp. 190-191.

[12] *Business Cycles*, University of California Press, 1913, pp. 453-54.

panding. In a strong upward move, when bank credit is readily obtainable, investment tends to exceed saving because men borrow at the banks and because expanding bank credit facilitates the issue of new securities. In a crisis and in the liquidation that follows a crisis, saving exceeds investment. Men and businesses are saving to pay down debts and especially to repay bank loans—a necessary preliminary to a subsequent revival of business. But the *reasons* for these changes in the relation of saving to investment are the all-important things. The relation of saving to investment is itself a very superficial thing. The *reasons* lie in the factors which govern the prospects of profits, including the price and cost equilibrium, the industrial equilibrium, and the *quality* of credit.

Keynes strives desperately to rule out bank credit as a factor in the relation of savings to investment. At one point he does it very simply indeed:

> "We have, indeed, to adjust for the creation and discharge of debts (including changes in the quantity of credit or money); but since for the community as a whole the increase or decrease of the aggregate creditor position is always exactly equal to the increase or decrease of the aggregate debtor position, this complication also cancels out when we are dealing with aggregate investment."[13]

But bank credit is not so easily canceled out as a factor in the volume of money available for investment. The borrower at the bank is, of course, both debtor and creditor to the bank when he gets his loan. But his debt is an obligation which is *not* money, and his credit is a demand deposit, which *is* money. When he uses this money for investment, he is making an investment in addition to the investment which comes from savings.

On pages 81 to 85 of the same book, Keynes engages in a very confused further argument on this point.

> "It is supposed that a depositor and his bank can somehow contrive between them to perform an operation by which savings can disappear into the banking system so that they are lost to investment, or, contrariwise, that the banking system can make it possible for investment to occur, to which no saving corresponds. But no one can save without acquiring an asset, whether it be cash or a debt or capital-goods; and no one can acquire an asset which he did not previously possess, unless *either* an asset of equal value is newly produced *or* someone else parts with an asset of that value which he previously had. In the first alternative there is a corresponding new investment: in the second alternative someone else must be dis-saving an equal sum. For his loss of wealth must be due to his consumption exceeding his income. . . ."

But the assumption that a man who parts with an asset for cash is losing wealth, and that this must be due to his consumption exceeding his income, is purely gratuitous. The man who sells an asset for cash may hold his cash or he may reinvest it in something else. It is not "dis-saving" unless he spends it for current consumption, and he does not have to do that unless he wants to. Indeed on the next page (page 83) the man who holds the additional money corresponding to the new bank-credit is said to be *saving*. "Moreover, the savings which result from this decision are just as genuine as any other savings. No one can be compelled to own the additional money corresponding to the new bank-credit, unless he deliberately prefers to hold more money rather than some other form of wealth."

Keynes' confusion here could be interpreted as due to his effort to carry out a puckish joke on the Keynesians. He had got them excited in his earlier writings about the relation between savings and investment. Then, in his *General Theory,* he propounds the doctrine that savings are always equal to investment.[14] This makes the theology harder for the devout follower to understand, and calls, moreover, for a miracle by which the disturbing factor of bank credit may be abolished. This miracle Keynes attempts in the pages cited above, with, I think, indifferent success.

I take occasion here to protest against the dangerous identification of bank expansion with savings, which is part of the Keynesian doctrine. (See *Chase Economic Bulletin,* Vol. VIII, No. 2, June, 1928, "Bank Expansion versus Savings" and Vol. XVI, No. 2, May 12, 1936, "Eating the Seed Corn.") This doctrine is particularly dangerous today when we find our vast increase in money and bank deposits growing out of war finance described as "savings," just because somebody happens to hold them at a given moment of time. On this doctrine, the greater the inflation, the greater the savings! The alleged excess of savings over investment in the period, 1924-29, was merely a failure to invest *all* of the rapidly expanding bank credit. All of the real savings of this period was invested, and far too much new bank credit in addition.

13 *General Theory,* etc., page 75.

14 *Loc. cit.,* pages 61-65.

The Wage-Rate as Equilibrator of the Supply and Demand of Labor

Keynes also tries to destroy the accepted doctrine regarding the rate of wages as the equilibrating factor between the supply and demand of labor. He attempts at various places to suggest that a reduction in money wages "may be" ineffective in increasing the demand for labor *(e. g., loc. cit.,* page 13), but he nowhere, so far as I can find, positively states this. He does suggest *(loc. cit.,* page 264) that a fall in wages would mean a fall in prices, and that this could lead to embarrassment and insolvency to entrepreneurs who are heavily indebted, and to an increase in the real burden of the national debt. On this point it is sufficient to say that the fall in wages in a depression usually follows, and does not precede, the fall in prices, and that it is usually more moderate than the fall in prices. It does not need to be so great as the fall in prices in order to bring about a reequilibration, since wages are only part of cost of production, and since the efficiency of labor increases in such a situation.

Keynes accuses other economists of reasoning regarding the demand schedule for labor on the basis of a single industry, and then, without substantial modification, making a simple extension of the argument to industry as a whole (pages 258-259). But this is merely additional evidence that he has ignored John Bates Clark's *Distribution of Wealth,* and the theory of costs of the Austrian School, for whom the law of costs, including wages, is merely the law of the leveling of values among the different industries. I think, moreover, that the studies of Paul Douglas, dealing with the elasticity of the demand for labor as a whole, constitute a sufficient answer to Keynes on this point. Douglas holds that the demand for labor is highly elastic; so much so that a one per cent decline in wages can mean a three or four per cent increase in employment, when wages are held above the marginal product of labor.[15]

But the practical issue does not usually relate to wages as a whole. The wages of non-union labor, and especially agricultural labor, usually recede promptly and sometimes to extremes, in a depression. The issue usually relates to union wage scales held so high in particular industries that employment falls off very heavily in these industries, and that the industries constitute bottlenecks. (See my figures showing the wide disparities of wage reductions as among different groups, in 1931, in the *Chase Economic Bulletin,* Vol. XI, No. 3.)

15 Paul H. Douglas, *The Theory of Wages,* New York, 1934, pp. 113-158 and 501-502.

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Business Failures in Dec.

Business failures in December were higher in number but lower in amount of liabilities involved than in November. When compared with December a year ago the number of failures as well as the amount of liabilities involved are smaller. Business insolvencies in December, according to Dun & Bradstreet, Inc., totaled 93 and involved $1,804,000 liabilities as compared with 75 in November involving $3,008,000 liabilities and 145 involving $2,055,000 in December a year ago.

The construction and commercial service groups were the only groups showing fewer failures and liabilities in December than in November.

Manufacturing failures in December numbered 36 involving $1,076,000 liabilities, compared with 18 in November with $513,000 liabilities. Wholesale failures numbered 11 against six in November and liabilities were the same at $235,000. In the retail trade section insolvencies increased to 36 from 21 and libilities to $385,000 from $115,000 in November. Construction failures numbered six in December with $67,000 liabilities as against 12 in November with $1,663,000 liabilities.

When the country is divided into Federal Reserve districts it is found that the Boston, Chicago and Kansas City Reserve districts had fewer failures in December than in November, the Richmond Reserve District had the same number, while the St. Louis and Dallas Reserve districts did not report any and the remaining districts had more failures in December than in November. When the amount of liabilities is considered, it is found that the Boston, New York and Kansas City Reserve districts had more liabilities involved in December than in November, while the remaining districts with the exception of the St. Louis and Dallas Reserve districts, which did not have any failures, had more liabilities involved in December than in November.

National Credit Men's Association Postpones Annual Congress

The 50th Annual Credit Congress of the National Association of Credit Men which had been scheduled for New York City on May 22 to the 25th, has been postponed until improved war conditions bring a change in the present situation as regards transportation and hotel accommodations. This decision was made by a telegraph vote by the National Board of Directors and the National Officers of the Credit Men's organization. The advices also state:

This decision to postpone the Credit Congress was made in spite of the part that the national conventions of this organization since the war started have been devoted to the credit problems connected with war activities. Companies represented in its more than 21,000 membership are largely engaged in war production.

The vote to postpone the National War Credit Congress was taken at the suggestion of the Executive Committee of the New York Credit Men's Association, which had been designated as the host for the 1945 Credit Congress. The Executive Committee of the New York Association recommended that "in view of the unsettled emergency war conditions, we respectfully and regretfully recommend to the Board of Directors of the National Association of Credit Men that the Credit Congress scheduled for New York in May be deferred until such time as war conditions are such that it is advisable to hold it."

Equilibrium Creates Purchasing Power

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But Keynes does not come to the theoretical conclusion that a reduction in money wages could not bring about an increase in employment. He rather reaches the practical conclusion that this is not the best way to do it. Instead, he would prefer in a closed economy, i.e., one without foreign trade, to make such readjustments as are necessary by manipulations of money, and for an open economy, i.e., one with large foreign trade, to accomplish it by letting the foreign exchanges fluctuate (page 270).

The fact seems to be that Keynes entertains a settled prejudice against any reduction in money wages. He is opposed to flexibility downward in wage scales. He has, however, no such prejudice against flexibility upward. On the contrary, in the Keynes plan for an International Clearing Union of April 8, 1943, Keynes proposes, as a means of maintaining stability in foreign exchange rates, that a member state in the Clearing Union whose credit balance is increasing unduly, shall encourage an increase in money rates of earnings (meaning wages).[16] This would increase the cost of its goods in foreign trade, and consequently reduce its exports, and consequently hold down its credit balance. But Keynes makes no corresponding demand on the country whose *debit* in the Clearing Union is increasing unduly that it should encourage a *decrease* in money rates of earnings.

Static Economic Theory and the Business Cycle

One reason why Keynes has found inadequate resistance among the younger economists to his casual throwing aside of the sound and subtle work of the great masters of static economic theory is that increasingly in the last two or three decades economists have been interested in the laws of the business cycle, in the ups and downs of business, and too many of them have felt that they could get very little help in the study of the business cycle from the generalizations of static economics.

The economic theorist has indeed devoted himself much too exclusively to the laws of completed equilibrium, to theory concerned with what prices and costs, and the proportions of the productive forces, would be if markets were fluid and if industry were in perfect balance. Students of the business cycle, on the other hand, have been concerned much too exclusively with the sequence and flow of events, losing sight of the goal in watching the motions of the runners.

It must be apparent, however, that in ignoring the static conceptions, the business forecaster is throwing away a most valuable aid. Static theory does describe underlying economic forces. If it tells nothing about the *rate* at which they will move, it does at least indicate the *directions* in which they move. It indicates their relative power and it indicates their relations *inter sese*. The student of change who knows the goal toward which his forces are tending is certainly much better informed than the man who does not know what the goal is, but merely knows that change is taking place and that some things change first and others later.

The most useful book yet written on the business cycle, in my judgment is, Wesley C. Mitchell's *Business Cycles*,[17] published in 1913. The book could not have been written by a man who was not deeply learned in static theory and the equilibrium notion. Mitchell objects to the expression, "the static state," but his interpretation of the business cycle constantly employs equilibrium notions. The later stages of prosperity generate abnormalities, stresses and strains. Costs rise faster than prices. There are inequalities in the rise of costs and prices. Other abnormalities occur, such as shortages of particular kinds of raw materials, with excess industrial equipment in some lines and inadequate equipment in others. A crisis comes and corrects these abnormalities, restoring equilibrium—not a previous equilibrium, but a new equilibrium—roughly and approximately. Then revival comes.

Mitchell's analysis makes business profits and the prospect of business profits the dynamo in the ups and downs of business. When the outlook for profits is good, business expands. When profits are cut, business contracts. The analysis runs in highly realistic terms, taking account of labor costs, rentals, and raw material costs as well as interest charges, taking account of rigidities and fluidities, of rigid prices and flexible prices.

I know no more startling instance of deterioration in a great science than the recent trends, largely influenced by Keynes, to turn away from an analysis that takes account of *all* the changing factors in economic life, and to concentrate attention almost exclusively upon monetary and budgetary phenomena, in explaining the business cycle and in formulating public policy with respect to prosperity and employment.

My own testimony,[18] after a quarter of a century de-

[16] *Loc. cit.* (9) (b)

[17] I am glad that the University of California Press has given us a new edition of the theoretical part of this book. The full edition, including the elaborate statistical tables, has long been out of print.

[18] See the present writer's "Static Economics and Business Forecasting" in *Economic Essays* contributed in honor of John Bates Clark, the Macmillan Company, New York, 1927. See, also, the writer's chapter, "The Reconciliation of Statics and Dynamics" in his *Value of Money*, New York, 1917 and 1936. For an illustration of the application by the present writer of the equilibrium notion to an actual crisis in process, see "The Return to Normal," *The Chase Economic Bulletin*, Vol. I, No. 3, Feb. 28, 1921. For an illustration of the writer's application of the equilibrium principle to long range forecasting, see *The Chase Economic Bulletin* of Aug. 24, 1925, which contains a forecast (see especially page 16) of the disorders which finally came in 1929.

Bretton Woods Agreements and the Freedom of Trade

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by their governments; but the government propaganda agencies would assure them that the latest inflation had merely ushered in a new paradise.

The proposed International Monetary Fund is bad from so many aspects that it is difficult to know in advance which danger will prove the most serious. By keeping up exchange rates by artificial means, buying currencies at par regardless of their real market value, and making devaluation easy and respectable, the way will be cleared for encouraging every government in power to follow the easy political path. It can continue to pay heavy subsidies to all sorts of pressure groups, to embark on public works and patronage on a grand scale, and to tax lightly, thus continuing chronic budget deficits and financing them by added debt.

But all this will not give us free exchange markets. The Fund Agreement does not say in so many words whether there will be a free foreign exchange market or not. But it provides for the continuance of controls during an indefinite "transition" period, and it contemplates permanent controls over capital movements. To control international capital movements would in practice require supervision and policing of all exchange transactions. In practice, therefore, people could not buy or sell abroad, or travel, without going through a great maze of red tape to get permission from their government to do so. They would lose the power to dispose of their property as they wished, or to emigrate and take their money with them. Government power over the lives and actions of its citizens would be extended in yet further directions. Still more former freedoms would be abridged or circumscribed.

Let us turn from the proposed International Monetary Fund to the proposed International Bank for Reconstruction and Development. Here at least is an institution in which, with proper safeguards, the possibilities for good might outweigh the possibilities for harm. The Bank, apart from its needlessly large subscribed capital ($9,100,000,000), is set up on a comparatively conservative basis. It is not to lend or guarantee loans for more than the full amount of its unimpaired subscribed capital, reserves and surplus. It is not to make loans on an automatic basis, like the Fund. It can exercise discretion. A project, for example, for which funds are being asked must be deemed meritorious by a committee selected by the Bank. The borrower must be "in position to meet its obligations."

Such a Bank, in the decade immediately following the war, could perform a useful service. In particular, it could make loans to stabilize their currencies to those nations that showed a genuine will and capacity to do so. Whether the proposed International Bank would provide a better medium for this purpose than the existing American Export-Import Bank is a question of practical judgment. The International Bank would have the advantage of symbolizing international cooperation. There would be a political advantage in making individual nations responsible for payment of their debts to a Bank representing forty-five different nations rather than to a bank merely representing one. On the other hand, while the United States would supply the lion's share of the lendable funds of such a Bank, and probably assume an even greater share of the risks, and while most of the loans would doubtless be floated in this market, our government would have much less to say about the loans and the conditions attached to them than if it were making them alone. While it is true that the American representative on the Bank would be technically free to veto a proposed loan made in dollars in this market, it might be made very embarrassing for him to do this.

It is not necessary here to weigh the relative merits of the proposed International Bank and our existing Export-Import Bank as a medium for making international stabilization loans. But it is important to point out that there are only two sound reasons why governments, either individually or jointly, should engage at this time in the business of international lending at all. The first is the whole record of default and repudiation of foreign loans in the inter-war period. This was brought about to some extent by real embarrassment on the part of debtors, but even more by the prevailing anti-foreign and anti-capitalistic ideology which regards the foreign lender, not as a man who takes risks and supplies essential aid, but as an "exploiter" who "throttles" the native economy. This record of default and repudiation has led to at least a temporary reluctance of private investors to make further foreign loans. The second reason why government intervention is now needed is that the terrific disruption brought about by war will make it extremely difficult for some nations to stabilize their currencies without outside help.

But whatever governmental institutions are used to make such loans should be temporary in nature. They should confine themselves to currency stabilization loans only. Where help is needed for humanitarian reasons it should be granted freely and generously, as a pure gift. The United Nations Relief and Rehabilitation Administration already exists for this purpose. Its scope may need to be expanded. But everything above this should be placed on a strictly business basis. It will never be placed on such a basis if it is managed by governments. Where loans are made by private groups, risking their own funds, they will be made, in the overwhelming main, where the risks seem smallest and the chance of profit greatest. Under these conditions world resources are likely to be utilized in the most efficient manner. But where loans are made by government officials who risk other people's funds and not their own, they are bound to be made primarily for political reasons and are likely to be wasteful from an economic point of view.

The greatest single contribution that America could make to exchange stability after the war is to announce its determination to stabilize its own currency. This would provide an example, a standard and an anchor for all other currencies. The next most important step that we could take would be to relax our own trade barriers.

Neither of these steps would be "merely negative." Neither of them would be easy. The first would require gold convertibility, and on something much better than a "twenty-four hour basis." It would require a return to balanced budgets, with all the political courage and the rejection of current fashionable ideologies which that implies. The second step would take the same sort of courage, together with an abandonment of neo-mercantilist views. Both courses would require great skill in management. But one of the most fortunate factors is that it is precisely these steps that are most in our own long-run interest which would be most in the interest also of world stability, prosperity and peace.

Drug & Chemical Group Cancels Annual Dinner

The Drug, Chemical and Allied Trades Section of the New York Board of Trade, by action of its Executive Committee, cancelled its 20th Annual Drug, Chemical and Allied Trades Dinner which was scheduled for March 15 at the Waldorf-Astoria, New York City. This annual dinner attracts over 2,000 leaders in the drug, chemical and allied fields. The action of the committee is in keeping with the spirit of the War Mobilization Director's request for the cancellation of all large meetings. In March, 1944, the Drug, Chemical and Allied Trades Section (the oldest and largest division of the New York Board of Trade) held its 19th consecutive annual dinner—the most successful in its history—emphasing "The Contribution of the Drug and Chemical Industry to the War Effort." In 1842, the drug and chemical group was one of the first to abandon its annual Fall meetings—customarily held at Skytop, Pa.—in compliance with the ODT's appeal to limit unnecessary travelling, for the purpose of conserving gasoline and tires.

Hasler Reelected by Pan American Society

Frederick E. Hasler, Chairman of the Continental Bank & Trust Co. of New York, was re-elected President of the Pan American Society of the United States for a sixth term at the annual meeting of the society held on Jan. 17 at the University Club. James H. Drumm, Vice-President of the National City Bank; William A. Prendergast, President of New York & Honduras Rosario Mining Co., and Curtis E. Calder, President of American & Foreign Power Co. were elected Vice-Presidents. Major R. W. Hebard was re-elected Treasurer. Twelve new directors were elected for three-year terms—C. R. Dewey, Edward F. Feely, Robert M. Field, Austin T. Foster, John B. Glenn, David E. Grant, Clarence E. Olmsted, Allan M. Pope, Siegfried Stern, R. Strelow, W. V. B. Van Dyck and John W. White.

voted very largely to the study of markets and the ups and downs of business, would be to the effect that the equilibrium notion is the most useful tool of thought that I have found. When economic forces are working toward balance, I trust the situation. When I see them obviously working toward unbalance, I grow increasingly concerned. And from theoretical concepts of the Keynesian type I receive no help at all.

Allied Military Currency In Constitutional And Int'nl Law

(Continued from page 391)

would last. Fortunately the Italians' suspicions of their own and our lire took the form of offering a premium on "blue seal" money.[55] It is noteworthy that there is still no way of redeeming military lire that finds its way back to this country.[56] Such lire sells at as much as 50 per cent discount. Finally, it was a year before the government admitted that a fund had been set up to redeem Allied Military Currency.[57]

The poor quality of the notes has resulted in a fair amount of counterfeiting.[58] While the rate of exchange chosen, 100 lire to the dollar, simplified matters for the G. I., the round number does not suggest careful consideration of the relative values of dollars and lire by qualified foreign exchange experts. Indeed, it is pretty generally admitted that the fixed rate of exchange we set undervalued the lire. That would theoretically tend to stimulate the inflationary forces in Italy by causing soldiers to spend more freely and Italians to hoard.[59] Although undervaluation of the lire may have slightly cheapened the cost of the war to us in one way, it may handicap us in other ways, such as causing greater political difficulties. Italy's inflation has also been worsened by the inadequate rationing restrictions imposed on our army.[60] For example, prices have reportedly been pushed up by officers' messes competing for meager local food supplies. Undoubtedly the liberal spending of our well-paid soldiers has also contributed—in 1943 an American G. I. and an Italian cabinet minister received the same rate of pay.[61] However, we must always remember that the soldiers would have spent as much of any other money they were paid in. The inflation was not owing to the currency, being military. Some blame can, of course, be attached to the rate of exchange set. By the time our armies reached France our military financiers were wiser. Soldiers were forbidden to buy rationed goods, eat in local restaurants, or otherwise compete with the inhabitants for the meager food supplies available.[62] Then we went to the other extreme and overvalued the franc which discouraged our soldiers from buying French goods.[63]

Conclusions

My conclusions may be very briefly summed up. Some kind of currency had to be paid soldiers and be regarded as legal tender in occupied lands. Allied Military Currency only supplements the native currency and probably represents the best solution. It is no more inflationary than any other currency that might have been used. Facts about its redemption should have been made clear sooner. Allied Military Currency is amply justified under international law and is not an issue under Constitutional law as long as the War Department stays within its appropriations.

FOOTNOTES

1 N. Y. "Times," Dec. 18, 1943, p. 10. Quoting Undersecretary of War Paterson. See also Treasury Press Service release No. 38-10, Aug. 17, 1943, and Wash. Eve. "Star," Dec. 10, 1943, article by T. H. Henry, which says Italian banks were ordered to destroy notes as our troops approached.

2 Silver certificates have a blue seal and all one dollar bills are silver certificates in the U. S.

3 At least they are there and move sluggishly, for they pass at a premium often. N. Y. "Times," April 20, 1944, p. 7.

4 R. A. Lester, International Aspects of War-time Monetary Experience, p. 2 (Princeton Univ. Essays on International Finance No. 3.) "Economist" (London), May 13, 1944, p. 653.

