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Greetings From N S T A Officials Past and Present

ED. E. PARSONS, JR.

The 12th Annual Meeting of your Association comes at the end of one of the most difficult periods in the country's history; and puts us on the doorstep of the time that

Ed. E. Parsons, Jr.

we have all worked and hoped for through almost 4 years of war.

In the past year, I have attended meetings of 13 of our Affiliates and found that the members of our Association have given, in some cases, their lives, and in others, much time and effort to end the war. The outlook for the future is good although probably slightly clouded.

The basic purpose of our Association, as stated in the preamble of the Constitution, is to promote the general welfare of its members. I believe that our Association has done this; and it is my hope and desire that we continue to do so, through reemployment of returning service personnel, addition of new blood and the broadening of our markets, through wider personal contacts.

May I take this opportunity to thank all of the various officers of Affiliates whom I have met in the past year, who have extended me many favors.

Your new President, Mr. Thomas Graham, has done excellent work and I know with his new group of officers will continue his efforts.

Ed. E. Parsons, Jr.

WM. PERRY BROWN

The Twelfth Annual Meeting and Election of Officers of the National Security Traders Association held at Mackinac Island on August 28-30 was attended by a small group consisting of the Officers, Members of the Executive Council, National Committee and Chairmen of the various committees, all in compliance with the request of the ODT. I am keenly impressed with the serious tone that prevailed at these business meetings and have seen the NSTA grow to its present size in membership and leadership in the Securities Industry. I believe that I am qualified to offer observations because of my past and present association as a member of the official family of the NSTA.

Under the able leadership of the outgoing President, Mr. Edward E. Parsons, Jr., the association accomplished much for the membership and industry as a whole. It is impossible for the President of the NSTA to give out a detailed report on all of the activities and benefits brought about for the membership. The President and his co-workers have been unselfish and untiring in their efforts and have given many days of their valuable time at a personal sacrifice to themselves and their businesses in the firm belief that a better understanding can be had of exactly what the NSTA stands for, not only for those within the industry, but also for those who are the ultimate customers, both sellers and buyers in corporate and municipal securities.

By word of mouth, the press

Wm. Perry Brown

and radio, you have been posted on the more important parts that have have been taken by the President of the NSTA and his official family and Committeemen. It is not necessary today to call attention to these various important gains made for the members of the NSTA and the industry as a whole. The record speaks for itself as reported in the mediums stated and heard and read from coast to coast by all of us who are interested in the well being of the securities business and its high plane of business ethics. The byword "NSTA" today stands for justice and fairness to all and which has gained for the association an invitation from other organizations of the securities business, regulatory bodies, corporations, States, Municipalities and Federal bodies to sit in on important discussions, meetings and investigations. This is without a doubt an accomplishment that every member of the NSTA should justly be proud of.

My sincere appreciation goes to Mr. Edward E. Parsons, Jr., the outgoing President of the NSTA, and my fullest support can be expected as a member of the Executive Council to the President-elect and his official family. The membership is justified in placing their utmost confidence in these administrators towards an even greater NSTA.

Wm. Perry Brown

J. GENTRY DAGGY

Greetings to the National Security Traders Association's Election Meeting at Mackinac and

J. Gentry Daggy

heartiest congratulations to Tom Graham, the new president, who well epitomizes the "atomic force" within the organization.

It is a matter of considerable satisfaction to earlier officers to find that interest in the Association and its work is not only well sustained but continues to grow with the passing years. There is a personal touch about this voluntary association of individuals that fills a niche entirely peculiar to itself. I feel that its worth in promoting the causes espoused in the constitution is beyond question or argument.

Let's look forward to the time when the lifting of travel restrictions will again enable us to rally 1,000 strong!

J. Gentry Daggy

(Continued on page 1142)

Presidential Greetings

Thomas Graham

The National Security Traders Association has a wonderful opportunity to be of service to our country and to the investment business in the post-war era and it is the fixed intention of your officers, members of the Executive Council and the National Committeemen to do everything possible to make the next year a fruitful one for our organization.

There is an old saying that "the test of a man is the fight he makes." Likewise the test of an organization is the fight it makes. With this thought in view, we hope that this administration of our organization will be an aggressive one and that the results will be helpful to all phases of the investment industry.

Your new administration will do everything in its power to further the best interests of the NSTA in the coming year. We ask for the help of our entire membership so we can accomplish the things that should be done.

Thomas Graham.

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Railroads in Peacetime

By PATRICK B. McGINNIS*

Railroad Security Expert, Commenting on the Disparity of the Dow-Jones Rail and Industrial Averages, Points Out the Defects in Using These Averages as a Basis for Judging Values. Calls Attention to Physical Progress Made by the Rails and States That They Will Be Enabled to Meet Competition, Though Earnings Will Decline in Post-War Period. Notes That Rails Have Been Paying Less in Dividends Out of Earnings Than Industrials and Will Be Relieved of Heavier Payments of Excess Profits Taxes. Stresses Reductions of Railroad Fixed Charges and Improved Management and Predicts Higher Post-War Dividend Payments. Analyzes and Gives Opinion on Various Groups of Railroad Securities.

"Railroad securities in peacetime" is what I am going to try to forecast to you today. Yesterday the Dow Jones industrial averages closed at approximately 172, and the railroad Dow Jones averages closed at about 55, a spread of 117 points. This would indicate that those who deal in securities believe industrial stocks can justify those prices and yet rail stocks by their price indicate that their period of success is over.

Patrick B. McGinnis

Without any intention of trying to belittle the Dow Jones average, in my opinion, it does not indicate the difference between industry generally and railroads, because in the first place the Dow Jones industrial averages have no stocks among the 30 that make up the averages that are not dividend payers. Every stock in the Dow Jones average has paid dividends for a long period of time. That is not the case in the railroad Dow Jones averages.

If we take the five railroad stocks in the Dow Jones averages, which have regularly paid dividends—the Pennsylvania, which has paid dividends for 98 years; Union Pacific, which has paid dividends every year since it was organized in 1895; the Norfolk & Western, C&O and L&N—the only time that any one of those five stocks have not paid a dividend was in 1933, namely the L&N. Those are our five regular dividend paying railroad stocks.

Yesterday those stocks closed at Dow Jones industrial average is a weighted average. If you go out today and buy one share each of the Dow Jones averages, they will not cost you $172; they will cost you $81.50. In other words, what you as an investor are interested in is: How much do I pay for the stock? The arithmetic method average of the stocks in the Dow Jones averages yesterday was $81.50, and the averages of the five regular dividend paying rails was 101. I am going to try to elaborate on this a bit and attempt to enlighten you a bit on this Dow Jones average.

As you know, it is constantly used against the rails, and has been used more so in the last week. **The railroads in peacetime are going to be so different, in my opinion, from the railroads before the European war started, in 1939, that there is hardly a resemblance, either financially or physically.**

Railroad Improvement

Since 1938, the railroads have spent about 2 billion dollars on their fixed plant. The main line of the American railroads today is in as good shape as it ever has been in history. The Diesel locomotive has been introduced in that period of time and it has revolutionized railroad motive power. The ambition of engineers on railroads is always to reduce grades because the steam locomotive had its limitations. For example, going from Boston to Mechanicsville, which is near Albany on the main line of the Boston & Maine, a railroad steam locomotive carrying a regular load would have to split the train three times to go over the mountains. A single Diesel pulled a regular load all the way non-stop from Boston to Mechanicsville. The "man hours" saved were impressive. Dieselization has also caused improvement in the older means of transportation, the steam locomotive. Last year the Pennsylvania built a new steam locomotive which Baldwin and the Pennsylvania claim has more improvements on it than have been made on the steam locomotive in 25 years. Then too, we may have a gas turbine and jet propulsion. A great majority of our steam locomotives are obsolete, and in my opinion, will be replaced either by Diesel, improved steam, gas turbine or jet propulsion.

This is tremendously important, because it is one of our greatest costs.

Central Traffic Control

Another thing we did not have before the war was "central traffic control." Most of your trackage west of the Mississippi is single track. On the heavy density divisions, a freight train would be going along, another freight train coming toward it, and they would have to stop one train, manually throw the switch, go into the siding, wait, get out and throw the switch again. In the course of 200 miles they might have had to do that many times.

Several companies developed a method of central traffic control. Let's assume you have several trains running in a 200-mile section, all single track, several trains going one way and several the other. One man in a central control tower guides the entire movement of those trains within that 200-mile block, and trains meet and pass each other without stopping, enter the siding and go through.

That decreased transportation cost by large amounts. It has made single track almost as efficient as double track.

The corollary to that is that central traffic control can make obsolete one track of double track or two tracks of quadruple track. That was unheard of before the war. The War Production Board allowed only a very small amount of it to be built, during the war.

One of the heaviest costs in railroading is the maintenance of rails. Eventually a joint loosens and when a loose joint occurs one section is higher than the other. In the olden days when one rail in a joint became lower than the other, the danger of "snapping off" became present, and it became necessary to take that rail out, cut off the end, and put it out on a side track. Then in late 1940 a company developed "spot welding", and in 1941 it was developed to the point where the weld could be hardened suffi-

(Continued on page 1071)

*An address by Mr. McGinnis at the Annual Meeting of the National Security Traders Association, at the Grand Hotel, Mackinac Island, Michigan, Aug. 29, 1945. Mr. McGinnis is a partner of Pflugfelder, Bampton & Rust, New York City, members of the New York Stock Exchange.

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An Attack on Symptoms

By EMIL SCHRAM
President of the New York Stock Exchange

Mr. Schram, Noting the Recent Attention Focused on the Securities Markets, Contends That Stock Transactions Have Been Normal in Last Decade and That the Stock Exchanges Are as Anxious as Government to Avoid Repetition of Conditions Preceding 1930. Says Recent Margin Rules of the Federal Reserve Board Are an "Attack on Symptoms" and Asserts That Only Course to Pursue to Offset Any Inflation Potential Which Exists Is to Reach the Causes of the Problem.

As everyone knows, public attention for some time has been focused, to an unusual extent, upon the securities markets. Many persons, especially those engaged in the securities business, find this a little difficult to understand, considering the fact that market activity in the last two and a half years has been of no more than normal proportions; that is, if it can be said that there is any norm in the securities business. Certainly, the volume has not been of exceptional size when compared with the business that was done in our markets in the years prior to 1940.

Emil Schram

Here is the record of reported share volume on the New York Stock Exchange, together with the total number of shares on the list at the end of the year, from 1929 to 1944, inclusive:

	Reported Volume for the Year	Total Shares on List at Year-end
1944	263,074,018	1,492,277,716
1943	278,741,765	1,489,367,030
1942	125,685,298	1,470,502,630
1941	170,603,671	1,463,295,021
1940	207,599,749	1,454,761,737
1939	262,029,599	1,435,404,562
1938	297,466,722	1,424,252,369
1937	409,464,570	1,412,002,738
1936	496,046,869	1,360,349,902
1935	381,635,752	1,317,847,662
1934	323,845,634	1,305,421,004
1933	654,816,452	1,293,299,931
1932	425,234,294	1,311,881,157
1931	576,765,412	1,318,729,621
1930	810,632,546	1,296,794,480
1929	1,124,800,410	1,127,682,468

The question often is put to me: Why is it that the stock market, whenever it becomes at all active, attracts so much public attention? I do not have the answer. I would guess that one explanation lies in recollections of 1929.

In spite of the fact that any increase in market activity brings well-intentioned but unsound suggestions for further restrictions on our market, the New York Stock Exchange and other units of the securities business are fortunate in that they are exposed to close public scrutiny and interest.

The New York Stock Exchange and other securities organizations, for very obvious reasons, are more anxious than any government agency or other organization or group, to prevent a repetition of 1929. It is well to keep in mind the experiences of 1929 because a repetition of those experiences would be disastrous. We may be reasonably sure that many of the abuses of the 1920's will not recur. I say this because manipulation has been outlawed and because the Federal government today has the power to prevent excessive use of credit in our markets.

No one can say, with certainty, that we will or will not have another season of speculative excitement. We do know, however, that there has not been, in the recent past, and that there is not now any widespread margin speculation such as we witnessed in the 1920's.

The New York Stock Exchange and the Federal Reserve Board have proof of this. At the request of the Board, which has authority to fix margin requirements, the Exchange recently asked its member firms to report the total of open margin accounts on their books. The total of all such accounts, as of June 30, 1945, was only 137,752. The most recent previous comparable figures available are for the end of November, 1938, when the total of open margin accounts was 256,504. The Federal Reserve Board did not have this information as to the number of open margin accounts when it promulgated, on July 5, a rule increasing margin requirements from 50% to 75%.

The Board did have information, of course, as to the amount of credit being used to finance securities transactions. This information, reflected in the record of brokers' loans and debit balances, does not indicate any excessive use of credit. The question arises, therefore, as to the Board's purpose in increasing margin requirements at this time. A spokesman for the Board was quoted in the press as saying that it was hoped that the increased margin requirements would act as a quieting influence on the market. I take this to mean that the Board expected that the action might reduce public participation in the market or that it might restrain prices. Whatever the purpose, the step is an attack on symptoms. Unfortunately, the gesture may lead people to believe that it is a realistic effort to prevent inflation. It is not realistic in any sense. I realize that the Federal Reserve Board is concerned over the inflationary potential which exists, but I feel strongly that the only course to pursue is one which would reach the root causes of the problem.

Railroads in Peacetime

(Continued from page 1070)

ciently to adhere to steel. Now when you get a joint like that, a maintenance man goes out with a gadget and shortly the joint is restored.

Another thing that has been developed since the war is the Sperry car for detecting fissures in rail. One of the greatest causes of wrecks and one of the greatest headaches to the railroad engineer is that steel, under certain temperatures and pressure will fracture. It just shatters like sand.

If you bought 20 miles of rail, let's say, in 1940, and you developed four or five fissures in it, in normal times the alarm was so great that the entire 20 miles of rail would be taken up. In 1940 and 1941 the Sperry people developed this car. Now you hire this car, or you buy one. It goes along the rail and when it discovers a fissure in the rail it dumps a bit of whitewash and they take the rail out. That one operation alone has cut the cost of rail maintenance about 50%.

Passenger Business

Another tremendous change in peace time will be the passenger business. Ordinarily the railroads lose millions a year carrying passengers. In my opinion, the cars which were offered to you for travel were not fit, ordinarily, for human occupation; yet the railroads were forced to run them.

The revolution that is going to occur has already happened to a considerable extent on the Rock Island. The Rock Island management, rightly so, said, "If we must run these trains, let's give the public something to ride in." They now are approaching the point where about 50% of their passenger trains are the streamlined, air-conditioned Rockets. They were making money on them—even before the war, and I believe they will after the war.

In my opinion, all the passenger cars which existed in 1938 and 1939, with the exception of the streamliner cars, should be dismantled and "junked," as should be the Pullmans of ancient vintage.

I believe the railroads should eventually introduce a rate of a cent a mile with air-conditioned streamlined trains, all coaches with reclining chairs, and recapture a great deal of the business which they lost to the busses. Frankly, I don't think the busses will care very much, because they have found out that their profit is in "short haul" travel rather than "long haul."

I think the air lines will take the major portion of the Pullman business, and I rather hope they do, because, in my opinion, the railroads lose money on the "long haul" Pullman business. In the second place, the air lines tell us they are going to get the rate down to 3½ cents a mile. It's 4½ cents now. I question whether you will travel by Pullman at 3¼ cents, when you can travel by air at 3½ cents.

Therefore, I have hopes that over the next four or five years the equipment which the railroad offers will bring back to the rails sufficient business so that the railroads will at least break even, which means a gain of millions in net income.

Better Railroad Management

Almost all railroad management has changed in the last decade, or will change over the next two or three years. In my opinion it has been for the better in most cases. In any event, railroad management is now conscious of the fact that they have nothing to sell but service, service to the public, and the public is going to uses the service which they prefer regardless of arguments about subsidization.

On the question of stability, the railroads are a service industry, and they are as stable as industry generally. Competition with trucking and bus services in peacetime will be regulated by the ICC and by the labor unions. Even before the war the truck operating ratio was up to around 96% and unless the working rules are changed, gas taxes reduced, and rates increased, I doubt if private money will ever again try to finance trucking companies.

Prospective Reduced Costs

On the question of excess profits, the railroads were hit the worst; far worse than any other industry.

In 1944 Atchison paid in excess profits tax alone, $48 per share. To mention a few more, the Coast Line paid $39 a share; the Nickel Plate almost $50 a share; the Illinois Central $26 and the Union Pacific, $47 a share.

In addition to that, in 1944, in overtime payments, the figures were somewhat astounding. There again, Atchison paid, last year, in overtime, $10 a share; Chicago North Western, $11 a share; Nickel Plate, $18 a share. Those that were hit the hardest by EPT will gain the most by the repeal of EPT. If we know anything about taxation, we are going to get the complete repeal of EPT. Otherwise there will be no incentive in this reconversion period to actively engage in business.

Before the war, railroads were under industry generally in wage payments. Now they are over industry generally. Before the war they were not competitive with Dow Chemical and duPont, Allied Chemical and General Electric. Railroad workers were underpaid in relation to industry generally. Now they are above the average for industry. So the rails are no longer in that vulnerable position. Personally, I think prices and wages are going higher. I see no other way of servicing 300 billion dollars worth of debt. **Therefore, I expect higher wages on the railroads, and likewise higher rates.** There is no reason why the railroads can't get higher rates if the automobile companies are going to be allowed to charge substantially more for cars than they did before the war.

After the last war, we had somewhat the same situation. We had wage increases between 1920 and 1930. Now that all transportation is regulated, rails will not have to worry about raising rates because we might lose business to competitors. If railroad rates are raised, trucking rates will be also.

(Continued on page 1134)

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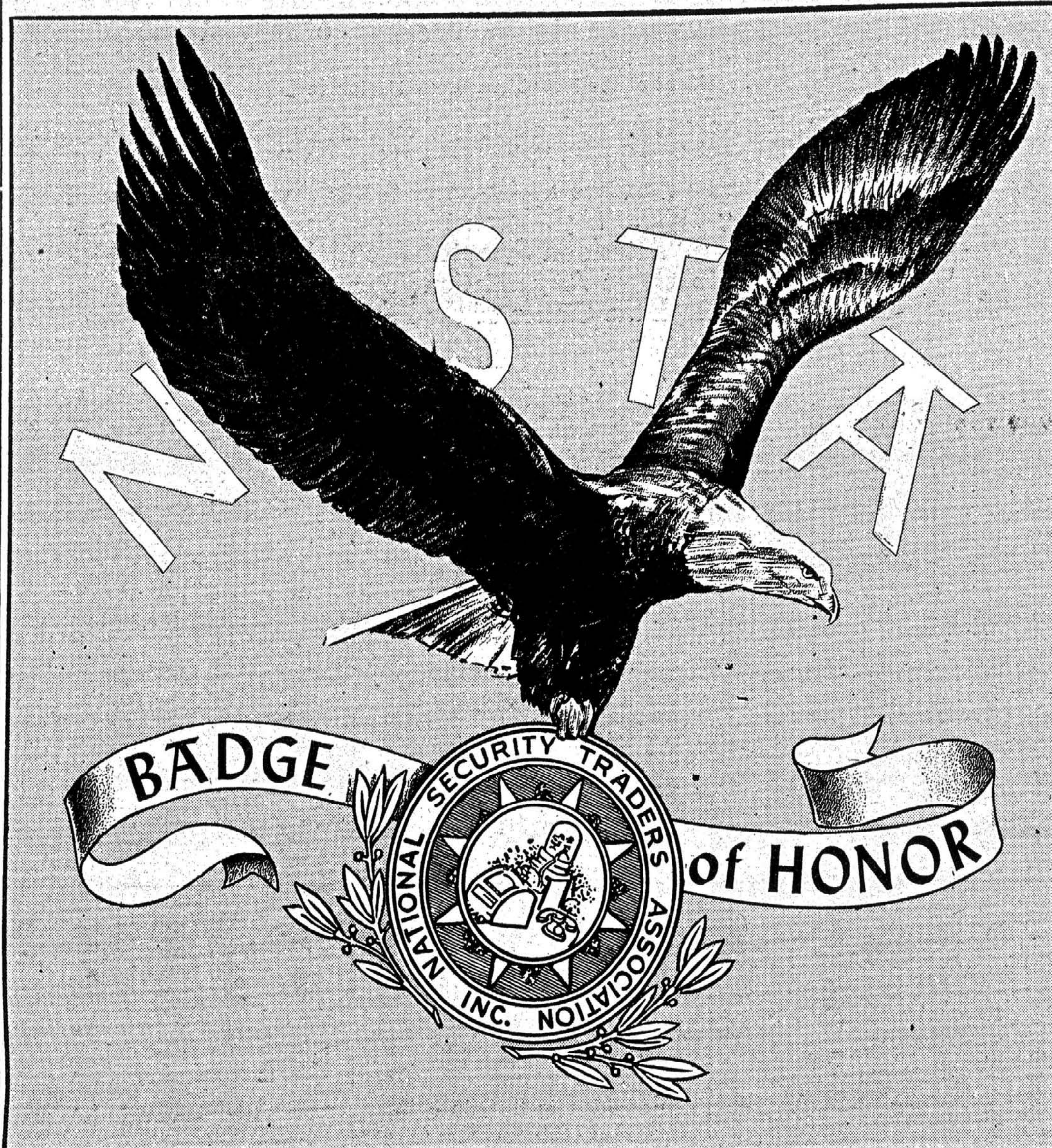

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Expanding Post-War Investments

By A. M. SAKOLSKI

Dr. Sakolski Points Out That There Has Always Been Increased Investment and Speculation Activity After Our Major Wars, and That, in Line With Our Past Progress and the Spirit of American Enterprise, Increased Investment Will Follow This War Unless It Is Prevented by Stifling the Spirit of Risk Taking Through Governmental Restrictions and Paternalism. Sees Probability of Growth of Properly Regulated Investment Trusts and Real Estate Participation Ventures as Well as Renewal of Foreign Investments. Urges That Both Investment Dealers and Traders as Well as the Public Be Better Educated in Investment Principles.

Every American war has brought in its wake an expansion of speculation and investment. Even after the Revolution, more than a century and a half ago, when so-called "finance capitalism" was in its infancy, there was a distinct and widespread awakening of speculative enterprise and an unprecedented indulgence in risk taking ventures. Not only were the trade and shipping projects which were interrupted by the war renewed and expanded, but new fields of material gain were sought after. Corporations were then almost unknown in America, and existing securities comprised the state and federal debts, which were either non-interest bearing or in default. Yet these, along with wild lands, soon became a pronounced and active field of speculative and investment activity. It was in this period that Americans first gained the world wide reputation of being venturesome speculators and unconscionable seekers after pecuniary gain. And it was in this period, when Government bonds and bank stocks were first publically dealt in, that a securities market was born in the Western Hemisphere. The first organization of the New York Stock Exchange on May 17, 1792 is evidence of all this.

A. M. Sakolski

The Post Civil War Expansion

There was much the same development after later major wars. Following the War of 1812, manufacturing ventures, as well as canal, turnpike and mining projects received a sort of violent stimulus, and new bonds and shares were widely distributed among the population. But it was not until after the Civil War that trading in the securities of all sorts of ventures became a fashion, and dominated the American spirit for gainful enterprise and risk taking. The field of investment was broadened and diversified. It comprised not only lands, urban real estate, banks and railroads, but spread into public utilities and industrial concerns. It was at this time that the great industrial "trusts" were born and developed rapidly—expanding into all sorts of undertakings, from whiskey production to rope making. Securities markets and securities trading sprung up in many localities and have been maintained in all the leading population centers throughout the nation.