5 Officially yellow seal currency has been abandoned. "Wall St. Jour.," Mar. 22, 1944.

6 The English have their own British Military Authority pounds, which are somewhat comparable to our yellow seal money.

7 N. Y. "Times," Aug. 17, 1943; Oct. 25, 1943; May 14, 1944.

8 "Economist" (London), Sept. 16, 1944, p. 390; N. Y. "Tribune," Aug. 29, 1944 (W. St. Comment); N. Y. "Times," Oct. 4, p. 28; Oct. 15, IV, p. 5; Oct. 26, p. 9. British Military Authority pounds may be circulating now in Greece. "Economist" (London), Oct. 14, 1944, p. 518.

9 N. Y. "Times," Feb. 16, 1944, p. 4.

10 N. Y. "Times," Aug. 6, 1944, p. 9; Aug. 26, 1944, p. 5; "Economist" (London), Aug. 26, 1944, p. 293. It was known as "flag money" because the tricolor was displayed prominently on it.

11 N. Y. "Tribune," Aug. 5, 1943 (W. St. Com.).

12 "Economist" (London"), Feb. 5, 1944, p. 173; "Wall Street Journal," Mar. 22, 1944; N. Y. "Sun," Aug. 5, 1943.

13 R. Gould, "Bayonet Currency," in "Banking Magazine."

14 N. Y. "News," Dec. 20, 1943. Article by Warren Hall.

15 "American Banker," Aug. 19, 1943, p. 4; "Wall Street Journal," Dec. 10, 1943, article by V. I. Neal.

16 "Monetary Notes," Dec. 31, 1943, No. 25, quoting V. I. Neal; N. Y. "Times," May 14, 1944; Oct. 11-12, 1944.

17 Article 49 of articles annexed to 4th Hague Convention of 1907; W. E. Spahr, "Allied Military Currency"; N. Y. "Times," Aug. 2, 17; Oct. 25, 1943; May 14, 1944.

18 N. Y. "Tribune," Aug. 19, 1944; N. Y. "Sun," Sept. 1, 1944.

19 Foreign Policy Report, Dec. 1, 1944, p. 224-25. C. G. Haines's article. T. H. Henry, however, says exchange rate was right. Wash. "Evening Star," Dec. 10, 1934.

20 N. Y. "Times," Oct. 11, 1944, p. 25, quoting Soleri, Italian Finance Minister. Troops got 75% of all Allied Military Currency issued.

21 Wash. "Evening Star," T. H. Henry article, Dec. 10, 1943; "Economist" (London), Feb. 5, 1944, p. 73; April 8, 1944, p. 474.

22 Foreign Policy Report, Dec. 1, 1944, p. 224-25; C. G. Haines article. On Oct. 13, 1944, it was announced we would issue no more Allied Military Currency in Italy, N. Y. "Sun," Oct. 13, 1944.

23 N. Y. "Times," Sept. 8, 1944, p. 5; Oct. 7, 1944, p. 4; Oct. 17, 1944, p. 8; "Economist" (London), Oct. 14, 1944, p. 518; Oct. 28, 1944, p. 584.

24 N. Y. "Times," Oct. 15, 1944, IV, p. 5; editorial by J. McCormac; also N. Y. "Times," Oct. 27, 1944, p. 22; Oct. 29, 1944, p. 8.

25 N. Y. "Times," Oct. 17, 1944, p. 8; Oct. 22, 1944, p. 13.

26 N. T. "Times," Aug. 25, 1944, p. 5; reported by Secretary Morgenthau. He also naively amditted that the flag money was being deposited in banks faster than expected, which he took as a sign of confidence but which might be interpreted as the very opposite, an example of Gresham's Law.

27 N. Y. "Times," Oct. 4, 1944, p. 3; "Economist" (London), Oct. 14, 1944, p. 518; N. Y. "Tribune," Sept. 21, 1944, R. Hill article.

28 "Wall Street Journal," Sept. 27, 1944.

29 In writing this section I am indebted to Dr. George Manner of the Political Science Department of the University of Illinois for several suggestions. However, any errors are undoubtedly mine.

30 The articles annexed to the Hague Convention are to be found in Supplement to the "American Journal of International Law," Vol. II, 1908. Official Documents. Exceptions to the confiscation rule are set forth in Oppenheim's International Law, 6th edition (1940), II, p. 313.

31 In other words, the old rule that war must support war still obtains under The Hague rules. Oppenheim, II, p. 317.

32 Oppenheim, II, 316-17. It also prevented some people being called on to provide more than their share of requisitions. Previously acquired receipts could be offered as evidence.

33 Oppenheim, II, p. 319.

34 P. Fauchille, Droit International Publique, II, No. 1193 (1921). The Germans set the franc at 1.25 to mark instead of 1.15. See also A. S. Bustamente, Droit International Publique, IV, p. 371-72.

35 The 1943 issue of the "Manual" does not say so, but the 1940 one does. The War and Navy Departments issue them and they are signed by Gen. G. Marshall and Admiral E. King.

36 The preface says the points laid down are "principles and basic policies to be followed" "in their broad outlines unless special circumstances dictate otherwise."

37 The Civil Affairs section was much shorter in the 1940 "Manual." It says Civil Affairs Department will "supervise the financial affairs of the occupied territory, including taxes, customs, disbursements, coinage, currency, foreign exchange, banks, stock exchanges, and such matters," p. 13. The 1943 "Manual" was issued Dec. 22, 1943, several months after Allied Minitary Currency had been issued.

38 In writing this section I am indebted to Prof. Russell N. Sullivan of the University of Illinois Law School, and to Dr. George Manner, mentioned above, for valuable suggestions. However, any errors and legal non-sequiturs are doubtless mine.

39 U. S. Stat. at Large, 77th Cong., 2nd Session, Vol. 56, part 1, "For Pay and Allowances of the Army."

40 N. Y. "Times," Aug. 2, 17, 1943; Oct. 25, 1943; Nov. 5, 1943; May 14, 1944. See Also "Wall Street Journal," Aug. 6, 1943.—(Editor.)

41 "Economist" (London), Aug. 21, 1943, p. 246; U. S. News, Finance Week section, Oct. 29, 1943. See footnotes 19 and 28, above.

42 Overvaluation of the mark is the same as undervaluation of the dollar or its devaluation. It took an Act of Congress to do this in 1934. Complaints have been registered already that American soldiers have to pay too high prices in France because of the adverse rate of exchange. We say the franc is worth two cents, whereas half a cent is perhaps more nearly right. N. Y. "Tribune," Nov. 20, 1944.

43 E. S. Corwin, "The President": Office and Powers, p. 395. Based on Dooley vs. U. S. 182 U. S. 222, 230-32.

44 Cross vs. Harrison, 16 Howard 164; Santiago vs. Nogueras, 214 U. S. 260. E. S. Corwin, p. 196.

45 N. Y. "Times," Oct. 25, 1943; May 14, 1944.

46 This would not seem even necessary as long as the War Department's credit with the Treasury was not exhausted. N. Y. "Times," Oct. 1, 1944, p. 25; Oct. 11-12, 1944.

47 "American Banker," Aug. 19, 1943, p. 4; "Wall Street Journal," Dec. 10, 1943; V. I. Neal article.

48 Paragraph 18 is the "necessary and proper" clause.

49 E. S. Corwin, p. 156-67.

50 Set up as part of OPM by Executive Order 8734. Emerg. Price Control Act of Jan. 30, 1942, is in U. S. Code Annot., Title 50, Appendix 901-ff.

51 Set up by Executive Order 9017. For congressional authority see Smith Connally Act., U. S. Code Annot., Title 50, Sec. 1501-11.

52 Done by Executive Orders 9066, 9102. See S. Ct. Reporter 63, p. 1379. Ch. J. Stone's decision.

53 N. Y. "Times," Aug. 17, 1943; Oct. 25, 1943; Nov. 5, 1943.

54 N. Y. "Times," May 14, 1944; "Wall Street Journal," Mar. 22, 1944.

55 "Commercial and Financial Chronicle," Allied Military Currency in Italy, by D. L. Kemmerer and T. E. Bettle, Sept. 21, 1944. Also N. Y. "Times," April 20, 1944.

56 N. Y. "Tribune," Aug. 19, 1944; N. Y. "Sun," Sept. 1, 1944.

57 N. Y. "Times," Oct. 11-12, 1944. Probably not necessary to do this, but it helped to calm fears of public in some sections.

58 See footnote 55. Also "Stars and Stripes," Nov. 21, 1944.

59 Since the soldiers were free spenders and indifferent bargainers, this was perhaps not very significant.

60 "Economist" (London), April 8, 1944, p. 474; Feb. 5, 1944, p. 173.

61 U. S. News, "Finance Week," Oct. 29, 1943.

62 N. Y. "Times," Aug. 22, 1944.

63 "Monetary Notes," Jan. 1, 1945, p. 5. American soldiers spend only 10% of their pay in France.

Death of Robert E. Wait

Robert E. Wait, dean of Secretaries of the State Bankers Associations, died at Little Rock, Ark., on Jan 16. He had served as Secretary of the Arkansas Bankers Association for 35 years, having assumed that office in 1909. In 1919 he was elected President of the State Secretary Section of the American Bankers Association for a term of one year, and then in 1924 was persuaded to take on the duties of Secretary of that section in addition to his responsibilities as Secretary of the Arkansas Bankers Association. This post he relinquished in 1932. In 1943 he served as President of the Central States Conference. During his office as Secretary of the Arkansas Bankers Association he served as editor of the "Arkansas Banker," the monthly magazine published by the association. Mr. Wait's professional career began in 1892 when he was engaged in the private practise of law. From 1894-1899 he was Private Secretary to the Assistant Secretary of Agriculture in Washington. He then returned to Little Rock, as President of the Citizens Investment and Security Company, and headed that company until he assumed the office of Secretary of the Arkansas Bankers Association. The ABA was represented at the funeral on Jan. 18 by Robert K. Kneebone, Deputy Manager of the Association in charge of its Western office.

Guaranteeing Employment and Purchasing Power

(Continued from page 383)

made mandatory by the enormous rise in productivity.

V. What Is Needed

"Free enterprise" alone is not capable of guaranteeing post-war employment and purchasing power. It was not even organized to handle the war program alone; it needed a lot of help and guarantees from government, and it needed the co-operation of labor. So too in post-war: "free enterprise," unless similarly aided, is going to doom America to chronic mass unemployment.

I, of course, am opposed to the outright guarantee by government of employment and purchasing power, because I realize the dangerous bypaths down which this would lead America. I am equally opposed to leaving the job of post-war full production and employment to "free enterprise," because I know it is not organized, and is incapable of that degree of self-organization necessary, to assure full employment. Our free institutions would be just as much threatened by the inevitable economic depression that would surely follow in the wake of the failure of "free enterprise," as it would be by government assumption of a guarantee of full employment.

What is needed and sorely lacking in industry, is a different concept of the role of government and the part organized labor must play in America's economic life. Labor and industry have to work out their common problems together, and the role of government should be to assist them with such measures as will be helpful.

In the annual wage, which I have espoused this evening, we have a specific and constructive proposal to materially help in providing full production and employment in the post-war. It entails finding the solutions to accompanying practical problems. Industry and labor can work together in finding the necessary solutions, and whatever measures or guarantees are required from government we can jointly secure.

It is not alone the welfare of labor or of industry that is involved. The future free and prosperous existence of America is at stake. On behalf of labor, I ask industry to join hands with us to meet the challenge of the post-war.

Chas. Allen Ch. of Bd. Of Colo. Fuel & Iron

At a meeting of the board of directors of the Colorado Fuel & Iron Corporation, Charles Allen, partner in the investment banking firm of Allen & Co., was elected Chairman of the board to succeed Arthur Roeder, who resigned.

In addition, the following new directors were elected to the board: E. Perry Holder, President, Wickwire Spencer Steel Company; Charles G. Terry, Vice-President, Schoellkopf, Hutton & Pomeroy; Franklin Berwin, Vice-President, Polarus Steamship Company, and Jacob L. Holtzmann, attorney. The new directors were elected to fill vacancies caused by the resignation of Bertram Cutler, Carl Schmidlapp, Fred Farrar and J. F. Welborn.

The five new directors constitute a majority of the board of the company, control of which was recently acquired from John D. Rockefeller, Jr., and Rockefeller Center, Inc., by Allen & Co. and associates.

Directors of Colorado Fuel & Iron Corporation declared the regular quarterly dividend of 25 cents per share, payable Feb. 28, 1945, to stock of record Feb. 14th.

Situations Interesting In Conn. Companies

Chas. W. Scranton & Co., 209 Church Street, New Haven, Conn., members of the New York Stock Exchange, have prepared memoranda on American Hardware Corp.; Scovill Mfg. Co.; United Illuminating Co.; Torrington Co.; Connecticut Light & Power Co.; Connecticut Power Co.; Connecticut situations which appear attractive at current levels. Copies of these memoranda may be had from Chas. W. Scranton & Co. upon request.

Beekman Hospital Opens Drive Jan. 26

Congressman Ellsworth B. Buck will be guest speaker at the annual luncheon at the Bankers Club on Jan. 26, signifying the official opening of the Beekman Hospital 1945 Maintenance Fund drive. Ferdinand Eberstadt of F. Eberstadt & Co., will act as master of ceremonies. Under the supervision of Elisha Walker, partner of Kuhn, Loeb & Co., the goal of the drive this year is $125,000.

Congressman Buck is the first Republican Congressman from the lower Manhattan and Staten Island district elected in 32 years. He is a business man, and entirely familiar with and sympathetic to the problems and situations of the downtown New York area. He is a former president of the New York City Board of Education and Chairman of L. A. Dreyfus & Co., importers and processors of gutta percha.

Attractive Situations

Ward & Co., 120 Broadway, New York City, have prepared circulars on several situations which currently offer attractive possibilities, the firm believes. Copies of these circulars, on the following issues, may be had from Ward & Co. upon request:

Du Mont Laboratories "A"; Merchants Distilling; General Instrument; Great American Industries; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Electrolux; Brockway Motors; Scoville Mfg.; Bird & Sons; Cons. Cement "A"; Riley Stoker; Alabama Mills, Inc.; American Hardware, and H. & B. American Machine.

Also available is a reprint of reports of court rulings affecting monopoly charges against glass container firms.

Attractive Possibilities

Merchants Distilling Corp. offers attractive possibilities, according to a circular issued by Buckley Brothers, 1529 Walnut St., Philadelphia, Pa., members of the New York Stock Exchange and other national Exchanges. Copies may be had from Buckley Brothers on request.

Mutual Funds

Thirteen Years of Progress

Keystone Custodian Funds, first offered in May, 1932, had combined net assets of $105,200,000 at the year-end. This compares with net assets of $67,178,000 at the beginning of 1944 and represents, after payment of $5,431,000 of realized profits to shareholders, a net gain of $38,000,000 for the year.

Since the inception of the company in 1932, $28,386,000 of regular and special distributions have been paid to shareholders in the **Keystone funds.** It is significant that the greatest growth during this company's 13 years of progress has occurred since the end of 1937 and covers the confusing period of the last five war years.

1944 Performance Record

National Securities & Research Corp. has published the complete performance record of the various **National Securities Series** for the year 1944. This material is presented in an attractive four-page folder which reveals that all five of the series outstanding at the beginning of the year out-performed their comparable market averages by substantial margins.

The two new stock series which were initially offred Aug. 1, 1944, also out-performed the Dow-Jones Industrial Stock Average during the portion of the year in which they were outstanding.

The two-year record—1943 and 1944—of the five National Securities Series outstanding over that period is also given and the results compare favorably with comparable averages. For example, the two bond funds show gains of 42% and 72% respectively, compared with a gain of 25% for the Dow-Jones 40-Bond Average. The three stock funds show gains ranging from 68% to 113%, as against a gain of 34% for the Dow-Jones Industrial Stock Average.

Other data in the folder include offering price ranges and dividend payments for 1944, and the average return on each series is shown. All these figures add up to an excellent performance record and are doubly underscored by the growth of assets during the year from $7,023,243 to $17,919,617—an increase of 155%.

The "Steam" Behind the Market

Distributors Group, in a letter to dealers covering a reprint of that sponsor's popular leaflet, "Your Idle Dollars," analyzes the pressure behind the present upward swing in the stock market.

The huge and mounting supply of idle funds is cited as the major source of pressure in the market boiler. Some of the factors which have created this unprecedented volume of surplus cash are quoted as follows:

	Increase Since Sept. 1939
Government Debt	450%
Demand Deposits	105
Money in Circulation	257

Pointing out that this huge expansion is more or less permanent, the letter reminds that **"stock prices, as measured by the Dow-Jones Industrial Average, have shown practically no net change since the beginning of the war and are today at approximately the same level they were in September, 1939."**

College Investments

Selected Investments Co., in a new memorandum on **Selected American Shares**, refers to the general investments of Harvard and Massachusetts Institute of Technology. Here are the figures:

	Harvard*	M.I.T.
Bonds	49.37%	38.6%
Common Stocks	35.25	43.1
Preferred Stocks	11.24	1.9
Real Estate, etc.	2.78	7.8

Yields of the two funds are 3.8% for Harvard and 2.9% for M. I. T.

"In seeking diversification for the common stock portfolio of trust accounts, many managers will be interested in the wide diversification afforded by shares of investment companies, such as **Selected American Shares, Inc.**"

Peace Stocks Recommended

Lord, Abbett examines the reactions of investors to recent war news in the current issue of **Abstracts** and finds that the peace stocks did better than the war stocks following our successful invasion of Europe and the liberation of France. However, the war stocks came to the fore when Von Rundstedt launched his counter drive.

With the current successes of the Allies in mind, Lord, Abbett suggests that peace issues be given preference for new investment. A revised portfolio folder on **Union Common Stock Fund** accompanies this mailing and the emphasis on peace stocks in the portfolio is stressed.

Broad Diversification

North American Securities Co. has published the holdings of **Commonwealth Investment Co.** as of Dec. 31, 1944, showing diversification of a $10,000 investment in Commonwealth. This fund holds an unusually large number of issues. Aside from Government securities, Westinghouse Electric represents the largest single holding in the portfolio, accounting for 1.3% of the total. The second largest holding is in Pennsylvania Railroad 4% bonds due 1948, which accounts for 1.1% of the total portfolio.

Following the investment practice of extremely broad diversification, the managers of Commonwealth have achieved a fine record of performance over the years.

Fundamental Investors

Hugh W. Long & Co. writes: "A dollar remaining invested in **Fundamental Investors, Inc.**, since its inception date on Jan. 2, 1933, is now worth $2.74, including dividends received.

"Since the end of 1939 each dollar in Fundamental Investors, Inc., has increased 34% more than the general market as measured by Standard & Poor's 90-Stock Index."

Two new folders on **Fundamental Investors** give the full details of the company's excellent performance. The first is a revision of a previous folder entitled "A Good Story Gets Better" and brings up to date the four-year comparision between the performance of Fundamental Investors stocks and a list of 20 blue chip stocks. On a $50,000 investment, Fundamental Investors shows a net advantage of $174,557.65 at the end of the four-year period.

The other folder entitled "Biography of a Successful Investment" challenges the investor to "compare your investments with this achievement."

Undervaluation in Steel Stocks

Distributors Group has revised its chart comparing the market performance of those groups which are major steel consumers with the performance of the steel stocks themselves. The period covered is from Jan. 1, 1942, to Jan. 3, 1945, during which the various groups, as measured by Standard & Poor's Stock Price Indexes, record the following percentage advances:

Stock Group	Advance
Household Products	131.2%
Automobile	112.6
Construction	96.8
Railroad Equipment	70.1
Dow Jones Ind. Average	39.1
Steel	18.9

"The price advance of the stocks of steel consumers reflects confidence in their post-war prosperity," writes Distributors Group.

"If steel consumers prosper, producers must also prosper. Their stocks have not as yet advanced."

An Old, Old Story

Quoting from an article in the January issue of "Your Estate, Its Conservation and Distribution," **Vance, Sanders & Co.**, in the current issue of **Brevits**, points out that the circle of inflation is an old, old story in country after country where the money supply has increased faster than the supply of goods.

"The history of inflation down the ages is always the same. When the supply of money increases—either by new gold or silver, by paper money or by debasing the currency — and there is no accompanying increase in production, prices inevitably rise and eventually wreck the economy of the nation in which the inflation occurred."

Perspective Into 1945

Calvin Bullock examines the course of 1944 and looks ahead into the probable course of 1945 in the current issue of **Perspective.** Admitting the probability of price weakness in common stocks during the transition period, Calvin Bullock regards this as a short-term speculative consideration and believes that, from a longer term investment viewpoint, the investor should continue to place major emphasis on carefully selected common stocks.

International Series Discontinued

National Securities & Research Corp. has advised dealers that the sale of **International Series has** been officially discontinued as of Jan. 15, 1945. While the performance of the fund has been satisfactory, the sponsors point out that it has "not enjoyed widespread distribution" and is "currently too small to be successfully managed" and is therefore being liquidated. All shareholders are given the right to invest the proceeds of the liquidation in any of the other National Securities Series at asset value, without loading charge.

Goode Co-Receiver Of Aldred Inv. Trust

BOSTON, MASS. — Edward F. Goode has severed his relationship with Spencer Trask & Co. in Boston in order to become co-receiver of the Aldred Investment Trust. Mr. Goode has been in the investment business for over 20 years.

Our Productive Capacity and Post-War Prices

(Conitnued from page 367)

an unrestricted demand—the sort of equilibrium, in other words, that we might hope for during an extended period of world peace. It is not that at all. It is an equilibrium brought into being under wartime conditions, partly by the productive efforts of business and labor, partly by Government controls, and partly by individual thrift and patriotism. This point probably deserves some amplification.

In the first place, American business rolled up its sleeves and went into action. As a result, and in spite of the magnitude of the Government's physical requirements for war, the supply of goods and services available to civilians has been far greater than was originally anticipated. It has surprised nearly everybody. In the second place, wage and salary ceilings, though not as rigid as some people think they should have been, have nevertheless prevented wages and salaries from going wild as they might have done under unrestrained bidding by business for the services of labor. In the third place, the heavy increase in personal taxes has had the effect of limiting the amounts of money which can be spent by the people who receive the increased wages and salaries. Finally, and in the fourth place, people have tended to save an unprecedented amount of their net incomes after taxes.

Whether the cause of this saving has been patriotism, inability to purchase the things that are actually wanted, the rationing of many articles, price ceilings, or simply innate conservatism, is important but need not be discussed here. The fact of the matter is that civilian expenditures of dollars, restricted by wage and salary ceilings and reduced by personal taxes, have been still further held in check by the savings operations of the civilians themselves. Hence the demand for goods and services as expressed through willingness or ability of civilians to put dollars on the counter has been sufficiently curtailed to be in reasonably close relationship with the surprisingly large supplies of goods and services that have become available for civilian consumption.