World War I Aftermath

Following the first World War, as many now living know, there was another outburst of speculative fever, and the field of investment was still further broadened. What happened then hardly needs recounting. But, in line with the optimistic and progressive spirit of American enterprise, it was in the very nature of things. Nothing else could have been expected—and repression would have been fruitless and detrimental to the national spirit. As time progresses and the individual becomes possessed of increasing wealth, the spirit of risk taking among the population does and should become more widespread. So, it was no abnormal phenomenon to see a larger proportion of the ordinary people than ever before buying securities and indulging in speculations with their surplus funds. The sale of Liberty Bonds to millions of the people may have been partly responsible in stimulating this movement.

Now, we will soon have another aftermath of a victorious war! Will the public seek new fields for the investment of funds? Can the spirit of striving for greater wealth be subdued? Can speculation be curbed? If abated in one field will it not crop out in a new direction? Will we have another Florida boom? Will Americans, if curbed in speculative activities at home, seek "easy money" abroad? Or will the whole spirit of venturesome enterprise be so stifled by restrictions, regimentation, pensions, doles and other bureaucratic paternalism that the population will be led into the serfdom of economic complaisance, looking merely to government to take care of their material welfare, their provision for old age and their

(Continued on page 1140)

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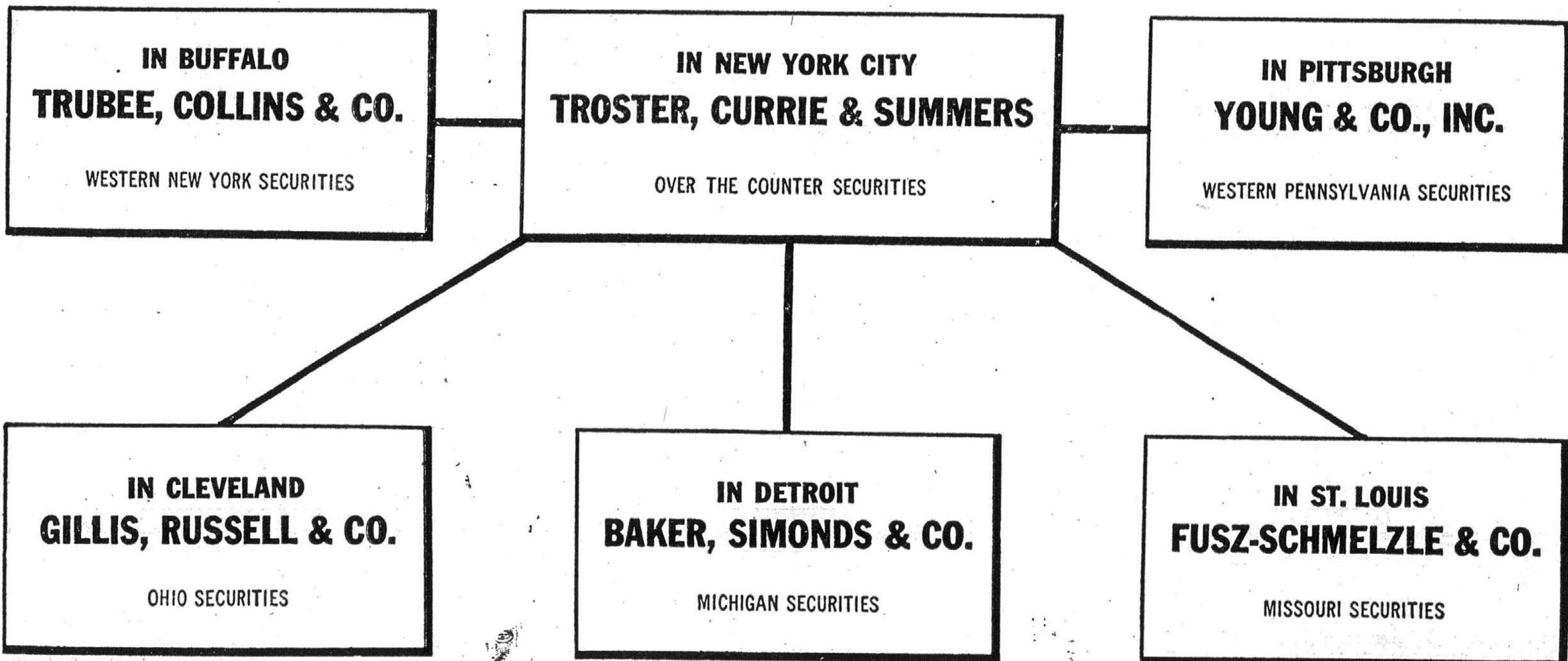

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Medium and Low Priced Shares Outlook

By L. D. SHERMAN
L. D. Sherman & Co., New York

Mr. Sherman Holds That With Prospects of Expanding Corporate Earnings, Investment For Appreciation, Rather Than For Fixed Return Offers Greater Advantages, and That There Are a Great Many Smaller Corporations Whose Securities Offer Opportunities for Substantial Profit

The dramatic war years, culminating in triumphant victory, have drawn to a close. We have sacrificed much in life and treasure, yet with all our prodigious expenditures, our economy rests on a far more solid basis than that prevailing prior to our entry into the war.

Lee Sherman

Much has been said and written about our transition from a war to a peace basis. We find no basis of fact for many of the dire prophecies of unemployment and post-war depression. True, there will probably be some unemployment during the period of adjustment, necessitating relocation of labor. Pending retooling, there may be a temporary decline in the volume of business and in the velocity of bank deposits. Yet these are transient considerations. Of far greater import are the well defined prospects for a volume of peace business which will dwarf any peace period in the history of the United States.

Let us be realistic: our currency in circulation has grown from about five billion dollars to almost twenty-four billion dollars. Our public debt has expanded from about thirty-two billion dollars to close to three hundred billion dollars. The potential amount of credit which can be made available is for practical purposes without limit. The resources of the individuals as evidenced by savings bank deposits and life insurance, have increased to a volume never before attained.

Industrial requirements for restoration of capital assets, for installation of and addition to plant and equipment are greater than ever before. Railroad equipment, way and structure is in urgent need of replacement. The building industry is on the threshold of the greatest expansion in a decade. In every field of industry, technical progress and new products insure a large consumers' demand. In brief, our domestic market for goods and services promises to become the envy of the world. All this, together with the proposed downward adjustment of the corporate tax structure, augurs well for an extended period of sustained prosperity.

The problem of the investor is —of course—the application of the promising economic outlook to his own advantage. Except for restricted or institutional purposes, investment for appreciation, rather than for fixed return, seems more advantageous on the eve of a period of expanding corporate earnings. Numerous corporations have reduced or retired their funded debt and redeemed their preferred stock until their common stock is their sole capital obligation.

There are, of course, thousands of common stock issues and the choice of proper media is of paramount importance. Stocks of larger, well known enterprises occupying a leading position in their respective industries are selling at prices reflecting their popularity. There are, however, a great many smaller corporations not well known to the general public whose securities are in the so-called "medium-price" category and it is in this field that relatively greater opportunities for profit may be found. The small capital structure of these enterprises and the anticipated substantial increase in their earning power provides an important factor of leverage. Medium and low-priced common stocks merit the investor's serious consideration.

While indiscriminate speculative purchases are not recommended, it is our considered opinion that a portion of available funds be diverted to the investment in medium-priced and low-priced common shares.

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Future American Foreign Investments

By THEODOR M. VOGELSTEIN

Mr. Vogelstein Noting That Though Many Americans Seem to Dread Investment Abroad, Asserts There Will Be a Necessary Trend for the Richest Country, Like the Rich Individual to Seek Investment With Surplus Funds. Points Out That, as in Private Finance, Successful Foreign Investments Need Not Require Redemption or Liquidation by Transfer of Funds, Since a Rich Nation Does Not Wish to Repatriate Its Capital. Argues That Great Britain Will Be Able to Recover and Again Become a Creditor Nation, and That the Best American Opportunities for Investment Will Be in Great Britain and Western Europe.

I

There is at present a curious contrast between the American and the British attitude toward foreign investments. The British are worried over the great decrease in foreign holdings which they were compelled to give up as part payment for their unfavorable foreign balance during the war. They had to do the same in the first World War. But during the inter-war period until 1931 they had tried with a remarkable, if not a full, success to reestablish their old position as international creditors and investors. Despite some former Keynesian theories, the English are longing for the day when their foreign holdings and foreign liabilities will again be in balance.

Theodor Vogelstein

A great number of Americans seem to dread the idea of becoming the great creditor nation and the foremost holders of investments in many countries. It is similar to a phobia one may have to assume the role of the rich man. Or one could compare it with a man sighing how happy he was when he earned $50 a week and when he borrowed $5,000 for his first business, while he now had to worry over his investments and his income tax and even the inheritance tax his estate will have to pay. But the poor rich fellow cannot help it. He must go on worrying whether he invests in bonds and shares which may go down, or leaves all in bank balances of dollars which may be devalued or may at least lose in purchasing power by a general rise in prices — or if he hoards gold which the Government may seize.

Nevertheless, he is striving and flourishing with his worries even if his broker disturbs him during his trip to California at 7 a.m. with the news that Kalamazoo Thunderstorm shares have opened 10% up and he ought now to decide whether to sell or to hold on.

In our days long-term credits or investments are normally not given for consumption purposes. But under certain conditions such consumption credits may be unavoidable in order to sustain or restore the health and the power to work and thus may be indirectly production credits. However, leaving out these consumption credits, one has to suppose the investment of capital, if not misdirected, should provide not only for replacement or depreciation but also to yield above that a surplus. In other words, the debtor should have the means to amortize the loan (or capital) and also to pay interest or dividends.

But supposing his business needs or warrants increasing investments for some time to come, he can pay only interest and amortization by new borrowings or new capital issues or by asking his creditors or shareholders to leave not only amortization of the loan but even the interest and dividends in his business for ploughing back.

This may be effected by various methods. The entrepreneur may simply not pay dividends and will keep all profits and certainly depreciation in his business irrespective whether he issues additional shares or not.

Thus the Sun Oil Co. now paying only a token cash dividend to its shareholders, and yielding to its stockholders much less than Government bonds, is a good example of a big concern acting in that way. Certainly, if there were no taxes, they could just as well pay out all profits and increase the capital by new issues; or if there were no private shareholders and no fear of undistributed profit taxes, they could stop all dividend payments as long as the business needs the amount and can profitably employ additional capital.

All growing industries or growing businesses, whether conducted as public companies or as private firms act that way in the period of development. They make profits, large profits, but they are unable to pay them out, unless they make complementary capital additions from other sources. Otherwise, the "transfer" of profits to the capitalist—the domestic capitalist—would restrict the profitable enlargement of the business.

II

There are at present two theories existing in the United States as to foreign investments, both of which, in the opinion of this writer, do not fit present conditions. The one holds that, with the return to orthodox finance, sound monetary policy and comparatively free trade, every debtor country will automatically be able to pay interest or dividends and also the capital refund to the creditor nation.

The other one considers any foreign investment as dubious and more or less lost beforehand if the debtor country cannot prove its ability of repaying the investments by its exports to the United States.

Both approaches do not seem realistic. The optimistic opinion, while only partly correct, for the long run overlooks the plight of the war-torn European nations which will not automatically produce any export surplus (including "invisible" exports) within a few years, at least not without severe Government restrictions on consumption and quick rehabilitation. They will not produce such export surplus in the near future, and they should not, if we wish the world to reach some kind of normalcy in a short time.

Redemption in any case could not start for some time to come and even interest will have to be paid by additional borrowings for the first few years. This, anyhow, is nothing unusual and unheard of, since it conforms to early periods of development in "colonial" and similar countries. In this connection, we may leave the question open whether or not the American tariff would allow the debtors to send enough goods here for interest and liquidation.

Certainly this does not mean that the individual enterprise, i.e., a power station or a steel plant, should not be amortized; the only question is whether or not this amortization is transferred or reinvested in the same or some other enterprise of the debtor country.

The pessimistic theory is still less realistic, even if the facts it presumes are correct not only for the years of transition but for decades to come. The whole idea that credits and investments ought to be repaid and liquidated and that interest and dividends have actually to be transferred from one country to the other, shows that the protagonists of this doc-

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The Post-War Pattern of American Banking

By FREDERIC EDWARD LEE
Professor of Economics, University of Illinois

Dr. Lee Analyzes the Proposed Possible Changes in Banking as (1) Resort to 100% Reserve Banking as Put Forward by Professor Irving Fisher; (2) the "Eccles Plan" of Fluctuating and Varying Regional Reserve Requirements; and (3) the Complete Nationalization of Banking and Credit as Contained in the Program of the British Labor Party. Points to the Large Commercial Bank Holdings of Government Debt as a Motive for Nationalization of Banking and Elimination of the State Banks and Warns That When Banking and Politics Mix "It Is Always Bad for Banking." Sees More Government Control Ahead.

What lies ahead for American banking in the early post-war period? Will it be "100% Reserve Banking," with the Government doing all or most of the lending? Will bankers be civil servants working for the Government in a government-owned commercial banking system? Shall we lose our **dual system** of banking, which, in a sense, has characterized American banking for 155 years since the First Bank of the United States was superimposed upon the three or four state banks then existing in 1791? Shall our system provide for more or less branch banking in the post-war era?

Dr. Frederic E. Lee

He would be a bold prophet, indeed, who would attempt to give a categorical or final answer to these questions, but the answer to them is so important and vital to our free enterprise banking structure that, before the things involved come to pass, the possible results and consequences ought to be faced squarely and considered carefully. The apparent apathy of the public generally to many of these questions needs to be eradicated by the creation of an educated public opinion after the facts of the situation are carefully weighed.

Public Opinion on Banking Is Inarticulate

The real difficulty in the matter lies in the fact that public opinion on banking is unorganized and inarticulate. With the great mass of the people—the rank and file—there is altogether too much indifference to what happens to our banking system. Bankers themselves have been hesitant to speak out as many of them have been far too much intimidated by the demogogic crusade against them in the early 'thirties. They remember too well their days in the "dog house." Even in the recent hearings on the Bretton Woods proposals when organized bankers expressed themselves through the American and the New York Bankers Associations, some of the old familiar epithets were hurled against them. In a period such as the present it is not enough to say that the public does or does not want any of these developments in banking to take place. If an educated or enlightened public opinion wants 100% reserve banking or government-owned and controlled banking, then the public can ultimately get what it wants. What is needed now is that these questions should be considered dispassionately in the light of cool reason and reflection, while there is still time to consider these matters before they become **fait accompli.**

Votes in a public election do not adequately reflect public opinion on an economic issue, and the same might be said for votes on the floor of Congress. Attempts were made a few years ago to get at a more intelligent method of arriving at the nature of public opinion on certain economic questions than that of interpreting votes in an election as a real expression of public sentiment. A "Statistical Survey of Public Opinion" was made by the National Industrial Conference Board. Twelve thousand editors of newspapers and farm journals were asked a series of questions regarding the public attitude, as they interpreted it, toward current economic and social problems in their communities. Five thousand and fifty replies were received. One of the questions asked was, "Does public opinion in your community favor government taking over the banking system?"

In the 5,050 returns made, 4,756 replies were made to this question. Of these replies, 1,691 were favorable to the government taking over the banks of the country; 2,839 were opposed, and 226 were doubtful. These figures represented educated public opinion at least on the part of the editors replying. They had probably given much more thought to such questions than had the majority of their readers. Put on a percentage basis, these figures mean that in 36% of the communities represented in the survey, public opinion seems to favor government ownership and/or control of banking. Only 59.7, or roughly 60%, of the communities were opposed to such action, whereas 5% were listed as doubtful. These 4,756 replies to the question were from editors with a combined circulation of 22,744,000 papers. On figures given, again reduced to a percentage basis, 39%, or newspapers with a circulation of 8,842,000, were favorable to a government control of banks; roughly 53%, or those with a circulation of 12,153,000, were opposed, while about 8% were listed as doubtful. This was the considered judgment of the editors concerned as to what would be the sentiment of their readers at that time on this important question. Heated controversy and bitter partisan propaganda might easily warp or mold public sentiment on such a question one way or another.

What of 100% Reserve Banking?

One Hundred Per Cent Reserve Banking, as defined by its advocates, may take one of two forms. In either form it would tend to revolutionize present banking practice. Perhaps the plan that is most familiar is that embodied in Professor Irving Fisher's **"100% Money,"** published in 1935. This plan would require all banks to hold 100% against their demand deposits—"checkbook money," as Fisher calls is—in the form of Currency Commission or United States inconvertible notes. No loans could be made or credit extended in any form from these deposits. To get the Currency Commission or other notes the banks would turn over to the Commission enough of their bonds or other assets to bring their reserves up to 100% of their checking deposits. There would be no more "derivative deposits," i.e., deposits which arise out of the process of extending credit. Capital loans could be made out of savings deposits, which, according to Fisher, would have to have only 3% reserves, which was the old traditional reserve on time and savings deposits in the Federal Reserve system prevailing at that time. The bankers could lend their own money—their capital resources—as short term loans, but presumably beyond that Government lending agencies would

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Entrance to the
"MARKET PLACE of the MIDDLE WEST"

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Social Credit In Alberta

By JAMES E. LE ROSSIGNOL
Dean, University of Nebraska, College of Business Administration

Professor Le Rossignol Tells the Story of the Social Credit Party in Alberta, Can., and the Legislative Efforts to Put Into Practice the Theories of Major C. H. Douglas. He Shows Why the System Failed and Recounts the Constitutional Difficulties Which Finally Resulted in Its Collapse. Says Social Credit Party Still Survives, and That With a New Debt Refunding Program, Alberta Is on the Road Toward Financial Rehabilitation.

During the depression of the Thirties, the provinces of Saskatchewan and Alberta suffered more than the rest of Canada because of the low price of wheat, expensive transportation, drought, frost, hail, insect pests, and debt; so it is not surprising that various forms of radicalism have flourished there. Saskatchewan has turned to the pink socialism of the Canadian Commonwealth Federation, and Alberta has experimented with Social Credit under the leadership of William Aberhart, B. A., sometime schoolmaster, who for years carried on religious and political activities as Dean of The Prophetic Bible Institute and Premier of the province.

J. E. LeRossignol

Wm. Aberhart had been using the radio for his evangelical broadcasting since the year 1926 and when, several years later, he became a convert of the Scottish engineer, Major C. H. Douglas, he began to teach his large following and many others the new gospel of social credit. Presently Mr. Aberhart became the acknowledged leader of the Social Credit Party and when they won the election of Oct. 14, 1935, they found him a seat and raised him to the Premiership, which office he retained until his death on May 17, 1943.

The main point of the Douglas doctrine is that, under the present economic system, there is necessarily a current deficiency in buying power as expressed in the "A" and "B" theorem, "A" being wages and "B," other costs of production. But inasmuch as "A" is assumed to be the whole of buying power, it can never be large enough to buy goods which cost "A" plus "B," and, therefore, new buying power must be introduced to make up the shortage.

The theory surely is unsound, as rent, interest and profits are part of the national money income and, as such, are buying power, even as wages. Then, too, Major Douglas, in advising the continual issue of new buying power, has set himself an insoluble problem: to find artifical buying power that does not come from taxation or from borrowing and will not lead to inflation.

In justice to Major Douglas, who has been blamed for the futile experiments in Alberta, it should be said that in his report to the Government in June, 1935, he expressed doubts as to the success of Social Credit in the province because of constitutional limitations, the rock on which it was later wrecked. It should be noted also that Douglas wished to regulate prices downward and compensate the producers by issues of irredeemable currency, whereas the farmers of Alberta wanted higher prices.

In Mr. Aberhart's "Social Credit Manual," published before the election of 1935, he gave an exposition of his own scheme, of which the chief features were basic dividends, non-negotiable certificates, the unearned increment levy, and price control.

The promise of basic dividends which, together with bitter denunciation of the banks and other money lenders, won the election, was for monthly payments of $25 to every bona fide citizen and smaller payments to minors, to secure for them the bare necessities of life as part of the "cultural heritage" and to make up the shortage of buying power.

These dividends were to be paid in "non-negotiable certificates" issued by a Provincial Credit House and backed by a levy of 5% on the "unearned increment," the price spread between the cost of commodities and their selling prices. As the buying power of the certificates would expire at the end of the year following receipt of them, Mr. Aberhart believed that they would circulate rapidly—at least twelve times a year—and that the levy would yield as much as $120,000,000 for the payment of basic dividends.

The Scheme in Action

The scheme of Mr. Aberhart was not strictly followed after the election, but in April, 1936, the provincial legislature passed the Social Credit Measures Act designed "to bring about the equation of consumption to production and thus to ensure to the people of the province the full benefit of their association."

Under this act the Government during the summer issued about $262,000 in "prosperity certificates," otherwise known as "scrip money" or "rapidity dollars." These certificates were paid out as part wages to laborers in relief work and for other government expenses and were expected to circulate rapidly as the holders were required to put a one cent stamp weekly on every dollar bill which, in the course of two years would provide a redemption fund of $1.04. This, to be sure, was not a Douglas scheme, but part of the rapid money plan of Silvio Gesell.

As the affixing stamp was really a sales tax in every transaction, and as the certificates were not receivable for taxes, nor welcomed by the banks, nor accepted outside the province, and as the legislators declined to take them in part payment of their salaries, their circulation was limited and brief. The Government, therefore, provided for their redemption and finally, in April, 1937, decided to abandon them altogether, and to redeem those outstanding—approximately $12,000—at their full value. Naturally, many of them have been kept as souvenirs.

The same act provided for the creation of the Alberta Credit House, a provincial bank under the Treasury Department with power to establish branches, receive deposits, and make loans without interest in non-negotiable certificates.

The act also provided for a system of voluntary registration under which about 350,000 persons are said to have registered as the first condition of receiving the long awaited basic dividends and as a preliminary step toward the price-fixing system. In thus registering, for example, a farmer agreed to sell part of his crop for credit certificates, when called upon to do so. Similarly, employees agreed to take part of their wages in certificates and merchants agreed to accept the certificates and deposit them with the Credit House.

The Credit House did not long operate according to plan, but it still exists, with some 34 branches and deals largely with the cooperative associations, as well as with individuals, has deposits of about $20,000,000 and does something more than 10% of the total business of the province. It makes loans in actual cash at from 3½ to 5% interest and is said by its friends to have brought about a reduction in the taxes charged by the chartered banks.

As might have been expected, registration did not provide the desired dividends, but the impatient registrants, many of whom were debtors, were placated later by the Provincial Securities Interest Act of June, 1936, and the Reduction and Settlement of Debts Act of September. By the former law interest rates on provincial bonds and government guaranteed securities were cut from an average of 4.89% to 2½% and the right of access to the courts was denied to the creditors.

By the latter act, which applied only to farmers and resident home owners, in case of debts incurred before July 1, 1932, interest was wiped out from that date and later payments were to be applied to the reduction of the principal. New debts also were scaled down. This act also gave power to the Lieutenant-Governor to declare a moratorium, not only as to past debts, but as to future debts as well. The only relief granted to the necessitous creditor, the forgotten man, was that he might apply to the Debt Ad-

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The Future of Postal Savings

By LOUIS HOUGH
Associate Professor of Economics, Miami University, Ohio

Professor Hough Recounts the Advantages of Postal Savings Banks as a Means of Encourging Thrift and Securing the Safety of Small Savings, and Estimates That It Is More Profitable to Holder if Postal Savings Certificates Are Held Less Than Six Years Than if Same Funds Are Invested in E Bonds. He also Compares Postal Savings With Commercial Banks, Thrift Accounts, and Though Admitting Latter Has Many Advantages to the Depositor, Holds That the Postal Savings System Should Still Entice Many of the Public. Notes Sporadic Growth of Postal Savings and Concludes That at This Time the Political Atmosphere Might Be Receptive to Abandonment of Postal Savings.

Special Advantages of Postal Savings

Why does anyone have a savings account in a commercial bank? This is a real question and deserves a careful answer. Postal savings pays 2% simple interest, war bonds pay 2.9% compound interest, and a few insured savings banks or building and loan associations are still trying to pay 2½ or 3%. Historically a commercial bank could offer better rates of interest, but those days are not likely to return in the visible future. The continued attraction of savings to commercial banks must be explained by their extra services, their convenience, and the habits of their customers.

Louis S. Hough

In addition to the 2% yield on postal savings the depositor has maximum safety, and immediate liquidity for small amounts. For large withdrawals, overnight notice is enforced. A number of other special services are offered. The post office is open more days in the year than banks and other savings institutions. It is open longer hours per day. Postal savings stamps, which carry no interest, are sold for ten cents. When a card of ten such stamps has been completely filled it may be exchanged for an interest bearing certificate. This arrangement is convenient for impulsive savers, for the lower income brackets, and for children.

Comparison of Postal Savings and Series E Bonds

War bonds and postal savings are equally secure, and have now been made equally liquid. The chief difference is in the yield. The interest paid on war bonds runs somewhat lower than 2% for the first six years. These bonds pay 2.9% only if they are held to maturity. Figure I shows the relationship between the amount accumulated and the number of years the investment is held. The postal savings system does not issue interest bearing certificates for any amount less than one dollar, but for purposes of comparison it seems most appropriate to calculate 2% interest on $18.75, since this is the original investment in a $25.00 war bond.

It becomes clear that it is more profitable to buy postal savings certificates if they are to be held less than six years, but more profitable to buy defense bonds if they are to be held longer. When the postal savings account is compounded annually (as is permitted) it grows slightly faster, but this adds only 36 cents over the ten years. Either form of investment helps the war effort as much as the other, and each is unquestionably safe.

Advantages of Saving in a Commercial Bank

In the first place, a commercial bank can offer credit standing to its depositors. If letters of reference and occasional small loans are important, there is considerable advantage in keeping the savings account in a bank. The post office does not supply credit references for its depositors and will not lend them money. The bank is much more likely to make funds available when disaster strikes.

One major disadvantage of the postal savings system is the difficulty encountered in getting the money out when the depositor suddenly dies, or becomes incapacitated. These funds may be greatly needed to help meet the emergency which has arisen, but their availability is delayed until the full term of the legal administration of the estate.

No one may have more than one postal savings account, and joint accounts are not permitted. Societies, partnerships, corporations, associations, and other groups may not open accounts, nor children younger than ten years of age. No trust accounts may be set up up to take care of young or incapacitated beneficiaries.

Families sometimes keep their postal savings in two or more accounts. There may be one for the father, one for the mother, and one each for the children older than ten. There is no loss of interest involved, and such an arrangement makes it possible for the household to save more than the $2,500 limit. Still more important, some emergency funds can be withdrawn by the dependents in case of the incapacity or death of either or both parents. But there is a great deal of inconvenience involved in sending all these persons to the post office to open accounts. Privately owned banking facilities present no such problem.

Most private banks compound the interest automatically, while in the case of postal savings it is necessary to make a trip to the post office during the right month, withdraw the interest and redeposit it. This is permitted only once during each twelve-month period.

The availability of commercial bank savings may be legally deferrable for 30 or 60 days, but few banks find it necessary to ask for any advance notice at all. In effect, commercial bank liquidity is immediate, and the legal regulations concerning notice of withdrawal could be removed at any time. Few depositors know they exist.

When the limit of $2,500 is reached the post office can offer the depositor government bonds. This is a fine thing during the dangerously inflationary war period, but in the post-war world the investment councilling services of the banks may again become highly valued. Banks also handle government bonds, and are able to suggest somewhat more remunerative securities in addition. Higher yields are likely to be attractive to individuals wealthy enough to save amounts running over $2,500.

Privately owned banks try to be courteous, considerate, and flexible, since they value customers' good will. Post office employees typically meet the special needs and requests of depositors by adhering impersonally to the letter of the Federal regulations. Enactments and precedents make such employees personally liable for any deviations from standardized procedures. In a bank some administrative official would be available for consultation.

Some depositors will prefer the commercial bank savings department because they must go to the bank in any case to cash their checks. Postal savings requires customers to carry dangerously large amounts of currency to and from the windows. Within the safety of the commercial bank building the customer can shift funds from savings to checking accounts. Safe deposit vaults, traveler's checks, cashier's checks, bank money orders, and other services are readily available. For

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The First Year After World War I

A Retrospect Of The Year 1919 As A Guide To Post-War Planning By Investors, Industry, Banking, Finance, Government and Labor

[Since V-J Day there has been such a widespread demand for copies of the "Chronicle" in which this review originally appeared that it is being reproduced in full in this issue.—Editor]

After World War I was formally ended with the signing of the Armistice on Nov. 11, 1918, our economy was confronted with the necessity of absorbing the 2,000,000 men in the armed forces in France and the 2,000,000 additional ones in training camps in this country—We had to contend with lay offs brought about by the cessation of the manufacture of munitions and other special work incidental to the prosecution of the war—Then, too, while the war was in progress our domestic economy was subjected to widespread dislocations as a result of the controls and restraints imposed on business and industry by the Administration—The nation is now undergoing even more radical changes in its fundamental structure than was the case in World War I—For this and other reasons, we believe it very timely and pertinent to present now a review of the situation which prevailed on the "home front" during the year 1919, the first year after the previous conflict. The record for that period as it appeared in the "Chronicle's" Financial Review is reprinted herewith:

The year 1919 was in many respects, and perhaps it would be entirely accurate to say in all respects, a distinct surprise. Certain it is that the year as a whole belied all its early indications—the trade and economic indications which were so conspicuously in evidence when the year opened. The negotiations between the Allied and Associated Powers for the purpose of imposing terms of peace upon the Central Powers, and more particularly Germany, were very protracted, being prolonged far beyond expectations, the course of the negotiations not always running smooth or placid. It was not until May 7 that the Treaty, as framed by the peace conferees and embodying the terms upon which the Allied and Associated Powers were willing to conclude peace with Germany, was handed to the German plenipotentiaries at Versailles, not until June 28 that the Treaty of Peace was actually signed at Versailles, and not until January 10 of the new year (1920) that the certificates of ratification were exchanged putting the treaty into effect which formally terminated the war.

Joseph P. Tumulty
Pres. Wilson's Sec'y

Not only that, but from the very first there was strong opposition to the Treaty in the United States. The opposition arose, not because of objections to the terms of peace imposed, but because the Treaty included a Covenant for the organization of a League of Nations, with practically perpetual and unlimited powers over its members within the scope laid down. The objections urged against this League of Nations were that it would involve virtual abandonment by the United States of the Monroe Doctrine, that it would deprive the country of sovereignty over its own affairs on critical occasions and that, instead of insuring perpetual peace to the United States, it would embroil this country in all European troubles and would thus be a flagrant disregard of the warning against "entangling alliances" uttered by Washington. The opposition found expression in the United States Senate, and was so vigorous and pronounced and so deep-rooted that ratification of the treaty by the Senate became out of the question, except by the attachment of numerous "reservations" and "interpretations," and these the Administration Senators (acting at the instance of President Wilson) would not accept, they taking the ground that these modifications would so materially alter the constitution of the League of Nations that the Peace Treaty would have to go back to the Allied and Associated Powers for approval of the changes made and be resubmitted also to Germany. The definite failure to obtain ratification after lengthy debate and many formal and informal negotiations, in committee and out of committee, and on the part of members of both parties acting on their own initiative to prevent such a result, occurred on November 19, and on the same day the special session convened by the President six months before adjourned. Accordingly the year closed without the United States having become a definte party to the Peace Treaty.

Elbert H. Gary

But the fact that the year 1919 proved a surprise in mercantile and financial affairs did not grow out of any developments in connection with the Peace Treaty, or because of the attitude of the United States Senate (and in which there was reason to think the Senate reflected the bulk of popular sentiment) with regard to the same. Outside the United States the Peace Treaty was never in jeopardy and if it received the assent of enough of the other leading Powers to make it effective, though lacking the formal support of the United States. Germany had been rendered helpless by the terms of the armistice and hence was forced to yield, assent to any terms of peace that its victorious enemies might see fit to impose, no matter how harsh or severe—and, as a matter of fact, the peace terms actually laid down were both harsh and severe—and a renewal of the war being thus out of the question the rest was of little consequence. Formal conclusion of peace might be and was delayed. But the war itself closed with the signing of the armistice on November 11 of the previous year. Were there the slightest doubt on that point, the authority of President Wilson himself might be invoked in support of the statement, for the President, when announcing the terms of the armistice, before a joint session of the House of Representatives and the Senate on the day named, only a few hours after the document had been signed, took occasion to say, "The war thus comes to an end," thereby indicating the absolutely conclusive nature of the arrangement.

Hence 1919 — notwithstanding the negotiations and proceedings in Europe and in the United States —constituted the first year *after* the world war. It is for that reason the course of the year proved a surprise in industrial and economic affairs. It was expected to be a period of reaction in business; instead there was only hesitancy at the beginning, after which the forward march was again resumed. It was supposed that the year would be one of readjustment—of return to the normal after the abnormal state of things, in every branch of trade and industry and in every line of human endeaver in every part of the world, engendered by the greatest war in human history. But far from a return to the normal, the abnormal became further pronounced and further accentuated. It was supposed that prices of goods and manufactures after their previous great advance would tend lower; instead they soared still higher. It was believed that the cost of living would be reduced; instead, it leaped further upward. Nothing seemed more certain than that wages would have to come down, but antecedent advances proved hardly a circumstance to the new advances that were to come in 1919. In place of the previous dearth of labor, there was now to be an over-supply (so the argument ran) but, except in the early months, experience proved the precise contrary, and labor remained scarce and was able to dictate its own terms. The great currency and credit expansion of the war was to be followed by contraction, and deflation was to succeed inflation; actually the exact reverse occurred. And so in a hundred different way the year failed to fulfill expectation and turned out far differently from what most people had counted on when it opened.

The explanation for the difference between expectation and result is found in the circumstance that the war, besides the havoc and destruction it wrought, exercised a profoundly disturbing effect in other respects. The war itself was a thing of the past. The agencies and influences growing out of it, or which were called into being to deal with it, continued in motion and steadily gained in momentum. If this is borne in mind, nothing strange will be found in the annuals and the experience of the year. Nevertheless, the striking contrast between the conditions and prospects at the beginning and those which marked the later course of affairs cannot be ignored, for it constitutes one of the significant features of the year's history. It serves, moreover, to explain why sentiment and opinion with reference to the probabilities of the twelve months, based on the apparent outlook at the opening of 1919, went so far astray. A cursory review of the situation revealed in the opening month, January, will serve to indicate how largely public sentiment was affected at that time by causes and circumstances which subsequent events showed to have been of a mere transitory nature. When the year opened, some of the post-war characteristics which had been looked for in industrial affairs were in evidence and it was supposed these were premonitory of what was to come in the whole range of industries throughout the year. There was a slackening of activity and some noteworthy declines in commodity values. Labor, which had been scarce up to the time of the armistice the previous November, now appeared to be becoming plentiful, and it seemed likely that this situation would continue, in part because of the discontinuance of the making of munitions and of other work connected with war activities and in part because of the return home of American soldiers from France and the continued demobilization at camps in the United States of the military forces which had been in training to be sent overseas. With the release from military duty of such large masses of men reports of growing idleness began to come in. It is true the idleness was by no means uniform, being pronounced mainly at centres where special war work had been done, and often little noticeable elsewhere. In the iron and steel trades banking of furnaces became prominent and with the booking of new orders reported less than half of current production the steel mills were engaged to only about an average of 60% to 65% of their capacity. Copper production had to be sharply curtailed, and though the large producers of the metal sought to maintain the price agreed upon the previous month, stocks of the metal were so large and the demand so inconsequential this was found impossible and prices rapidly drifted away from control of the producing interests. Sharp reductions in the prices of cotton goods were announced and raw cotton also suffered a sharp reduction.

Thus early in the year the indications pointed strongly towards trade reaction. The causes however, proved merely transitory, as already noted, though this was recognized by few at the time. Close reasoning seemed to support the theory at the time that the year must prove one of reaction and of a gradual readjustment to the normal. It appeared plausible enough to argue that the return of so many young men to their customary duties—the demobilization of the American army meant a return of 2,000,000 men from France and the discharge of those who had been in training at the military camps in this country meant the release of 2,000,000 more— would ensure a plentiful supply of labor, while the cessation of the manufacture of munitions and other special work incident to the prosecution of the war would turn loose still more labor and thus make progress toward the restoration of a normal course of affairs not only natural but easy and inevitable. In this early period of the year consideration of the immediate probabilities were freighted mainly with discussions as to the best means to employ for procuring work for the large numbers of men so suddenly released from military duty and from war manufacturing. The problem as it presented itself then was how to find jobs for the many applicants for the same. Great anxiety was manifested as to whether sufficient work could be found for all the returning soldiers; and in all the leading cities and towns the municipal authorities and public-spirited citizens interested themselves in establishing agencies and headquarters for the purpose of bringing together those looking for work and those having it to offer.

Even thus early there was a manifestation of the spirit on the part of labor that was to have a controlling influence on affairs and to change wholly the course and character of the year, making it a prolongation of the war's de-

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Wilson Leaving For Peace Conference

With a broad smile and beaming with confidence, President Wilson is pictured as he left for Brest, France, to attend the Peace Conference in Versailles in April, 1919. It was his second trip to Europe following the Armistice of Nov. 11, 1918. . . . During his first attendance at the Peace Conference Wilson had thrown himself doggedly into the work of persuading the Conference to write a League of Nations Covenant into the Peace Treaty itself. . . . At home others were lining up to prevent our entry into the League.

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Rail Revenues to Decline

By GALE B. CRUTCHFIELD
Vice-President, B. W. Pizzini & Co., Inc.

Railroad Analyst Looks For Substantial Decline in Gross Earnings Which Because of Expense Rigidities, Cannot Be Immediately Offset by Lower Operating Costs. Points Out That Although in 1944, Gross Earnings Were at an All-Time Peak, the Excess Was Largely Absorbed by Higher Operating Costs and Taxes, So That Net Earnings Were Less Than in 1929. Says Reduced Earnings Will Not Cause Widespread Bankruptcies, But Rail Equity Securities Will Be Affected Adversely. Warns Against "Dumping" Good Railroad Securities.

Let us look to the level of gross operating revenue for the first clue as to what might happen to the railroads during the period of post-war adjustments. A common fallacy is to keep the eyes on the net operating income. It has been proven time and again that when the level of gross operating revenue begins to drop railway managements are up against it in trying to cut down expenses in order to keep costs in line with revenue intake. Rigid costs are pretty high right now. Moreover, the managements would like to spend a lot of money on deferred maintenance and in buying new equipment. Whether they will feel inclined to do this right away is a matter for conjecture. It depends in great extent upon the level of gross operating revenue—not on net income.

Gale B. Crutchfield

During the war period the railroads, as well as many industrail concerns, were denied materials necessary to provide maintenance of properties in line with the level of business. Furthermore, the tax rates were such that a considerable part of the inflated earning power was captured by the war-time levies. In other words, capital has been devouring itself during the past several years. Sooner or later it will attempt to regain the lost fat if tax rates and, in the case of the railroads, the governmental policies allow this to be done. Anyway, for a time the prospects for liberal net earnings do not look too inspiring.

A Statistical Comparison

In 1944, 132 Class I railroads produced gross operating revenues in the aggregate amount of $9,436,800,000. THIS WAS A PEAK FOR ALL TIME. This amount compared with gross operating revenues of $4,166,000,000 in 1937, generally considered to be a fairly good business year. Gross operating revenues amounted to $6,279,500,000 in the "bull market" year of 1929. Thus, the evidence seems to indicate that the level of gross operating revenue is in for a considerable decline. In fact, during the near-term future it is hard to visualize any amount of consumers' goods freight movement that would replace as much as 50% of prospective loss of wartime heavy-goods traffic.

Therefore, it would seem that railroad managements will shortly be faced with the task of cutting down operating expenses to balance a prospective sharp drop in the railway's gross operating revenue level. It is observed that despite an increase of about two billion dollars in gross operating revenues between 1942 and 1944 the operating expense ratio increased from 61.6% in 1942 to 66.6% in 1944. The expense ratio went up—not down—with the increase in revenue! A part of this, of course, was attributable to higher wage rates. In addition, the tax collector has been taking nearly 20% of the gross revenue intake during the past several years.

Up to this time we have not mentioned the items that have seemed to be all-important to many railroad analysts—the level of net railway operating income after taxes and the amount of net income passed down into equities. These factors look good when examined on the basis of several years of constant growth in gross operating revenues—but they certainly will not look good during a period when the gross operating revenue is dropping!

It is noted that in 1944 operating expenses for the 132 Class I carriers amounted to $6,282,000,000 and tax accruals to $1,846,200,000 — leaving a net railway operating income of $1,106,300,000. This amount of "earnings available for capital" was, in fact, about $200,000,000 less than in 1929 when the level of gross revenue was smaller to the extent of $3,157,300,000. Naturally, the income taxes in 1944 were $1,449,500,000 higher than in 1929, and this affords a certain degree of cushion against decline in gross revenue. We will add to the 1944 net operating income of $1,106,300,000 about $170,000,000 of "other income" which will give us $1,276,300,000 available for charges. These fixed charges that you hear so much about the railroads being burdened with, they add up to a mere $536,000,000, or not two times the wage increase granted in 1943, not to mention such increases granted in 1941. Deducting the fixed charges, the carriers were left with a net income of $667,600,000 in 1944—less than 6½% of gross. A good part of this net figure was used to buy in bonds and reduce charges and to fortify working capital.

Expected Gross Revenue Drop

After this statistical mouthful, let us proceed with a few guesses as to what is likely to happen when gross revenue starts to fall. It seems reasonable to assume that the big gross revenue during the last four years was largely attributable to the pumping of hundreds of billions of dollars into war goods production and to diversion of traffic from highways and coastal boat routes, reasons for which you are well aware. Now the war goods production will stop; and the diverted traffic is apt to gradually leave the rails. A logical guess is that traffic will drop back to the 1937 level—let us assume that gross revenue drops to $5,000,000,000, though this could be increased by freight rate boosts. If it came suddenly enough, a $4,436,800,000 drop in gross revenue could virtually wipe out the railroad's margin of earnings in many cases. The managements would not be able to cut expense costs fast enough. That is what happened in 1930 and 1931.

Why not take Chicago & North Western Railway as an individual example to illustrate the picture? We have no notion of picking on C. & N. W.; but it is in excellent current condition. It has just come through a reorganization and in 1944 earned its fixed charges 6.44 times. Gross operating revenue in 1944 attained a level of $166,966,000 and the road had $24,345,000 available for fixed charges. A 40% drop in traffic would lop off about $69,000,000 in revenue. A guess would be that the management could hardly protect half of the earnings level. This might wipe out equity in earnings for stocks for a time.

We admit that thus far we have painted a very harsh picture. In fact, it could work out much better than we have painted it. There is a much better side in the longer term outlook for railroads and railroad securities. The better side to the picture should arise after adjustment of current operating expenses and taxes to an extended "normal" outlook for traffic and gross operating revenues. The DROP PERIOD is what hurts because it is a difficult job for managements to keep costs going downward in line with declining revenues. Rigidities in the expense level are not too easy to deal with owing to union rules; partly to real estate and other taxes. Managements are usually faced with problems of jockeying between a rigid cost structure and a rate structure based on the idea that the railroads are a monopoly.

Rails Still Basic Transportation

Back in the "horse and buggy" days the railroads did have a practical monopoly on traffic. A regulated rate structure was set up based on what each type of traffic could reasonably bear. In those days a shipper was assumed to need over-all railroad service. High-priced manufactured goods could bear a freight rate of more than 2 cents per ton per mile because the freight charges represented only a minute addition to the selling price of the articles. On the other hand, coal and heavy goods to run the plants were brought in at a fraction of a cent per ton-mile. Thus the rate structure was adjusted to the railway operating cost basis. Higher wage costs meant higher freight rates in order to allow a reasonable profit. That is why we found the railroads capitalized in large extent by bond issues.

In late years we found the automotive vehicles running on the super-highways cutting into the rate structure as well as the traffic level. The railroads were required to maintain over-all freight service. We are not too hopeful that the situation faces early revision; not while the war-time earnings of the railroads can be referred to as an example. The idea now seems to call for more super-highways to facilitate trucking by avoiding the cities and for super-airports—largely paid for at public expense. Sooner or later there will be a revision and a national transportation policy. Obviously the public as a whole is paying for high-cost transportation—and the railroads represent the lowest cost transportation.

If the nation's transportation as a whole was put on a straight cost-rate per ton regardless of commodity classification the situation would quickly become apparent. Then the shipper could not demand over-all transportation service from the railroads, give them his coal and crushed rock traffic, and use the highways and airways for hauling his silk goods, manufactured articles, and the private car for personal trips.

The railroads are apt to remain the basic form of transportation

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Wartime Operations and Peacetime Future of the Coal Industry

By JOHN WALTERS

Writer Points Out That Despite Its Fundamental Importance, the Coal Industry Had Been Losing Ground Just Prior to War and That the Profits From Coal Production Were Declining Notwithstanding Technical Improvements and Expanding Use of By-Products. Holds Coal Mining Will Continue as a Vital and Huge Industry, Though Confronted With Increasing Competition of Other Fuel and Power Sources, and Sees No Reason Why Its Profits Should Not Be Improved. Gives Facts Regarding British Coal Trade and Its Competitive Situation.

Bituminous coal, source of half of the annual energy requirements of the United States, reached an all-time production peak of 620,000,000 tons last year. When manufacturing, transportation and the utilities need fuel they lean primarily on bituminous coal and as the national economy moves forward on a broad front, demands for coal must inevitably expand.

Anthracite coal is the source of an additional 8 or 9% of the nation's energy, petroleum provides approximately 30% and the remainder is derived from water-power and natural gas. Anthracite output in 1944 was 64,112,589 tons, approximately the same as the previous year, but well below the 80 million tons of 1927 and the all-time high of approximately 100 million tons in 1917.

While coal, as a carbonaceous mineral, has been known for centuries, it is only within the past fifty years that it became the basis of one of the great industries of America. Directly affecting the livelihood of more than half a million families, the problems of the coal industry have had a profound influence on social and political developments in the various states and the nation. A vast literature has grown up around these aspects of the industry and the statistical data which have been assembled are impressive. This report must, perforce, be limited; an analysis of the economic phases of the industry, together with the problems it faces in the peacetime future, will be the essential concern of succeeding comment. Bituminous operations, because of their importance, will be treated more extensively.

Character of Consumption

That industrial civilization is based to an important degree upon coal, is indicated by the present character of consumption. In a typical year the railroads will use approximately 20% of the country's bituminous coal output; the electric utilities will require another 12 to 15%, the steel industry from 18 to 20%, domestic and office heating a similar amount, and the balance will go for manufacturing and other purposes. The Bituminous Coal Institute estimates the actual bituminous coal distribution for 1944 as follows:

How Used	% of Total
Locomotive fuel	22.4
Electric power utilities	13.4
Coke ovens (steel industry)	18.2
Domestic and office heating	20.6
Manufacturing and all other uses	25.4
Total	100.0

This means that in round numbers 58% of our bituminous coal output was used in manufacturing, by the utilities and metallurgy, while the balance was divided more or less equally between heating purposes and railroad fuel.

The coal industry not only supplies fuel for the railroads but also provides them with their greatest source of traffic. Coal and coke are moved in larger volume than any other single category of freight. Out of a total of 42,983,200 cars of freight moved last year, 8,694,100 were made up of coal, as compared with 8,493,-154 for the preceding year.