The importance of this equilibrium is not greatly diminished by the fact that to some extent it is the result of war-time controls. The importance lies in the fact that as a country engaged in a $100 billion per annum war we were able to achieve it at all without imposing the most stringent and rigid kinds of wartime controls over every phase of our national and personal existence. The fact that we have been able to achieve and maintain this equilibrium with as little unsettlement of our civilian lives as we have suffered, has several implications that are worthy of serious thought. Let us consider some of these implications because they may help us not only to understand our present situation, but also to have a somewhat better comprehension of the possibilities of the future.

In the first place, we have demonstrated a capacity to produce more than twice the volume of goods and services that are being consumed by our civilian population, with the balance being purchase and consumed by Government. And this is true in spite of the fact that the volume of goods and services currently being consumed by civilians is, on the whole, the greatest, although not necessarily the best, that it has ever been. This productive capacity is, as I have pointed out above, one of the important factors that has made possible the price stability we are now enjoying. And to that extent it is all to the good. Its implications as to the future, however, are somewhat conflicting. It suggests, on the one hand, the great prosperity and the high standard of living that can be ours if we devote this capacity to the pursuits of peace, and if we can effect a wise and equitable distribution of the things we produce. It suggests, on the other hand, the tremendous increase that should take place in civilian consumption after the war if we are to utilize our demonstrated productive capacity, and if we are to prevent a radical decline in production, employment, wages, salaries and profits. In fact, we may well ask ourselves if civilian demand for automobiles, refrigerators, homes, great though it will be, will be sufficient to utilize the surplus capacity that will be available if, after the war, the Government drastically curtails its spending and consuming operations.

In the second place, as a people, we have demonstrated a willingness to spend only a portion of our net incomes and to use the balance for buying war bonds, building up our holdings of currency and bank deposits, buying life insurance, and paying off mortgages and other debts. This willingness, whatever may be its cause, has conflicting implications as regards the post-war future. On the one hand, a habit of savings once acquired may be longer lived than many of us expect, and it may serve to restrain some of the recklessness with which people are expected to spend money when and if war-time controls are relaxed. On the other hand, it cannot be denied that the accumulated purchasing power inherent in much of these savings provides the wherewithal for a powerful demand for goods and services of all kinds in case the public decides to go on a post-war spending spree.

This increased purchasing power—at least that portion of it that is represented by currency and commercial bank deposits—really constitutes a third important phase of our present situation which needs a little interpreting. In the five years from June 30, 1939, to June 30, 1944, the Treasury spent $226 billion and in the absence of an equal volume of income receipts, it borrowed $157 billion, net, through the issuance of new Government securities. A large portion of these new securities was purchased by individuals, corporations, partnerships, societies, associations, and governmental bodies and agencies; the banking system, however, consisting of the Federal Reserve Banks and the commercial banks, acquired the balance of the increase in the Government's debt amounting to $65 billion.

The purchase of Government obligations by the banking system is quite generally viewed with misgiving because it tends to be offset on the liability side of the system either by commercial bank deposits or by currency. And to a large extent this actually happened. While the assets of the banking system were being expanded by the acquisition of $65 billion of Government securities, the money liabilities of the system, consisting of currency and demand deposits owned by the public have expanded from $33.4 billion to $81.0 billion. At first glance it would seem that this increase of $47.6 billion might constitute an inflationary potential of considerable magnitude. It represents an increase in the public's immediate purchasing power and if, at any time, the public should decide to go on a spending spree, this purchasing power would provide the means to do it.

It should be observed, however, that the above increase in the thing we use for money (currency plus demand deposits) is of more or less the same order of magnitude as the increase in other major factors of our economy. For example, while total money has increased 143%, industrial production as measured by the Federal Reserve Board's Index has increased 130%, total wages and salaries have increased 140%, and the gross national product has increased 124%. Since money (currency and commercial bank deposits) is something which we use in the conduct of our business, it seems reasonable that the volume of money ought to increase more or less in proportion with the volume of business that the country is doing. If this thought has merit, then the fear that has been so often expressed concerning the expansioin of our banking and monetary system may not be entirely justified. It is possible that our present volume of money may be thought of as supplying a reserve of purchasing power against possible deflationary conditions of the post-war period rather than as representing surplus purchasing power under current conditions of high employment and production.

There are two conclusions that can be drawn from this discussion. The first has to do with the war period. We have not as yet put our full strength into the war effort. If the war should be prolonged and intensified, not only is there some possibility of increasing our overall production, but there is much opportunity, by greater civilian self-denial, of reducing civilian consumption, thereby increasing the volume of goods and services available to the Government in its prosecution of the war.

The second conclusion has to do with the post-war period. It appears that a post-war rise in prices and business activity is by no means a foregone conclusion but there are probably equally good reasons for foreseeing a post-war deflation; or perhaps first one and then the other. However, whether the economic movements after the war are upward or downward, there are important reasons for thinking that these movements may be more moderate than is generally supposed. If a civilian buying spree develops, its effects should, it seems, be tempered by the tremendous reserves of productive capacity that can result from a reduction in the Government's war effort. If, on the other hand, the Government's reduction in its war spending should be so rapid as to be deflationary in its effect, the civilian population has ample reserves of purchasing power with which to take up at least some of the slack.

In any event, unless the war is more prolonged than is generally anticipated, the post-war outlook should probably be thought of in such moderate terms as price rises and price declines rather than in vague and extravagant terms of inflation that are frequently used in connection with the future. We have seen price rises and price declines before; we shall probably see them again. There appears to be no reason, however, for supposing that we now face a price rise so drastic as to justify the term inflation.

Bank and Insurance Stocks

This Week — Bank Stocks

By E. A. VAN DEUSEN

Net operating profits of sixteen leading New York City commercial banks averaged 13.8% higher in 1944 than in 1943, thus continuing the upward trend in earnings which started some six years ago, in the first year of war. The accompanying table shows 1944 net per share, compared with net results accomplished in years back to 1939. Security profits and recoveries, being irregular and of a more-or-less non-recurring nature, are not included in the figures given.

TABLE I

NET OPERATING EARNINGS PER SHARE

	1939	1940	1941	1942	1943	1944
Bank of Manhattan	$1.11	$1.14	$1.37	$1.81	$2.01	$2.40
Bank of New York	17.57	17.61	20.05	20.70	28.59	30.45
Bankers Trust	2.80	3.36	3.19	3.39	3.79	*3.65
Central Hanover	4.74	5.77	6.31	5.76	6.54	7.43
Chase National	1.80	1.83	1.96	1.81	2.33	2.54
Chemical Bank & Trust	1.60	2.00	2.60	2.68	3.42	3.82
Commercial National	1.96	2.18	2.20	2.58	3.59	4.35
Corn Exchange	2.18	1.44	2.58	3.30	3.56	3.96
First National	104.07	102.41	100.58	97.66	106.16	124.27
Guaranty Trust	13.15	14.11	14.25	16.28	17.38	20.35
Irving Trust	0.48	0.62	0.70	0.84	1.00	1.17
Manufacturers Trust	3.71	3.92	3.91	4.03	5.28	6.33
†National City	1.91	1.98	1.94	2.18	2.44	2.66
New York Trust	5.16	5.11	5.36	6.06	‡6.51	‡7.03
Public National	2.89	3.09	3.29	2.85	3.30	4.47
United States Trust	82.07	71.64	72.10	78.83	87.07	94.31

*3,000,000 shares in 1944; 2,500,000 shares previous years.

†Includes City Bank Farmers Trust.

‡600,000 shares in 1943 and 1944; 500,000 shares previous years.

Compared with 1939, 1944 net operating profits average 70.5% higher. Over this same period the market, as measured by Standard & Poor's Index of New York City bank stocks, advanced from 95.8 at the end of 1939 to 112.6 at 1944 year-end, an appreciation of 17.5%.

The average dividend yield of these sixteen stocks against the asked price of Jan. 17, 1945, is 3.4%, and the average earning yield, considering net operating profits only, is 6.8%. Thus, on average, dividends were earned twice over by net operating profits alone. There is a great deal of variation between individual stocks, however. For example, the dividend yield of First National Bank is 4.4%, while that of Bankers Trust is 2.7%. The highest earning yield is that of Manufacturers Trust with 10.8%, while the lowest is exactly half, viz: 5.4% by Guaranty Trust. Table II shows the dividend and earning yields of each of the sixteen bank stocks.

TABLE II

	Asked Price 1-17-45	Annual Dividend	Dividend Yield	Earning Yield
Bank of Manhattan	28⅝	$1.00	3.5%	8.4%
Bank of New York	480	14.00	2.9	6.3
Bankers Trust	52¾	1.40	2.7	6.9
Central Hanover	121	4.00	3.3	6.1
Chase National	45¼	1.40	3.1	5.6
Chemical Bank & Trust	56¾	1.80	3.2	6.7
Commercial National	54¼	1.60	3.0	6.7
Corn Exchange	60⅜	2.40	4.0	6.6
First National	1,835	80.00	4.4	6.8
Guaranty Trust	374	12.00	3.2	5.4
Irving Trust	18½	0.70	3.8	6.3
Manufacturers Trust	58⅝	2.00	3.4	10.8
*National City	44⅜	1.30	2.9	6.0
New York Trust	112½	3.50	3.1	6.2
Public National	47¾	1.50	3.1	9.4
United States Trust	1,540	70.00	4.5	6.1
Average			3.4%	6.8%

*Includes City Bank Farmers Trust.

It will be observed in Table I that the net operating earnings of Bankers Trust were $3.65 per share compared with $3.79 in 1943. In December 1944, however, this bank increased the number of capital shares outstanding from 2,500,000 to 3,000,000 by a 20% stock dividend. Adjustment for this gives equivalent earnings of $4.38 per share on the former capitalization, an increase of 15.5%.

With regard to First National Bank, this bank does not report earnings on the same basis as do most of the other banks, and it is not possible on a strictly comparable basis, to segregate net operating earnings. The $124.27 shown above, therefore, includes recoveries and security profits. In 1943 the bank realized no recoveries and sustained security losses of $1.03 per share. The figures reported above for prior years reflect any recoveries and security profits that may have been realized.

Further increase in operating profits may be expected this year by these banks. Thus far they have not been subject to the excess profits tax, and their earning assets continue to move up. This expansion in earning assets seems likely to persist for an indefinite period, for not only is it closely tied in with the fiscal policy of the United States Government, but post-war business will some day make its demands on the banking system for the extension of credit.

Tomorrow's Markets Walter Whyte Savs——

(Conitnued from page 366)

to measure the distance it can carry prices.

* * *

Though I saw the possibility of such an upsurge I didn't give specific advice to buy. For one thing, the rails which had been going up in almost a straight line for two months were showing more down than up in their tape action. In itself this was hardly reason to turn bearish. But it was enough to look around corners rather than to charge straight in.

* * *

In order to keep thebuying-minded satisfied, this column gave the stops in a list of stocks which showed better than an even chance of going up. Among these were American Crystal Sugar, American Steel Foundry, Baldwin Locomotive, Crucible Steel, U. S. Steel, and two utilities, Public Service of New Jersey and Consolidated Edison of New York. If you recall the column in which these stocks appeared, you will remember that the final words were "... water may look fine, but don't wet more than your toes. And keep a towel handy."

* * *

The market hasn't done anything since that warning (Jan. 11) to warrant any change in tactics. On the contrary. For the past week prices have been dribbling down in an annoying manner. Annoying to the extent that they don't break badly enough to scare into selling, but badly eough to make holders jittery. Whether or not this is justified isn't of concern to followers of this column. They have profits actually taken, and the two stocks in which positions were held last week don't, or at least shouldn't, give any worry. Timken Detroit, bought at 33½, had a stop at 35 (see Jan. 11)). Last Saturday (Jan. 21) it sold under the 35 figure, closing at 34½. So you are out with a slight profit. G. L. Martin, the other stock, was bought at 21½ with a stop at 22. So far it's above that figure. Though how long remains to be seen.

* * *

So far as the other stocks are concerned, they were offered as suggestions. There were no specific buying levels, although the stops were specific enough. In case you got these the stops are repeated. American Crystal stop is 18; American Steel Foundry is 27; Baldwin 25; Crucible 35, and U. S. Steel at 58. As this is being written at least two of these appear in danger of breaking through in case they do get out.

* * *

Matter of fact, the entire market is now back to an old resistance level from which prices not only should, but must, turn around, if the whole structure isn't to topple. Instead of toppling, market may go into one of these dull, listless affairs. In either case stocks would not be attractive.

* * *

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Fashion Park Attractive

A detailed study of Fashion Park, Inc., is contained in a special circular prepared by Simons, Linburn & Co., 25 Broad St., New York. Copies of this interesting study may be had from the firm upon request.

Bright Possibilities

The current situation in Central Iron and Steel also appears interesting, according to a bulletin just issued by Lerner & Co., 10 Post Office Square, Boston, Mass. Copies of this may be had for the asking.

Rigid Wages, Unionization and Reconversion Problems

(Conitnued from page 363)

withdrawal of men into the army, which proved to be important "factors in tightening the labor market and in strengthening the bargaining power of labor. . . . The necessity for large and continuous production, attainable only under conditions of industrial peace, induced the federal government to encourage the extension of trade unionism and collective bargaining in private as well as in public enterprise."

Under such conditions and influences, labor organizers and labor propagandists, make good use of the old slogan "in union there is strength," and attempt to "unionize" as large a segment of labor as possible. By "unionization" we mean the organization of labor into trade, craft, or industrial unions, irrespective of whether these are affiliated with large national organizations or take the form of independent or local unions.

Growth of Trade Unions in World War I.

With the wartime demand for goods at almost any price and the consequent intensive demand for labor it is not surprising that in both this country and Great Britain the labor movement made great advances in size and power during World War I. and its immediate aftermath. Total membership in American trade unions increased from 2,716,900 in 1914 to 5,110,800 in 1920, or nearly 100% over pre-war membership.[2] Membership figures for the American Federation of Labor, the organization which accounted for roughly 80% of the total trade union membership in the United States between 1910 and 1935, showed an increase from 2,020,671 on Aug. 31, 1914, to 4,078,740 on Aug. 31, 1920—an all-time high until after the outbreak of World War II.[3] In Great Britain during the same period total membership in all trade unions increased from 4,135,000 in 1914 to 8,337,000 in 1920, a growth of over 100%.[4] Notwithstanding this phenomenal growth of trade unions in both countries a rapid decline in membership began in 1921, following the collapse of the post-war boom of 1919-1920, and for Great Britain, at least, after several more or less unsuccessful strikes and industrial dusburbances, culminating the general strike in 1926.

Definition of Terms and Limits

Before considering some of the causes and consequences of this rapid growth in trade union membership, and its later decline, let me state at this point that it is not the purpose of this article to go into a history of trade unionism in general, or to present an abstract theory of wages or even of the theory of union wage rigidity. All of these have been adequately covered elsewhere,[5] in their proper place and setting. It is my purpose here to show, in language as far removed as possible from the usual economists' jargon, how increased unionization of the gainfully employed is a usual concomitant of wartime; how such unionization tends to foster, create and/or maintain rigidities in the wage structure of a given country, particularly rigid wages in a downward direction; and how such conditions of rigidity tend to make it difficult for industry, particularly small business, to reconvert its establishments and operations from a wartime to a peace-time basis, especially in times of falling prices and decreasing employment. As a corollary to this difficulty of reconversion, there is the deterrent to the use of risk or venture capital in such industries, if its marginal efficiency is reduced by reason of the demands of unionized labor for higher wages, or for maintaining rigid wages to the extent that labor gets more while capital gets less than their rightful shares of the earnings of industrial production.

The term "unionization" has already been defined. By a "wage" we mean the price or money payment for a unit of labor engaged in productive enterprise, a price usually based upon the value of the marginal product of such labor. In defining "wage rigidity" or "rigid wages" Shister says[6] that critics of union wage policies have levelled the following criticisms at such policies: "1. union wage scales are not flexible enough with respect to a deflationary price level; 2. union wage scales are frequently 'too high' compared with non-union scales in the same industry; 3. union wage scales are often 'too high' for a declining industry. At bottom," he continues, "these criticisms simply signify that union wage scales are 'rigid' in a downward direction." In his "Note on Cyclical Wage Rigidity,"[7] he further defines rigid wages as follows: "The term 'wage rigidity' will here have the following connotation: The greater the lag of the (cyclical) downward turning point in hourly wage rates behind the (cyclical) downward turning point in the volume of employment in a given industry, the greater the rigidity of wage rates in that particular industry." In general we will use the terms "rigid wages" and "wage rigidity" in the above sense, but at times we may use them in referring to the time lag in wages in comparison with the fall in general prices as well as the decline of employment in a given industry.

Percentage of Unionization Among Gainfully Employed

It is a fairly common mistake in references to the degree of unionization of British labor to refer to it as "pratically 100 per cent" or "fully" organized. This is not at all the case and never has been. Farm laborers, domestic servants, and most municipal employee in the United Kingdom are not in trade unions, to mention only a few groups. In 1921, at the downward turning point in trade union membership, the grainfully employed above twelve years of age, out of a total population in Great Britain of 42.7 millions in that year, numbered 19,000,000, of whom some 2,000,000 were themselves employers or were engaged in industry on their own account. In that year the male workers who were organized in trade unions in Great Britain—a total of 8,337,000 at the end of 1920—equalled 13.3 per cent. of the total population, or but 30 per cent of the gainfully employed. By 1927 trade union membership had dropped to 4,908,000, and the British Board of Trade estimated that in that year about 19,989,000 were in gainful occupations in England, Scotland and Wales. This meant that in 1927 trade union members represented only 8.3 per cent of the total population, or 20 per cent of those gainfully employed.[8]

In the United States the number of people engaged in gainful employment in 1910 was 34,758,000, of whom some 9,334,000 were proprietors, managers and officials, or independent and salaried workers. Total trade membership in that year in the United States was 2,184,000. By 1930 the gainfully employed had increased to 47,170,000, of whom some 11,096,000 were self-employed or in the above categories.[9] In that year total membership in A. F. of L.—representing about 75 to 80 per cent of total trade union membership—was 2,961,000. Hence it is apparent from these figures that even a smaller percentage of the gainfully employed in the United States were organized in trade unions than in Great Britain. Assuming a total of 3,500,000 union members for that year, about 7.4 per cent of the gainfully employed, or about 9 per cent of the employees in that group were in trade unions.

Recent Heavy Increases in Trade Union Membership

By 1932 and 1933 membership totals in the A. F. of L. were back almost to the 1914 level, with a post-war low of 2,126,796 on Aug. 31, 1933. Then with the labor clauses in the N.I.R.A. and the

(Continued on page 414)

2 Wolman, Leo, *The Growth of American Trade Unions, 1880-1923*, 1924, p. 119.

3 A. F. of L. membership figures are published in their annual *Reports of Proceedings*, as of August 31 of each year. The above figures are taken from the Convention Report of 1943.

4 British figures are from the writer's chapter on "Labor, Unemployment, Wages, and Living Costs," in *The United Kingdom-An Industrial, Commercial, and Financial Handbook*, Chap. 2, Dept. of Commerce, 1930.

5 For two general treatments of this field see Slichter, S. H., *Union Policies and Industrial Management*, 1941, and Dunlop, John T., *Wage Determination under Trade Unions, 1944*. For some excellent articles on "wage rigidity," fully annotated and documented, see Shister, Joseph, "The Theory of Union Wage Rigidity," in *Quarterly Journal of Economics*, August, 1943, p. 522 ff., and "Note on Cyclical Wage Rigidity," in *The American Economic Review*, March, 1944, Part 1, pp. 111-116. References to these will be made under "Quarterly Journ." and "Am. Econ. Review," or to the two as "Op. Cit. Passim."

6 *Quarterly Journ.*, p. 522.

7 *Am. Econ. Review*, p. 111.

8 Lee, Frederic E., *The United Kingdom Handbook*, pp. 44-48.

9 Wolman, Leo, *The Ebb and Flow of Trade Unionism*, 1936, p. 113.

Canadian Securities

By BRUCE WILLIAMS

There is little doubt that the outcome of the Grey North by-election to be held Feb. 5, which will be contested by the new Defense Minister McNaughton, will have an important bearing on the timing of the forthcoming Federal election. A safer seat than Grey North could have been selected, and it can be assumed, therefore, that Mr. King wishes to test the current direction of the political wind in an open contest. Perhaps what is still more important, is to have the timing of the call to the country decided by an event and not by personal choice.

That this apparently small by-election is significant is demonstrated by the fact that not only is a controversial figure in the Government involved, but also that the leaders of the Progressive Conservative and C. C. F. parties are personally engaged in the support of their respective candidates. Feb. 5, therefore, is an important date in the Canadian political and national calendar.

Looking forward to the possible result of the Federal election, the situation at the moment can perhaps be summed up as follows:

(a) The peak of the trend in favor of the C. C. F. was reached following the somewhat surprising triumphs achieved in the Ontario and Saskatchewan provincial elections. This party, however, will be a formidable challenger, but with negligible support in Quebec and the Maritime provinces and the implacable opposition of the Social Credit regime in Alberta, a nationally favorable majority appears unlikely.

(b) With scattered support in the West, minority following in the Maritimes, overwhelming majority opposition in Quebec, and their only definite strength in Ontario, the Progressive-Conservatives under divided and indirect leadership have little scope for optimism.

(c) In comparison, Liberal prospects look bright. The present Administration can lose more than 50 seats and still gain an overall majority. In spite of the Union Nationale success in the recent provincial election, this party is unlikely to seek Federal representation and, therefore, Mr. King should be able to count on the customary powerful support of Quebec. The Maritimes are almost solidly Liberal, and a fair proportion of seats should be secured in the West. Also with the return to active politics of that doughty campaigner, Mitchell Hepburn, the Liberals can retrieve some of the losses suffered in the last Ontario election. Finally, the Liberal government can stand on its excellent war record. And in Mackenzie King the Liberals have the Dominion's outstanding political leader—the man best fitted to represent Canada at the Peace Conference.

Turning to the market for the past week, previous anticipations of higher prices were amply justified. Direct Dominions were firm, but Nationals were in overwhelming demand and, consequently, new high levels were established in most issues.

Provincials were also strong but, as in the other high-grade sections there was a dearth of supply. Montreals continued to gain ground in geater volume, and Albertas still held around their recently established new highs. There was a renewal of activity in Abitibis which appear to have scope for further improvement. Internal bonds were in good demand and there was another flurry in the Yellowknife golds on report of further interesting discoveries. Free funds were strong and the rate touched 9 11/16% discount.