Coal loadings have increased steadily every year since war began. This traffic, which averaged 6.3 million cars during the decade of the 30's, rose to 6.8 million cars in 1940, increased to 7.6 million in 1941, to 8.4 million in 1942, to 8.5 million in 1943 and 8.7 million last year. Coke loadings have followed a comparable trend. They amounted to approximately 550,000 cars in 1940, 678,-000 the following year, 731,000 in 1942, 751,000 in 1943 and 756,000 last year.

U. S. Coal Reserves

These facts emphasize the importance of coal reserves in this country and abroad. Possessing 50% of the world's coal, it is currently estimated that the reserves of the United States are sufficient to last from 2,000 to 4,000 years. Including sub-bituminous coal and lignite, authoritative reports show that total reserves amount to 3.2 trillion tons. Approximately 44% of this vast reservoir of energy consists of bituminous coal deposits which are scattered over 29 states. Deposits of anthracite, located in the single state of Pennsylvania, make up about ½ of 1% of the total and the remaining 55% consists of sub-bituminous coal and lignite.

World production figures on coal show that in normal peacetime years, the United States has been in the forefront with Germany second, Britain third and Russia fourth. It is true that in the single year 1939 Germany's output of coal, augmented by the resources of territory conquered at the beginning of the war, was slightly in excess of the United States, but this advantage was quickly ended. In 1942, the first war year that comparable figures were made available by the Bureau of Mines, production of coal in the United States was 580 million tons, Russia was second with 247 millions and Britain not far behind with 215,900,000 tons. German production cannot be estimated with any degree of accuracy.

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Mutual Fund Comparisons

By KARL D. PETTIT
Senior Partner, Karl D. Pettit & Co., Investment Counsel

Mr. Pettit Points Out That Because Mutual Funds Differ in Their Objectives and in Their Methods, Comparison of Their Performance Is a Dangerous Procedure. Maintains That the Only Equitable Comparison Should Be Confined to a Complete Bull Market and Not Upon a Periodical Basis. Says Mutual Funds Should Emphasize Their Superior Advantages to Investors.

The vast growth in recent years of the regulated investment company has invited an unusual amount of study and scrutiny of these funds. Many attempts have been made to evaluate the various managements, usually by a measure of the results, referred to as the "performance."

Karl D. Pettit

This is a dangerous procedure. A cursory examination of the problem reveals that,

. . . objectives differ,
. . . the period of comparison may be inequitable,
. . . the methods and means used to attain the performance must be considered.

It may be stated, almost without challenge, that there are as many methods and philosophies of management as there are funds. Funds vary in their composition. Some adhere to common stocks. Others are confined to bonds. Still other funds concentrate on some individual field. Some combine both stocks and bonds on a fixed ratio as distinguished from flexible ratios.

There are funds whose principal objective may be income, others appreciation. These two objectives may of course be combined to produce any number of variations of management policies.

There are funds which endeavor to keep fully invested at all times, relying on their ability to select sound and intrinsic values. Others attempt to use "timing," the objective being to participate in the opportunities afforded by the cyclical characteristics of the market.

Many different methods may be employed in meeting the problems created by these cyclical fluctuations. Some managements increase or decrease the equity position depending upon the phase of the cycle. Other managements meet the problem by varying the character of the equities themselves, by either changing the quality of the securities or by changing the concentration in industries, or both.

Ordinarily great risks are attendant with the first and last phases of a bull market. A management in order to successfully cope with these phases would be likely to make a poor performance in relation to another not attempting to meet the problem, if comparisons were limited to a single phase. A management taking a long range view must ignore the near term outlook.

Comparison by fiscal year or any portion thereof disregards all the foregoing considerations. It would appear therefore that the only equitable comparison should be confined to a complete bull or bear market and no segment of it. It is only by comparing a complete bull or bear market (from peak to peak or from trough to trough) that we can determine if a management's objectives have been successful. It may be likened to a long distance race. Each competitor will have his own method of timing and running his race. The winner is judged by the result of the completed race and not by any portion of it.

A common fallacy is to select calendar periods for comparison. The year, the half year or quarter year, are merely traditional periods, useful for purposes of accounting. The market disregards this convention and calendar periods begin and end in disconcertingly meaningless times in the market cycle.

It has also been suggested that a satisfactory method is obtained by comparing periods when the general market approximated the same level at the beginning as at the end.

This method, while superior to other methods used, still has two basic objections. We judge the merits of an individual security not only by its price at the beginning and end of a period, but also by its behaviour **during** the period. For example, if stock A habitually moved over its cycle from 100 to 85 and back to 100, and stock B from 100 to 50 and back to 100, then it would normally be concluded that stock A had more quality than B because of its greater stability.

In the final analysis, results must be satisfactory, but it is the integrity, philosophy and methods of management which must be judged. It must be determined if the risks undertaken by the management were commensurate with the results achieved.

It would seem from the foregoing that comparison, as such might be characterized by the SEC as objectionable as it does not present, ". . . all the relevant facts in such manner as will be clearly understood by the investor without due effort on his part."

Obviously understanding of a comparison of funds would require not only a real effort on the part of the investor but also a person extremely well versed in the field of security management.

It is evident that if comparisons are undertaken, then it should be between a Fund and the investor. It is almost undeniable that the results achieved by regulated investment companies are superior to those obtained by the individual attempting to meet his investment problem. It is this achievement that the industry should seek to emphasize.

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NSTA Committees Reports

Educational Committee Report

Following is report of the NSTA Educational Committee, Chairman of which is Paul I. Moreland:

This report will serve to supplement my report which was submitted under date of Jan. 31, 1945 to the Mid-year Meeting in Chicago.

Following the Mid-year Meeting, I prepared a preliminary outline of a suggested lecture course to be termed "Security Trading" and submitted this outline to each of my Committee members. From this, I received some valuable comments and am especially indebted to Harry Reed of Loeb, Rhoades & Co. for his suggestions. This preliminary outline provided for 20 lectures and one additional period for an examination or testing session.

Paul I. Moreland

On the basis of suggestions from Committee members and work in connection with the actual briefing, I believe fifteen lecture periods with time for discussions of two hours each with a final testing period can adequately cover the basic ground.

The fifteen subdivisions as proposed are as follows:

1. Organized Security and Commodity Markets.
2. The Over-the-counter Market.
3. The Offering of New Issues of Securities.
4. A. Communications Systems and Their Uses.
   B. Position Trading, Quotations, Trading Methods and Practices.
5. Common Stocks.
6. Preferred Stocks.
7. Corporation Bonds.
8. Real Estate Issues and Special Types of Corporate Obligations.
9. Bank, Insurance, and Mutual Fund Security Issues.
10. Municipal Issues.
11. United States Government and Foreign Security Issues.
12. Commodities.
13. Trading Knowledge in Relation to Other Departments of the Business.
14. Functions of the SEC, the NASD, NSTA & State Commissions.
15. Security Analysis.
16. Review and Examination.

The laborious part of this program is the actual briefing of these subdivisions and on this we have far to go. I personally, have briefed three of the topics and Irving Rice has submitted one very excellent brief. John Hecht has submitted a review on Bank and Insurance Issues and, at the instance of one Committee member, Israel Zippin has cooperated by submitting a review on Foreign Securities.

The falling-down on this part of the Committee's job is probably due to the press of business and also the lack of knowledge on how to brief a topic.

It is the thought of this Committee that, once all the briefs are prepared, they should be compiled into an inexpensive mimeographed booklet form and be made available at cost to those who elect to take such a course.

Further, it seems to be the majority consensus that no pre-

(Continued on page 1137)

Municipal Bond Committee Report

Following is text of the Committee's report submitted by Chairman J. W. Kingsbury:

Your Committee points with pride to, and modestly takes credit for, the hearings held in February, 1945, before the Interstate and Foreign Commerce Committee of the House of Representatives of Congress on the Boren Bill. It is generally agreed that the work done by members of this Committee municipal representatives working with it this year as well as last year, and by individual members of our Association among the "Grass Roots" Constituents of Congrsessmen was the principal reason that the hearings were held. Had they not been held there would have been no possibility of the Boren Bill ever reaching the floor of Congress.

J. W. Kingsbury

It is interesting to note that of the persons who attended the hearings on the Boren Bill above referred to only one had the distinction of being introduced publically to members of the Committee. Before mentioning that gentleman's name, if such mention is necessary, let it be observed that this is the first recorded instance of him not knowing everyone in the neighborhood, regardless of what neighborhood he was in. It might also be added that this is the first recorded instance of everyone in the neighborhood not knowing him. If you please, Mr. Graham stand and let everyone see a man whose Congressman drops his pressing duties to introduce a friend to members of such an important congressional committee.

You gentlemen have, no doubt, gathered that your Municipal Committee has had a one-track mind. To that charge we are, at this time, glad to plead guilty. The only thought we have had in mind, the only thing we have worked on, and the only thing we are not going to stop working on is the BOREN BILL. Members of your committee are firmly convinced that no other one thing is so important to our business, both municipal and corporate, at this

(Continued on page 1141)

Post-War Committee Report

Following is text of report of NSTA Post-War Committee, headed by William M. Summers:

Your Post-War Committee, after careful deliberation, has concluded that we cannot add to the recommendations that we submitted to the Association a year ago. As a matter of record, we repeat them herewith:

(1) The establishment of an Employment Committee in each of our affiliates, whose duty it will be to assist our members returning from the armed forces to either return to the position which they held prior to their enlistment or place them in new positions.

Willis M. Summers

(2) The establishment of classes under the supervision of our affiliates to teach young men, either veterans or otherwise, the fundamentals and ethics of trading in Over-the-Counter securities.

(3) The development of a program advertising the desirability of Over-the-Counter securities as investments.

The feasibility of these suggestions has been confirmed by a program started by the New York Stock Exchange to inform the public of the workings of that organization and also by the announcement recently by the Association of Stock Exchange Firms of the appointment of a committee to place returning war veterans in positions.

Your Post-War Committee wishes to emphasize once more the desirability of the Association carrying out our recommendations, especially those that relate to the war veterans. When many of our men entered the service, the security business was in the doldrums. It was discouraging for those of us who were in it and certainly not an attractive business for anyone to enter as a career. We are all familiar with the change for the better that has taken place during the past three years, during which time, thousands of our men, both young and old, were away on the battlefronts of the world.

Does this not put a heavy obligation on us to do all we can to see that these boys, when they return, are placed in positions as soon as possible? Many of the younger men have never been in the business world. The security business to-day has once again established itself as an essential profession in the economic world. It should offer a bright future career to these young men if presented to them properly.

The war is over and thousands of men will be discharged from the armed forces during the next few months. The time for us to concentrate on this work is right now, if we are to show our appreciation for the sacrifices they have made for us and strengthen our trading fraternity.

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The Post-War Pattern Of American Banking

(Continued from page 1076)
have to take care of short term borrowing.

In the "Foreword by a Banker" and in the book itself considerable confusion exists as to the nature of bank deposits and as to the function of the banks in substituting their known and widely accepted credit for the credit of limited acceptability of the prospective borrower. In the "Foreword" we read: "If all bank loans were paid, no one would have a bank deposit, and there would not be a dollar of currency or coin in circulation." This ignores all primary deposits of cash and checks in banks and all types of currency put into circulation by the Treasury. The book states (p. 17) that the "new limitation on bank loans would be a wholesome one; namely that no money could be lent unless there was money to lend; that is, the banks could no longer over-lend by manufacturing money out of thin air. . . ."[1]

Normal Sources of Profits Would Disappear

Fisher recognizes that if the banks turn over their bonds and other earning assets to the Government (Currency Commission), and can no longer make short term loans on the basis of their credit, they must be recompensed in some way. Checking departments of banks or separate "Checking Banks" would be reimbursed by service charges. To compensate for loss of earnings on bonds and assets turned over to the proposed Currency Commission, one plan would be to let the banks consider such assets as still belonging to the banks but held as collateral by the Currency Commission or the Federal Reserve Banks, on which the banks might collect the earnings for a number of years. The other might be for the Government to pay **in perpetuity** an annuity to the banks, in some complicated manner, about equal to their "fair average" earnings under the old system. "So great would be the advantages of the 100% system to all concerned," says Fisher, "it would pay the nation to **give** the reimbursement in perpetuity"; or, on the other hand, he paradoxically continues, "it would, **in the end** pay the banks to accept the 100% system (even) without any reimbursement whatever"![2]

The other 100% Reserve Banking plan is that recommended by Marriner S. Eccles, present Chairman of the Board of Governors of the Federal Reserve System, in his famous "Eccles Bills" presented in the House and Senate on February 6, 1935, which gave rise to the Banking Act of 1935. His plan as it passed the House was to have the legal reserves of member banks raised from the traditional 7%, 10% and 13% on demand deposits to 100%, or reduced to zero, at the will of the Board. In the areas where 100% reserves would be required no credit could be extended on the basis of bank deposits, whereas in those favored communities where the legal reserves would be zero, virtually unlimited credit could be used. This plan would lend itself beautifully to those who were interested in a planned economy with the strings pulled from Washington.

The fact that two important figures still in the limelight in governmental circles favor one or the other of these plans makes it not improbable that they may come up again at any time and might be "put over" on an unsuspecting public, unless public opinion is educated as to the real merits or dangers in the plans. In his **Preface** Fisher claims that Dr. Lauchlin Currie had helped him with his book on "100% Money" and had treated the subject in one of his own writings. Then Mr. Eccles is still with the Board of Governors of the Federal Reserve System and may at any time attempt to influence legislation again in favor of his views on banking. If the people of this country really want any such revolution in the whole nature and functioning of our banking system they should consider the matter intelligently and go into it with their eyes open.

Influence of Government Debt Holdings on Banking Changes

The increased holdings of government deficit securities by commercial banks and the Federal Reserve banks may affect our banking system in one of two ways. It may prove an incentive and furnish an argument for the government taking over the banks or of forcing them into some form of 100% reserve system. On the other hand, with the Government continuing to use the banks in its deficit financing, it may be to its advantage to force them all into the national banking fold, thus doing away with our **dual system** of banking. In an article in the "Chronicle" on Aug. 3, 1944,[3] I pointed out that by the end of 1943 the Government had become the largest borrower from the FDIC member banks, with $58,694,000,000 of their assets consisting of government securities. At that time the Federal Reserve banks also held $11,651,000,000 of government securities, direct and guaranteed, or a total of $71,345,000,000 of government debt held by the two systems. One year later the FDIC member banks held $75,897,000,000 of government debt, and the Federal Reserve Banks $18,734,000,000, making a grand total for both by Dec. 31, 1944, of $94,631,000,000.

One of Professor Fisher's alleged advantages for the 100% system was that "the interest-bearing Government debt would be substantially reduced; because a great part of the outstanding bonds of the Government would be acquired from the banks (in exchange for non-interest bearing inconvertible notes)[4] by the Currency Commission (representing the Government)." Presumably interest would be stopped on such bonds or the bonds canceled. Roger Babson, in one of his recent syndicated articles,[5] stated that the Federal Government might "institute a 100% reserve policy and thus save the Government interest on all of the Government Bonds held by the banks," as well as nationalize at once the twelve Federal Reserve Banks, with the commercial banks also "taken over by the Government" during the "next business depression." Both of these methods were suggested as possible means of servicing the in-

[1]For an excellent answer to this fallacy see Spahr, W. E., **The Fallacies of Professor Irving Fisher's 100% Money Proposal**, pp. 23-25.

[2]Fisher, Irving, **100% Money**, pp. 140-141.

[3]"Ten Years of the FDIC," pp. 481 and 494.

[4]First parentheses added by writer.

[5]See **Commercial and Financial Chronicle**, Dec. 21, 1944, p. 2737.

(Continued on page 1085)

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The Post-War Pattern Of American Banking

(Continued from page 1084)

terest burden on the "huge post-war U. S. Government Debt." I have maintained with banking classes that when the government debt held by the commercial banks and the Federal Reserve Banks combined reached 100 billions it was time to look sharply for signs of impending government ownership of both the Federal Reserve and our commercial banking systems. That total has already been reached as the commercial banks are increasing their holdings of governments at the rate of almost $2,000,000,000 per month, while the "Feds," in their one-way open market operations, are adding about 7 billions a year, or better than $500,000,000 per month. With the banks holding $100,000,000,000 of our prospective 300 billion dollar public debt, a saving of approximately 2½ billion dollars a year in interest burden could be made if both our commercial and reserve banks were nationalized. The total capital stock of our 13,268 FDIC member banks is only $7,990,000,000 and that of the 12 Federal Reserve banks $164,399,000, ignoring the other capital items. Hence the possible incentive for the Government to take over by one method or another the ownership and/or control of both our commercial and reserve systems of banking.

Possible Effect on Dual System of Banking

As to what may happen to our dual system of banking in the United States, which, since the National Banks were started in 1863-4, and in a very real sense since the First Bank of the United States was set up in 1791, has been a peculiar feature of our banking system, one's guess may be as good as another's. Without going into the merits or demerits, the advantages or disadvantages of this divided system at this point, let me say that an outstanding banking authority whc is interested in both national and state banks, sees in current trends a strong possibility of the ending of our dual system. Dr. E. E. Agger, Head of the Department of Economics at Rutgers University, and concurrently Commissioner of Banking and Insurance for the State of New Jersey, writes:[6] "Taxation **versus** borrowing will be as hotly debated in the post-war period as it is being debated now. And federal deficit financing based on borrowing will have the same inflationary dangers that it has now. A special crisis may develop in the banking field in relation to the maintenance of our dual system of state and nationally chartered institutions. The subject is too large to be developed here, but it may be said that to the degree that national control of bank credit becomes more urgent, and to the degree that direct federal financing continues to be substituted for private financing through normal banking channels—to that degree the independent existence of our state chartered banks is threatened."

"When Politics and Banking Mix"

If nationalization or socialization of credit takes place it will lead inevitably to a mixing of politics with banking. The Labor Party's program in Britain of the nationalization of the Bank of England and the Joint Stock Banks by a political party is a case in point. One is reminded of the old adage, "When politics and banking meet it is always bad for banking." Political considerations may and frequently will, under such a system, be given more weight in the extension or the withholding of credit than purely economic ones. If the Government takes over the banking system bankers will become, what for the past ten or twelve years they have feared they might become, civil servants working for the Government. With the Government taking the profits, if any, from banking, and out of taxpayers' money assuming all banking losses, banking would be carried on on a new footing under bureaucratic governmental control. Bankers would not need to "sense the pulse of industry" to see what its credit needs were, but would tend to be guided by governmental policy which, in essence, is political.

[6]In the Monetary Standards Inquiry Pamphlet No. 2, on **"American Banking and Currency Stabilization,"** pp. 8-9.

What About Branch Banking?

Shall our unit system of banking give way in the post-war period and be superseded by a more widespread system of branch banking? Fisher claims that the 100% system, if adopted, would "save the big banks from something which they dread; it would also save the small banks from something they have always dreaded — branch banking." He points out that a continuation of our present 10% system—i.e., a system of keeping on the average about 10% in reserves—would make branch banking become more general. "But in this country, with its traditions of local independence, branch banking would, in many localities, be of doubtful benefit. . . . The small independent banks, therefore, have special reasons for favoring the 100% system, both as affording the greatest safety and as affording an escape from branch banking." (pp. 145-146.)

Putting the argument on a more realistic basis, many of the larger banks in Chicago and New York feel that with their widespread correspondent system, they have most of the advantages but with few of the costs and responsibilities of branch banking. If banking remains independent of government ownership or rigid governmental control, however, many are of the opinion that an expansion of branch banking on a regional, or perhaps intra-federal-reserve-district, basis would strengthen our present system of banking.

What does the future hold for American banking? It keeps its own secrets and almost anything **may** happen. But in my opinion, we will probably have more, rather than less governmental control of banking, with nationalization of our Federal Reserve banks always looming before us as a possibility. Branch banking will probably be extended, and the future of our dual system of state and nationally chartered banking institutions remains problematical. Beyond that the post-war period will probably have to give its own answers to many of the thought-provoking and vital questions with which our banking system is confronted.

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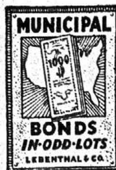

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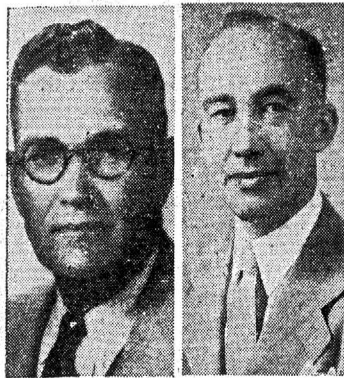

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The Future of Postal Savings

(Continued from page 1078)

small savings accounts the interest rate is unimportant, being overshadowed by considerations of convenience.

In spite of these logical advantages of the commercial bank it appears that the postal savings system could entice many depositors away if a careful comparison were made. It seems probable that most families do not weigh all the alternatives, or perhaps are not even aware of the precise differences. Traditional household behavior patterns may account for the fact that the shift to postal savings has not yet become a landslide.

Original Objectives of the Postal Savings System

In its historical conception the postal savings system was a progressive piece of legislation and met a real need, although private banking reform might have met this need even better. The first postal savings bill was introduced into Congress in 1871. Opposition was vigorous, however, and for over a quarter of a century successive proposals were rejected by Congress. During this period some 80 bills were discussed and discarded. Eight different Postmasters-General and several Presidents actively promoted the adoption of these plans, but their weight of authority, or their political power, was insufficient.

Supporters of the proposals argued, quite correctly, that there were many ignorant and illiterate foreign-born in our nation who did not understand our banks and therefore distrusted them. These immigrants had formed the habit of keeping their savings at a post office in their home countries. Many of the newer immigrants were actually sending deposits abroad to their home town post offices, in which they had great faith. In most of the congressional bills advocated much stress was laid on the principle that deposits were to be made available for investment purposes in this country.

It was believed that an American postal savings system would prevent the hoarding of currency. An increase in the total volume of saving was also expected, and many of the arguments sound like the modern social security proposals. There was a genuine concern for the old age of the working class strata. Much of the discussion portrays the hardships of involuntary unemployment, the virtues of thrift, and the evils of improvidence.

On both sides of the debate there was recognition of the fact that a more permanent and more satisfactory solution to these the foreign born to the proper use of existing American savings institutions. Like many more recent enactments this government sponsored savings program was a more or less temporary attack on the current symptoms of economic disorder, having little or no effect on the fundamental causes.

Another argument of historical importance in the development of postal savings was the proposition that savings institutions were not evenly allocated geographically. In 1910 there may have been a few areas inadequately served by banks. Professor Kemmerer has pointed out that at that time there was a population of 8,370 for each bank accepting savings, but only 1,542 for each post office. There were 5.4 post offices to each such bank. There were 270 square miles of area for each bank, while there was a post office for each 50 square miles. A growing tendency for savings institutions to cluster in the cities was clearly discernable.

Congressmen from Southern and Western States held that their constituents had no adequate opportunities to use savings banks of the kind which had developed in the Northern and Eastern sections of the country. Their discussions quite commonly overlooked the availability of savings departments in their local commercial banks. Insurance companies had not yet come to be recognized as savings institutions. Still more significant is the fact that postal savings deposits today are concentrated in the larger cities, where banks are also available.

Sporadic Growth of the Postal Savings System

The reaction after the panic of 1907 finally gave the postal savings movement sufficient impetus to carry it through both houses of Congress. The organization was established in 1910, and began operations in 1911. Because of the inadequate reserve system existing in 1907 many savings banks had found it impossible to meet withdrawals of deposits on demand, and many commerical banks had failed. Dissatisfaction with the existing savings facilities became a popular sentiment. This

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The Future of Postal Savings

(Continued from page 1099)
might have brought about some rather obviously needed reforms in the contemporary banking structure and a renewed emphasis on free competitive enterprise. Instead, a governmental institution was created, and the socialistic trend was confirmed.

In its early years the postal savings system grew much slower than had been expected. It eventually reached a 1918 peak of $168,000,000 in depositors' balances. After the first World War it declined in volume until the 1929 panic gave it new life. Between 1929 and 1933 depositors' balances increased from $164,000,000 to $1,209,000,000, the greatest spurt in the history of postal savings. The inflation and population growth of the 1930's did not cause a proportionate increase in depositors' balances after 1933. By 1939 the total had only reached $1,279,000,000. But by May of 1945 depositors' balances stood at $2,607,000,000. During the war years postal savings deposits have doubled. There is reason to expect a strong post-war growth at the expense of privately owned institutions if the law is not changed.

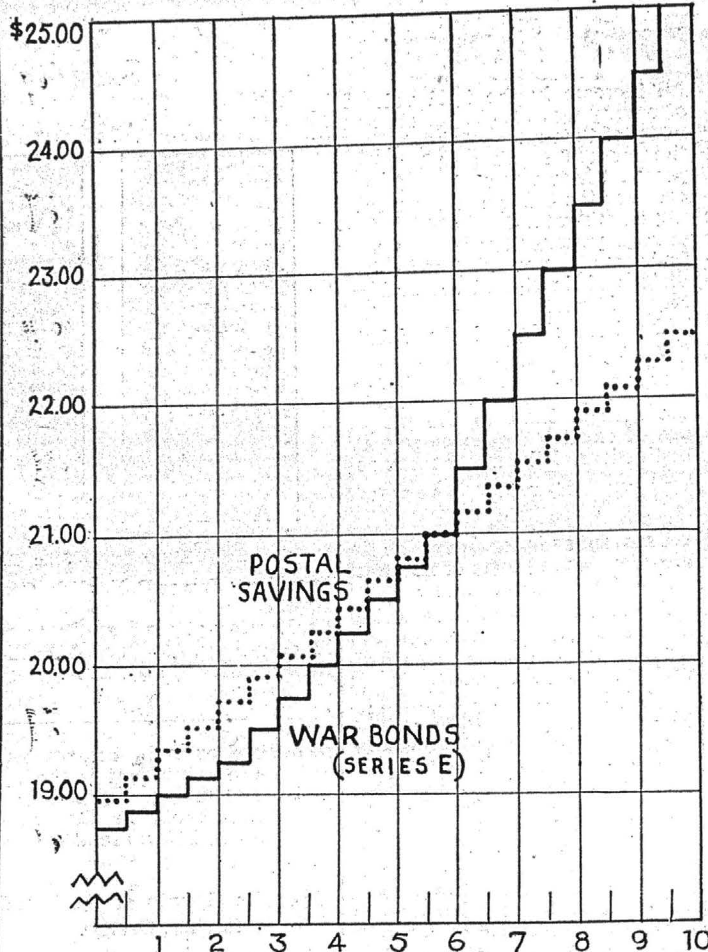
A Modern Evaluation of Postal Savings

The arguments supporting the postal savings legislation seem very plausible when they dwell on the facts about immigrants in the working class. But these facts have changed today. Our immigration laws and our educational efforts have rapidly reduced the number of unassimilated foreigners. In 1916 some 60% of the postal savings depositors were foreign born, but at the present time native Americans make up the major part of the segment of the population served by this institution.

The criticisms of the geographic allocation of savings institutions were less convincing historically, and in our modern economy they have lost any significance they may have once possessed. The Federal Reserve System, rigorous examinations, and Federal Deposit Insurance have made our commercial banks safe. Insured building and loan associations are quite common all over the nation. Annuities, computed at good rates of interest, are sold by carefully regulated life insurance companies in every State. War bonds and other government securities are available everywhere.

It seems clear that the postal savings system no longer meets a real need. It does, however, offer an investment which is becoming increasingly attractive as the yield on high grade bonds drops lower and lower, forcing private institutions to pay lower rates on savings deposits.

The bulk of the postal savings receipts was originally invested as time deposits in local banks, though a special legal reserve for liquidity has always been held at the Treasury in Washington. This required reserve must be in lawful money, and amounts to 5% of the total postal savings deposits. When funds are offered to selected local banks they are required to insure such deposits or pledge enough approved government securities to guarantee their liquidity. In addition, they are required to pay 2½% interest on the average daily postal savings funds carried in time deposits, unless the maximum rate set by the supervising authorities is less. Preference is given to banks in the neighborhood of the post office and to members of the Federal Reserve System. No bank is permitted to receive deposits in excess of its capital plus half of its surplus. Deposits are to be allocated among the qualified banks of the community in proportion to the capital and surplus of each.



The handling of these deposits was profitable for the banks during the decade of the twenties, and as it turned out they were rather glad to have this business. There is some historical validity to the argument that the postal savings system prevented the hoarding of currency in sugar bowls, dresser drawers, and strong boxes. Considerable sums of money probably came out of hiding and made their way through the safety of postal savings into the productivity of commercial channels. Such hoards would never have reached the banks without the aid of the postal savings system.

During the banking crisis of the early 1930's many depositors withdrew their money from the banks and put it in postal savings. Fortunately the great bulk of this outflow was immediately returned to the banks in the form of government deposits. Much money that would have been hoarded was returned to the banks by this procedure. The postal savings system was thus supplementary to the existing banking structure at one time, and not directly competitive with it. The situation has been allowed to drift into an entirely new relationship in recent years.

In 1931 about 8% of the postal savings funds was invested in government bonds, and about 86% was redeposited in banks. Since 1933 investment opportunities have become so unattractive that very few banks have accepted such deposits. Furthermore, the Roosevelt Administration has always needed the postal savings receipts to help meet the annual Treasury deficits. Accordingly the dominant investment of the postal savings system has become United States securities. The Treasury has spent the proceeds from the sale of these securities on public relief, reflation projects, and the present war effort. If postal withdrawals should exceed deposits the Treasury will return this money out of tax receipts, or more probably by borrowing elsewhere. In this respect postal savings certificates are just like defense bonds. It is equally patriotic to buy either.

In 1939 only about 4% was redeposited in banks, and about 90% was made available for government spending by the purchase of government bonds. A simplified balance sheet of the postal savings system as of June, 1944, appears as follows:

Assets—	
Cash in banks	$9,000,000
U. S. bonds	1,951,000,000
Cash reserve funds	135,000,000
	$2,095,000,000
Liabilities—	
Deposits	$2,034,000,000
Other	61,000,000
	$2,095,000,000

Conclusion

If there is a genuine renaissance of the spirit of free enterprise, this particular form of government in business might find itself without support. It will be increasingly clear to social workers that postal savings no longer meets a real need. Now that the war is over government propaganda efforts may once again be directed at the expansion of individual spending. A balanced economy with full employment will require a vigorous flow of purchasing power. Pressure selling of high interest savings bonds will surely cease. At this time the political atmosphere might be quite receptive to proposals for the abandonment of postal savings.

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The First Year After World War I

(Continued from page 1079)
bauch instead of a steady ebbing back to a peace or ante-war basis. During the war the labor unions everywhere had acquired the habit of asking for higher wages and for shorter hours of work, and as no interruption of industrial activities could be permitted while the conflict continued (out of a fear of the effect upon the war), labor largely, in fact almost entirely, had its own way. It got a shorter day and it got repeated increases in wages, this indeed being one of the main factors in the great rise in prices which attended the war.

It is customary for labor union organizations to emphasize labor's contribution in winning the war. They would have it appear that labor made special concessions so as to help the Government in the prosecution of its great undertaking. Very few men have seen fit to challenge the statement, and it is being repeated with such persistency and frequency that there is danger that among the uninformed it may in the course of years be accepted as the truth. It seems proper, therefore, to state here, in a review and analysis of the events and developments of the war, and the period succeeding its conclusion, that, so far from labor having been especially considerate of the needs of the Government during the war and having refrained from action that might interfere with the operations of the Government, the precise opposite was the case. Indeed it would be no exaggeration to say that labor indulged in the most unconscionable profiteering while hostilities were going on and continued the practice after the conflict ceased. Labor, under the guidance of labor union officials, saw in the war its great opportunity and availed of it to the limit. It was obvious that the Government could not allow industrial activities to be interrupted anywhere, since production had to be stimulated to the utmost for the prosecution of the war. This was so not merely at munition works, but everywhere. Government requirements, of course, had their ramifications everywhere, for the army had to be clothed and fed, as well as supplied with the tools of war, and in the present instance an extra responsibility rested upon the Government in the circumstance that the needs of the Powers with which the United States was associated, needs which this country alone could supply, had also to be considered. But entirely apart from the Government's direct needs, industrial activities had to be maintained to their fullest limit if the war was to be made a success beyond peradventure.

The labor leaders were not slow to see this and they were governed accordingly. By strikes or threats of strike, shrewdly based upon the knowledge of the inability of the producer and manufacturer to resist, it being indeed self-evident that they would not be allowed to resist in view of the virtual pledge that every producer felt under that output must be fully maintained, labor succeeded in enforcing all its demands of whatever nature, not only in the way of increased wages and reduced hours, but in the way of numerous other concessions, all

(Continued on page 1102)

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The First Year After World War I

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tending to add to the cost of producing. And this occurred over and over again. The process was repeated many times and always with absolute assurance of success. The ostensible basis of the demands was invariably the higher cost of living, which in the last analysis was due, even during the war, to this process of raising wages and shortening hours in one line of human activity after another, thereby increasing the cost of producing and manufacturing, in which labor cost is in nearly every instance the largest item.

While the rise in the cost of living served as the pretext for many of labor's demands, often they were put forth without any reference of relevancy to the cost of living, but made on the general theory that the work people were entitled to a larger share of the good things of life, and now that they were, by reason of the war, in position to enforce their claim, it would be folly not to avail of the opportunity. While the war continued in progress, the purpose was not thus openly avowed, but subsequently all disguise in that respect was cast aside. A special War Labor Board had been created for the purpose of passing upon disputes between employer and employee. This Board, however, really had no more freedom of action than the employer himself. Its main function seemed to be to tone down proposed advances in wages, which in the first instance were made unduly high so as to allow room for toning them down. The War Labor Board did not care to run the risk of incurring the displeasure of labor, in view of the imperative need of keeping the laboring classes satisfied and contented so that there should be no cessation from work, and the employee in submitting his case to the War Labor Board hence had practical assurance that he would be granted *some* advance.

It was supposed that the high wages would belong merely to the period of the war, and that with the close of hostilities wages would even if only gradually tend to a lower level again. Indeed, many of the wage increases had been definitely limited to the period of the war. There were skeptics, it must be admitted, who

Eugene G. Grace

doubted that wages established during the period of the war would easily or quickly come down again. But at least hardly any one imagined that wages would rise still higher—that on top of the increases made during the war and arising out of that emergency there would be further and even more striking increases than those already granted. And herein lies one of the main reasons for the mistake made in prognosticating the course of the year. The labor cost of an article, constitutes as already stated, by far the greater part of the total cost of such article with relatively few exceptions, and with this labor cost rising still further, instead of diminishing, as had been supposed would be the case, there could be no reduction in prices, and in turn so long as prices remained at such high levels, with the tendency higher instead of lower, there could be no contraction, no deflation after the previous great inflation. The wage demands of 1919 were as numerous as had been those of 1917 and 1918. Labor would abate not a jot of the advantage it had gained during the war. On the contrary, as already noted, it insisted on pressing its advantage still further. Even early in the year, when conditions appeared to be unfavorable for the assertion of further demands by the laboring classes because of military demobilization there was a manifestation of the spirit on the part of labor that was to dominate everything else during the year.

As one indication of this there was the demand of the operatives in the cotton mills of New England. At the opening of the year 1919 the situation in the cotton goods trade was decidely chaotic, and during January sharp reductions in the prices of cotton goods were announced, while raw cotton also suffered a sharp decline. Production of textiles was reduced and advices from all mill centres were to the effect that further curtailment was in evidence. Print cloths at Fall River were marked down every two or three days. The high price in 1918 had been 14 cents a yard, reached in May; at the opening of 1919 the quotation was 9.75 cents per yard; on Jan. 13 there was a reduction to 9.50 cents: on Jan. 16 to 9.25 cents; on Jan. 18 to 9 cents; on Jan. 21 to 8.75 cents; on Jan. 27 to 8.50 cents, and on Jan. 30 to 8 cents. Though the moment was wholly unpropitious for new labor demands, either in the way of shorter hours or increased pay, yet at this very time the cotton operatives launched a movement for reduced hours, they demanding a 48-hour week, but at the pay they were then receiving for 54 hours. At Lawrence, Mass., a strike actually resulted because of the refusal of the manufacturers to comply with the demand. At Fall River and quite generally elsewhere the 48-hour week was put into effect early in February on the basis of pay for the time actually worked. As it happened, however, later on the outlook in the cotton goods trade improved and the following May a voluntary increase was granted to virtually all cotton mill workers, and became effective June 2. This last served to end a strike at Lawrence, which had lasted some 15 weeks and involved about 25,000 workers. This advance made the new wage basis 39.10 cents for weaving a cut of cloth 47½ yards of 64 x 64, 28-inch printing cloths compared with only 22.71 cents at the beginning of 1916. Even that, however, did not suffice to prevent subsequent demands for still other increases. On Dec. 1 the operatives at Fall River engaged in a one-day strike because of the refusal of the Cotton Manufacturers' Association to grant an additional increase of 25% on top of the prodigious advances previously made and the unprecedently high wage scale already prevailing. By this time, the cotton manufacturing industry was on a highly prosperous basis again, the demand for goods having outstripped the production and sent prices of goods skyward; nevertheless, the manufacturers found they could not grant a further increase of 25%. They did, however, tender an increase of 12½%, raising the weaving price of a cut of cloth up to 44.98 cents. This offer was accepted by the mill workers and they returned to work the next day.

The price of printing cloths at Fall River continued to decline during the early months of the year until on March 7 it was down to 6.75 cents. Thereafter, however, improvement began, and by the end of the year the quotation was 14.50 cents. The extreme urgency of the demand for goods made possible this great advance in price. Early in 1919, following the signing of the armistice the previous November, when prices were plunging downward with such great rapidity and everybody was looking for still lower prices, there had been very extensive cancellations of orders. Contrariwise, when it was seen that expectations of still lower prices were not to be realized new orders began to pour in, in excess of the capacity of the mills to take care of the same—especially on the basis of the 48-hour week now in force all over New England as against the previous 54-hour week—and all were anxious to secure prompt deliveries. The obtaining of prompt deliveries was very difficult, and in numerous instances quite impossible, and this had the effect of bringing additional orders, purchasers seeking to provide for future demands by placing orders well ahead of prospective needs. In this cotton goods trade the situation finally became so acute, owing to the inability of the mills to provide supplies for immediate delivery, that prices no longer were any consideration. In other words, purchasers were willing to pay almost any figure if only they could obtain the goods.

The experiences of the cotton mill operatives in New England in the matter of wages was duplicated in practically all other lines of industry, with one or two exceptions. Not only was labor able to retain the high wages of 1918, granted while the country was

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still engaged in military operations, but to get still further increases. Wage increases followed one another in rapid succession. As it happened, too, the demand for labor continued far in excess of the supply. The return to their ordinary pursuits of 4,000,000 robust young men from the army did not operate at all to produce any over-supply of labor as had been feared might be the case when 1919 opened. Thus labor was in position to command its own terms. And, as already noted, it pushed its advantages to the utmost. It made, in many cases, simultaneous demands for increased wages and decreased hours, and with rare exceptions succeeded in getting at least the major portion of what it asked for.

As the result of these repeated wage increases and the exceedingly high levels of wages thereby established the weekly income of the wage-earning classes, who of course constitute the bulk of the population, was raised to figures which previous to the war no one of them would have dared hope for even in his wildest fancy. Men who had been getting $3 or $3.50 a day could now command $6 or $7 or $8, or even $10 a day. And they proceeded to spend these large earnings with the utmost prodigality. The department stores in the different cities never did a larger nor a more profitable business, they were in the heyday of their prosperity. That class of the population dependent upon fixed incomes which cannot be readily changed—such as college professors, school teachers, post-office employees and municipal and State officials, as also the widow and other dependents deriving their main support from the income of special funds provided for their protection—found the high cost of living a serious drawback to comfortable existence. Not so the laboring classes, with their new-found ability to fix wages to their own liking and as high as they pleased. As already stated, they spent the money as freely as it came to them. They seemed to feel that they had come into a new privilege. Saving, economy and thrift were thrown into limbo. They bought only the most expensive things and showed contempt for low-priced articles. The department stores were not slow to fix prices accordingly. Silk shirts and other luxuries were what appealed to these peoples, now suddenly blessed with large incomes—incomes surpassing that of the professional man, enjoying the advantages of a college education and long years of training and study—and nothing seemed so high-priced as to be beyond their reach.

Buying without stint and in the most reckless fashion, they found over and over again that even the extra large income they were now enjoying did not suffice for their needs according to the changed habits they were now indulging. Instead of realizing that they were indulging in an orgy of extravagance and that virtually the whole laboring community were doing the same thing, the difficulty of making even an enormously enlarged income cover their swollen outlays simply bred and paved the way for new demands of further wage increases. And so the process went on. Each wage increase led to further extravagance and greater recklessness of expenditure, and the inevitable demand of still greater pay undeviatingly followed. Labor union leaders made charges of profiteering against the manufacturer and trader, and more or less profiteering was unquestionably indulged in — the seller raising his price not only sufficiently to cover the added labor cost, but to leave a little extra profit for himself—but in the last analysis the trouble was with the laboring man himself and his family. By raising his own wages over and over again, and thereby adding to labor cost, and doing this in one line of industry after another through the whole gamut of industries, he made advances in prices an absolute necessity and by supporting high values by his own reckless and unrestrained buying he encouraged those having goods to dispose of to make inordinate advances in price levels.

Thus labor really became the victim of its own greed for more and still more. And yet all the time labor had the remedy within its own hands. It could at any time have forced a reduction in the high cost of living if it had entered upon a policy of studiously declining to purchase high-priced articles. Then such articles would have become unsalable, would have become a drug upon the market, making reductions necessary in order to dispose of the goods instead of permitting further advances. Leaders in the economic world everywhere were urgent saving, economy and thrift as the one soverign remedy against the cost of living, but there is not on record a single instance where labor union officials gave the same advice or recommended the practice of similar virtues. Instead they urged further wage increases, and the laboring man was taught that the employer was helpless as against the united and concerted demand of the employee.

Wage increases and price increases succeeded one another with such undeviating regularity that the matter finally became generally referred to as the operation

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of the "vicious circle." It is to be said that late in the summer a glimmer of intelligence did seem to dawn upon the heads of at least one large labor body as to the working of this "vicious principle." On July 30, Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers, and the other members of the Advisory Board of that Brotherhood, presented a statement, which was addressed to President Wilson and "Gentlemen of the Cabinet," with reference to the "increasing costs of living commodities." This statement pointed out that at a meeting of the Advisory Board held in Cleveland the matter of an increase in compensation "commensurate with the conditions we find because of the constantly increasing cost of living commodities" had been thoroughly considered. The statement went on to say that a widespread spirit of unrest existed among all classes, especially among wage-earners "whose wages will no longer provide adequate food, shelter and raiment for themselves and families." The belief was expressed that this situation had been brought about "mainly by conscienceless profiteering by the great interests who have secured control of all necessaries of life." The Brotherhood men declared that they found themselves obliged "to again request an increase in wages to meet the mounting cost of living." They went further, however—and here there appeared the first glimmer of sense that seemed to have dawned upon the laboring world—and declared that they felt that "should this request be granted the relief would be but temporary should prices continue to soar." To this, they added the following significant remark: "We believe the true remedy for the situation and one that will result in lifting the burden under which the whole people are struggling is for the Government to take some adequate measures to reduce the cost of the necessaries of life to a figure that the present wages and income of the people will meet. Should this not be considered feasible we will be forced to urge that those whom we represent be granted an increase in wages to meet the deterioration of the purchasing price of the dollar, be that what it may, which can be easily determined by competent authority."

Warren S. Stone

The Brotherhood men contended that the members of the Brotherhood were really earning less money than prior to the war, inasmuch as "a daily wage of $5 prior to the war, which at that time was worth 500 cents, is to-day worth approximately, judging from competent authority, only $2.15." They said they did not "believe that increasing the compensation accompanied by a greater increase in the cost of commodities of life, will produce lasting benefits to our craft or to the American citizen in general." They sought an audience with the President and his Cabinet for the purpose of laying this situation before him.

There appeared some prospect of relief from the growing advances in wages in Grand Chief Stone's attitude regarding the barren advantage to be derived from increases in wages where attended by renewed rise in the cost of living. Unfortunately, however, Mr. Stone did not show much much confidence in the efficacy of his own sugestions, and it quickly became apparent that the railway unions, the Brotherhood of Locomotive Engineers among them, were aiming for the complete domination and control of the railroad system of the country by the employees. Grand Chief Stone's petition to the President proved only the prelude to the submission of very radical propositions on behalf of railway labor. In this new endeavor, the employees of the railroads were perhaps no more dictatorial than the wage-earning classes generally had become, but the comprehensiveness of the scheme for bringing the whole carrying industry under the dominion of the employees served to arouse public attention to what was going on and resulted in the defeat of the scheme. The unions saw opportunity for launching their proposal in the circumstance that the railroad situation was becoming very complicated because railroad employees who, in 1918, when Mr. McAdoo was Director-General of Railroads, had been awarded such prodigious wage increases were again active in trying to secure additional increases. On July 31, William G. Lee, President of the Brotherhood of Railway Trainmen, announced that a resolution adopted the day before by a special committee of 16 appointed at a then recent convention of the trainmen at Columbus, Ohio, would be sent to the Railroad Administration, saying that unless the Railroad Administration took action by October 1 on the demands of the Brotherhood, that wages of the trainmen either be increased or the cost of living reduced, steps would be taken looking to the enforcement of the demands. The Railroad Shopmen were also asking concessions of various kinds, including a request for "a very substantial increase in wages." Thereupon (namely on August 1), President Wilson addressed a letter to Representative Esch, Chairman of the House Committee on Inter-State and Foreign Commerce, and to Senator Cummins, of the Senate Inter-State Commerce Committee, recommending that Congress create a Board empowered to investigate and pass on all railroad wage problems. The President's letter was prompted by a communication he had received from Walker D. Hines, the new Director-General of Railroads, calling attention to the wage demands of the Railroad Shopmen, and suggesting the creation of such a Board. The President endorsed the suggestion and urged it upon the attention of Congress. The President suggested that the Board proposed also be empowered to fix transportation rates. Since the question of rates was so closely allied to the wage problem, the President expressed the hope that it would be possible for the committee addressed "to consider and recommend legislation which will provide a body of the proper constitution, authorized to investigate and determine all questions concerning the wages of railway employees, and which will also make the decisions of that body mandatory upon the rate-making body, and provide, when necessary, increased rates to cover any recommended increases in wages and therefore in the cost of operating the railroads." Director-General Hines, in his communication, had urged that any general increase to shop employees would result in demands for corresponding increases to every other class of railroad employees. The situation, therefore, he asserted, could not be viewed except as a whole for the entire 2,000,000 railroad employees. Viewed as a whole, every increase of one cent an hour meant an increase of $50,000,000 a year in operating expenses for straight time, with a substantial addition for necessary overtime. The increase of 12 cents per hour asked for by the shop employees would, if applied to all employees, mean (including necessary overtime) an increase of probably $800,000,000 per year in operating

Frank W. Mondell

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expenses. It should be added that the President considered the railroad wage situation so serious that on the same day (August 1) he also sent a letter to Speaker Gillett of the House of Representatives and Majority Leader Mondell, asking that the recess which

Frederick H. Gillett

the House had proposed to take with the consent of the Senate (which was engaged in discussions of the Treaty of Peace), beginning August 2 and continuing until September 9, be postponed until a later date.