With regard to possible future developments, there is still every reason for the continuance of the present bull market. Canadian issues in the 5-to-10 year category have still not come into line with comparable domestic issues. Furthermore, the possibility of a greater accentuation of the interest curve in a downward direction, especially in the bank maturity range, is an even more imperative factor.

Consideration, however, will shortly have to be given to election prospects, which although apparently favorable in the long run, nevertheless might have a dampening effect at the height of the campaign.

Quarter-Century Club of N.Y.S.E. Elects

John C. Korn, Acting Secretary of the New York Stock Exchange, and an employee of the Exchange since 1918, has been elected President of that institution's Quarter Century Club, which comprises an active membership of 121 employees. Mr. Korn succeeds Frank J. Trautwein, Director of the Department of Floor Operations.

Wm. H. Kennedy, a supervisor on the floor, was elected Vice President; Fred Knobel, Plant Manager of the New York Quotation Company, a subsidiary of the Exchange, was elected Secretary and Leo J. Marshall, a reporter on the floor, was named Treasurer.

Senior member of the Club in age and length of service is Oscar Lassen, head carpenter, 84 years old, who will complete, in May, a half-century of continuous service.

The Club's annual dinner last evening was attended by Emil Schram, President of the Exchange; John A. Coleman, Chairman of the Board, and Howland S. Davis, Executive Vice President.

Form Holt, Collins & Ede

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—William Ede, Jr. has been admitted to partnership in Holt & Collins, Russ Building, members of the San Francisco Stock Exchange, and the firm name has been changed to Holt, Collins & Ede.

Mr. Ede was formerly associated with Mr. Holt and Mr. Collins.

MacLaughlin Securities Co.

(Special to The Financial Chronicle)

PASADENA, CALIF.—Leo G. MacLaughlin Securities Co. has been formed to acquire the securities business heretofore conducted by Leo G. MacLaughlin Co., 54 South Los Robles Avenue. Officers of the new corporation are Leo G. MacLaughlin, president and general manager; J. B. Pearman, Vice-President; and George F. Howell, Secretary and Treasurer. All were formerly officers of Leo G. MacLaughlin Co.

Rigid Wages, Unionization And Reconversion Problems

(Conitnued from page 413)

later split in union ranks in 1935, with the formation of the C.I.O., then called the **"Committee** for Industrial Organization," but now **"Congress** of Industrial Organizations, a great impetus was given to the unionization of workers. With Roosevelt's open support of the C.I.O. since 1936 and the passage of the Wargner Labor Relations Act, totals in trade union membership were rapidly advancing even before the outbreak of World War II. Figures showing the relative strength of the two federations for 1935, the year of the break, for 1938, the last year before the outbreak of war in Europe, and for 1944 are as follows:

Year	A.F. of L. Membership	C.I.O. Membership
1935	3,045,347	1,050,000
1938	3,623,087	3.000,000‡
1944	6,806,913*	5,500,000†

*Figures for A. F. of L. membership on August 31, 1944, were furnished to the writer by the Federation on Nov. 1, 1944, before general publication.

†Figures for C.I.O. membership *at the end of 1938* and "now"—i.e., November 6, 1944—were furnished to the writer by the Congress of Industrial Organizations on November 6.

‡Approximate.

Many economists claim that there is probably some overlapping in both of these sets of figures due to the fact that both federations claim certain unions as belonging to their organization. Other labor critics claim that both are padded to lend prestige and to increase the jurisdictional powers of the two organizations.

To get a more complete picture of total union membership in the United States these totals of 12,400,000 for the A. F. of L. and the C.I.O. must be augmented by the figures for the United Mine Workers, the Railroad Brotherhoods—some of which are in the A. F. of L.—and the other independent unions throughout the country. Out of some 575,000 mine workers in a recent year, about 515,000 or 90 per cent were organized in unions. The 1935 figures for the C.I.O. above included most of this group. Railway employees in 1934 dropped to 766,274, from an average of slightly above 1,000,000 between 1923 and 1930, of whom 380,600, or 49.7 per cent were organized.[10] By 1939, with the increased demand for railway services, total employees reached 1,065,000,[11] of whom "more than half were in trade unions." Five of these unions, with some 134,000 members, were in the A. F. of L. in 1939. The "Big Four" Railroad Brotherhoods, with 325,000 members, were outside of the big federations, as were some other 41,000 organized railway workers. In addition to these, it has been estimated that there are at present nearly a million workers organized into unaffiliated, independent unions in the United States, of which the following unions are of the most importance:[12] The MESA-Mechanical Educational Society of America—claims membership of 42,504; the Christian Labor Association, 3,000; "the Society of Tool and Die Craftsmen 75,000, the Industrial Trades Union 17,000, the Brotherhood of Welders 85,000, the Air Line Mechanics 4,000, the National Federation of Telephone Workers 165,000, the United Utilities Union of America 251,000." Professor Klem adds that "other groups refuse to give out membership figures or else make incredible claims."

Thus the total membership of the A. F. of L., the C. I. O., the mine workers, the Railroad Brotherhoods—other than those affiliated with the A. F. of L.—and of the independent unions combined make a grand total of trade and labor union membership in the United States of approximately 14,281,000 at the present time. This gives point to Professor Slichter's presidential address before the American Economic Association in December of 1941 in New York, in which he stated: "By the end of the war, roughly one-third of the payrolls of industry will be directly determined by collective bargaining. Wage rates in many non-union plants will be sensitive to changes in union scales.[13]

If we are to have "60,000,000 jobs" after the war, as President Roosevelt predicts, or 56,000,000, as predicted by Randolph E. Paul, recently (in **Commercial and Financial Chronicle**, Nov. 30, 1944), or even around 48 to 49 million, taking pre-war figures as a base, it is apparent from figures given above that some 10 to 12 millions of these will be filled by employers, managers, and those engaged in industry on their own account. This portion of our gainfully employed persons will not be in trade unions, for the most part. Taking Paul's estimate of 56,000,000, or Slichter's of 57,000,000 (Commercial & Financial Chronicle, Aug. 2, 1944) that will leave some 45,000,000 employees in gainful occupations, of whom some 14,281,000 are already in collective bargaining unions. If the war lasts one or two years more and the present rate of unionization continues, it is quite probable that considerably more rather than less than one-third of the payrolls of American industry after the war will be determined by collective bargaining. In contrast to the condition in 1930 where some 7.4 per cent of the total gainfully employed, or 9 per cent of the employees in that group were in trade unions, present union membership of around 14,300,000 would account for about 26 per cent of the estimated total gainfully employed (57,000,000), or just under 30 per cent of the 45,000,000 who are **employees** rather than small proprietors, managers, or the other self-employed. This will introduce a new or at least an intensified factor in post-war collective bargaining.

Labor Unions and Wage Rigidities

What effect will union wage policies have upon the creation or the maintenance of rigid wages in the post-war period? A leaf out of Britain's book of post-war experience in the 'twenties may throw some light on the answer to this question, while a reference to present union policies in this country may shed additional light.

Following the 100 per cent increase in trade union membership in Great Britain between 1914 and 1920, British labor entered the period following World War I conscious and jealous of its power and position. The unions sought to maintain the high rates of wages which prevailed before the break of the post-war boom in 1920. The basic, heavy industries such as coal mining, iron and steel, shipbuilding and textiles were well organized and the unions refused to allow wage rates to drop even in the face of rapidly increasing unemployment. Many British markets had disappeared during the war years, and flexible costs and flexible wages would have been necessary to regain them in a period of falling prices, but the trade unions stood adamant in their demands.

The Italian and Scandinavian markets for British "coals" which

10 Wolman, *op. cit.*, p. 113.

11 Harris, Herbert, *American Labor*, 1939, p. 249.

12 Estimate, figures, and quotation from Klemm, Mary, "The Rise of Independent Unionism: The Decline of Labor Oligopoly," in *The American Economic Review*, March, 1944, Part I., p. 76 ff.

13 Slichter, Sumner H., "The Conditions of Expansion," in *The American Economic Review*, March, 1942, Part I, pp. 11-12.

had been most important in the pre-war period, were now in, or passing into, other hands. "Reparations in kind" sent German coal to the Italian railways. The Scandinavian countries were still willing to use British coal, if they could get it, although they had expanded water power to take the place of coal during the war period. But they could not afford to pay the prices Britain demanded in the face of new competition. Poland as a new entity had come into the family of nations. She had to have exports to build up her internal economy and to strike a balance in her international accounts. Her coal miners were not held back by the short hours and high, rigid wages which English miners demanded. They worked a twelve-hour day for a wage about half that demanded by British unions, with the result that they took over the coal market in the Baltic countries.

Then in 1925 Britain returned to the gold standard at the pre-war parity with the dollar. Hawtrey, famed British economist, says that the social costs of this return to financial integrity on the part of the United Kingdom was a million unemployed persons. Prices had to be forced down to force the exchange rate up. Had wages, which were a substantial portion of costs in the heavy industries, been flexible so that they could have been adjusted downward to meet the new price situation, the problem might have solved itself. The unions, however, in the deflationary phase of the business cycle held out for rigid and high wages, with the result that industry in general suffered. It was not until after the disastrous coal stoppage and the unsuccessful general strike, both in 1926, that the trade unions began to see the errors of their ways and to take steps to correct them.

By 1927 they had lost half of their membership and millions of their own members were unemployed. I attended the 60th. "Diamond Jubilee" Congress of the British Trade Union movement in September, 1928, in the depressed South Wales mining area at Swansea, Wales, by which time the delegates were a sobered lot. They faced frankly the question of the causes or reasons for the decline in membership and power of the unions. Had this movement, they asked, which for over one-hundred years had upheld the principles of collective bargaining and aimed at the betterment of working class living conditions reached and passed its peak of influence and lost its hold on the workpeople of Britain? Perhaps the best answer to these questions was given by "Lord Jim" Thomas, a trade union and Labour Party leader, given that name by reason of his portfolio of "Lord Privy Seal" in the first MacDonald Labour Government. He had been one of the leaders in the general strike of 1926. "When we had the power, at least in numbers," he said, "we lacked the sense to use that power . . . we did not know how to use our power wisely". He then went on to say that now, with waning power, at least in numerical strength, he hoped that judgement and wisdom in cooperation with employers would take the place of their former arbitrary and unreasonable stand. Some of the evils of fourteen years of depression between 1921 and 1934 might have been avoided or mitigated if they had had a less rigid wage policy.

American Union Practices

Shister, in the articles referred to,[14] has so well covered the theory and practice of union wage rigidity in this country that it is only necessary here to summarize his conclusions. He holds, as do most other economists, that when the demand for labor of a given type is inelastic—that is, when a higher wages bill or income will be paid at high "prices" (for labor) than at lower wage rates—or conversely, that a union will actually decrease the income of the group by lowering its wage scale, a policy of wage rigidity under such conditions is attributable to the structure of the demand for labor. Also if seniority rights prevail in a given union with regard to holding the jobs which are available, high rigid wages may be the goal of union policy, even though such a policy may result in heavy unemployment among the newer or junior members of the union. He calls this an example of "intra-union exploitation." It is even more pronounced when the unemployed member of the union may fall back on publicly-supported unemployment insurance schemes.

In his "Notes on Cyclical Wage Rigidity" Shister presents an extensive table showing the time lag in months of the turning point in wage rates behind the downward turning point in volume of employment in the period 1929-1932, for several industries. A few for example are: Book and Job Printing 7 months, Baking 9, Structrual Ironwork 11, Locomotives 19, Shipbuilding 20, Radios and Phonographs 23, Textile Machinery 24, and Automobiles 26. He concludes that union wage policies do contribute to wage rigidity. "As a matter of fact", he says, "union wage rates are probably more rigid than nonunion rates (both generally, and in particular industries), if for no other reason than the existence of contractual relationships in unionized areas". He cites an example in the fact that union wage rates in the book and job printing industry did not decline till the latter part of 1932, while the decline in non union rates came as early as January, 1931. Both he and Slichter stress the fact that there is a tendency for the rigidity to be greatest in the industries with the largest-sized firms, for the "large" firms may oppose wage cuts as a means of fostering good will. The greater necessity for large firms to abstain from wage cutting, they point out, results from the fact that the public is more antagonistic toward wage cuts on the part of the "large" concerns than the "small" ones. Many of the firms and industries which showed a high degree of wage rigidity during the cyclical turning point of 1929 were not unionized at the time. Several of these industries, such as iron and steel, automobiles, rubber tires, textile machinery, etc. have since been unionized by the C. I. O.. Hence, in such large-sized industries and firms we may expect a sort of double rigidity for the future, a rigidity due to the size of the firms, and another form due to union wage policies.

Union Wage Policies and Venture Capital

Capital, in the form of savings or capital goods, will seek to enter an expanding industry only if the value of the marginal products produced by such expansion is equal to or above the cost of such capital. Or, put in another way, business men or enterprisers will not seek to employ new capital in the expansion of their industry unless they are confident that the capital goods to be obtained with the savings used will increase the total product of their business by an amount sufficient to cover the necessary interest payment. If capital gets a return of less than its marginal productivity, i.e., the money value of its marginal product, it will, through the principle of opportunity or alternative costs and returns, flow into other industries where its return or reward will be adequate to cover the risks involved.

Professor Slichter points out[15] that the marinal efficiency of capital depends, among other things, upon the control or management over costs. Speaking further of the growth of unionization during the war and post-war periods, he adds: "In the face of large and powerful labor organizations, will American business possess sufficient control over costs to maintain a high marginal efficiency of capital? Or will unions keep investment opportunity limited by promptly converting any increase in demand for labor into higher wages? . . . In other words, will unions prevent any expansion of demand from producing more employment by causing it to produce higher wages?" After discussing these questions from different angles he states his conclusion "For the time being, however, one must conclude that the spread of unionization tends to reduce the marginal return of capital." This might go so far as to limit materially the capacity of the economy to expand in the post-war period but he hardly thinks so.

One of the most elementary principles of wage theory which the beginning student of economics is taught is that net wages in the long run cannot be higher than the marginal productivity of labor. The business man employing labor may not know just what the marginal product of such labor is, but if he pays, or is forced to pay, a wage higher than the marginal productivity of labor, he will soon encounter financial difficulties and will find himself forced out of business. If he pays less he will soon lose most of his workers to other enterprisers who are willing to pay labor its rightful share, based upon the money value of its marginal product. But when union demands and union wage policies force a higher payment to labor, at the expense of the other agents of production, the marginal efficiency of the other agents of production is thereby reduced. They will then seek employment other than in the industries in which such condition exists.

Collective Bargaining in Post-War Adjustments

Collective bargaining is not without advantages to both employers and employees, if properly used and not abused. Hence its expansion in the post-war world should not create insuperable obstacles. One example of its possible misuse was the recent attempt of the C. I. O. to unionize foreman in industrial plants, thus threatening the wholesale unionization of management. Under such a condition so-called collective bargaining would be reduced to a farce. Surely "the hares cannot run with the hounds" to such an extent as that, with the unions being represented on both sides of the bargaining table.

In the problems of reconversion and post-war adjustments in industry there will be times when unionized labor may defeat its own ends by maintaining a rigid wage policy in the face of a downward turn in prices and in employment. This growing power should be used with wisdom and judgement, therefore, if they are to avoid some of the pitfalls of organized labor in Britain after the first world war. There are times in periods of industrial adjustments when flexible costs, flexible wages, and flexible prices must be the order of the day. Wage and price rigidities which so frequently go hand in hand may make it impossible for American industry to compete on equal terms with industries abroad, with the result that wholesale and continuous unemployment may take the place of the orderly adjustment with reasonably full employment which might take place under a more flexible wage and price structure.

14 *op. cit., passim.*

15 Slichter, S. H., *op. cit.*, pp. 12-13.

Rockets and Jet Propulsion Lecture

The New York Institute of Finance announces an address on "Rockets and Jet Propulsion" by G. Edward Pendray, Assistant to the President of Westinghouse Electric & Manufacturing Company, from 3:30 to 5:00 p.m. on January 29th, 1945 in the Board of Governors Room of the New York Stock Exchange, 11 Wall Street, New York City. Admission is $1.00.

Mr. Pendray is one of the country's foremost proponents of rocket power, and is one of the organizers of the American Rocket Society, the national organization of rocket experimenters and engineers.

Interesting Stock Summary

David A. Noyes & Co., 208 So. La Salle Street, Chicago, Ill., members of the New York Stock Exchange and other leading exchanges, issue each month an interesting stock summary, copies of which may be had upon request.

Shall the Government Guarantee Employmeut?

(Conitnued from page 363)
job at good wages, just as he is entitled to police protection and the possession of his own home. The necessary corrollary has followed that the government must guarantee him a full time job at good wages. This is an attractive and plausible theory and it has made substantial headway throughout the United States with very little critical examination of its soundness. Your purpose here this evening is to examine the basis for this new theory.

We can all agree that full employment at good wages for every man and every woman who wishes to work in the United States is a goal devoutly to be wished. It is an ideal to be strenuously sought, and no questioning of its existence as a legal right in any way detracts from the desire of the questioner to attain the ideal. "Good wages" means perhaps, $2,500 a year. Obviously a goal of $5,000 a year apiece, or $25,000, is even more desirable. Even the most hard-headed realists have agreed that Utopia itself is a proper goal to seek.

The distinction is between an ideal or a hope, and a right which can be conferred by law. Thus we can agree on the desirability of the principles of the Atlantic Charter and the Four Freedoms, but even the President today admits that these are merely a hope and not something to be guaranteed by a world government. This proposed new legal right certainly goes far beyond the Declaration of Independence which mentions only the rights to "life, liberty and the *pursuit* of happiness." The Constitution while promising to *secure* the blessing of liberty, only proposes to *promote* the general welfare. It seems impossible to me to assert the legal duty of our government to guarantee full time employment. It may take many steps towards that goal and adopt many methods which are more likely to secure it than others.

The means by which we have raised our standard of living to a higher average than any other country in the history of the world and in a shorter time, have been the application of freedom to individual activity, not the guarantee to anybody of anything other than freedom. The economic machine of America created out of that freedom has made this country the most powerful in the world. That freedom can be qualified so that it does not include the freedom to throw monkey wrenches in the machine. The economic machinery can be oiled and speeded up and improved. But a guarantee of work by the government to every individual is wholly inconsistent with the very freedom which has produced the machine which provides jobs at good wages.

Just what is this theory of a government guarantee of employment? My attention was first called to it in the National Resources Planning Board Report of Jan. 1, 1943, in which that Board stated its belief that it should be the declared policy of the United States Government to underwrite full employment for the unemployed, and guarantee a job for every man released from the armed forces or the war industries with fair pay and working conditions. The whole report of that Board was based on that theory, without the slightest consideration of cost or taxation. It proposed a vast spending program for the United States Government as a means of producing prosperity. The government was not only to underwrite full employment but it was to "underwrite effective demand for goods and services" and "underwrite the attainment of high production."

President Roosevelt adopted the so-called economic bill of rights of the Board in his address to Congress in January, 1944, and reaffirmed his position this year, saying that "of these rights the most fundamental, and one on which the fulfillment of the others in large depends, is the right to a useful and remunerative job in the industries or shops or farms or mines of the nation." He says that the full employment means not only jobs, but productive jobs at standard wages.

The CIO-PAC platform of January, 1944, commends the President's new bill of rights and says that the full employment program must "be guaranteed by the Government with a prepared program of jobs at useful work, with standard wages and working conditions, if and to the extent that private industry falls short of the guarantee."

The Kilgore Subcommittee of the Senate Military Affairs Committee, largely dominated by the Political Action Committee thinking, proposed the enactment of this theory into law. This bill would require the President each year to inform Congress as to the prospects of employment and national production and if his estimate fell short of full employment, to recommend a specific program of Federal expenditure to fill the gap. The policy crystallizes into the proposal that the United States Government shall guarantee sixty million jobs at $2,500 a year.

The whole policy sounds so easy and attractive that it has been thoughtlessly accepted by many without analysis. Even the Committee of Economic Development, made up of hard-headed business men, has rather undertaken to assume for industry the responsibility of guaranteeing from 53 to 57 million jobs. A guarantee of employment by private enterprise of course is even more difficult than one by government, because there are millions of employers wholly unable to employ more men than economic conditions permit, and wholly without the power to combat nation-wide economic forces. The danger is that if employers undertake the responsibility and fail in any degree because of conditions beyond their control, it would certainly open the door for the claim that the government must step into the breach with the complete guarantee.

The first question that arises is whether it is necessary or wise to provide, or try to provide, 60 million or even 53 million full time jobs. There are only 35 million families in the United States, and this would provide two jobs for many million families. Should there be an obligation to provide a full time job for every woman who wants to work when perhaps her husband or other member of the family is perfectly able and willing to support her? Is it perhaps not better to keep boys and girls longer in school, and retire the aged at a lower age? How can we say that there must be 60 million jobs when perhaps 50 million workers can do the work of the nation?

In analyzing the soundness of this new doctrine, a good many questions arise as to its exact meaning. What is full employment and what is a good wage? Is this to be a guarantee of any job a man wants in any industry, or is it to be such a job as the government chooses to provide? Who is to decide what a good wage is? Men have a way of overestimating their own ability and few are going to be satisfied with the wage the government thinks adequate. Is the government going to guarantee a flat wage for all, or a wage having some relation of the amount or quality of work that a man does? Who will decide when his wages are to be raised?

The President says every man has the right to a job in the "industries or shops or farms or mines of the nation." The total number of men employed in these categories is only thirty million. How can they be increased and why should they be? Millions are employed in other types of service. The census of 1940 showed 9,758,000 employers and own-account workers, including farmers. How will the government guarantee this kind of a job, or guarantee that they can make a living wage? Some 2,300,000 people are listed as in domestic service. Is the provision of such a job going to be a performance of the government guarantee or not?

It is clear to me that any direct guarantee of full time jobs at good wages would involve the Government in the placement of every man and woman in the country, and ultimately the assignment by the government of every man and woman to the job selected by the government. This is exactly the system pursued in Russia today, as anyone can see by reading the recent articles in the Readers Digest by William L. White. It is in contradiction of the whole American tradition and is bound to destroy the very freedom for which our Armies fight throughout the world. It is obvious to me that the proponents of the theory would very quickly back away from any literal interpretation of the supposed guarantee. They would quickly disown the theory that the right to work is one which can be ordered by the government and protected by court decree.

How then is this guarantee to be carried out? The Poitical Action Committee suggests that it is to be done by direct government employment of all those not employed by private industry. The unthinking popular view is that the jobs are to be guaranteed by the planning and execution of public works. The President says that full employment means employment in productive jobs, and, therefore, the public works must not be makeshift or make-work projects, but must be real public works. I have yet to hear of the most ardent New Dealer who has devised a system of spending more than five billion dollars a year on productive public works.

A billion dollars a year for public housing is about the largest single proposal for the expenditure of public money. We passed a public road bill proposing the expenditure of approximately half a billion dollars a year of Federal money, and I doubt if it will all be spent. We passed a billion dollar flood control bill, but it will certainly take five years to carry it out, so that it only provides two hundred million a year. Rivers and harbors expenditure is likely to be even less. Supposing we can find five billion dollars a year of worthwhile projects for the expenditure of Federal funds; that would mean about two and one-half million jobs. But we are trying to provide sixty million jobs. We can get many more jobs by tuning up the private economic machine by 10% than by the largest public works program anyone has conceived.

We found in the great depression that the employment of a man on public works cost three times the amount expended on work relief programs per man. and six times the cost of direct relief. Furthermore, public works are only a stop-gap, because most such works cost money to maintain after they are constructed. The construction of a factory may give employment to many men year after year. But a courthouse or a new road or a new school costs more to maintain and more taxes than before. Of course, there are some productive public works, but most of them produce no permanent jobs.

The lack of public works available to meet mass unemployment suggests to those who advocate direct government employment that the government would have to go into many fields of non-government activity. Most employment in any nation must be in the making of goods and the furnishing of service. The government could take over factories and make clothing, food and other necessities to be given away to the low income groups. We saw a start in that direction in the thirties. The difficulty is that the moment the government enters such a field, private capital is afraid to go ahead. You hamper and discourage the recovery of the very economic machine on which you are relying to produce prosperity. No individual can successfully compete with the government. Constant government experimentation and interference in the thirties delayed recovery far beyond the time required in foreign countries, or in past depressions in this country. The expenditure by the government of thirty of forty billion dollars a year to give direct employment on a full time basis and good wages to, say fifteen million men, would add that sum to the public debt, and certainly discourage any attempt at real recovery.

When the difficulty of direct employment, and the limitations of any public works program, are pointed out, the proponents of the guarantee theory turn to another policy which they probably intended to follow all the time.

Public works shall be only one

branch of the means by which jobs are to be guaranteed. The other branches are set forth in the President's recent budget message of Jan. 3, most of which passed unnoticed in the excitement of the war and foreign relations.

That message proposes many different methods of additional Government spending after the war. The borrowing authority of the Farm Security Administration is to be increased sixty million dollars for rural rehabilitation. The Commodity Credit Corporation is to spend two billions more in the purchase of crops. The Federal Government is to give aid to all common school and high school education, leading ultimately, according to the plan of the National Resources Planning Board, to a Federal expenditure of three billion dollars. Federal loans and guarantees are recommended to stimulate private construction after the war. Federal salary rates are to be increased. Taxes on consumers are all to be reduced, while there is no indication that progressive income taxes on high incomes are to be changed. Rather they are to be increased. Unemployment compensation payment rates are to be increased. Six billion dollars is to be turned over to the proposed international monetary fund and the proposed international bank. This aid to foreign countries is to be supplemented by further loans extended by the Export-Import Bank, not only to cover short and medium term commitments to finance exporters, but in the form of long-term loans for reconstruction and development. Finally, the President's program is to include provision for extended social security, including medical care; for better education, health and nutrition; for the improvement of our homes, cities and farms, and for the development of transportation facilities and river valleys.

When we add to all these proposals the expenditure of six billion dollars for interest on the public debt, five or six billion dollars for the post-war Army and Navy, over two and a half billion dollars for compulsory military training, and the expenditures already authorized for veterans, we find a Federal budget which may well amount to 50 billion dollars a year. Many of these expenditures are frankly urged as a means of guaranteeing full employment. It is said that we have had full employment during the war because of vast Government spending and the only way we can fulfill the new guarantee is to continue this Government spending in time of peace. In this form the supposed guarantee of employment merges into the same old Government spending theory advocated by Keynes and Hansen—the theory that a nation can spend itself into prosperity, that deficits are a blessing in disguise, that we need have no concern about our public debt because we owe it to ourselves.

We tried it in the thirties, and it left us with a large debt and ten million unemployed. Any huge spending, whether for direct employment, or to prime the pump for indirect employment, leads to the same result. The post-war budget of the government will be at least twenty billion dollars for expenses that we cannot escape, four times our prewar budget. It may be just possible to find a tax system that will produce this much income in time of peace without discouraging all initiative. If we add the additional government spending proposed by the guarantee theory, we will run the budget up to forty or fifty billion dollars. Either a tax system must be imposed at even higher rates than the war system now in force, or we must increase the debt by somewhere between fifteen and thirty billion dollars a year. Either of these alternatives would destroy the economic machine upon which our prosperity has been based. Either would destroy the system of private enterprise to which the advocates of this new theory, even Earl Browder, give lip service.

If the present tax rates on business are continued, there will be no incentive to anyone either to put his money into new business or to expand old business. If the present rates on individual incomes are continued, there will be little incentive to any man to exert himself to build up his income with the hope of providing a better living for himself and a better education for his children, or a better provision for his family after death. The incentive created by the American system of rewards for genius, initiative and daring will disappear, and it is vain to hope that the expansion of private industry will continue. One industry after another will become unprofitable, just as the railroads became unprofitable before the war. The government will have to finance necessary expansion and will gradually absorb one industry after another.

The advocates of the theory, however, do not really contemplate any such tax system. They are disciples of the Keynesian theory that the public debt can be indefinitely increased. To me it is obvious that this can only end in extreme inflation. Because of government deficits, we have had an increase in the cost of living of approximately 30% during the war, in spite of the most rigid price and wage controls. In my opinion, while controls of this kind can be enforced to some extent in wartime, in peace time in America they would suffer the fate of prohibition. A steady increase in prices would force increases of wages and a cycle of rising costs which could not be checked while government deficits continued.

Such an inflation would lead to more government interference and more government expense and finally a complete breakdown of the financial and banking structure upon which our commerce, business and currency are based. It would mean the destruction of the private industry system. We could point out that it had been sabotaged by its enemies, but I am afraid it would be like Humpty Dumpty, and, once fallen, all the king's horses and all the king's men could not put it together again. We would have to reconstruct our business and price system completely and that would only be done on the basis of 100% government control and operation. In my opinion the more radical wing of those who advocate the spending theory, and this government guarantee of full employment, really look forward with pleasure to that result. It is the best and surest method of destroying the system which they detest.

One interesting phase of the full employment program and the spending theory is the plan to lend money abroad in large sums. It is frequently said, and generally accepted without analysis of any kind, that we cannot provide full employment without a tremendous increase in our export trade. We are exporting about twelve billion dollars worth of goods a year, about 80% under lend-lease. It is said that that volume must continue even though we have to lend all the money to continue it.

Of course, in the immediate post-wear period it will be necessary to lend money for humanitarian reasons, and perhaps in an amount sufficient to enable the foreign countries to set their economic machinery in motion, but continued government lending can only have the same effect which we saw in the 20's with private lending. Sooner or later it becomes glaringly apparent that the loans will never be repaid. Thereupon the lending stops and the employment created thereby comes to a sudden and disastrous end, producing or accentuating a depression; and the debt is added to our own debt and our citiens pay the interest on it. Obviously it can be of no advantage to our workers to produce goods and give them away, and that is what foreign trade means if it is created only by large loans which cannot be repaid. Like the other form of spending, it will produce full employment at the cost of ultimately destroying all employment and all freedom with it.

The sounder advocates of a stimulated foreign trade realize we must import goods if the trade is to be of any advantage to us. But if those imports reduce employment in our home industries, why is there any net increase in employment, except a very small advantage comparatively in buying the imports cheaper? The theory is that by manufacturing goods and shipping them abroad, we create an additional purchasing power in the workers who produce these exports which can be used to pay for imported goods without interfering with our own industries. Since, however, it is admitted that exports are of no use unless paid for by imports, and that an American market must be created for those imports, why isn't it just as easy to create an additional home market for home goods as it is to create an American market for imported goods?

The truth probably lies between the two extremes. Some additional market can be created for imported goods which is not available for domestic production. But the idea that foreign trade can produce any tremendous increase in employment, unless we are going to give away our products at the expense of the taxpayer, is a mirage. And one thing is certainly clear. There can be no sound expansion of employment by the Government guaranteeing expanded exports, but on the gradual building up by hard work of a foreign trade based on mutual advantage in the exchange of certain types of goods. Tariffs can be lower, but they cannot be reduced so as to destroy established industries in this country.

So also the path to prosperity and happiness at home cannot be solved by any panacea of public spending or a government guarantee of full employment. It can only be achieved by the gradual speeding up of the great private economic machinery upon which our prosperity depends. That is an infinitely delicate machine. To secure the best results prices must bear the right relation to wages and wages to prices. There must be an accurate adjustment between the production of capital goods and consumers goods. There must be an incentive to save and invest and work and open up new fields. There must be continued reward for hard work and ability and the willingness to take a chance. There must be a free choice of employment so that every man may choose that profession or calling to which he is best suited. The progress which we have achieved under the American system in the last 150 years at least suggests that we had better rely on it a while longer. It has the advantage of being based on freedom of the individual as no other economic system is based. Let us not give up our guarantee of freedom for a spurious guarantee of employment.

For the spending theory on which the legal guarantee of full employment is based is a false god. It is fatal to the very prosperity which it seeks to attain. It is fatal to sound government because the spending of money becomes its own justification regardless of the soundess of the project for which iit is spent. It teaches the people they they can obtain something for nothing and that every man is entitled to the same living from the government whether his ability and willingness to produce justify it or not; and, therefore, it is fatal to the character of the people who fall down and worship it.

General Gas & El. Data

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading national exchanges, have issued a corrected study of General Gas & Electric Corporation, which the firm believes offers an interesting situation. Copies of this study may be had from Ira Haupt & Co. upon request.

Also available on request is an informative memorandum on Midland United.

Unbroken Dividends

Waldheim, Platt & Co., 308 No. Eighth Street, St. Louis, Mo. have prepared a tabulation of 162 common stocks, all listed on the New York Stock Exchange, with unbroken dividend records of fifteen to ninety-seven years. Copies of this interesting list may be had from the firm upon request.

DIVIDEND NOTICES

At a meeting of the Directors held January 16, 1945 it was decided to recommend to stockholders at the annual meeting fixed to be held February 19, 1945 payment on March 31, 1945 of Final Dividend of Six Pence for each One Pound of Ordinary Stock free of British Income Tax upon the issued Ordinary Stock.

Net profits for the year after deducting all charges and expenses for mangement, etc., and providing for taxation are £3,404,027 as against £3,321,735 for the previous year. After paying Final Dividend amounting to £593,944 and allocating £250,000 to General Reserve the carry forward will be £2,500,977.

Directors have decided to pay on March 31, 1945 Interim Dividend of Ten Pence for each One Pound of Ordinary Stock for the current year on the issued Ordinary Stock of the Company free of British Income Tax.

Transfers received up to February 26, 1945 will be in time to enable transferees to receive dividends.

As regards Bearer Warrants the two above dividends will be paid together against the deposit of one coupon only namely No. 195.

BRITISH-AMERICAN TOBACCO COMPANY, LIMITED

January 16, 1945.

The United Corporation

$3 Cumulative Preference Stock

The Board of Directors of The United Corporation has declared a dividend of $1.75 per share, on account of arrears, upon the outstanding $3 Cumulative Preference Stock, payable February 14, 1945, to the holders of record at the close of business February 2, 1945.

THOMAS H. STACY, *Secretary.*

Wilmington, Delaware

January 17, 1945

SOUTHERN RAILWAY COMPANY

New York, January 23, 1945.

Dividends aggregating $3.75 per share on the Preferred stock of Southern Railway Company have today been declared, payable as follows:

Amount	Date of Payment	To Stockholders of Record at the Close of Business on:
$1.25	March 15, 1945	Feb'y 15, 1945
1.25	June 15, 1945	May 15, 1945
1.25	Sept. 15, 1945	August 15, 1945

A regular quarterly dividend of 75c per share on 1,298,200 shares of Common stock without par value of Southern Railway Company has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1944, payable on March 15, 1945, to stockholders of record at the close of business on February 15, 1945.

Checks in payment of these dividends on the Preferred and Common stocks will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, *Secretary.*

CONSOL

The Board of Directors of the

CONSOLIDATION COAL COMPANY

(Incorporated in Delaware)

at a meeting held today, declared a dividend of 25 cents per share on the Common Stock of the Company, payable on February 15, 1945, to stockholders of record at the close of business on February 3, 1945. Checks will be mailed.

C. E. BEACHLEY, *Secretary-Treasurer*

January 23, 1945

INTERNATIONAL HARVESTER COMPANY

Quarterly dividend No. 106 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable March 1, 1945, has been declared to stockholders of record at the close of business February 5, 1945.

SANFORD B. WHITE
Secretary

WOODALL INDUSTRIES, INC.

A dividend of 15c per share on the Common Stock has been declared, payable March 15, 1945, to stockholders of record February 28, 1945.

M. E. GRIFFIN,
Secretary-Treasurer.

Observations On the Bretton Woods Program

(Continued from page 364)

"currencies," "safeguards," etc. We know that the documents for the fund and the bank are very complicated and detailed, filling 85 printed pages. We know that these are ingenious, if sometimes bewildering pieces of international financial machinery.

To read the already very extensive literature on the Bretton Woods program might give one the impression that the program is "all things to all men." Some see the fund and the bank mainly as devices to enable foreign countries to obtain American dollars which they may or may not have to repay. Some, who are interested primarily in international trade, see in the fund and the bank assurance of the removal of foreign exchange uncertainties from their business. At times we find the fund hailed as a means of insuring that gold will continue to play a major role as a settler of international balances and as a standard of value. Again, we hear the fund described as giving us the as-good-as-gold standard, while Lord Keynes, on the other hand, has described the fund as "the exact opposite of the gold standard."

Then there are those supporters of the Bretton Woods program whose main concern is to further "international cooperation." For them it suffices that the fund and the bank bear that label. Still others welcome this financial league of nations for the reason that it will help minimize post-war unemployment in this country. So it goes.

Not only do different persons thus stress different aspects of the fund and the bank, but very often they do so with considerable conviction and feeling. This is not surprising, because the Bretton Woods program deals with two subjects which are generally prone to stir the emotions: money and international relations. This is perhaps the reason why we shall find, as Congressional and public discussion increases, that those who question the validity of the assumptions of the Bretton Woods program will be not very tolerantly regarded by the more ardent supporters of the program. The man who asks too many questions is apt to be asked in turn: Are you for or against international cooperation? Perhaps the matter is as simple as that; perhaps not.

A Part of the NEW New Deal

Let us, for a moment, withdraw the Bretton Woods program from the glass bowl under which it was conceived and has been studied. Perhaps if we lift its cover we can tell what air it is likely to breathe.

Whatever the program may have meant to its intellectual progenitors, one thing is clear: the program fits in perfectly with what we may describe as the Administration's new export policy. This is the policy which, like a clarion "call to attack" taken up by bugler after bugler along a far-flung front, is being voiced with increasing frequency by White House spokesmen and other Administration leaders. It is the policy which calls for very large post-war American exports on credit—a net export balance of trade for this country, financed by American loans and investments to foreign countries.

Evidently, the theory is as follows: Until we started turning out war goods in volume, we were not able to solve our unemployment problem. Today we have full employment. But once the war ends, full employment also will end. We shall need, as the President states, to keep 60,000,000 persons employed. If we lend heavily abroad, the result in exports of goods will do much to keep our economy active. That may spell the marginal difference between prosperity and depression. Since both the proposed fund and the proposed bank primarily would be devices for giving foreigners access to American spending power, the fund and the bank would contribute materially to a make-work program in this country.

It is not without significance that this new export policy, this post-war *New* New Deal, has been publicly urged by Mr. Harry Hopkins, former head of the WPA. It has been supported by the President in a recent message to Congress, and by "Assistant President" Byrnes in his report to Congress. In testimony before Congressional committees, in public speeches, and in other ways, this program, including within its scope the Bretton Woods program, has been publicly endorsed by Lauchlin Currie of the FEA, Assistant Secretary of State Dean Acheson, Under Secretary of Commerce Wayne Chatfield-Taylor, and others.

The new export policy boils down to one word: "Lend—Lend—Lend." To report this fact is not necessarily to condemn the program. Certainly it deserves serious examination. Congress may well decide that making jobs at home is sufficient warrant not only for the Bretton Woods fund and bank, but also for large-scale lending through other channels, notwithstanding what it means in expenditure of our resources.[1] In other words, the new export policy, including Bretton Woods, may be justifiable entirely on non-economic grounds. In that case, however, it would be unfair to the American public to urge the program on the grounds of "good business," "sharing the risk," or "safeguards," unless these arguments too can be substantiated.

Before we embark on the Bretton Woods program, it would be only realistic to scan the sea which this new form of international cooperation is likely to ply. Recent news from abroad concerning international cooperation in other fields has been disquieting, to say the least. The sharp words that are being exchanged across the Atlantic are not reassuring as to the spirit of cooperation which will prevail once the war is won. Some post-war disillusionment was to be expected, but we seem to be getting "post-war disillusionment" even before the war is over.

The matter of political relationships between the peoples of different nations has a very direct bearing on the successful operation of the Bretton Woods fund and the bank. Although the Bretton Woods program traces its ancestry to certain economists of goodwill, it is clear that any economists who serve the fund or the bank after their creation either will take their orders from their political rulers, or themselves will have become political rulers. Indeed, the Bretton Woods Conference had barely started last July before it became apparent that international power politics was at work disarranging the plans so carefully prepared in advance; and American idealists, although representing the nation scheduled to furnish most of the life blood of these two new financial organisms, were compelled to make important compromises in order that the Conference might end with an agreement.[2]

Our Past Lending Experience

A frequently-pointed-out weakness of the Bretton Woods program, particularly of the fund, is the fact that borrowers would have a more-or-less automatic right to obtain foreign exchange. In the fund this right is specifically set forth, although certain "safeguards" are provided. How these "safeguards" would operate in practice would depend on the management. It was apparent at Bretton Woods that some nations represented there were interested not so much in international cooperation as in the prospect of obtaining dollars through the new institutions.[3] Although the United States would have a larger voice in the management of the fund and the bank than any other country, it is none the less true that borrowing and debtor countries, even countries at present in default on earlier financial obligations, would have a good deal to say about the activities of the fund and the bank.

While this matter of right is clearly embodied in the fund agreement, it is by implication no less clearly present in the bank agreement. At Bretton Woods there was considerable rivalry between countries which expect to borrow on long-term for purposes of reconstruction, and other countries which expect to borrow on long-term for purposes of development. The Mexican delegation, speaking for Latin America, insisted that the bank should devote itself fifty-fifty to reconstruction and development activities. To this, it was reported, certain European countries, which have suffered from German invasion, commented that perhaps, following reconstruction in Europe, another war would have to be arranged so that European countries could continue to obtain their 50% of the new bank's attention.

In short, whatever may be the statutory provisions of the Bretton Woods program, we should be fooling ourselves if we did not anticipate a great deal of political logrolling in the operations of both the fund and the bank. The economists are likely to be shoved aside.

In connection with the voice which borrowers will have in the operation of the two new institutions, the question may be raised whether we are not going too far in seeking just now this degree of international cooperation on the financial front. As already indicated, countries at present in default on obligations to American investors—and this includes some countries which today possess the dollar exchange or the gold necessary for the servicing of those defaulted obligations—will have as much voice in the operation of the Bretton Woods program as if they were not defaulters. At a press conference at Bretton Woods it was stated that, in the evolving of the program, no attention had been paid to the fact that the record shows a wide difference in the attitude of the various nations toward their foreign obligations. For the sake of international cooperation this country indicates a willingness to wipe the slate clean, not only with regard to World War I intergovernmental debts and a large part, if not all, of the Lend-Lease obligations of the present war, but even as to those private loans which certain foreign governments, although able to service, choose not to service. In fact, such defaulters actually have had some official encouragement in their attitude from the United States Government.

Who Shall Lend Our Money?

No one contends that the United States dollar will not be the currency most in demand in the world in the years following the war. Obviously, the greater part of the dollars and convertible currencies which will be available through the Bretton Woods program will be supplied by the United States. The lending or other disposition of the dollar resources of the fund and the bank, as we have noted, will be conducted by two international bodies. It may be desirable for us to subscribe the approximately $3,000,000,000 scheduled for these two international pools. But first, the desirability of so doing should be weighed against the disadvantages of such a course. When Senator Brewster returned to Washington from his trip around the world, he reported that in the Near East the United States supplied the Lend-Lease goods and the British supplied the distribution. Last year, a "Saturday Evening Post" correspondent reported how "Bankrupt Italy is in the hands of a joint Anglo-American receivership, in which the American partner will put up four-fifths of the goods necessary to save the assets of the country, while the British partner will put up four-fifths of the brains and leadership."[4] Surely we do not want this sort of thing to be said about our post-war financial program.

When the United States lends American money abroad, through an American institution, it is in a position to determine to its own satisfaction the conditions and circumstances, and if it seems desirable, to obtain a *quid pro quo*. But if, for example, Greece wants to borrow dollars from an international body and utilizes the assistance of a country like the United Kingdom in obtaining a dollar loan from that body, it seems likely that the gratitude of Greece, if any, will be directed primarily in the direction of the United Kingdom, which, as everyone knows, is today in no position itself to advance dollar exchange.

A well-known Washington "letter" last month provided us with an actual example of the foregoing when it reported as follows:

> Proposed expansion of the Export-Import Bank may mean that the Administration is not so favorable as it once was to control of exports through a stabilization fund or other international organization. It irked Washington to have to ask UNRRA for permission "to spend our own money in Italy."[5]

The Administration has now proposed a vast expansion in the Export-Import Bank, which is exclusively an American Government institution; and has also proposed the repeal of the Johnson Act, so that all friendly foreign governments may freely float loans in our markets. These two recommendations in themselves suggest that possibly an international lending pool for the dispensing of dollar loans is unnecessary.

The "Democratic" Approach

Members of the Bretton Woods delegation and others have emphasized that the Bretton Woods approach is the "democratic" approach to international currency stabilization and healthy trade.

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1 The following passages from the Beards' Basic History of the United States, New York, 1944 (pp. 415 ff.) have a bearing on this question:

Oil, iron and other resources were exploited so recklessly and swiftly that by 1940 experts in this field of "economics" were justified in announcing that the "richest nation on earth" would be deprived within an appreciable time of the prime raw materials essential to its welfare and defense. It was with the support of confirming facts and figures that young Henry Cabot Lodge could declare on the floor of the Senate in 1943 that this United States was now in some essential aspects to be included among the "have not" nations of the earth.