The President's proposal, however, of a special Board to deal at once with the question of wages and rates did not appeal to the different Brotherhoods. On August 6, 14 of the principal railroad unions, acting as a unit, presented to Mr. Hines their demands for increased wages, at the same time expressing their disapproval of the President's recommendations that a special Federal Commission be constituted to settle the problems arising out of the demands of the railroad workers. They also asked that the Director-General endorse the so-called Plumb Plan, providing for Government ownership of the railroad systems of the country with a share in their management and profits for the workers, as embodied in a bill placed before the House of Representatives on August 2 by Representative Simms. In their letter to Mr. Hines they declared that railway employees were entitled to compensation which would at least re-establish the pre-war purchasing power of their wage. They would not admit that rates of pay to employees and transportation charges were in any way correlated. "Minimum rates of pay should be sufficient to guarantee to the most unskilled employee an adequate living wage, with such additional amounts as will meet the necessities incident to old age, injury, sickness and death, and higher rates based upon the skill, responsibility and hazard required and involved. Also these wage rates should be such as will compare favorably to the wages paid for similar service in other industries." They could not sanction the plan proposed by the Director-General and approved by the President for a Congressional Committee, for the reason that it meant months of delay at a time when the questions involved required immediate settlement. With reference to the Plumb Plan embodied in the Simms Bill, they urged that if enacted into law it would give to the Inter-State Commerce Commission its original authority over transportation rates, and employees could not hope for increases in rates of pay except as they resulted from economy and efficiency in operation due to their own collective efforts.

In the meantime, however—and this proved the most disturbing development of all, because it disclosed so plainly the purpose and object in view — the four brotherhoods of railroad employees, with the ten affiliated railway organizations of the American Federation of Labor, claiming to represent altogether 2,200,000 workers, had on August 2 issued a statement at Washington announcing that they were "in no mood to brook the return of the lines to their former control, since all the plans suggested for this settlement of the problems leave labor essentially where it has stood and where it is determined not to stand," and embodying most radical propositions of their own for dealing with the matter. They said: "Our proposal is to operate the railroads democratically, applying the principles to industry for which, in international affairs, the nation has perticipated in a world war." They added: "President Wilson declared in his message of May 20, 1919 for the 'genuine democratization of industry, based upon a full recognition of the right of those who work, in whatever rank, to participate in some organic way in every decision which directly affects their welfare in the part they are to play in industry.' He spoke plainly in behalf of a 'genuine cooperation and partnership based upon real community of interest and participation in control.'" The employees then went on to demand Government acquisition of the railroads and their operation on a profit-sharing basis for the benefit of employees. Among other things which the brotherhoods now demanded were representation on a directorate of 15 which should operate the systems and a share for labor of the surplus at the end of each year after operating costs had been met and fixed charges paid. The provisions of the bill presented to Congress on behalf of the four brotherhoods were outlined by Representative Simms as follows:

1. Purchase by the Government on valuation as determined finally by the Courts.
2. Operation by Directorate of 15, five to be chosen by the President to represent the public, five to be elected by the operating officials, and five by the classified employees.

Samuel Gompers

3. Equal division of surplus, after paying fixed charges and operating costs, between the public and the employees.
4. Automatic reduction of rates when the employees' share of surplus is more than 5% of gross operating revenue.
5. Regional operation as a unified system.
6. Building of extensions at expense of the communites benefited in proportion to the benefit.

Representative Simms added that the Executive Council of the American Federation of Labor had been instructed at Atlantic City the previous June 17 to cooperate with the organizations representing the railroad employees. This it had done, and Samuel Gompers, President of the American Federation of Labor, was Honorary President, and Warren S. Stone, head of the Brotherhood of Locomotive Engineers, was President of the Plumb Plan League, formed to urge the Simms Bill before the country. As a matter of fact, in a statement issued on August 4 at Washington by the Railway Brotherhood leaders, setting forth the demands of labor respecting a change in industrial management and policy, the proposed legislation for the reorganization of railroad management embodied in the Simms Bill was characterized as "Labor's bill."

In view of the attitude of the railway unions regarding the President's suggestion of a special body for dealing with wages and rates, the President did not urge the suggestion any further. Moreover, in a letter from Senator Cummins, received on August 7, the President was advised that while the Senate Committee on Inter-State Commerce recognized the gravity of the situation, it felt that Congress had already given the Executive "complete and plenary authority to deal with the existing situation and that additional legislation at this time can add nothing whatever to your power in the premises." In the meantime a considerable number of railway employees had gone on strike, against the advice of their national leaders. Accordingly, the President the same day (August 7) addressed a letter to Mr. Hines, authorizing him to say to the railroad shop employees that the
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question of wages they had raised would be taken up and considered on its merits by the Director-General himself, but only in conference with their duly accredited representatives. The President at the same time stated that "concerned and very careful consideration is being given by the entire Government to the question of reducing the high cost of living."

The statement given out by the four Brotherhoods on August 2 and joined in by the American Federation of Labor declaring that railroad employees were "in no mood to brook the return of the lines to their former control," and expressing adherence to the Simms Bill embodying the Plumb Plan for turning the operation of the roads over to the employees and their unions was construed as a threat on the part of the union leaders to tie up the railroad system of the country with a strike in order to force the adoption of the ideas embodied in the Plumb proposition. The attempt to influence legislation by such reprehensible methods met with almost universal condemnation on the part of the press and evoked indignant protest from all quarters. Accordingly, the heads of the different railway organizations on August 9 thought it best to issue an explantory statement regarding labor's stand on the Simms bill. In this they declared that "in proposing the elimination of capital and the tripartite directorate we have no purpose of intimidation," and saying, "we appeal to the statesmanship of America and to the common sense of American manhood and womanhood. To prevent any misunderstanding as to the policy of the organized railroad employees we unite in a definite assertion that we have no desire and have had none to impress upon the public by violence or by threats our proposal that the railroads be nationalized under tripartite control." It was significant of the hostility that had rapidly developed against the Plumb scheme and the identification of the American Federation with the same that after a conference in Washington of the Executive Council of the Federation which extended over three days, namely August 28, 29 and 30, announcement came saying that the Council had concluded to defer final action on the proposition.

In all this it was presently to appear that they had gauged public sentiment and the attitude of the Administration at Washington aright. The President might have the deepest sympathy with labor and be inclined to espouse the cause of labor unions as he had done on so many occasions in the past, but he was nevertheless proceeding to aim a body blow at their new aspirations. On August 25 Mr. Wilson made it plain that the demands of the railway shopmen for increases amounting to from 15 to 27 cents an hour would only serve to result in still further increasing the costs of production and therefore the cost of labor. The men had been receiving 58, 63 and 68 cents per hour and now demanded 85 cents cents per hour. In statements issued on that day by him, along with a report by Director-General of Railroads Hines, emphasis was laid on the fact that the demands for the increases asked for could not be met. On the other hand, in an endeavor to effect an adjustment of the wages of shopmen to conform to the basis of pay of other railroad employees, the Administration awarded the shopmen 4 cents additional an hour. Even this, it subsequently developed, would add $45,000,000 to the annual payroll of the railroads. Following a conference with representatives of the shopmen on August 25 the President issued two statements, one to the shopmen and the other to the public in general. In the latter, the President dealt with the demands of the shopmen and stated that, in determining the issue, "We are not studying the balance sheets of corporations merely; we are in effect determining the burden of taxation which must fall upon the people of the country in general." The shopmen had urged in support of their claims the very serious increase in the cost of living. The President referred to this as "a very potent argument, indeed," but added: "The fact is, the cost of living has certainly reached its peak and will probably be lowered by the efforts which are now everywhere being concerted and carried out. It will certainly be lowered so soon as there are settled conditions of production and of commerce [here the President took advantage of the opportunity to spur the Senate to action on the Peace Treaty], that is, so soon as the Treaty of Peace is ratified and in operation, and merchants, manufacturers, farmers, miners, all have a certain basis of calculation as to what their business would be and what the conditions will be under which it must be conducted." Continuing in this strain the President pointed out that the demands of the shopmen and all similar demands were in effect this:

"That we make increases in wages, which are likely to be permanent, in order to meet a temporary situation which will last nobody can certainly tell how long, but in all probability only for a limited time. Increases in wages will, moreover, certainly result in still further increasing the cost of production and therefore the cost of living, and we should only have to go through the same process again. Any substantial increase of wages in leading lines of industry at this time would utterly crush the general campaign which the Government is waging, with energy, vigor and substantial hope of success, to reduce the high cost of living. And the increases by the cost of transportation which would necessarily result from increases in the wages of railway employees would more certainly and more immediately have that effect than any other enhanced wage costs. Only by keeping the cost of production on its present level, by increasing production and by rigid economy and saving on the part of the people, can we hope for large decreases in the burdensome cost of living which now weighs us down."

In conclusion the President expressed the belief that in the circumstances it would be clear "to every thoughtful American, including the shopmen themselves when they have taken second thought, and to all wage-earners of every kind, that we ought to postpone questions of this sort till normal conditions come again and we have the opportunity for certain calculation as to the relation between wages and the cost of living. It is the duty of every citizen of the country to insist upon a truce in such contests until intelligent settlement can be made and made by peaceful and effective common counsel." The President cautioned that "demands unwisely made and passionately insisted upon at this time menace the peace and prosperity of the country as nothing else could and thus contribute to bring about the very results which such demands are intended to remedy."

In his statement to the shopmen the President told them "we are face to face with a situation which is more likely to affect the happiness and prosperity, and even the life, of our people than the war itself. We have now got to do nothing less than bring our industries and our labor of every kind back to a normal basis after the greatest upheaval known to history, and the winter just ahead of us may bring suffering infinitely greater than the war brought upon us if we blunder or fail in the process." The President did not hestitate to say that if the "efforts to bring the cost of living down should fail, after we have had time enough to establish either success or failure, it will, of course, be necessary to accept the higher costs of living as a permanent basis of adjustment, and railway wages should be readjusted along with the rest." All that he was now urging, he insisted, was that "we should not be guilty of the inexcusable inconsistency of making general increases in wages on the assumption that the present cost of living will be permanent at the very time that we are trying with great confidence to reduce the cost of living and are able to say that it is actually beginning to fall."

The President finally ventured the opinion that legislation dealing with the future of the railroads would in explicit terms af-
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ford adequate protection for the interest of the employees of the roads, but, quite apart from that, it was clear that no legislation could make the railways other than what they are, a great public interest, and it was "not likely that the President of the United States, whether in possession and control of the railroads or not, will lack opportunity or persuasive force to influence the decision of ques-

John J. Esch

tions arising between the managers of the railroads and the railway employees. The employees may rest assured that during my term of office, whether I am in actual possession of the railroads or not, I shall not fail to exert the full influence of the Executive to see that justice is done them."

The most encouraging feature about the President's action was that it quickly became evident that his appeal to the shopmen would be effective. While it had been decided on August 26 to put to a vote of the local unions the question of accepting or rejecting the President's appeal to the shopmen to defer their demands for higher wages, a later communication to the local unions, by the heads of the organizations involved, issued on August 28, recommended that the question of suspending work be left in the hands of the officers of these organizations, "with the understanding that no strike order will be issued unless such action becomes absolutely necessary to meet the conditions arising from the present situation, or joint action with other railroad organizations for a general wage increase." The instructions of August 28, which were in a much more conciliatory tone than those issued August 26, also stated that "it is our honest judgment that a fatal mistake would be made by our members to assume the responsibility of tying up the railroads at this time when the President is evidently doing all possible to reduce the high cost of living." The instructions to the local shopmen's union on August 26 had been sent out after Director-General of Railroads Walker D. Hines had been advised by representatives of the railroad shop craft committee of 100 that "knowing the sentiment of the membership," the committee could not "accept as a basis of settlement the rates established in his proposition submitted by the President." Previously a vote in favor of a strike effective September 2 had been taken and it was stated on August 26 that 95% of the men had registered in favor of a strike. The President's overtures operated to set aside this strike vote and to put the question to the men anew, who then agreed to abide by the President's decision. The unauthorized strikes of the shopmen in different parts of the country were gradually abandoned.

For the rest of the year the Railroad Administration, backed by the President, consistently adhered to the policy laid down in the foregoing. There were special wage increases, but no general ones, and the special increases were mostly claimed to be by way of adjustment. Unauthorized strikes, that is where the men quit work without the sanction or in direct opposition to the wishes of their leaders, were summarily dealt with. These unauthorized strikes, while of sporadic occurrence, were not in all cases without importance, and indeed some of them proved quite disturbing. An instance of this kind occurred out in California in August, just about the time the Railroad Administration was engrossed in the consideration of the railway shopmen's demands, and the identification of the brotherhood and other railway organizations with the Plumb Plan for the "democratization" of the railroad industries. A strike of the employees of the Pacific Electric Railway, controlled by the Southern Pacific, but not under Government operation, led to a sympathetic strike of the railway workers on certain of the Government controlled lines running out of Los Angeles—the Southern Pacific, the Santa Fe and the Salt Lake lines operated by Government — and caused the complete tying up of railroad operations in parts of California, Arizona and Nevada. After the strike had been in progress for some days, Director-General Hines on August 28 issued an ultimatum to the strikers, commanding them to return to work. After pointing out that the employees on the steam railroads had quit work without any grievance being presented or alleged, and stating that the action of these strikers was a violation and repudiation of the agreements between the employees and the railroads upon which they worked and also of the national agreement between the U. S. Railroad Administration and the chief executives of the organizations to which the strikers belonged, such national agreement providing for the adjustment of all causes of complaint in an orderly manner without suspension of work, Mr. Hines gave notice that all striking employees who did not report for duty by August 30 at seven in the morning would be regarded as having terminated their employment and their places would be filled. Not only that, but anyone who interfered with or impeded the running of trains would be committing an offense against the United States and would be arrested and prosecuted accordingly. This proved sufficient in this instance. The strikers had derived encouragement in the early stages of the movement from a telegram claimed to have been received August 24 by Los Angeles officers of the Railroad Brotherhoods from W. G. Lee, President of the Brotherhood of Railway Trainmen, stating that, "while the strike was not authorized the usual penalties of the Brotherhood accompanying the unauthorized strikes would not be exacted in this case in connection with any action the strikers might take." When, however, Mr. Lee and Warren S. Stone, the Grand Chief of the Brotherhood of Locomotive Engineers, got knowledge of the attitude which the Railroad Administration was taking, they both advised all members of their respective unions that a sympathetic strike would not be countenanced and indicating the penalties that had been visited upon offenders who had engaged in unauthorized strikes.

There were a number of wage *adjustments* adverted to above. While the amounts involved in none of the cases were of the prodigious magnitude of the wage increases made the previous year when Mr. McAdoo was Director-General, yet they represented a considerable sum in the aggregate. We have already referred to the wage increase granted the railway shopmen, and which was not at all satisfactory to them. In November a higher wage scale, embodying equalization of the earnings of the railway train service men engaged in slow freight service, and which it was estimated would add $3,000,000 a month or $36,000,000 a year to the payroll, was submitted to representatives of the four big Railroad Brotherhoods. The Railroad Administration, in submitting this proposal, announced that the policy adopted the previous August of not considering increases in the general level of railroad wages until a reasonable opportunity had been afforded to ascertain the result of the efforts

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of the Government to reduce the cost of living, had not been departed from, and that the proposed increase was merely with the view "to correct unjust inequalities as between different classes of railroad labor." New wage demands, however, kept pouring in, and on November 28 the general chairmen of the Brotherhood of Locomotive Firemen and Enginemen, about 180 in number, met in separate session at Cleveland and discussed the demands of their organization for a wage increase of 40 to 45%. Their demands had been presented to the Railroad Administration in September, but no reply had been received. The Brotherhood of Railway Trainmen, who made similar demands at the time, were advised, as noted above, that the time was not opportune and that they must await the result of the efforts to reduce the cost of living.

From what has been said it will have been gathered that the task of running and administering the railroads was not an easy one. Nor were railroad developments favorable in other respects. With railroad wages continuing to mount upward, and with other concessions to railway employees and with numerous other drawbacks, a further large augmentation in the expenses occurred, still further diminishing the net income out of which the Government guaranteed rental had to be paid. Returns compiled by us, covering the returns filed with the Inter-State Commerce Commission by all railroads having gross operating revenue in excess of $1,000,000 per annum, showed an increase in the gross earnings for the twelve months of 1919, as compared with the twelve months of 1918, of $258,130,137, following an increase in 1918 over 1917 of $863,892,744. On the other hand, because of an augmentation in expenditures of $401,609,745, net for 1919 was $143,479,608 smaller than for 1918, and this came after a loss in 1918, as compared with 1917, in the huge sum of $284,771,620. These are the results before the deduction of taxes and other items. With these deductions made, the remaining net income fell $377,037,622 short of meeting the Government guaranteed rental, which was very much larger than even in the calendar year 1918, when the loss to the Government amounted to $169,461,738.

Railroad securities remained under a cloud the whole year and railroad credit continued impaired throughout. Entirely aside from the direct loss incurred by the Government in the operation of the roads, continued Government control was not regarded with favor. The service was unquestionably poorer than under private control, the discipline more lax, with a marked impairment of efficiency and capacity on the part of the employees. Outside of railroad employees themselves, who had profited so much through Government administration of the roads, and who were naturally anxious to perpetuate and extend these benefits to themselves, there was practically no public sentiment in favor of Government retention of the roads—rather there was a pretty general desire to have the Government relinquish control at an early date. All this was pretty well established before the different Railroad Brotherhoods and the railroad unions connected with the American Federation of Labor made their bold proposition that the Government should acquire ownership of the roads and turn them over to the employees to operate in their own way and for their own benefit. The proposal was so coldly received that even the railway unions quickly began to see that nothing was to be gained by endeavoring to push the scheme, though the coal miners coquetted with it a little, since they themselves were engaged in a movement to obtain a further large increase in their wage scales and thought that the support of the railway employees might be useful to that end. Indeed, before it became apparent how severely the public was inclined to frown upon such projects, some radical propagandists were talking wildly of the impending nationalization of both the railroad carrying industry and the coal mining industry.

The President himself was never in doubt as to public sentiment with reference to continued operation of the roads by the Government. While still in France, he took occasion when addressing Congress, which had been convened by him in extra session on May 19, to notify Congress that he had made up his mind as to the date when the roads should be returned to private control. In a very brief but wholly unqualified manner, he announced his conclusion in that respect, saying simply: "The railroads will be handed over to the owners at the end of the calendar year."

Of course, it was not possible to turn the properties back to their shareholders and directors without making legislative provision that would permit the step, since two years of Government operation had so completely altered the entire railroad status that it was out of the question to hand them over willy-nilly. The President hoped that by giving the legislative body long notice in advance of his intentions it would have ample time to perfect the needed legislation. But Congress dilly-dallied and delayed and procrastinated so that the year actually closed with no new acts on the statute books for dealing with the matter. It was not until November 17, shortly before the ending of the long extra session, that the House passed what was known as the Esch Railroad Bill, which embodied some radical and undesirable features. The Senate, in turn, passed a substitute measure,

Albert B. Cummins

the work of Chairman Cummins, of the Senate Committee on Inter-State Commerce, but this was not until December 20. The President then stepped in and gave Congress two months more of grace in which to perfect the necessary legislation. In a proclamation issued on December 24 the President fixed March 1 as the date for the termination of Government control. The statement given out by the President's private secretary, Joseph P. Tumulty, in connection with the proclamation, after adverting to the message of the President the previous May, indicating the President's intention to restore the roads to their owners at the end of the calendar year 1919, went on to say that "in the present circumstances, no agreement having yet been reached by the two Houses of Congress in respect to legislation on the subject, it becomes necessary in the public interest to allow a reasonable time to elapse between the issuing of the proclamation and the date of its actually taking effect." Therefore, transfer of possession back to the railroad companies was fixed so as to become effective at 12.01 a. m. March 1, 1920. It now depended upon the conferees on the part of the two Houses of Congress to reconcile the differences between the two bills and submit a compromise measure. This proved a long and difficult task, and it was not until Feb. 18, 1920, that the compromise bill could be submitted to the House of Representatives, which then set Saturday, Feb. 21, for action upon it, when it passed that body by the decisive majority of 250 to 150, notwithstanding vehement opposition on the part of the American Federation of Labor and the railway labor unions to the labor provisions in the bill. The Senate in turn passed the bill on Feb. 23 in face of similar opposition on the part of the labor unions, the vote being 47 to 17. The labor unions sought to prevail upon the President to veto the measure, but this move also proved ineffective, and the bill became a law on Feb. 28.

Among the notable events of 1919 in labor matters were the strike in the steel industry and the bituminous coal miners' strike. These both occurred in the later months, and hence disappointed the expectations raised in August, when the President requested labor organizations to hold in abeyance for the time being demands for wage increases and other concessions until he had had opportunity to see if the cost of living could not be substantially reduced — a request which it seemed at first would meet with ready compliance. The strike in the steel industry was begun on Sept. 22. It was inaugurated at the instance of the leaders of the unions of iron and steel workers affiliated with the American Federation of Labor, which had undertaken to organize all steel workers and bring them under Federation control, thus carrying out their long announced threat in that respect. This was not a strike for increased wages, but was for the avowed purpose of gaining from the United States Steel Corporation recognition of labor unionism and the principle of the "closed shop." Judge Elbert H. Gary, Chairman of the U. S. Steel Corporation, took a firm stand in opposition to the principle of the "closed shop," pointing out that it "means that no man can obtain employment in that shop except through and on the terms and conditions imposed by the labor unions. He is compelled to join the union and to submit to the dictation of its leader before he can enter the place of business. If he joins the union he is then restricted by its leaders as to place of work, hours of work (and therefore amount of compensation) and advancement in position regardless of merit; and sometimes, by the dictum of the union leader, called out and prevented from working for days or weeks, although he has no real grievance, and he and his family are suffering for want of the necessities of life." Judge Gary declared that the country would not stand for the "closed shop." It could not afford it, he said, adding, "in the light of experience we know it would signify decreased production, increased cost of living, with initiative, development and enterprise dwarfed. It would be the beginning of industrial decay and an injustice to the workmen themselves, who prosper only when industry succeeds."