With the opening of the Far West, the very soil of America was literally "mined" and sent to Europe in the form of wheat, corn and other products, at prices actually below the cost of production, counting in the cost of the value of the wasted soil.

2 This fact is revealingly discussed in a pamphlet written from a correspondent's vantage point at the Bretton Woods Conference. See **Mount Washington Labored . . .**, American International Underwriters Corporation, 111 John Street, New York City, 1944. Chapter IV. For corroboration of the pamphlet's observations, cf. Edward E. Brown, **The International Monetary Fund—A Consideration of Certain Objections.** The Journal of Business of the University of Chicago, October 1944, pp. 202-3.

3 See Mount Washington Labored . . ., op. cit., p. 23.

4 Saturday Evening Post, Sept. 23, 1944, "Bankrupt Italy Is Capable of Anything."

5 Whaley-Eaton Service, American Letter, Dec. 2, 1944, p. 4.

Certainly Americans are overwhelmingly opposed to the oppression or domination of small nations by their larger neighbors. It is, however, utterly unrealistic to take the position that a tiny country in Central America should have the same voice in international policies as one of the great powers. A special correspondent of "The London Times" last year put it this way:

> Economic collaboration among nations of very unequal size, wealth, attainment, requirements, and aspirations often remains a pious hope as long as all these unequals must be treated as equals. Intimate collaboration between some nations is often more fruitful than vague collaboration between all.[6]

In the same connection the following observation of an American newspaper columnist, a supporter of the Bretton Woods program, is also of interest:

> Even after you give the squirrel a certificate which says he is quite as big as an elephant, he is still going to be smaller, and all the squirrels will know it and all the elephants will know it.[7]

The "London Times" writer, quoted above, was arguing of course for the key-country approach. In the United States the best case for this approach in monetary matters has been made by Professor John H. Williams in his articles in "Foreign Affairs." Proponents of the Bretton Woods program, however, prefer the multilateral, "democratic" approach. In passing, we may consider that the key-country approach is being employed by this country in other international negotiations. The Dumbarton Oaks four-power discussions were certainly in the key-country category. The conferences between our President and the leaders of the United Kingdom, Russia and China are very definitely the key-country approach, if not the key-*man* approach. If such international discussions do not always achieve the hoped-for success, it is not because of the key-country approach. It is hardly likely that they would have achieved greater success had the participants comprised all of the United and Associated nations. If the key-country approach is suited to other international negotiations, is it not also suited to financial arrangements? Even such a staunch supporter of the Bretton Woods program as the "New York Post" editorially observes (of Dumbarton Oaks, but not of Bretton Woods):

> Power resides with the large nations. This arrangement recognizes it honestly and proceeds to use that power for the greatest good.[8]

The Program's Cost

One of the arguments made against the Bretton Woods program is that it will cost too much for what we will get out of it. A counter-argument is that the cost is negligible compared with the cost of the war; that the fund alone will cost us only ten days' war expenditure, and that even that investment in the fund will not necessarily be lost.

If the fund and the bank achieve the broader purposes alleged by the proponents, this country is rich enough to ignore the scheduled financial cost of about $6,000,000,000. It may be noted, however, that no one can tell what the total American investment in the fund and the bank will be. For one thing, both institutions would be empowered to borrow from the United States sums additional of our subscriptions. No less important is the inescapable fact that this country, as the host at the Bretton Woods Conference and from the beginning—publicly at least—the prime sponsor of the two new institutions, would have a moral obligation to join other members in supplementing its subscription by an additional sum or sums, in the event that the original assets should be used up and it should be decided by the member governments to expand the size of the resources. (By the same token, we would have a moral obligation not to withdraw, even though we would have the legal right to withdraw.)

Of course, ten days' war spending is not much compared with the cost of the war. However, it does assume magnitude when it is compared with some peacetime criteria. For example, our total exports in 1938, the last prewar year, were $1,828,000,000. The nearly $6,000,000,000 which would be our initial commitment in the Bretton Woods fund and bank would be more money than the combined value of our gross exports in the three pre-war years, 1936, 1937 and 1938. Thus, the subscription to which we would be committed in accepting the Bretton Woods program, therefore, is no inconsequential one. It would take many thousands of ships to carry away the goods that that sum would buy.

Will It Assure Peace?

While proponents of the Bretton Woods program do not directly claim that it will guarantee peace, the theme of peace is frequently mentioned in their arguments. Certainly, if the program would even materially contribute to the assurance of peace it would be well worth while. It may be worth while anyway, but we should be deluding ourselves to think that peace can be purchased. Peace cannot be bought. War frequently has important economic roots. But the whole history of mankind is a history of wars and should lead us to conclude that the best insurance of the safety of this country from outside aggression is to be itself strong. If we are militarily strong, the danger of war—even war between other nations—will be less. Perhaps it is for this reason, if not also as a step toward attaining the 60,000,000 jobs, that the President has now urged Congress to enact compulsory military training in peace time.

Conclusion

Questions like the above suggest that the world may not yet be ready for that degree of cooperation and self restraint which the Bretton Woods program implies.

Without our participation, the Bretton Woods program will not come into being. Inquiry fails to disclose any country which will ratify the Bretton Woods program before the American Congress acts. The next move, like the original move, is up to us.

Congress should examine this program carefully, from every angle. If Congress decides that the program in its present form is not in the best interests of the United States, Congress should feel free to amend or reject it. Already it is commencing to be said that the program is supposed to be adopted unamended. We should have no inhibitions on that score. Were this a program which other important countries had now accepted, we might have to think several times before deciding to amend it. But that is not the case, and at present, as Lord Keynes has stated, the fund and the bank are merely suggestions submitted to the 44 governments for their consideration.

If the Bretton Woods program is adopted by Congress, this country would do well not to expect too much from it. Any program launched under the conditions of artificial stability existing in the world today is likely to be a storm-tossed vessel. Various foreign countries, notably the United Kingdom, have made it clear that their ideas as to monetary policy are considerably different from the ideas professed in this country. Russia, China, Australia, New Zealand—indeed all countries which were represented at Bretton Woods—intend to manage their own economies and their own currencies in what they conceive to be their own interest. The realism of foreign powers in international dealings has been fully demonstrated. If the Bretton Woods program produces the result they expect from it, they will continue to support it in good faith. If the time ever comes when other considerations appear to them more important, the members may be expected to change their policies accordingly. We live in a world not of idealists but of realists.

6 "The London Times," Aug. 21-3, 1944.
7 Samuel Grafton in the "New York Post," Nov. 23, 1943.
8 "New York Post," Oct. 11, 1944, editorial.

"Booms and Depressions"

Security Adjustment Corp., 16 Court Street, Brooklyn, N. Y., are distributing an interesting chart of business booms and depressions during all wars from 1775 to 1945. Copies of this chart, which gives a graphic picture of American business and financial cycles, may be had from Security Adjustment Corp. upon request.

Attractive Rail Situation

Boston & Providence Railroad offers an interesting situation according to a descriptive circular issued by Adams & Peck, 63 Wall St., New York City. Copies of this informative release may be had from the firm upon request.

Merrill Lynch Earnings and Assets Increase

Merrill Lynch, Pierce, Fenner & Beane, investment bankers and brokers, of 70 Pine St., New York, N. Y., in their annual report for the year 1944, released on Jan. 24, 1945, reported that the firm's total assets increased from $105,971,741 to $135,602,460, while net worth increased from $7,800,000 to $10,250,000. Total underwritings amounted to $46,000,000 and the firm participated in the distribution of 133 new issues and in 159 secondary and special offerings. The report further shows:

SUMMARY OF INCOME STATEMENT FOR CALENDAR YEARS

	1944	1943	1942	1941
Income from operations	$18,662,459	$17,321,382	$9,442,608	$8,657,479
Operating expenses	13,661,721	11,911,665	8,672,819	7,615,374
Non-recurring expenses	92,841	172,367	236,720	203,736
Interest on capital	486,164	383,476	386,461	323,892
Write-down of seats	------	------	------	55,218
Net income	$4,421,733	$4,853,874	$146,608	$459,259

Note—As a partnership, the firm's taxes are not chargeable to the business but to 67 of 80 general and limited partners. Estimated Federal income taxes of the partners based on their shares of the net income totaled $3,500,000 in the year 1944, as compared with $3,750,000 in 1943.

M. D. Hutzler Dead

Morton D. Hutzler, a limited partner in the investment banking firm of Salomon Bros. & Hutzler, and member of an old Baltimore mercantile family, died Jan. 22 at his New York home, the Beekman Hotel, 575 Park Avenue. He was in his 67th year.

He was a son of the late Charles Gabriel Hutzler and Henrietta Sonneborn Hutzler.

Mr. Hutzler began his career in Baltimore, where he was born, when he became associated with Hutzler Bros. Department Store. On May 18, 1905 he purchased a membership on the New York Stock Exchange, and on May 1, 1910 was admitted as a general partner in the firm of Salomon Bros. & Hutzler. He became a limited partner of the firm on August 1, 1929.

He was a member of the Harmonie Club, Quaker Ridge Golf Club and the Lawyers Club.

Employee Benefit Program

The Chase National Bank of the City of New York, 11 Broad St., New York City, has prepared a 92-page summary entitled "Pension, Bonus and Profit-Sharing Plans," covering the fundamentals of formulating and financing employee benefit plans. Copies of this study may be had from the Bank upon request—write to the Pension Trust Division.

Unusual Possibilities

Auerbach, Pollak & Richardson, members of the New York Stock Exchange, have issued an analysis of the common stock of National Dairy Products, a conservative investment with unusual future possibilities, the firm believes. Copies may be obtained upon written request at Auerbach, Pollak & Richardson's offices at 30 Broad Street, New York City.

Municipal News & Notes

A syndicate of 150 banks and investment houses headed by The Chase National Bank and the National City Bank on Tuesday won the award of $75,000,000 of new serial bonds of the City of New York. The purchase price was 100.033 for 1½, 1¾ and 2% bonds, producing an average interest cost to the City of 1.8737%.

The bonds are dated Feb. 1, 1945, comprise six series, and are non-callable. They are being publicly offered by the banking group at prices to yield from 0.50% for the Aug. 1, 1946 maturity, to a price of 99 for the long 2% bonds maturing from 1981 to 1985, inclusive.

This is the largest piece of public financing on behalf of the City in about ten years, the next largest having been the $60,000,000 of 3% one-to-thirty-year serials sold in October 1940, under the same joint management as the present piece. Those bonds were purchased from the City on an interest cost basis of 2.9735%. The last large offering, except for the $13,740,000 of serials sold last August for the Idlewild airport, was $50,000,000 of one-to-thirty-year serials, in January, 1942, at a cost to the City of 2.43987 for 2¼s and 2½s.

Only for the $14,700,000 of series A bonds, for Idlewild airport, had Comptroller McGoldrick designated a coupon rate—1¾%. On series D and E the bidders named the same rate of 1¾%; these total $20,750,000 and are for school construction, transit requirements and various municipal purposes. A rate of 1½% was named for series B and C, maturing from 1946 to 1954, inclusive, totaling $8,150,000, issued for schools and dock improvements and various municipal purposes. On the $31,400,000 series F bonds maturing in one to 40 years, for transit and water supply, the rate is 2%.

The bonds all mature serially beginning Aug. 1, 1946, the longest maturity being that of the series F bonds (1985), and the shortest the series B bonds (1949).

As stated by Comptroller McGoldrick, the sale will not increase the City's debt within the constitutional 10% limitation.

Some of the factors pointed to as facilitating the $75,000,000 serial bond financing at this time include the tax-exempt status of the bonds; their eligibility as legal investment for savings banks, trust funds and life insurance companies; the marked improvement in the administration of the City's financial affairs in recent years; a favorable record of debt retirement; declining annual debt service requirements with steadily declining serial bond maturities; a three-year decrease in gross bonded debt, and improved tax collections.

The debt structure of the City is considered sufficiently well arranged to permit new borrowing each year without increasing the yearly debt service inordinately. Annual debt service in the fiscal year 1942-43 took $203,700,000. This had declined to $192,000,000 in 1943-44, and to $183,200,000 for 1944-45.

The 1944-45 executive budget calls for $737,333,149, a decrease of $13,568,283 from the budget of the previous fiscal year.

North Carolina General Assembly Approves Debt Redemption Bill

The State of North Carolina has joined the ranks of public bodies that have made provision now for the redemption of future maturing debt. In accordance with recommendation of State Treasurer Charles M. Johnson, both branches of the legislature recently passed a bill providing for earmarking of $52,000,000 of surplus revenues for the purpose of redeeming the outstanding general fund debt of $47,501,500. Pending the time when the money will be needed, the fund will be invested in North Carolina and United States Government bonds having maturities comparable to those contained in the State debt.

In urging such action, the State Treasurer stated that "there is no better time to provide for the payment of debts than when you have the money." He also pointed out that "our bonds are not callable, and at this time it is impossible to purchase (for redemption) very many of them." However, he added, "we may be able to do so in the next few years and, if and when we are, they should be purchased and canceled." Meanwhile, Mr. Johnson said, the State should invest surplus funds in sound securities which will mature "as we need the money."

Mr. Johnson described the State's financial condition as the best in its history and pointed out that it has operated on a strict cash basis (no tax anticipation financing) since 1933. He further said:

During the past year (1944) the gross bonded debt has been reduced from $122,134,000 to $109,921,500. The Sinking Fund holdings have increased from $21,799,468.64 to $23,148,561.17; therefore, the net state debt as of December 1, 1944 is $86,722,938.83, a net reduction during the year of $13,611,592.53.

St. Petersburg, Fla., Refundings of 1937 Redeemable Now

Holders of the $18,000,000 City of St. Petersburg, Fla., refunding bonds, issue of April 1, 1937, are advised that all of these bonds, which have been called for payment on April 1, 1945, at par and accrued interest, may be presented for payment now at the Chemical Bank & Trust Co., New York City.

Offer ⅞% Treas. Ctfs. For Maturing Notes

Secretary of the Treasury Morgenthau on Jan. 22 announced the offering through the Federal Reserve Banks, of one-year Treasury Certificates of Indebtedness of Series A-1946, in exchange for ⅞% Treasury Certificates of Indebtedness of Series A-1945, maturing Feb. 1, 1945, and 1⅛% Commodity Credit Corporation notes of Series G, maturing Feb. 15, 1945. Exchanges it was announced will be made par for par, with an adjustment of interest as of Feb. 1 in the case of Commodity Credit Corporation notes exchanged. The offering of the new certificates is limited to the amount of securities of the two maturing issues tendered in exchange, and cash subscriptioins will not be received. There are now outstanding $5,048,179,000 of the Series A-1945 certificates and $411,596,000 of the Series G notes.

Advices from the Treasury on Jan. 22 stated that subscription books for the exchange would close at the close of business, January 24, except for the receipt of subscriptioins from holders of $100.000 or less of the maturing certificates or notes. The subscription books will close for the receipt of subscriptions of the latter class at the close of business, January 27. In the announcement of the offering it was stated:

"The certificates now offered will be dated Feb. 1, 1945, and will bear interest from that date at the rate of ⅞ of 1% per annum, payable semi-annually on Aug. 1, 1945, and Feb. 1, 1946. They will mature Feb. 1, 1946. They will be issued in bearer form only, in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

"Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates now offered shall not have any exemption, as such, under Federal tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

"Subscriptions will be rceived at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of the maturing certificates or notes. Where Commodity Credit Corporation notes of Series G are surrendered, the final coupon due Feb. 15, 1945, should be *attached*, and accrued interest from Aug. 15, 1944, to Feb. 1, 1945, will be paid following acceptance of the notes.

"Subject to the usual reservations. all subscriptions will be allotted in full."

"Dynamic Economics"

Techniques required in preparing demand studies important in proving cases and necessary for eliminating the effects of general business conditions in reconstructing earnings are explained in "Dynamic Economics," by Charles F. Roos. Chapters include: Demand for Consumers Goods; Automotive Demand for Gasoline; Demand for Agricultural Products; Demand for Capital Goods; Factors Influencing Residential Building; Growth and Decline of Industry; Joint Demand and Loss Leaders; Production Costs and Profits, and Adjustments of Costs. A few copies of this pioneer work are still available at a cost of $5.00 from the Econometric Institute, Inc., 500 Fifth Avenue, New York 18, N. Y.

Analysis and Ratios of New York Bank Stocks

Laird, Bissell & Leeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared a comparative analysis and significant ratios for eighteen New York Bank Stocks in 1944. Copies may be had from the firm upon request.

Investment Suggestions

Eisele & King, Libaire, Stout & Co., 50 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting bulletin containing 1944-1945 review and forecast, and some suggestions for investments. Copies may be had from the firm upon request.

Mallory Interesting

P. R. Mallory & Co., Inc., offers an interesting situation, according to an analysis prepared by Steiner, Rouse & Co., 25 Broad St., New York City, members of the New York Stock Exchange. Copies of this analysis may be had from Steiner, Rouse & Co. upon request.

Speculative Potentialities

Boston & Maine Income 4½s of 1970 offer interesting potentialities, according to a circular issued by McLaughlin, Baird & Reuss, One Wall St., New York City, members of the New York Stock Exchange. Copies of this circular may be had from the firm upon request.

SEC Proposed Ban On Floor Trading A Step In the Wrong Direction —Away From Free Markets

(Continued from page 365)

terially affect the confidence of the great majority of the many hundreds of thousands of stockholders. The earnings are rather stable from year to year and the dividends are secure. However, any event or mention of this stock will induce some of the many holders to reexamine its value and compare its value and chances of income and appreciation with other stocks. Some of these holders will wish more speculative capital gains, others will wish larger income, others will try to avoid seasonal changes in price or speculate on these changes, and a hundred more reasons could be given why some stockholders will daily offer this stock for sale. Some of the reasons may just be the ordinary ones of needing the money, personal bankruptcy, orders of sale by the courts and death.

But regardless of the reasons for sale, there are thousands of holders and other investors willing to buy this stock if offered at the market or at their price, or a price that gives an average yield which is required for their income purposes. This stock can not move fast either up or down because of the large number of buyers and sellers who are willing to buy or sell. If it moves higher it creates more sellers, and if it moves lower it brings in more buyers. Bids and offers are close, never more than a quarter of a point apart because of the broad market for the stock of a well known company big enough to have the minimum of risks.

Such a broad market does not exist for all stocks. Not all stocks can ever qualify for such a market. There are all grades from the well known company described to the little known business, closely held, with few buyers and sellers interested. The spread in the bid and asked price of the latter stock may be 50 points, which happens to be the exact spread for the stock of a strong insurance company at this time. With such varied conditions and such a variation in securities and buyers and sellers, how are broad markets to be obtained?

Market Values

The prices of securities can not long be kept out of line with their actual values. It is true that at times over appraisal or under appraisal seems to reach the securities of the whole market lists. But it is just these conditions which traders, speculators and well informed investors correct by their activities. Such conditions are not to be blamed on the professional traders or the floor traders or investors. These conditions are caused by incorrect information or the wrong perspective of colored and misleading information; controlled money markets; national and international rumors, as well as political promises. In the less seasoned securities prices may be tossed up or down by anticipations of new developments; by actual mistakes of the managements or even by tax changes. Nevertheless when the full light of correct information is turned upon the securities of any company and the trading and investing public have a chance to appraise its values the prices of securities will soon seek their level in comparison with other values, and the uncertainties of other companies.

The best the floor trader or the professional trader can do is to go with these waves of uncertainty, and changing values based upon the information available. If the SEC would correct these conditions and keep values more stable the approach would seem to be through providing full and complete information; puncturing all rumors, good and bad, and making the truth immediately known on both present conditions and future happenings. Then it might help to greatly increase the numbdr of professional traders and floor traders in order that the larger number of traders seeking to make a living by scalping eighths and quarters would furnish such a broad market that when any security gets out of line with reality it will quickly be brought back to its real comparative value by a trader who knows the facts, and knows just how to appraise them.

The Services of the Floor Trader

The floor trader and his services have been studied by "experts" long before the age of modern regimented markets in the United States, and his services have been acclaimed as useful. He makes mistakes in judgment just as the SEC does. But he performs a real service in paying for his mistakes with losses. He reduces the peaks and valleys in the price of securities. He helps to provide a broader and more active market. He seeks advantages to make a profit. He takes his losses and does not complain. He lives by his wits and abilities and he does not ask the tax payer to support him. He performs a most constructive service in calling to the attention of others market movements which may be profitable or unprofitable, only time and events can tell.

Separating the Floor Trader Activities from Specialists and the Execution of Orders

While there are fewer floor traders and fewer specialists on the floor than a few years back a further depletion of their ranks would only restrict the markets and make the swings in prices still wider. This segregation of functions, or the reduction of activities would make all the business of being a member of the exchanges less profitable. There is such a thing as segregation of activities to a point where the business will be unprofitable for lack of volume and variety. Narrow markets are the causes of wide swings in security prices. Further limitations on floor activities will further narrow the markets. It seems that this move is only another step in the regimentation process which is crippling the security markets and the ability of the capital markets in general to provide for the large distribution of capital needed in the post war era to make production and jobs.

The segregation of trades for the personal account of members on the floor from the trades in their functions as specialists and orders executed for customers seems a hair splitting task. It will require a careful examination of every trade and who it was for. Already the regulations, rules and costly requirements of trading or executing orders have narrowed the markets, driven members out of business, and raised the costs of doing business to the point where a great many would like to leave the business and seek a profitable occupation. The brokerage business needs new blood and more capable men with knowledge and money but with these depressing conditions the discouragement is too great to at-

Broker-Dealer Personnel Items

If you contemplate making additions to your personnel please send in particulars to the Editor of The Financial Chronicle for publication in this column.

NEW YORK CITY—**Leo M. Patton** has become associated with **H. M. Byllesby & Co.,** 111 Broadway. Mr. Patton in the past was with Lee Higginson Corp.

(Special to The Financial Chronicle)

BOSTON, MASS.—**John J. Collins, Jr.,** has joined the staff of **Trusteed Funds, Inc.,** 33 State St.

(Special to The Financial Chronicle)

BOSTON, MASS. — **George R. Griffin** is with **Jackson & Company,** 31 Milk St.

(Special to The Financial Chronicle)

BOSTON, MASS. — **James H. Vidal** and **John C. Whitten** have been added to the staff of **R. H. Johnson & Co.,** 30 State St.

(Special to The Financial Chronicle)

CHICAGO, ILL.—**Mrs. Mildred R. James** is with **Francoeur, Moran & Co.,** 39 South La Salle St.