Judge Gary declined to receive a committee of union men sent to discuss the matter with him on threat of a strike for non-compliance, first because he did not believe the men were authorized to speak for large numbers of the Corporation's employees, and secondly because it seemed to him that a conference with them would be treated by them as a recognition of the "closed shop" method of employment. The President sought to prevail upon the leaders to defer the strike, but the effort proved unavailing. The union men in control of the movement were made up of very radical thinkers, John Fitzpatrick being chairman of the National Committee for the Organization of Steel Workers of the American Federation of Labor, and the committee comprising among others William Z. Foster, who had formerly been active on behalf of the I. W. W. (Industrial Workers of the World), and who some years before had written a book in collaboration with other writers, entitled "Syndicalism," in which social revolution and the destruction of the wage system, together with other radical doctrines, was advocated. As indicating Chairman Fitzpatrick's views, he was quoted as having

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said, after the adjournment of the committee meeting on Sept. 18, when a motion to rescind the action previously taken calling the strike was voted down, notwithstanding the President's request to that effect: "We are going to socialize the basic industries of the United States. This is the beginning of the fight. We are going to have representatives on the Board of Directors of the Steel Corporation. President Wilson has promised that, in effect, in his program for the placing of industry on a better basis." In testifying before the Senate Committee on Labor and Education, which undertook an investigation of the causes of the strike, Chairman Fitzpatrick admitted that the strike was called as the result of a referendum vote in which only 100,000 of the 500,000 steel workers which he sought to involve in the strike had voted, though he claimed there were 50,000 more by the time the vote was counted. In the end the strike proved a blessing in disguise, for after it had been inaugurated it quickly became apparent that the movement was foredoomed to defeat. The number of steel workers who joined the ranks of the strikers was far less than had been supposed might be the case, and with the beginning of the second week of the conflict it was seen the strike was certain to fail. The strike assumed important dimensions only in the West, and at the Gary steel plants the military had to be called out to suppress the disorders which resulted. At all points, notwithstanding temporary successes at the start, the strikers quickly lost ground. The plants of the Bethlehem Steel Co. were not included in the original strike order, but on Sept. 27 the National Committee of the Iron and Steel Workers, at a meeting at Pittsburgh, proclaimed a strike at these plants, too (to go into effect Monday, Sept. 29), after E. G. Grace, the President of the Company, had declined to accede to the demand for a conference with the unions. The outcome in this last instance merely served further to demonstrate the weakness of the whole affair, for the strike at the Bethlehem plants proved an absolute fizzle. The strike leaders kept putting forth claims of important successes until the end of the year, but while the output of both iron and steel was substantially reduced in October, the strike practically ceased to be an influence after that month. As late as Dec. 13 and Dec. 14 the presidents of 24 unions connected with the steel industry voted to continue the strike, though it had for some time been virtually a thing of the past. It was not until Jan. 8 of the new year that the strike was officially called off.

It deserves to be noticed that early in October the leaders in the steel workers' strike sought to avert the defeat of the movement, which even then was impending, by a clever attempt to secure indorsement of their cause at the hands of an outside agency. On Oct. 6, the National Industrial Conference of representatives of capital, labor and the public, which President Wilson had called some time before, to "discuss fundamental means of bettering the whole relationship of capital and labor," opened at Washington. At the very outset of the meeting of this industrial conference, Samuel Gompers, the Chairman of the Labor Group, introduced a resolution proposing the appointment of a committee to whom should be referred for settlement the questions at issue in the steel controversy. Pending the findings of the committee, the workers were to be requested to return to work (which now, with certain defeat ahead, they were willing to do, although they would not refrain from striking when requested by the President) and the employers were to reinstate them in their former position. Fortunately, however, Judge Elbert H. Gary was able to thwart this audacious move on the part of the Labor Group. Mr. Gary firmly opposed the attempt to have the Industrial Conference come to the rescue of the misled steel workers. He declared he was of the fixed opinion that the strike should not be arbitrated, or compromised, nor any action taken by the Conference bearing upon the subject. In the end, the resolution was defeated, the Employers' Group and the Public Group voting against it. The Industrial Conference itself succeeded in accomplishing nothing. It split, nominally on the question of collective bargaining, but actually on the right of outside organizations like the American Federation of Labor "butting in" and representing workers banded together under shop organizations and engaged in bargaining directly with the employer. After being defeated on this issue and on the Steel resolution the Labor Group quit the Conference on Oct. 22. The Conference adjourned the next day.

On November 20, the President called a new Industrial Conference to meet in Washington beginning Dec. 1. The new Conference was called in response to a recommendation made to the President by the Public Group of the old Conference. Unlike the latter, the new Conference was not made up of distinctive groups. Instead, all the conferees were appointed to act in the interest of the people as a whole. Seventeen persons were named by the President to function in the new body; "all of the new representatives," said the President, in his letter of invitation, "should have concern that our industries may be conducted with such regard for justice and fair dealing that the workman will feel himself induced to put forth his best efforts, that the employer will have

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The First Year After World War I

(Continued from page 1109)

an encouraging profit, and that the public will not suffer at the hands of either class." This new Conference, after having met on the date set deliberated privately, and in the new year put forth a rather ambitious project for promoting harmony between capital and labor.

Strike of the Bituminous Coal Miners

More serious than the steel strike was the strike of the bituminous coal miners. Strenuous efforts were made by the authorities at Washington to avert this strike at the soft coal mines. The miners' demands had been formulated at the International Convention of the United Mine Workers of America at Cleveland, Ohio. The Convention closed on Sept. 23, after adopting resolutions for nationalization of the coal mines through Governement purchase of the mines, and for a working alliance with railroad employees to secure the adoption of the Plumb plan for nationalization of the railroads. A joint wage conference of the miners' representatives and the coal operators convened at Buffalo during the week of Sept. 25. Having been unable to reach an agreement, it was announced on Oct. 2 that the conference would recess until Oct. 9, at which time a sub-committee of the conference would renew the consideration of the miners' demand at Philadelphia. This subcommittee, which was composed of two operators and two miners from each of the four States represented, namely, Ohio, Indiana, Illinois and Western Pennsylvania, met at Philadelphia on Oct. 9, and after a three-day session announced on Oct. 11 that it had been unable to come to an agreement and that the conference would be adjourned. The operators the same day (Oct. 11) issued a statement asserting that the existing wage scale would not expire until April 1, 1920, or until the President should officially promulgate peace. The demand of the miners was for a 60% increase in wages, a maximum six-hour day, and a five-day week, with time and a half for overtime and double time for work on Sundays and holidays. Secretary Wilson of the Department of Labor was unremitting in his endeavors to avert the strike. The official strike order, calling upon all union bituminous coal miners to stop work at midnight Oct. 31, was issued to 4,000 local unions on Oct. 15 by John L. Lewis, as Acting President of the United Mine Workers. Secretary Wilson continued his efforts, however, but all to no purpose. Finally, after an all-day meeting of the President's Cabinet, the President issued a statement from the White House Oct. 25. He characterized the strike as "one of the gravest steps ever proposed in this country affecting the economic welfare and the domestic comfort and health of the people." He said it was "proposed to abrogate an agreement as to wages which was made with the sanction of the U. S. Fuel Administration, which was to run during the continuance of the war but not beyond April 1, 1920." He said he felt convinced that when the time and manner were considered the proposed strike constituted "a fundamental attack, which is wrong morally and legally, upon the rights of society and upon the welfare of our country." He added: "When a movement reaches a point where it appears to involve practically the entire productive capacity of the country with respect to one of the most vital necessities of daily domestic and industrial life, and when the movement is asserted in the circumstances I have stated and at a time and in a manner calculated to involve the maximum of danger to the public welfare in this critical hour of our country's life, the public interest becomes the paramount consideration." He said furthermore that he felt it his duty "in the public interest to declare that any attempt to carry out the purpose of this strike and thus to paralyze the industry of the country, with the consequent suffering and distress of all our

C. B. Ames

people, must be considered a grave moral and legal wrong against the Government and the people of the United States." The law would be enforced and means would be found "to protect the interest of the nation in any emergency that may arise out of this unhappy business." In the circumstances he "solemnly" requested both the national and the local officers and also the individual members of the United Mine Workers of America to recall all orders looking to a strike on Nov. 1 and to take whatever steps might be necessary to prevent any stoppage of work.

But the officials of the United Mine Workers remained obdurate, and on Oct. 29 announced "that a strike of bituminous miners cannot be avoided; the issue had been made and if it must be settled upon the field of industrial battle, the responsibility rests fairly and squarely upon the coal barons alone." The Government then had recourse to legal proceedings and on Oct. 31 an order was issued on the petition of C. B. Ames, Assistant Attorney-General of the United States, by Federal Judge A. B. Anderson, at Indianapolis, enjoining officials of the United Mine Workers from enforcing the strike. Unlawful conspiracy to limit the output and facilities for the transportation of coal was charged in the proceedings. Hearing on the injunction came up Nov. 8, and the Court then directed the recall of the strike order, to which the mining leaders rendered compliance, though in the meantime the strike had gone into effect Nov. 1. The view of this action of the Government taken by the miners was indicated by the comment of President Lewis, to the effect that he regarded "the issuance of this injunction as the most sweeping abrogation of the right of citizens guaranteed under the Constitution and defined by statutory law that has ever been issued by any Federal Court."

It quickly appeared that it was one thing for a court to direct a recall of a strike order, but quite a different thing to get the strikers to return to work. As a matter of fact, only a very limited number of the miners in various parts of the country saw fit to go back and resume mining. The great bulk of the strikers simply stayed out. In the meantime the Administration authorities renewed their efforts to bring about an adjustment of the wage controversy between miners and operators, but again failed. No basis could be found acceptable to miners and operators alike. As a last expedient, the Fuel Administrator, Dr. Harry A. Garfield, backed by the members of the President's Cabinet, prescribed the conditions which both miners and operators would be obliged to accept. Under these conditions the miners were to get a 14% advance in wages, in addition to the large advances obtained by them in October, 1917, while the operators were to sell coal at the same price as before, the hours of labor remaining unchanged, that is, an eight-hour day for six days a week. The miners, however, appealed to the President and obtained what virtually amounted to a modification of these terms. On Dec. 6 Attorney-General Palmer announced, on behalf of the President, that, as soon as the miners returned to work on the basis of the 14% increase in wages (with which the miners were wholly dissatisfied) he would appoint a commission of three, including representatives of the operators and miners, to decide upon a further increase in wages and settlement of other questions in dispute. This proposition district representatives of the United Mine Workers at a conference decided to accept, and the miners thereupon immediately returned to work. Dr. Harry A. Garfield, however, tendered his resignation as Fuel Administrator, and the President then appointed Walker D. Hines in his place. Mr. Garfield's plan, as stated, provided a 14% wage advance, but it virtually precluded any further advance beyond this, since it was made with the idea that there should be no advance in the price of coal to the consumer.

Another of the conspicuous labor troubles of the year involved the printing trade in New York City. Owing to a combined lockout and strike, extending to the whole 250 or more establishments engaged in book and magazine and job work throughout the city, and involving all the pressmen and assistants and the press

Albert B. Anderson

feeders employed in these establishments, virtually all the weekly and monthly papers and magazines found it impossible to get out their customary issues. The typesetters, also, in great measure joined in the movement. Under the rules of the International Typographical Union, the members of that union were unable to engage in a strike without the sanction of the international body, and to strike, therefore, would have involved the risk of expulsion from that body, but large numbers of these typesetters took "vacations" instead, and in that way managed to abstain from work. The demand related to both wages and hours of work. The unions asked for a $14 increase in wages, with a reduction in the number of hours from 48 per week to 44. The employing printers offered a $6 wage increase, and the adoption of the 44-hour week on May 1, 1921. The unions were willing to let the matter of increase in pay go to arbitration in accordance with the request of the employers, but would not submit to arbitration the question of the immediate introduction of the 44-hour week. The Typographical Union, however, meeting on Sunday, Nov. 23, decided to let the question of the 44-hour week go to arbitration along with their wage demands. Only the previous Sunday the members of the "Big Six" Typographical Union, at a mass

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The First Year After World War I

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meeting had voted to stay away from their jobs until their demands should be granted. But by this time the number of the "vacationists" had increased to such an extent that the employing printers finally refused to

Dr. H. A. Garfield

continue negotiations with the officers of the union, and protested to the International Typographical Union that the action of the "vacationists" was equivalent to a strike. As a result, the Executive Council of the International body issued a mandate peremptorily ordering the "vacationists" to return to work, the threat of penalization by the International Union was held over their heads in the event of failure to comply. This proved effective. Following the action of the Typographical Union, the pressmen's and feeders' unions, who had seceded from their International bodies, voted to rejoin the latter. Work was generally resumed Nov. 24. Throughout the strike, the International Printing Pressmen and Assistants' Union had supported the employing printers, and had opened offices here to recruit pressroom workers to fill the places of those who, because of

A. Mitchell Palmer

their affiliations with the four outlawed local unions, had been refused re-employment. The number of recruits obtained, however, had proved very small. The strike and lockout had begun October 1, and the trouble, therefore, lasted pretty nearly two months, during all of which time nearly all the leading weekly and monthly publications found it impossible to bring out their regular issues, though one or two of them, and notably the Literary Digest, were issued in reduced size, the text matter being reproduced from plates made from photographic copies of typewritten manuscripts. The arbitration resulted in giving the typesetters $9 a week increase, raising the scale of pay from $36 to $45, but on the basis of the continuance of the 48-hour week until May 1, 1921.

The Volume of Business

While the year 1919 was a period of undoubted great trade activity—taking trade as a whole without regard to conditions in many separate industries—and of advancing prices and large profits, it may be questioned whether the volume of business in the aggregate was fully equal to that of the previous year when the war was still in progress and all energies were employed in the endeavor to bring production in what were termed the "essential" industries to the top-notch—"essential" here meaning indispensable to the conduct of the war. In what are ordinarily considered basic industries, more particularly iron and steel as one and coal mining as another, production was heavily reduced. The output of bituminous coal in the United States in 1919 is put at only 458,063,000 tons, as against 579,385,820 tons in 1918, and 551,790,563 tons in 1917; and the production of Pennsylvania anthracite for 1919 at 86,200,000 tons, as against 98,826,084 tons in 1918 and 99,611,811 tons in 1917. In the case of copper, too, there was a very considerable diminution in production—the shrinkage being figured at over 600,000,000 pounds—the production of refined copper for 1919 being put at 1,863,580,381 pounds, against 2,473,077,401 pounds in 1918 and 2,507,663,067 pounds in 1917. According to the American Iron and Steel Institute, the make of pig iron in 1919 reached only 31,015,364 tons which compared with 39,054,644 tons in 1918 and 38,621,216 tons in 1917. In all these instances a falling off seemed natural as a result of the cessation of hostilities; and the labor troubles just referred to tended still further to cut down the output. In the case of coal, mining in 1918 had been pushed to the utmost since without adequate supplies of fuel, arranged for in advance, operations in the essential industries to full limits could not have been maintained and might have been checked altogether. To guard against contingencies, coal production had to be stimulated even beyond immediate requirements, otherwise the consequences might have been very serious. What was involved in the coal trade in the change from a war basis to a peace basis was at once recognized when the armistice was signed in November, 1918, for coal production was immediately allowed to fall off. In the first part of 1919 the loss from the corresponding months of 1918 was very striking, and in the case of the anthracite shipments the exceedingly mild winter, as contrasted with the extraordinarily severe weather experienced during the early months of 1918, came in as an additional factor operating in the same direction. In the closing months of 1919 the strike in the bituminous regions while it lasted reduced coal production to small proportions. In the matter of iron and steel the cessation of war activities meant that iron and steel would now be constituent elements merely in peace products and no longer have their chief use in the turning out of war materials. The transformation here quite obviously was more decided than in any other industry and that circumstance alone inevitably tended to produce a state of quietude such as was the characteristic of the early months of 1919. In addition, differences of opinion with reference to the new and lower schedules of prices to be put in force, and some sharp disputes between Government bodies as to what the new prices should be, served further to promote the disinclination to engage in ordinary business undertakings. Here, too, labor troubles—both in the steel industry itself, and later in the coal industry, this last serving to deprive iron and steel making concerns of needed supplies of fuel — acted further to reduce production after the early period of quietness had given place to a renewed demand for all leading products of iron and steel and now of a quite urgent character. In copper the elimination of all war demands necessarily entirely changed the aspect of that trade, the more so as huge stocks of the metal accumulated in 1918 on the supposition that they would be needed by the War Department, were now freed for other uses.

In the building trades there was naturally a tremendous revival of activity. Following the entrance of the United States into the war in April, 1917, the erection of buildings for private use had to be almost completely eliminated except so far as new structures had to be erected as an incident to the conduct of the war itself in order that the materials that would have gone into the ordinary buildings might be available for war uses. As a result of this enforced restriction a great and unprecedented scarcity of housing accommodations developed—not alone for dwelling purposes, but for office and business needs. Property valuations consequently went up and so did rents—at first in a slow and cautious way (own-

(Continued on page 1112)

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(Continued from page 1111)

ers succeeded in getting good prices for parcels which had long been unsalable), and then at the very close of the year with great rapidity. All this served to release pent-up energies in the building lines. At first it was a question how far builders would go in the attemps to relieve the shortage. The cost of materials was high, labor unruly and demanding steadily increasing compensation and insisting on shorter hours along with other concessions which made the labor cost almost prohibitory, besides which, on account of the attitude of labor, contractors had to assume great risks in venturing upon engagements looking to the future since a seeming gain might be turned into a serious loss by further labor demands which would have to be granted as the alternative to a strike and a complete stoppage of work involving even more serious loss. As a matter of fact, new labor troubles kept steadily arising in the buildings trades, constituting a formidable obstacle in the carrying out of new projects. In addition, money rates were ruling high and real estate mortgages were not easy to obtain. Nevertheless despite all these drawbacks new work on a very extensive scale was planned and in no small degree carried to completion, this last being due to the fact that owing to the scarcity of housing accommodations purchasers finally got into a mood where they were willing to pay almost any price in order to supply their needs, thus enabling the builder to recover all his outlays and make a profit besides. Carefully compiled statistics published by the "Commercial & Financial Chronicle" show that at 286 cities in the United States the contemplated outlay under permits issued during the 12 months of 1919 aggregated no less than $1,505,317,260 (the heaviest total on record for any calendar year), against $496,537,914, the exceptionally small total for 1918, and $819,241,507 for 1917.

As regards business generally, it is exceedingly difficult to say in any particular case whether the *volume* of business in 1919 was equal to that of 1918. Expressed in money the business, with relatively few exceptions, was unquestionably larger, but that has little bearing upon the volume of business transacted—the number of separate units handled and dealt in—since prices ruled so very much higher that that circumstance alone tended to raise the aggregate sales value to heavily increased levels. Retail business, it seems safe to say, surpassed all previous records. This was because the wage-earning classes received higher pay than ever before and spent the money with the greatest freedom—even with recklessness. As pointed out above, they crowded the department stores to the doors and were wholly indifferent as to the prices charged. It was because of these large sales at retail that the demand upon jobbers and wholesalers, and in turn upon manufacturers, was so urgent and the main consideration everywhere seemed to be to get goods, wholly irrespective of prices.

The Country's Foreign Commerce

In our foreign trade the totals reached unprecedented figures, the high record established in 1917 being surpassed by a wide margin. In brief, the value of the merchandise exports for 1919 was $7,922,150,592 against $6,149,087,545 in 1918, $6,233,512,597 in 1917 and only $2,113,624,050 in 1914. The total of the merchandise imports was $3,904,406,327 in 1919 against $3,031,212,710 in 1918, $2,952,467,955 in 1917 and only $1,789,276,001 in 1914. Here, too, the higher prices played an important part in swelling the totals—not so very much so in the comparison between 1919 and 1918, but accounting for the greater

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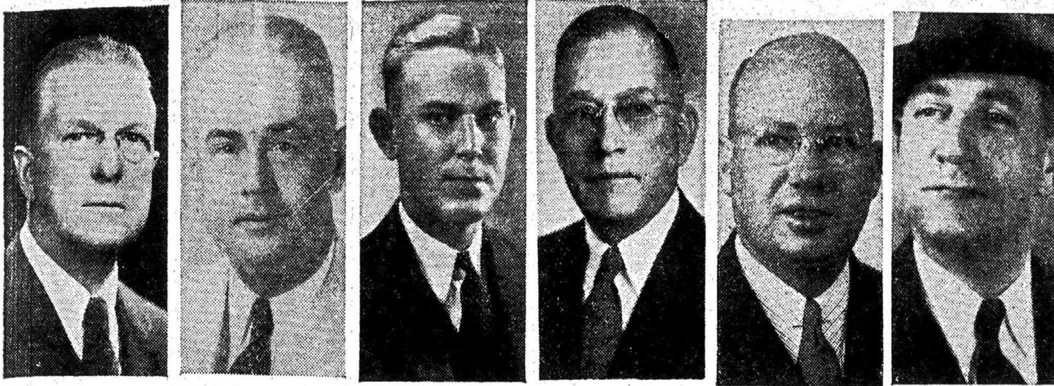

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Future American Foreign Investments

(Continued from page 1075)

trine have not yet learned to be creditors. If they would study the attitude of the rich in their domestic investments they would judge the international position better and clearer. What does a rich man who can live from his regular business, and therefore invests his surplus capital in oil or steel, in railways or public utilities, really want from these shares and bonds or participations? On the one hand he wants capital appreciation or as much security against depreciation as possible; on the other hand, he wants command of money, of purchasing power either at the moment he chooses or after a fixed shorter or longer period. If he owns, for instance, the Sun Oil shares mentioned above, the cash yield on his investment is almost negligible, but in his true balance sheet (not the one for tax purposes) he has more capital every year. At the same time, he can dispose of his investment any day. Not that he has a claim against the company, but there is a ready market for the shares and if he needs money to buy a house or to enlarge his business, there will always be somebody who is able and by all probability willing to buy his shares.

The analogy to this of a rich nation is evident. As long as the fundamental conditions do not change, a rich nation does not wish to repatriate its capital. It is satisfied with having it on its books, provided the investment is reasonably safe and profitable.

The individual capitalist wants to have a regular market where he can dispose of his investment. But this market may just as well be in New York and not in the country where the industrial plant or mine is situated and has its legal domicile.

If this worked for European investments on all continents and in dozens of countries, there is no valid reason why it should not do so for investors in the United States. For many decades South Africa was not able to repurchase its mining shares, especially when the successful entrepreneurs have moved their offices from Johannesburg to Throgmorton Street and their residences to Park Lane and their Surrey Estates.

Perhaps the Netherlands will pay or buy back its foreign investments rather soon, but Ruritania or Iraq will need or can use advantageously additional capital. When—contrary to expectations—Britain needed its foreign investments for the settlement of her trade balances during both World Wars, there were naturally countries having favorable balance of payment who were potential and actual buyers. There can be no adverse balance of one country without the complementary favorable balances in other countries.

If we can rely upon a repetition of our experiences in the 19th or 20th Centuries, even including the inter-war period from 1918-1939, everything would be very simple, at least for the former rich and now only temporarily impoverished countries of Western Europe. Britain, France, Holland, Belgium will, after a period of transition, not need any additional foreign capital. They will supply it themselves and after a number

(Continued on page 1114)

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Future American Foreign Investments

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of years produce a surplus above consumption and new home investments, i.e., they will, with their traditional psychology of capitalistic creditors, export capital or repay foreign capital. China, India or Iran, the South American Republics and Eastern Europe may be legitimate importers of capital for 100 years — as the United States had been until shortly before the first World War.

If one should predict the American trade balance of 1970 — or perhaps of 2000—he must expect it to have changed a great deal. With, say 160 million inhabitants, the highest standard of life, i.e., of consumption, there will hardly be any export of agricultural products, nor of mineral oil, nor of many finished products, for which the high American wage level cannot be compensated by a productivity of labor which the other countries have not yet achieved. If that should then be the case, the interest received from foreign investments may be used to settle the difference between exports and imports, i.e., the United States would cease to increase its foreign investments. This assumption is certainly just a marginal case of zero. The situation may be like that in England before 1914, in which part of the interest received was transferred, and part reinvested abroad, or it may be as in the years just before this war in England, when foreign investments on balance decreased and the repatriated capital was used at home for the so-called new industries.

III

Some practical men with a great disdain for theory and an ardent faith in their own intuition will not be convinced by the foregoing arguments, which anyhow can only scratch the problem and can not explicitly confute the so-called historical arguments of the inter-war period. Perhaps the following remarks which try to give some examples or a kind of a model of what may be expected in the future will find more favor with them. These remarks are based on certain estimates covering former times as well as future years. These may be open to many doubts, but nevertheless will be found fundamentally correct in their relative position.

Britain is said to have had a total national income before this war of 22-25 billion dollars of which she saved, i.e., used for net investment about 2-2½ billion dollars. This British income included $1 billion from foreign investments which have since been partly sold, and partly are still in enemy hands and may not yield any profit right after liberation. It also included the shipping income which in the first few post bellum years is expected to stay at least at pre-war levels; and the banking and insurance services which in all probability will bring considerably less until the British economy is restored on a secure basis.