(Special to The Financial Chronicle)

CHICAGO, ILL.—**Jay Stanley,** formerly with the United States Treasury Department in Chicago, has become connected with **Otis & Co.,** Field Building.

(Special to The Financial Chronicle)

DETROIT, MICH. — **Charles O. L. Jones** has rejoined **Baker, Simond & Co.,** Buhl Building, after serving for the past three years as a Captain in the U. S. Army Air Corps.

(Special to The Financial Chronicle)

DETROIT, MICH. — **Joseph E. Hatfield** has joined the staff of **Charles A. Parcells & Co.,** Penobscot Building.

(Special to The Financial Chronicle)

DURHAM, N. C.—**Marvin W. McPherson** is now with **First Securities Corp.,** 111 Corcoran St.

(Special to The Financial Chronicle)

GRAND RAPIDS, MICH.—**Millard L. Jacobson** has become connected with **Paine, Webber, Jackson & Curtis,** Peoples National Bank Building. Mr. Jacobson has recently been serving in the Navy. In the past he was with **Merrill Lynch, Pierce, Fenner & Beane.**

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**Arthur J. Wilson,** previously with **Bankamerica Company,** is now affiliated with **Pacific Company of California,** 623 South Hope St.

(Special to The Financial Chronicle)

LOS ANGELES, CAL. — **Harry M. Holt** has become associated with **William R. Staats Co.,** 640 South Spring St. Mr. Holt was previously in charge of the Oxnard office of **Nelson Douglass & Co.** and **Searl-Merrick Co.**

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**William M. Anderson** and **Arthur Ullman** have been added to the staff of **Dean Witter & Co.,** 634 South Spring St.

(Special to The Financial Chronicle)

MIAMI, FLA.—**Orin M. Phelps** is with **Gordon Graves & Co.,** Shoreland Arcade Building.

(Special to The Financial Chronicle)

MIAMI, FLA.—**Herbert T. McNichol** has been added to the staff of **Daniel F. Rice & Co.,** Ingraham Building. Mr. Nichol was previously with Gordon Graves & Co. and H. Hentz & Co.

(Special to The Financial Chronicle)

PORTLAND, ME. — **Harry E. Rowe** has joined the staff of **Coburn & Middlebrook,** 450 Congress St.

(Special to The Financial Chronicle)

PORTLAND, ME. — **Nathaniel Barker** is now affiliated with **F. L. Putnam & Co., Inc.,** 97 Exchange St.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Earl S. Wilson** is connected with **American Trust Company,** 464 California St.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **Dempsey E. Denis** has become affiliated with **Bankamerica Company,** 300 Montgomery St. In the past he was with **H. Irving Lee & Co.**

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Arthur Fletcher** has become affiliated with **Blyth & Co., Inc.,** Russ Building.

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—**Gerald F. Brush** has become associated with **Brush, Slocumb & Co.,** 1 Montgomery St.

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—**Robert W. Moore** is with **Davies & Mejia,** Russ Building.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Walter E. Powell,** formerly with George H. Grant & Co. and Bankamerica Company, is now with **Hannaford & Talbot,** 519 California St.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Paul N. Duggan** has joined the staff of **Sutro & Co.,** 407 Montgomery St.

tract new and qualified personnel. It seems a shame in this country with its pretense of freedom of opportunity and democracy that this machinery of the capital markets which time has tested and modified to meet the delicate tasks and fine requirements of marketing securities must now be regimented and destroyed by inexperienced theoretical law clerks in government bureaus, destroying business opportunities, production and creating unemployment while capital remains idle. Are these men wiser than all the many experienced investigators of this problem of the markets in the past? Are they wiser than the men who have built these markets and this system of private enterprise? Is this control and destruction of the markets within the intentions of Congress in the Securities and Exchange Act? Was not the intention of the Securities and Exchange Act and the Securities Act to prevent fraud?

If the floor traders accentuate the ups in the prices of securities when they follow the trend up, what happens when they sell? Does this restrain the advance? Likewise on the downside there is no such thing as selling without buying. Are all trades by floor traders profitable? The records show only a few succeed in the long run in making reasonable profits. Does not this prove that trading successfully is a result of knowledge and judgment? Then success in this business does not differ from success in any other business. Is there anything fraudulent in trading? In taking chances? In taking losses? Or in taking profits when you are successful in your judgment?

For the best interests of the country and post war reconversion from war to peace Congress should re-examine these acts and the rules and regulations of the SEC and then tell us what their original intentions were and what they think now is for the public interest.

New Construction Volume in 1945 Estimated At 82% of Last Year's Total

Preliminary estimates of new construction volume in the United States in 1945, based on the assumption that war on both fronts will continue throughout the year, indicate an activity volume of $3,250,000,000, the War Production Board reported. The volume forecast for 1945 is the lowest volume of construction since 1935.

This estimated activity is 82% of the 1944 volume and 24% of the peak 1942 performance. Almost half the 1945 volume will be accounted for by privately-financed work as contrasted to 40% in 1944 and 20% in 1942 and 1943, WPB said.

Construction activity generated by purely military requirements is expected to be about a third less in 1945 than in 1944, both for industrial and non-industrial work. Activity in the construction categories for essential civilian and indirect war purposes is expected to continue in 1945 at about the 1944 rate, with an estimated decline in new housing volume being offset by increased non-military work in the industrial field and other non-residential categories.

Military construction (troop housing, airfield, storage facilities, etc.) within the United States is expected to decline from $730,000,000 to $480,000,000, and Government-financed plant construction from $745,000,000 to $470,000,000. Privately-financed factory construction in 1945 is estimated at $250,000,000, a 7% increase over the 1944 level. Overall housing volume is expected to decline from $690,000,000 to $500,000,000, or 28% under the 1944 volume, with the bulk of the decrease occurring in Government-financed work. All other types of non-industrial construction—comprising highways, community buildings, sewer and water, conservation and development, utilities, farm, and other non-residential work—are expected to total $1,550,000,000, a slight increase over the 1944 activity for these types, the WPB estimate reveals.

Deliveries of processing machinery and equipment to industrial plants in 1945 will be down to an estimated 75% of the 1944 rate and will have a total value of $1,150,000,000. Of this amount, $650,000,000 represents the estimated volume of deliveries to Government-financed plants.

Over-all new construction volume during December, 1944, amounted to $292,000,000, a 6% decline from November. All major types of construction declined during the month except industrial building. Government-financed plant construction as a while continued at the previous month's level and totaled $65,000,000 as further activity increases at recently programed Army ordnance facilities offset continued declines at projects in other agency categories. Privately-financed industrial building also increased during December, 1944, contrary to the normal seasonal trend, and amounted to $26,000,000, which was 53% above the activity for this type in December, 1943. Military construction in December held the November level, while civilian housing activity and all other types of non-industrial construction registered seasonal declines.

December activity brought the grand total of new construction work put in place for 1944 to $3,940,000,000, which was slightly more than half the $7,732,000,000 volume of 1943, and less than one-third the 1942 peak activity of $13,434,000,000. Activity volume for all major types of construction was less in 1944 than in 1943, with the sharpest decrease occurring in non-industrial military construction, which declined to $730,000,000, as compared with $2,423,000,000 in 1943. Government-financed industrial construction in 1944 totaled $745,000,000, or 38% of the 1943 volume. Housing, privately-financed industrial, and other types of construction showed more moderate declines from 1943 levels. These figures exclude repair activity, and in this respect differ from the construction activity estimates compiled by other Federal agencies.

Deliveries of machinery and equipment to industrial plants in December amounted to $110,000,000, to bring the total deliveries for 1944 to $1,530,000,000, as compared with the 1943 volume of $3,430,000,000, and the 1942 volume of $4,104,000,000. Machinery and equipment for Government-financed plants in 1944 accounted for almost two-thirds of the 1944 total delivery volume.

The Securities Salesman's Corner

(Continued from page 366)

you. Some will just be indifferent. A successful security salesman not only finds people who buy securities but he finds those who like *him* a lot.

In this connection, several months ago we related a story in this column, which illustrated the importance of developing good will. We told how a security salesman befriended an elderly lady by securing some rubber treads for her crutches, which she was unable to buy in her community. This little act of kindness finally led to a friendship, and a mutually satisfactory business relationship. Mr. Treanor, of the SEC doesn't seem to understand the propriety of this act of kindness on the part of this salesman. He referred to this very incident, which we had related in this column, in a most disparaging and slighting manner in a speech which he recently made at the "New School For Social Research." Possibly, in Mr. Treanor's mind, any act of kindness, any honest attempt to build good-will and establish a friendly business relationship is immoral or wrong IF IT IS DONE IN CONNECTION WITH THE SALE OF SECURITIES. But regardless of all the Mr. Treanors, and all their opinions to the contrary—you've got to do the things that make people feel indebted to you, or at least friendly toward you, if you want to develop steady, dependable, customers. That goes for every kind of business—AND SECURITY SALESMANSHIP DEMANDS MORE OF THE PERSONAL TOUCH THAN MOST OTHER LINES OF BUSINESS.

There is also another little matter which always demands attention. It's with us morning, noon and night—*it's the necessity for work.* Constructive, planned work—making the calls, following up new leads, keeping in touch with old customers, watching over the securities of clients after they have bought them, writing the letters that must be mailed, making the appointments that should be made, attending to a job day in and day out AND LIKING IT—THESE ARE THE THINGS WHICH BRING RESULTS.

And then there is something else that will help any man go to the top in this business—we like to call it "inherent personal integrity." If a fellow has it, you don't have to be told about it—YOU KNOW IT. That's the fellow who can sell securities. He's the sort who doesn't need any fancy selling stunts, flash, front or moving-pictures. He believes in himself and his job. He actually desires to help the people with whom he does business. He is so fundamentally and honestly sincere in his ambition to help people purchase the right securities, and to make money out of them after they have bought them, THAT HE DOES ALL THE THINGS WHICH ARE NECESSARY TO ACCOMPLISH THIS OBJECTIVE, AS FAR AS IS HUMANLY WITHIN HIS POWER TO DO SO. The security business has within its ranks just about as large a percentage of this kind of mentality and morality as can be found anywhere in the country—YOU'VE GOT TO HAVE IT IN THE SECURITIES BUSINESS, BECAUSE IT'S THAT KIND OF BUSINESS.

So there it is—a pretty tall order and we haven't told it all by a long shot—but at least these are a few of the requirements of a successful securities salesman. Possibly you can add a few more of your own.

Attractive Situation

The $1.25 cumulative prior preferred stock of United Cigar-Whelan Stores Corporation offers an attractive situation according to a detailed study prepared by Arthur Wiesenberger & Co., 61 Broadway, New York City, members of the New York Stock Exchange. Copies of this study may be had from the firm upon request.

Savs. & Loan Institute Cancels Convention

Jack E. Barry, Oklahoma City, President of the American Savings and Loan Institute, announces that the organization has canceled its chapter officers' conference scheduled for February in Cleveland, in response to the request of the Office of War Mobilization for abandonment of all meetings bringing together more than 50 persons. Last month the Institute announced a change in its original plans for a nationwide conference, reducing the meeting to the chapter officers' gathering in view of the prolongation of the war in Europe beyond last fall's expectations. This latter is the meeting which has now been abandoned.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The feature of the Government bond market last week was the sharp rise that took place in the taxable obligations, which moved these issues into new high levels. Gains of a quarter of a point or more were registered in the 2% due 9-15-51/53, the 2% due 12-15-51/55, the 2¼% due 6-15-52/55, the 2½% due 3-15-56/58 and the 2½% due 6-15-62/67. . . .

The most recent issues of the 2% bonds, those due 6-15-52/54 and 12-15-52/54, were heavily traded and both securities continued the upward trend that has been in evidence since the ending of the Sixth War Loan. . . .

The entire level of the Government market has been pushed up substantially since the middle of December, and there seems to be plenty of support for the opinion that it will continue to advance, although technical trading corrections will be evidenced from time to time. . . .

GUESSING THE FUTURE

It is indicated that there is appearing in the money markets two schools of thought concerning future trends of Government bond prices, which may be divided as follows:

1. Those who contend that the recent rise in prices of Government bonds is forecasting future bond financing with a somewhat shorter maturity and a lower coupon rate.
2. Those who put forward the opinion that the current rise in Government bond prices is due to an unusually large early year demand, which will be quite fully satisfied in the near future. Likewise, they point out that taxes have been an important factor in the market since this has kept many from taking profits during the recent rise.

LOOKING AHEAD

Those who feel that the market is seeking permanently high levels believe that the Government in the next financing, probably in May or June, will not offer a 2% bond as in the past, but an issue with a lower rate and a shorter maturity. . . . This would seem to indicate that the pattern for financing the war, which the Treasury has followed up to now, is about to be changed. . . .

They also point out that the English have been able to carry out such a program, and with our debt bound to increase with a longer war, it is imperative that we follow a policy of reducing debt charges whenever it is possible to do so. . . .

The Government through a large floating debt is keeping service charges low, and it is contended that the average computed interest rate can be brought under the present 1.92% by the use of a lower coupon bond with a somewhat shortened maturity. . . . They note that the advance in the Government bond market, while substantial, has been orderly, and thus far Federal has not been a factor, marketwise, in the situation. . . . Since the start of the Sixth War Loan, Federal has sold only $41,000,000 of bonds, while issues maturing in more than five years have increased by $20,000,000 during this period. . . . Bond holdings of the Central Banks are not large, and the latest available figures indicate they amounted to $1,202,922,000, of which $877,220,000 had a maturity of over five years. . . . From Nov. 15, 1944, just prior to the start of the last War Loan, to Jan. 10, 1945, the member banks reported increases in their bond holdings of $1,537,000,000. . . . It was pointed out that excess reserves of the system on Jan. 17, 1945, approximated $1,300,000,000 compared with about $1,100,000,000 just before the start of the drive. . . .

Considering the points put forward by the group that believe interest rates on bonds will go to lower levels, it is indicated that the 2% and 2½% bonds have not yet reached their tops. . . .

THE OPPOSITE VIEW

The other school of thought points out that the pressure of funds seeking investment at the turn of the year has been very large, but a substantial part of this demand has been filled, and from here on it will not be as great as in the past. . . . Also, they contend that the supply side of the market has been limited by the tax situation. . . .

Many institutions have not taken profits on securities bought prior to or during the drive, since they hope to hold these issues until the six months' period has elapsed, in order to get the benefits of a lower tax rate. . . . This selling, it is believed, will be coming into the market about the time of the next War Loan Drive. . . .

Likewise, it was noted that calls on the War Loan accounts built up during the drive have not been very large, and it was pointed out that when these funds are taken down in volume by the Treasury it will have a tendency to bring some selling into the market. . . . This group contends that the market has reached levels which make it vulnerable to a set-back. . . .

While the short and intermediate maturities of the partially exempts showed gains, the last four maturities of these issues receded slightly due to profit taking. . . .

However, it still is the advice of experts on the money market that for those needing tax protection the 2¾% due 12-15-60/65 are the most attractive of the partially exempt obligations.

Irving Olds, Chairman Of Legal Aid Society

Irving S. Olds, Chairman of the Board of the U. S. Steel Corp., has accepted the chairmanship of The Legal Aid Society 1945 Appeal, which is to be directed to business and professional men in all the principal lines of commerce and industry in New York City.


Irving S. Olds

Chairmen and committee workers, representing each major field, are now being set up to raise $160,000 to meet the Society's budget for 1945. Of this amount non-members of the legal profession will be asked to contribute $60,000. As many of 300 men and women will be enlisted to help in the campaign which is scheduled to begin officially early in March. The advices from the Society state:

"Until last year lawyers had contributed $7 for every $1 given by laymen to provide legal assistance for those who are unable to hire an attorney when legal problems arise. The war, however, has so increased the work of the Society, through its free legal service to members of the Armed Forces and their families, that its directors feel a larger proportion of the cost should be borne by the community as a whole. In the past two years more than 16,000 service men and women and their families have applied to the Society for aid.

"During 1944 an average of more than 100 persons each working day, a total of 33,690, applied to the Society for assistance. Though the vast majority of the cases involve only civil law, the Society has a criminal branch which represents impecunious persons accused of crime, in cases not involving the death penalty. Except in these latter cases, the law does not provide for remuneration for defense lawyers appointed by the court. Were it not for the Legal Aid Society innocent persons, without funds, accused of lesser crimes, would have difficulty in obtaining counsel to represent them in court."

Harrison Tweed is President of the Legal Aid Society, the offices of which are at 11 Park Place, New York 7, N. Y.

Earnings of Federal Reserve Banks in 1944

Preliminary figures received from the Federal Reserve Banks indicate that during 1944 their current earnings amounted to $104,000,000, the Board of Governors of the Federal Reserve System informed President Ray M. Gidney of the Federal Reserve Bank of Cleveland. The advices from the latter state:

Current expenses of the banks were $49,000,000. After deducting noncurrent charges and adding profits on sales of Government securities, net earnings for the year amounted to $58,000,000, compared with $50,000,000 in 1943.

As required by the Federal Reserve Act, the Federal Reserve Banks paid dividends of $9,500,000 to their member banks. The remaining net earnings were transferred to surplus accounts, reserves for contingencies, and to the U. S. Treasury as payments under the provisions of Section 13b of the Federal Reserve Act relating to industrial loans.

Rowe And Diehl Re-Named To Svs. Bank Retirement System

Daniel T. Rowe, President of the Kings Highway Savings Bank, Brooklyn, and Charles Diehl, President of the Empire City Savings Bank, New York City, were re-elected Chairman and Vice-Chairman, respectively, of the Savings Banks Retirement System at the annual meeting of the Board of Trustees Jan. 17. Robert Matherson, Jr., was re-appointed Executive Manager and Treaser. Walter R. Williams, Jr., Executive Secretary of the Savings Bank Associaion of the State of New York, was appointed Secretary.

The Trustees reported the System's assets, as of Dec. 31, 1944, of $1,145,600, and participation in the plan by 39 banks and 1,700 participating employees. This participation represents increases during 1944 of 133% in assets, 44% in the number of participating banks and 93% in the number of participating employees.

A continuing interest in the System is also reported by the Trustees in the addition of three participating banks as of Jan. 1 and 43rd and the 44th institutions scheduled to commence participation on Feb. 1. Many other banks, it is stated, have requested surveys and are now preparing to take action on participation in the System, which is a self-administered trust organized to meet the special requirements of savings banks in New York State.

Other Trustees of the System, in addition to Messrs. Rowe and Diehl, are:

Parrin L. Babcock, President, Onondago County Savings Bank, Syracuse; Charles W. Carson, Executive Vice-President, Community Savings Bank of Rochester, Rochester; John F. Krepps, President, the Home Savings Bank, White Plains; John S. Roberts, President, Flatbush Savings Bank, Brooklyn; Jacob H. Strong, President, Rhinebeck Savings Bank, Rhinebeck, N. Y.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced that transfer of the Exchange membership of Charles J. Hyman to Hans S. Rothschild will be considered on Jan. 18. Mr. Rothschild will continue as a partner of Sutro Bros. & Co.

Attractive Situations

Common and 6% cumulative convertible preferred of the American Bantam Car and Panama Coca-Cola offer attractive situations according to circulars issued by Hoit, Rose & Troster, 74 Trinity Place, N. Y. City. Copies of these circulars may be had from the firm upon request.

Calendar Of New Security Flotations

OFFERINGS

CANADA DRY GINGER ALE, INC., has filed a registration statement for 50,429 shares of $4.25 cumulative preferred stock (no par). The shares are being offered for subscription to the holders of common stock of record Jan. 11 at the rate of one share of preferred for each 12 shares of common held. Rights expire Jan. 25. Net proceeds of the stock, together with other funds of the company, will be used for the establishment and acquisition of additional plants and warehouses, the purchase of new machinery and equipment for the proposed new plants, the purchase of additional delivery equipment, for the improvement and rehabilitation of existing plants, etc. Union Securities Corp. and Hornblower & Weeks head the underwriting group. Filed Dec. 22, 1944. Details in "Chronicle," Dec. 28, 1944.

DUREZ PLASTICS & CHEMICALS, INC., has filed a registration statement for 73,208 shares of common stock, par $5. Company is granting to holders of its common stock of record at close of business Dec. 27, 1944, rights to subscribe to 73,208 shares of common stock at $29 per share in ratio of 100/583rds of a share for each share held of record. Company has entered into an agreement with the M. A. Hanna Co. of Cleveland, O., to purchase for its own account for investment purposes only all of the 73,208 shares, or such part thereof as shall not be purchased by stockholders, at the same price at which they are being offered to the stockholders Net proceeds will be used to provide additional funds to enable the company to participate in the developments which it is expected will take place in the plastics and chemical industries upon the return of peace. Filed Dec. 27, 1944. Details in "Chronicle," Jan. 4, 1945.

MOORE WINDSOR CORP. has filed a registration statement for 100,000 shares of 12½ cent cumulative dividend and participating preferred stock, par $1 per share. The net proceeds of approximately $200,000 will be used for working capital and expansion of the company's business. W. H. Cobb & Co., Inc., New York, is named principal underwriter. Offering price to the public $2.50 per share. Filed Nov. 10, 1944. Details in "Chronicle," Nov. 16, 1944.

Offered Jan. 22, 1945 at $2.50 per share.

SOUTH CAROLINA POWER CO. has filed a registration statement for $8,000,000 first and refunding mortgage bonds series due 1975. Net proceeds, together with the proceeds of bank loans aggregating $2,400,000 and $140,000 of funds on deposit with trustees will be used to reimburse the company for funds deposited for redemption on Jan. 1, 1945, of $641,500 Georgia-Carolina Power Co. first mortgage 5% bonds, for redemption on July 1, 1945, of $3,959,999 South Carolina Power Co. first lien and refunding mortgage gold bonds, for acquisition from Commonwealth & Southern Corp. and retirement of $3,411,000 South Carolina first lien 5s at Commonwealth's cost or $2,855,562, and for redemption of 23,023 shares of South Carolina $6 preferred stock. Total amount required, including premiums on bonds and preferred stock in the hands of public is $10,107,765. Filed Dec. 22, 1944. Details in "Chronicle," Jan. 4, 1945.

Bonds awarded Jan. 22 to the First Boston Corp. as 3s on bid of 100.609.

Offered Jan. 24 at 101.375 and interest by The First Boston Corp., Kidder, Peabody & Co., Eastman, Dillon & Co., Tucker, Anthony & Co. and Coffin & Burr, Inc.

TIDE WATER POWER CO. has filed a registration statement for $4,500,000 first mortgage bonds series due Nov. 1, 1975 and $1,000,000 sinking fund debentures, due 1955. Net proceeds will be used in effect to cover the cost of redeeming $6,065,500 1st mortgage 5s series A, due Feb. 1, 1979. The issues were awarded Jan. 15 to W. C. Langley & Co., the bonds at 101.08 as 3⅛s and the debentures at 100.46 as 3⅜s.

Offered Jan. 17 by W. C. Langley & Co., the bonds at 101.48 and interest and the debentures at 100.96 and interest.

NEW FILINGS

List of issues whose registration statements were filed less than twenty days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.

THURSDAY, JAN. 25

SOUTHWESTERN PUBLIC SERVICE CO. has filed a registration statement for $17,500,000 first mortgage bonds, 3¼% series due 1974, and 50,000 shares of cumulative preferred stock (par $100). Holders of outstanding 6½% cumulative preferred stock will be given the opportunity to exchange the shares of old preferred stock for shares of new preferred on a share for share basis. Consummation of the exchange is subject to the authorization of the new preferred by common stockholders, purchase by the underwriters of the $17,500,000 new 3¼% bonds and of such shares of new preferred as are not issued in exchange for old preferred. Net proceeds from the sale of bonds and preferred stock if all is not issued in the exchange offer with proceeds from sale by the company of its interest in its former subsidiary, Gulf Public Service Co. and of certain other properties, amounting in the aggregate to $4,875,763, and general funds of the company will be used to redeem at 110½ and interest $20,000,000 outstanding first mortgage and collateral trust bonds, and to redeem at $110 per share and accrued dividends outstanding shares of preferred stock not exchanged for the new preferred stock. Dillon, Read & Co. is expected to head the underwriting group. Filed Jan. 6, 1945. Details in "Chronicle," Jan. 11, 1945.

MONDAY, JAN. 29

DELTA AIR CORP. has filed a registration statement for 102,424 shares of common stock (par $3). It is expected that proceeds will be used in the acquisition of additional flight, communications and other equipment, the construction of hangers, the purchase of machinery, and other facilities in connection with its present routes, and such new routes as may hereafter be acquired or participated in by the company. Courts & Co., Atlanta, Ga., is the principal underwriter. Filed Jan. 10, 1945. Details in "Chronicle," Jan. 18, 1945.

SUNDAY, FEB. 4

NATHAN STRAUS-DUPARQUET, INC., has filed a registration statement for 25,000 shares of 6% cumulative convertible preferred stock, par $25. The shares are issued and outstanding and do not represent new financing by the company.

Address—630 Sixth Avenue, New York.

Business — Manufacture of commercial types of kitchen equipment, etc.

Offering—Price to the public will be filed by amendment.

Proceeds—The 25,000 shares are being purchased by the underwriters from Nathan Straus, who is a stockholder and chairman of the board, from his four sons, Nathan Straus 3rd, Barnard Sachs Straus, Irving Lehman Straus and Ronald Peter Straus, and from Samuel R. Sperans who is a stockholder, director and president of the corporation and from other stockholders. All of the preferred stock offered by the prospectus is part of a total of 25,000 shares of preferred stock which was issued as of Jan. 1, 1945, as a stock dividend to the holders of the outstanding 125,000 shares of common stock in the ratio of one share of preferred for each five shares of common held of record Dec. 11, 1944. The stock dividend represents a capitalization of a part of the corporation's capital surplus. The underwriters are to pay $23 per share, inclusive of accrued dividends.

Underwriting—Allen & Co. named principal underwriter.

Proceeds—The proceeds will go to the selling stockholders.

Registration Statement No. 2-5563. Form S-1. (1-16-45).

MONDAY, FEB. 5

ARMOUR & CO. has filed a registration statement for $30,000,000 cumulative income subordinate debentures due 1975. The interest rate will be filed by amendment.

Address—Chicago, Ill.

Business—Meat packing.

Offering—The offering price will be filed by amendment.

Proceeds—The proceeds will be used toward redemption of existing 7% cumulative income subordinate debentures due 1978.

Underwriting—Kuhn, Loeb & Co. will head the underwriting group, with names of others to be supplied by amendment.

Registration Statement No. 2-5564. Form A-2. (1-17-45).

KING-SEELEY CORP. has filed a registration statement for 100,000 shares of 5% cumulative convertible preferred stock ($20 par).

Address—315 South First Street, Ann Arbor, Mich.

Business — Manufacture of automobile dash panel gauges, automotive engine governors, etc.

Offering—Price to the public will be supplied by amendment.

Proceeds—The proceeds will be used for the repayment of its 3½% notes, due Aug. 30, 1945, in the amount of $214,393, the acquisition of all of the remaining outstanding shares of common stock of Central Specialty Co. or otherwise to acquire the business and assets of Central, to improve its own and Central's plants and for additional working capital.

Underwriting—F. Eberstadt & Co., and Watling, Lerchen & Co., are named principal underwriters, with others to be named by amendment.

Registration Statement No. 2-5565. Form S-1. (1-17-45).

TUESDAY, FEB. 6

OKLAHOMA GAS & ELECTRIC CO. has filed a registration statement for $35,000,000 first mortgage bonds, due Feb. 1, 1975.

Address—321 North Harvey Street, Oklahoma City, Okla.

Business—Public utility.

Offering—The offering price to the public will be named by amendment.

Proceeds—Proceeds will be applied to the redemption of $35,000,000 first mortgage bonds, 3¾% series due 1966 of the company presently outstanding at the redemption price of 104¼ plus accrued interest.

Underwriting—The bonds are to be sold by the company under the Commission's competitive bidding rule and the names of the underwriters will be named by amendment. The interest rate will be named by the successful bidder.

Registration Statement No. 2-5566. Form S-1. (1-18-45).

THURSDAY, FEB. 8

CARRIERS & GENERAL CORP. has filed a registration statement for $1,872,000 15-year 3¾% debentures due Feb. 1, 1960.

Address — One Wall Street, New York City.

Business—Company is registered under the Investment Company Act of 1940 as a diversified, management investment company of the closed-end type.

Offering—The offering price to the public will be filed by amendment.

Proceeds—The net proceeds from the sale, with other funds of the company, will be utilized for the redemption in March, next, of the outstanding $1,872,000 principal amount of 15-year 5% debentures due Nov. 1, 1950, at 105 plus accrued interest. The debentures to be redeemed constitute the entire outstanding funded debt of the company.

Underwriting — The underwriters are Paine, Webber, Jackson & Curtis, $1,272,000; Eastman, Dillon & Co., $400,000; H. C. Wainwright & Co., $100,000, and Brush, Slocumb & Co., $100,000.

Registration Statement No. 2-5567. Form S-4. (1-20-45).

SATURDAY, FEB. 10

DALTON HOTEL CORP. has filed a registration statement for 4,932 shares of common stock, par $5 per share.

Address — Principal executive office, Room 905, 38 South Dearborn Street, Chicago, Ill.

Business—To own and operate the hotel property known as the Dalton Hotel at 1234 South Wabash Avenue, Chicago.

Offering—The shares are to be issued in exchange for a like number of units of beneficial interest in the Dalton Hotel Liquidation Trust.

Purpose—See offering.

Underwriting—There are no underwriters in connection with the issuance of these securities.

Registration Statement No. 2-5568. Form S-1. (1-22-45).

DATES OF OFFERING UNDETERMINED

We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.

ALVA PUBLIC TERMINAL ELEVATOR CO. has filed a registration statement for $250,000 10-year 6% subordinated sinking fund notes, due 1954. Proceeds will be used for the purchase of the real estate and the construction of a one million bushel elevator, with a three million bushel head house. To be offered mainly to people in the Alva, Okla., community who are interested in construction of the grain elevator. Filed Aug. 8, 1944.

ARKANSAS-MISSOURI POWER CORP. has filed a registration statement for $2,000,000 first mortgage bonds, series A, 3¼%, due Dec. 1, 1974. Proceeds together with general funds of the company to the extent required, will be used to redeem, at 105, of $2,350,000 first mortgage bonds, series A, 4%, due June 1, 1965, of the company. The bonds will be offered for sale at competitive bidding. Filed Dec. 4, 1944. Details in "Chronicle," Dec. 7, 1944.

CAPITAL TRANSIT CO. has filed a registration statement for $12,500,000 first and refunding mortgage bonds, series A, 4% due Dec. 1, 1964. The net proceeds from the sale of the bonds and from a $2,500,000 bank loan with treasury cash will be used for refunding purposes and to make payments on account of equipment purchases, etc. Filed Nov. 10, 1944. Details in "Chronicle," Nov. 16, 1944.

Issue awarded Dec. 18 to a banking group headed by Alex. Brown & Sons at 97½. The SEC on Dec. 21, 1944, refused to release jurisdiction over the issuance, declaring that the Commission was not satisfied that competitive conditions had been maintained.

Company has negotiated an agreement with same bankers to sell the issue at 98½, subject to Commission approval. Offering price to public would be 100.

CENTRAL OHIO LIGHT & POWER CO. has filed a registration statement for 11,972 shares of preferred stock, cumulative ($100 par). The dividend rate will be filed by amendment. The company proposes to invite proposals for services to be rendered to it in obtaining acceptances of the exchange offer of new preferred stock for old preferred, and for the purchase from it of such of the 11,972 shares as are not exchanged pursuant to the exchange offer. The 11,972 shares of new preferred are to be issued to retire the outstanding $6 preferred shares. The exchange offer is to be on a share for share basis plus a cash adjustment. Company will call for redemption the unexchanged shares, subject to the consummation of the sale to underwriters of the stock to be sold. The proceeds from such sale will be applied in part to the redemption of any such unexchanged shares. The redemption price of old preferred stock will be $110 per share plus accrued dividends. Filed Dec. 28, 1944. Details in "Chronicle," Jan. 4, 1945.

COASTAL TERMINALS, INC. has filed a registration statement for 25,000 shares of common stock (par $10). Proceeds will be used for the acquisition of land, equipment and for working capital. Price to public $10 per share. Not underwritten Filed Sept. 20, 1944. Details in "Chronicle," Sept. 28, 1944.

Registration statement withdrawn Jan. 17, 1945.

EXCESS INSURANCE CO. OF AMERICA has filed a registration statement for 48,981 shares of capital stock (par $5) Shares are to be offered for subscription to present stockholders of record May 31, 1944, on a pro rata basis at $8 per share. Net proceeds will be added to company's capital and surplus funds. Unsubscribed shares will be sold to Lumbermens Mutual Casualty Co. for investment. Filed May 29, 1944. Details in "Chronicle," June 8, 1944.

FLORIDA POWER CORP. filed a registration statement for 40,000 shares cumulative preferred stock (par $100). The dividend rate will be supplied by amendment. Net proceeds from the sale of the new preferred stock, together with additional funds from the treasury to the extent required, are to be applied as follows: Redemption of 28,762 shares 7% cumulative preferred at $110 per share $3,163,820; redemption of 5,940 shares of 7% cumulative preferred at $52.50 per share $311,850; donation to Georgia Power & Light Co. to be used for redemption of certain of its securities as provided in recap plan of that company $1,400,000; payment to General Gas & Electric Corp. for 4,200 shares of $6 preferred of Georgia Power & Light Co. $75,600, and expenses $80,000, total $5,031,270. Stock is to be offered for sale by the company pursuant to Commission's competitive bidding Rule U-50, and names of underwriters will be filed by post-effective amendment. The succesful bidder will name the dividend rate on the stock Filed July 21, 1944. Details in "Chronicle," July 27, 1944.

GENII CORP. has filed a registration statement for 1,868 shares of common stock. Company plans to sell the securities registered direct to the public without the assistance of underwriters or dealers. Offering price to the public is $100 per share. Proceeds will be applied to building and improvements, machinery and equipment, etc. Balance will be used for working capital and reserve for contingencies. Filed Dec. 23, 1944. Details in "Chronicle," Jan. 4, 1945.

GERMANTOWN FIRE INSURANCE CO. has filed a registration statement for 50,000 shares of common stock, $20 par, and voting trust certificates for said stock. Policyholders of Mutual Fire Insurance of Germantown are to have pre-emptive rights to subscribe for the common stock at $20 per share in proportion to the respective premiums paid by them upon insurance policies issued by Mutual. Voting trust certificates representing shares not subscribed will be offered to the general public at the same price. All stockholders will be asked to deposit shares in the voting trust for a period of 10 years. Bioren & Co. are underwriters. Filed May 29, 1944. Details in "Chronicle," June 8, 1944.

LINCOLN PARK INDUSTRIES, INC., has filed a registration statement for $250,000 6% ten-year debentures maturing Nov. 1, 1954. Debentures to be offered directly by the company at par and interest. Not underwritten. Proceeds for additional working capital. Filed Sept. 27 1944. Details in "Chronicle," Oct. 5, 1944.

NATIONAL PRESSURE COOKER CO. has filed a registration statement for 150,000 shares of common stock (par $2). The stock will be offered to common stockholders of record on Jan. 25, 1945, in the ratio of one and one-half shares for each share of stock held. The subscription rights expire Feb. 25. Proceeds will be added to working capital. Filed Dec. 19, 1944. Details in "Chronicle," Dec. 28, 1944.

OHIO WATER SERVICE CO. has filed a registration statement for 80,880 shares of common stock, par $10. The shares are now outstanding and are being sold by Federal Water & Gas Corp. The shares registered constituting approximately 66.53% of the outstanding stock of the company, are owned by Federal Water & Gas Corp. which will receive the entire proceeds from the sale. On Feb. 10, 1943, the Securities and Exchange Commission ordered Federal to divest itself of its interest in Ohio, and Ohio stated in its registration statement it is informed that Federal is selling the stock in order to comply with that order. Otis & Co. are principal underwriters. Filed Dec. 7, 1944. Details in "Chronicle," Dec. 14, 1944.

THE OLD STAR DISTILLING CORP. has filed a registration statement for 5,000 shares of $100 preferred stock, non-cumulative and non-participating. Price to public will be $110 per share; proceeds to company $100. Proceeds will be used for construction of distillery, $250,000; working capital, $250,000. No underwriter named Filed Aug. 14, 1944. Details in "Chronicle," Aug. 24, 1944.

Canada and War Finance

Wood, Gundy & Co., Inc., 14 Wall Street, New York City, have issued an interesting pamphlet on "Canada and War Finance, Sept. 1, 1839—Nov. 30, 1944," which gives an interesting survey of many salient features of the Dominion's wartime economy. Copies of this pamphlet may be had from Wood, Gundy & Co. upon request.

Post-War Prospects

The Cross Company, manufacturers of machine tools, offers attractive possibilities for the post-war period as well as currently, according to a memorandum on the situation issued by F. H. Koller & Co., Inc., 111 Broadway New York 6, N. Y. Copies of this memorandum may be had from F. H. Koller & Co., upon request.

"The Confident Year"

The latest Bulletin issued by Strauss Bros. entitled "The Confident Year" sketches the outlook for eight vital industries and reviews thirty-four securities. Copies may be had upon request from Strauss Bros., 32 Broadway, New York City.

St. Louis Banks Form Business Credit Group

A credit group of post-war loans of $25,000,000 has been formed in St. Louis by seven banks in behalf of small business in the area, it was announced on Jan. 8 by W. J. Bramman, Executive Vice-President of Mississippi Valley Trust Company and Chairman of the group. The St. Louis "Globe Democrat" of Jan. 9 in reporting this said:

"The special credit group which will set up headquarters in the Clearing House offices includes the Mississippi Valley Trust Company, First National Bank of St. Louis, Mercantile-Commerce Bank and Trust Company, Boatmen's National Bank of St. Louis, United Bank and Trust Company of St. Louis, Manufacturers Bank and Trust Company of St. Louis and Tower Grove Bank and Trust Company.

"The group also plans to extend its facilities to non-member banks in the city and to correspondent banks throughout the Eighth Federal Reserve District."

John W. Snyder, Vice-President of the First National Bank of St. Louis, is Vice-Chairman of the group, and R. R. Tillay, Manager of the St. Louis Clearing House, is Secretary.

Revise Export Rules

The Foreign Economic Administration announced on Jan. 20 that export regulations have been revised to permit non-commercial shipments by first class mail to continental France, under general license G-Post. The announcement states:

Packages may be sent to France under this general license, subject to the following provisions:

a. Not more than one parcel per week may be mailed by or on behalf of the same person or concern to or for the same addressee.

b. The naming of addressees, other than the known ultimate addressees, for the purpose of evading the limitations of this general license is prohibited.

c. The total value of the contents of the package shall not exceed $25.

d. Only gifts and samples may be sent.

e. The class of mail service used for sending parcels to France at this time restricts the weight of each package to 4 pounds, 6 ounces.

Those interested in sending packages to France under the general license G-Post are urged to get in touch with their local post-office for information on postal rates and service; numbers and types of customs declarations and post office forms required; commodities acceptable for mailing and other information on postal regulations governing such shipments.

Those items most frequently sent as gifts are listed in a pamphlet which may be obtained from the Requirements and Supply Branch, Bureau of Supplies of the Foreign Economic Administration, Washington 25, D. C., or from field offices of the Department of Commerce.

Stauffen Chairman of Beekman Fund Committee

Ernest Stauffen, Jr., Chairman of the Trust Committee of the Manufacturers Trust Company, of New York, has accepted Chairmanship of the Commercial Banking Committee of the Beekman Hospital 1945 Maintenance Fund, Elisha Walker, Chairman of the drive, announces. The drive's goal is $125,000.

Situation Looks Good

Wellman Engineering Company offers interesting possibilities according to a circular issued by Wm. J. Mericka & Co., Inc., 29 Broadway, New York City, members of the Cleveland Stock Exchange. Copies of this circular may be had from the firm upon request.

Manpower Conscription Will Impede Production, Says Thomas

Socialist Leader Contends That Its Advocacy Is Not Due to Military Necessity, But to Cover Over the Administration's Mistakes and to Further Drive for "Over-Expanding Power." Joseph Schlossberg, Labor Leader, Also Voices Opposition.

"To adopt total conscription of manpower now and post-war military conscription now will mean the defeat of all the hopes which have sustained us and our sons amid the horror of war," Norman Thomas, Socialist leader, declared in a radio speech Saturday afternoon over Station WOR.

Norman Thomas

"Bad planning cannot be overcome," said Mr. Thomas, "by giving the planners the power to cover over their mistakes by conscripting men. . . . In the process they will certainly create a disgruntled morale which will seriously impede production."

"Consciously or unconsciously the President's drive for total conscription of men is born not of military necessity, but desire for over-expanding power and for diversion of attention from the mistakes his own government has made. We are to pay the bill in full."

Mr. Thomas declared that the adoption of conscription now would not only be a sign that the peace has been lost but "with it the struggle for full employment on other terms than the military boondoggling which has been the rule in Europe for the last century at infinite cost not only to peace but to freedom and the production of abundance.

"We shall not arm against Mars and the Moon," Mr. Thomas said. "To support its vast cost, we shall have to keep hate and suspicion of our neighbors alive. I have never yet been able to get any advocate of postwar conscription to say against which of our present friends we are thus to arm, our enemies having been disarmed. Some of them indicate that Russia is the ultimate enemy, but mostly they are silent. There will, however, be a potential enemy always in the public mind. Conscription will tend to keep alive suspicion and hate.

"The case I making is not negative, it is not merely that conscription is unnecessary; it is that its adoption is positively hurtful. It will accelerate totalitarianism and make harder the chances of democracy to survive. It will divert attention in postwar years from the employment of all our manpower for the destruction of poverty.

"This can be the last war, but to make it so we must think not in terms of Roosevelt's four drafts . . . but of the universal abolition of conscriptions."

Mr. Thomas was followed by Mr. Schlossberg, educator and labor leader. Mr. Schlossberg questioned the military necessity for peacetime conscription and warned of the adverse effects on our young people and labor.

"The snatching of a highschool boy from his parent's home and forcing him into military life," Mr. Schlossberg declared, "will not bring democracy into militarism; it will bring militarism into civilian life and undermine democracy. Hitlerism and democracy are mutually exclusive.

"Militarism does not promote national discipline, it destroys such discipline, and replaces it by blind and unthinking obedience, slavery," Mr. Schlossberg said. "After a year of military service the impressionable young boy may return to civilian life with hatred for the dehumanizing institution or with his mind distracted by anti-democratic military 'education.' The thinking young man will be unable to understand—nor will his elders—why after more than a century and a half of national progress without compulsory military service we must have a standing army now when we are stronger than ever before and have won two world wars.

"As to the effect of militarism on labor," Mr. Schlossberg added, "a warning comes to us from prewar France. There striking workers were called to the colors and compelled to break their own strike.

"As the most successful nation in the world America should use her enormous prestige to assume leadership in the great cause of universal disarmament right after this war. That will create confidence and enable the world to extricate itself from its own ruins, and will earn for us its everlasting gratitude."

Ralph Phillips Named New NASD Chairman

Ralph E. Phillips, Los Angeles, partner of Dean Witter & Co., has just been elected Chairman of the Board of Governors of the National Association of Securities Dealers, Inc., succeeding Ralph Chapman of Farwell, Chapman & Co., Chicago. The latter will continue to serve on the executive committee of the Association for 1945.

Ralph E. Phillips

Vice chairmen elected were: Harry W. Beebe, of Harriman Ripley & Co., Inc., New York, and R. Winfield Ellis, of Lee Higginson Corp., Chicago. Herman F. Clarke, of Estabrook & Co., Boston, was named chairman of the finance committee. Wallace H. Fulton was re-elected executive director.

New governors taking office are: William K. Barclay, Jr., of Stein Bros. & Boyce, Philadelphia; Irving D. Fish, of Smith, Barney & Co., New York; Firmin D. Fusz, Jr., of Fusz-Schmelhele & Co., St. Louis; B. Winthrop Pizzini, of B. W. Pizzini & Co., Inc., New York; John B. Schober, of Woolfolk, Huggins & Schober, New Orleans; J. Robert Shuman, of Shuman, Agnew & Co., San Francisco, and Burdick Simons, of Sidlo, Simons, Roberts & Co., Denver.

Railroad Stocks Should Follow Railroad Bonds

Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange, have prepared reprints of an address by Patrick B. McGinnis entitled "Railroad Stocks Should Follow Railroad Bonds." Copies may be had from Pflugfelder, Bampton & Rust upon written request.

Interstate Aircraft & Eng. Appears Attractive

Interstate Aircraft & Eng. Co. offers an interesting situation according to a circular being distributed by Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange and other exchanges. Copies of this circular may be had from the firm upon request.

Attractive Situations

Pittsburgh Railways and Indiana Gas & Chemical common offer attractive possibilities according to studies of the situation prepared by First of New York Corporation, 70 Pine Street, New York City. Copies of these interesting analyses may be had upon request from First of New York Corporation.

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