Anyhow, one can expect that the British industry and largely expanded agriculture with a high rate of employment and many extensions and improvements made during the war will not fall below their pre-war status provided the necessary raw materials are at hand. In other words, the decrease of the British national income—in pre-war values—is certainly not supposed to be larger than the two billion dollars per annum formerly saved. That means that Britain will be able to cover her consumption needs including regular amortization or replacement of capital goods from the very beginning of the post-war period. What she needs—aside from the temporary financing of raw materials, part of which she will pay with her own accumulated stocks of wool, cocoa, etc.—are sums for capital formation.

This is merely a bookkeeping view. In reality, Britain will have to import consumption goods and raw materials for which she pays with finished goods, shipping facilities, etc., and she will furnish herself by far the greater part of the capital goods for her domestic use. But then she will be short of foreign exchange to pay for her imports.

During the last years of the inter-war period, this domestic capital investment in England—net capital formation—for production goods as well as housing, etc., was estimated at more than 2,000 million dollars, or perhaps taking into account the disinvestment outside of Britain, at 2,500 million dollars. These years were a period of substantial construction for the new industries and of 300,000 homes per annum.

The needs for the reconstruction of shattered cities as well as for the reconversion and modernization of British industry will be large; but speaking in 1938 prices, they ought not to surpass 4,000 million dollars in the average of each of the first five post-war years, since it would be difficult to find the skilled labor and the material (bricks, etc.) for a quicker pace of building, repairing and installing of machinery—beyond the normal replacement.

The productivity of the new machinery, etc., i.e., its marginal utility, will be very high if the capital is employed most efficiently. This certainly will be true when the British coal industry, suffering for decades from the diminutive size of many mines is reorganized in large units with all modern implements. Only moderately smaller are the possibilities for a rationalization and modernization of her steel works and, according to the often-quoted perhaps over-critical British report on textiles for a great part, certainly not all of these industries.

If 4 billion dollars per annum are invested for five years and the British economy is working full speed, one may safely predict that the productivity of Britain will be raised by about a billion dollars per year, in each of the first five years. On that basis the United Kingdom will have a surplus of one billion in the second year, two billion in the third, three billion in the fourth and four billion in the fifth from her own production for capital formation. Or in five years 20 billion would have been invested, one half from foreign, one half from domestic sources.

From about that point on the situation may change somewhat. The marginal productivity of additional capital will decrease. At the same time, the British people will become less willing to save instead of raising their standard of life, or to use Keynes' expression, "the propensity to consume" will somewhat increase. Presuming that from the sixth year on, only 3 billion dollars will be saved with an increase of the national product at first of 500 million dollars, going down slowly to about 200 million dollars Britain will accomplish inside of ten years in increase in production of 30% above the level of the first post-war year, or 20% above prewar levels. Such figures are not at all fantastic or even overoptimistic. They are in range with the experience of the United States in the "Twenties" and certainly of Germany between 1924 and 1930.

After these domestic adjustments, Britain will soon come to the point when it will be more profitable for her to invest part of the savings either in enterprises abroad or in repurchasing the loans and shareholdings of foreigners in the United Kingdom. This condition will be reached the sooner because for years to come the increase of the British population will be rather slow or even negative, irrespective of predictions what the post-war period will bring about in birth and death rates. At any rate, after the construction of 2 to 3 million homes inside of six to ten years, this expenditure will dwindle to relatively small amounts, a fact which even today worries the British who would like to have a large labor force in the building industry at present but cannot foresee work for all of them for more than five to ten years. If, on the other hand, the residential building is spread over a longer period, the present capital and labor needs will be so much smaller (the most optimistic British experts hope for the construction of 300,000 to 400,000 new homes per annum at an average cost price of $3,000 to $4,000 with a much smaller figure for the first one or two years.

IV

Nobody is asked to accept these figures as absolute truth. But fundamentally they are approximately correct and constitute a true model of Britain's prospective recovery.

To recapitulate, Britain has an enormous demand for foreign capital for reconstruction, modernization and replenishment of stocks. This demand can very well be satisfied in a few years to a great extent from the United States, but to a certain degree also from Switzerland, Sweden, etc. With a high productivity reached through such investment, Britain will soon be able to finance her needs alone despite higher consumption. She will be richer than she is now. The percentage of foreign capital in Britain, never enormous with say $10 billion new capital imports (plus blocked accounts less foreign investments retained by British subjects and companies) will gradually decrease and soon she will not only be richer internally but her international balance will rapidly improve either by an increase of her foreign assets or a decrease of her liabilities.

The only counter argument against this reasoning would be that one may expect the British, under an economic psychology of Sir William Beveridge and of John Maynard (now Lord) Keynes are not going to save, but will consume everything they can. This seems entirely improbable. Keynes, like Picasso, has had so many periods that one cannot in fairness use an argument of the theorist of 1936 against the statesman and director of the Bank of England of this hard year of 1945. Despite the understandable desire of the English laborer to raise his standard of life, one can safely predict that the wish and the political necessity to restore Britain's wealth and international position will for the next few years dominate all economic and financial decisions. This should be largely independent of which political party will be in power. It concerns the men in Westminster as well as employers and

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Future American Foreign Investments

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labor unions, all of which have certainly much to learn and something to forget in order to rebuild Britain on a safe basis.

The estimated need of foreign capital of four billion in the first year, three, two and one billion in the following years for the purpose of capital investment in Britain, as we have said before, is a bookkeeping figure. In fact, Britain will import only a small amount of capital goods and on balance will even export capital goods. Presuming a net capital formation of 4 billion and a gross capital formation of 6 to 7 billion dollars she will not need—and cannot use—more than a limited import of machinery, etc., and even not more than about one to one and half billion, including ore and metals, timber and the relatively small quantities of textile materials which are used in capital goods or even durable consumers' goods and housing. The physical equivalent of the foreign capital investment in a bookkeeping sense will have to consist of foodstuffs, raw materials for consumers' goods and for the first one or two years even some finished consumers' goods. For this very reason there will be only a limited opportunity of directly connecting the export of American goods to Britain with the capital transactions—as for instance can be done by building a railway in Ruritania or a power station in Urbania—which, in fact, will also not mean that more than one-third of the money can be spent outside of the country of use except for such articles as railway rolling stock and automotive vehicles.

If foodstuffs and raw materials will be shipped to England from other countries than the United States, such as Australia, Argentina, Brazil, it may be said that they may spend part of the proceeds in the United States. In fact, they will do so if our supposition is correct that Britain and Continental Europe are for the moment unable to satisfy the demand of the agricultural countries for capital goods and more or less durable consumers' goods. And this supposition is the basis for our whole argument. Otherwise—if Britain could export enough from the very beginning—she would not need any foreign capital to rebuild her economy.

However, a substantial part of the foodstuffs and commodities for England as well as for the western continental countries will come from the United States. In fact, at least the wheat, the corn and the cotton are financially and physically in the hands of the Federal Government, either as directly owned or as controlled by virtue of the loans to the farmers. It may be just as well to leave this part of financing to direct Government agreements. No new outlay of money for the American Treasury is involved, since it is more or less the question of either exporting these stocks on long-term payments or keeping them here in the warehouses at Government expense. It is immaterial whether these commodity exports will be made under the name of lend-lease or under new agreements with another title. Assuming that only cotton for the home consumption of Europe is exported on long-term credits (or lend-lease), and the cotton used in British and continental exports of finished goods is being paid for, even if financed for the period of manufacturing and marketing, we estimate this agricultural export from the United States to Europe at 1,500 million dollars the first year, 1,000 million the second, and about 500-750 million each in the third, fourth, and fifth years. This will practically cover all American agricultural exports to be financed by the Government.

A second source of financing European capital needs will spring from the large American companies with present or future European affiliations, through wholly-owned subsidiaries or even minority participation. With the exception of Germany, the reconstruction of these American-owned plants and installations in Europe will require but moderate amounts. One may foresee that some new connections will be established between American machinery, motor and chemical firms with both old and new European factories of similar kind. But many legal and psychological obstacles on both sides of the ocean will keep this sort of participation within bounds.

A wider field will be found in providing capital for the exploitation of European-owned mines and oil wells in other continents, especially in Africa and Asia. While this may also come under the following two categories of private purchases of securities and special holding companies, it will certainly be easier until the American public is more accustomed to foreign investments to let the Standard Oil or the Texas Corp., the Anaconda or American Smelting act as financier. For the period of transition the typical American investor will prefer an American company with large foreign assets to the Creole Petroleum Co. or Chile Copper. Anyhow, we can expect the introduction of some foreign shares in the American market provided all formalities can be overcome and especially if it will be found possible to comply with the rules of the SEC. For foreign exchange purposes, it does not matter whether the investment will consist in participations in the leading industrial companies of Europe, such as Imperial Chemical, Distillers, Guinness and similar French and Belgian companies, or if it consists of South African gold shares, Dutch oil and rubber shares representing investments in other countries. Likewise, it is a mere question of expediency whether the foreign shares sold in this country comprise participations in old established mines and oil wells or in the new developments which will be started. That has to be decided upon in every single case according to the calculation and market opinion of the seller and the buyer or the American issuing house. In foreign exchange it is all the same whether New York buys Rand Mines and Sub-Nigel, giving thereby the British sellers the possibility of supplying the capital for the new extension of the South African Rand or America participates directly in these new developments.

Perhaps here in America, even more than in London, the public will prefer holding companies or investment trusts for this kind of business, expecting them to provide expert knowledge in the selection of foreign shares which at present are not familiar to them, despite the fact that it ought just as well be possible to acquaint the average American investor with East Geduld, Broken Hill, Katanga, Shell, and Anglo-Iranian as with International Nickel, Cuban Sugar or United Fruit and Cerro de Pasco.

Foreign investment through the big American industrial companies, or through special holding companies and investment trusts—indirect investment, from the viewpoint of the American individual—may be the appropriate form for a large part of this business for one more reason. The American investor as well as the American speculator is very quick in his decisions—one may rather say erratic. Even if he buys his foreign shares today with a long-term view he will throw them on the market in the next minor recession or in the next bear market, which the Dow Theory predicts and its faithful followers duly aggravate. In this case the arbitrage operator would try to resell them to London or Amsterdam, where the big market for them may be. Such arbitrage would be perfectly right under ordinary conditions when England and Holland could take it. But as much as I agree with my friend Melchior Palyi* that

*Cf. his testimony before the House Committee on Banking and Currency, reprinted in the "Commercial and Financial Chronicle," April 26, 1945, page 1825, and May 10, page 2054.

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Future American Foreign Investments

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freedom of capital movements is the ideal which we should strive to reach, or rather to regain, it will take some years until the European market and the normalcy of bank loans on international securities is well enough reestablished to allow such sudden disturbances. We are not going to have an absolutely unrestricted foreign exchange market in most countries of the world, at least for a few years, or if we have it, it will be only on the basis of other restrictions in transactions of goods and international capital transfers, etc.

It is advisable and for some years unavoidable, therefore, to keep the repatriation of such foreign investments within bounds or to surround it with some safeguards. This is nothing new or unheard of. The external loans of many nations were often restricted to foreign ownership and the issue of separate tranches in the respective capital markets worked as a relative, though not absolute, obstacle to untimely international sales.

The issue of certificates for foreign shares which alone may be good delivery at the Stock Exchange of the creditor country is well known in America and was the rule in Holland even if the switch from certificate to original share, and vice versa, was not more than a formality costing time and expense, and allowing a profitable arbitrage business to the experts.

One may remember the various issues of the Dawes and Young loan for Germany. Certainly a British investor could buy the American tranche which was not quoted in London, or vice versa, but ordinarily he preferred the securities traded on his Stock Exchange. There were similar arrangements for certain Russian Government loans before the first World War.

Such barriers to free international transactions which we all do not like will certainly be moderated and even disappear, one may almost say automatically disappear, as soon as the European countries have regained some kind of financial strength and international valuations have found a new normalcy. The acquisition of foreign securities by special holding companies, investment trusts and direct participations of American industrial companies, blocked for some years by private agreement, will make special legal restrictions to a great extent superfluous.

Despite the desire for the diversification of risks and the lure of countries far away, there can be found in normal times a certain nostalgia of securities or, more correctly expressed, a preference of investors for domestic values which sets free a tendency of repatriation as soon as conditions warrant it.

V

There is one more point to be cleared in connection with foreign investments. This is the tax question. With the new treaty between the United States and the United Kingdom awaiting the approval of the United States Senate, one serious impediment of foreign investment has been removed. But if America comes to the conclusion that an extension of foreign investments during the next few years is desirable, there are plenty of methods available to give such movement a good start. One of these would be to treat for tax purposes the income of a bona fide long-term investment in foreign securities as capital repayment either for a fixed number of years or until the capital is amortized to a certain extent. This privilege could be confined to special companies organized for this purpose and to subsidiaries or other permanent investments of American corporations. Or it could be granted in special cases and for individual countries, or may be made dependent upon certain restrictions as to the administration of the capital and the minimum period of investment.

There is no reason to fear that such privilege would cause too great an export of capital and a scarcity at home. But if, contrary to our prediction, this capital export should become too large, the privilege could be abolished for future transactions. One could easily provide that a presidential decree could terminate it at any time if the capital export should exceed the expected amount.

VI

According to latest figures published, the companies and individuals of the United States have a gross capital investment in foreign countries of over thirteen thousand million dollars. On the other hand, foreigners own about a similar amount in American securities, bank balances, etc. The creditors and debtors are not the same personally nor nationally.

We do not wish to discuss at length the question when, for what purpose, and under what conditions these foreign balances may be withdrawn. Let us only say that as long as the United States is considered the safest place politically as well as financially, which includes monetarily, by far the greater part of these foreign owned assets will either stay here as such or be used for payment of American goods. In fact, nothing but the danger of devaluation of the dollar will drive them away. Statistically it would amount to a decrease in assets owned by foreigners if some country draws on its American balances to pay for American cotton or locomotives or motor cars, but such transaction would not by itself disturb the foreign exchange market.

The thirteen billion foreign investments are really a very small amount for the American economy. Britain alone once had about twenty billion dollars of foreign investments, and the European continent probably at least as much (a certain deduction ought to be made from these forty billion dollars for duplications, inasmuch as French, Dutch, Swiss and Germans had invested some money in Britain and British organized foreign companies, or in their neighboring continental countries, and vice versa). Whatever way one figures it, the American foreign investments look small for the richest country in the world. This becomes even more pronounced if one deducts the 4,375 million dollars American capital invested in Canada which, despite the political and monetary frontier, are considered as like a domestic investment by many capitalists (all these figures do not include the old war debts nor the lend-lease advances of this war).

The individual capitalist of this country, which until the first World War was a debtor country, will certainly not be influenced by any motive of gratitude towards the European capitalists who helped to develop the railroads and industries of America, and, who, despite many losses, made a good profit on balance. Neither will the individual investor take into consideration the favorable results for the whole world, and not least for this country, which will spring from the quick recovery in Britain and continental western Europe. But providing there is not a sudden and fundamental change in the proportion of the national spending and saving, one can hardly expect a high marginal return for the great additional amounts which the American people in all probability would like to save, *i.e.*, to invest out of a national income of 125 billions or more. This is not, as some people claim, a pessimistic view of the American future. It does not mean "selling the United States short." To the contrary, it is the outcome of the very consciousness of American economic strength and productive capacity and of the wish of the people to increase their individual savings.

All our arguments for a large-scale investment have been confined to the western (and Scandinavian) European coun-

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tries, and especially to Britain. There are good reasons for putting them into the foreground of our considerations. First, their resilience, their prospect of recuperation, is for superior to that of other countries. Secondly, aside from Russia and China, which are special cases of more or less political decisions and therefore in the main of government financing, or what comes to the same, of the International Bank for Reconstruction and Development, the amounts which are needed and can reasonably be invested during the next five years are so much greater in these western European countries than in South America or other more agricultural regions, especially if we include the mining and oil drilling in British and Dutch colonies and dependencies and the British Dominions.

Third, these countries, especially Britain, are the great importers of foodstuffs and raw materials. Make them solvent and able to buy from Brazil, Argentina, India and Iran, and most of the problems of the South American and Asiatic countries will be solved with very moderate foreign capital for years to come. Contrariwise, if Europe is a poor buyer of foodstuffs and a relatively small consumer of raw materials, no financing of Guatemala and Chile will prevent a world depression, and such depression would make the new railway or the improved agriculture of these colonial countries to be financed by American and other foreign capital unprofitable.

This does not mean that there should not be some long-term financing of other countries even in the near future, but in order to do first things first, to establish an economic priority, a schedule of relative importance, the American private investor who is willing to put some money into foreign lands should look for the next few years mainly to England, France, Belgium and Holland, and to the mineral developments in other continents.

All our arguments are based on the assumption that we now shall have peace in Europe for a long time and, after the defeat of Japan, also in the Pacific, even if some nations do not exactly love each other or some individuals hate certain of their own compatriots more than anybody else. But if we consider the possibility of a less peaceful development, of permanent international tension, not to speak of actual war, in this case it will be of even greater importance to strengthen the ramparts we watch on the other shore of that sea which rightly has been called the modern Mediterranean, this western part of Europe which for all times from now on will be the first line of defense for the United States.

As to this military aspect, one may be allowed to quote General Eisenhower's words: "If there be a few misguided people that believe even you, here on the Missouri River, can separate yourselves from the problems of the world they had better look at the experience of this war. Rockets, before the termination of hostilities in Europe, were shooting through space 250 miles. . . . In another war, are you bold enough or brave enough to say those rockets won't be landing here? . . . You cannot be isolated. So the problems of Europe are yours, ours, whether we like it or not."

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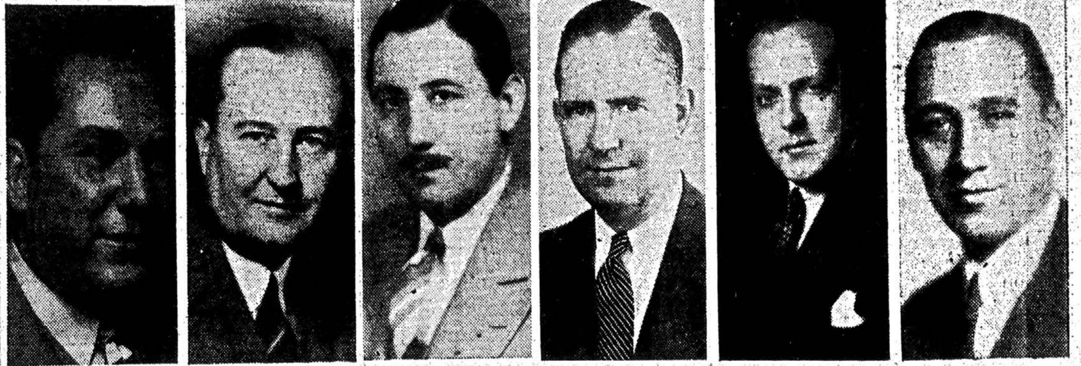

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Social Credit In Alberta

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justment Board to require the debtor to make speedy payment.

Effects Unfavorable

Meanwhile, the Aberhart Government was getting into hot water, as the depression still was on. Alberta's credit had been seriously damaged, and the business interests were demanding the repeal of all the objectionable legislation. On the other hand, the Alberta Basic Dividends Association was clamoring for early payment, and the left-wingers of the Party were urging the Government to more drastic action in strict conformity with the Douglas doctrine.

While Mr. Aberhart was trying to steer a middle course between the opposing interests, a committee of left-wingers in the cabinet, in consultation with John Hargrave, leader of the Social Credit Party in Great Britain—the Green Shirts—drafted a plan for pure social credit based on the three primary principles of the Douglas system: dividends to increase buying power, compensatory price discounts to control prices and prevent inflation, and a debt-free medium of exchange which circulates freely.

For the guidance of the Legislature and the information of the public, the committee, on Jan. 6, 1937, laid down the following 11 guiding principles of social credit:

1. The issue of debt-free money negotiable within the province.
2. A central Credit House with branches throughout the province.
3. A retail price discount system. Retailers would deduct a discount from their prices and be reimbursed in Alberta currency.
4. A Government propaganda bureau.
5. Extension of legislation adjusting public and private debts.
6. Reduction of taxation by the issue of interest-free money.
7. A provisional wholesale set-up to handle Alberta's import and export trade. This bureau, for instance, would buy wheat with Alberta money and sell it for Canadian currency which would be used in future trading.
8. Interest-free loans of Alberta money or Canadian currency.
9. Monthly dividends of $5.00 to every registered citizen.
10. Alberta money to be legal tender within the province on penalty of liquidation of debts.
11. Development of natural resources in reserved areas through a social credit financial system and not by outside capital.

Although the insurgents, in this report, had put their cards on the table, Mr. Aberhart hesitated to approve it altogether, fearing a constitutional crisis. Major Douglas sharply disagreed with the plan, whereupon Mr. Hargrave retaliated by saying: "I am afraid Major Douglas does not quite understand the situation."

Finding that the Government would not or could not follow his advice, Mr. Hargrave left the province. As he shook the snows of Alberta from his feet, he stated that he had found no social credit in operation, due to the fact that the Government lacked technical knowledge and courage.

Having failed in his mission, Mr. Hargrave went home to England, but the insurgents continued their agitation for more radical action, and might have ousted the Premier but for the compromise suggested by the Hon. Solon E. Low, Provincial Treasurer, who introduced a new Social Credit Bill providing for consumers' dividends to be paid monthly, establishment of credit houses, interest-free loans for agriculture and industry, and the creation of a credit certificate retirement fund. But the main change was provision for the appointment of a Social Credit Board of five House members who should select a commission of technical experts and, with their help devise a plan for real feasible social credit to be presented to the Legislature as soon as possible. The bill was given royal assent by Lieut. Governor J. C. Bowen on April 14, 1937.

Pursuant to this legislation the new Board consulted Major Douglas who, though declining to come to Alberta in person, sent two of his men: G. F. Powell, "efficiency expert," and L. D. Byrne, "technical expert"; but as the constitutional crisis which both Douglas and Aberhart had feared was already under way they might as well have stayed at home. Mr. Powell, indeed, in attacking the banks and nine prominent citizens as "bankers' toadies" got into serious trouble with the law of libel and was glad to go home to England; but Mr. Byrne has remained as a valued advisor of the Government until the present day.

The Constitutional Crisis

The constitutional crisis arose, as the Alberta Government might have expected, because of the fact that the province had exceeded its power under the British North America Act of 1867, which is the constitution of Canada. By this act the provinces were given jurisdiction over matters of local interest, including municipal government, prisons, hospitals, roads, property, and civil rights. To the Dominion Government were given all those broad powers affecting national interest, such as defense, banking, currency, and interest. Moreover, the powers not granted to the provinces were reserved to the Dominion and, in case of conflict of powers, the Dominion could override the provinces. Also, the Dominion was given the right to disallow any provincial act.

Already, on Feb. 19, 1937, in connection with six cases brought before the Alberta Supreme Court, Justice A. F. Ewing had declared the Reduction and Settlement of Debt Act *ultra vires* as dealing primarily with interest, a legislative field reserved to the Dominion. Four days later, a similar judgment was rendered in the same court by Justice W. C. Ives, who ruled unconstitutional the Provincial Securities Interest Act, cutting interest on Provincial bonds, savings certificates, and guaranteed securities.

Commenting on the contention of the province that the right to sue in such cases had been taken away by the act in question, Mr. Justice Ives said: "You can see what it does to the constitutional provisions of the British North America Act. By prohibiting court actions the government could pass all sorts of legislation regardless of authority."

Shortly after these decisions the Alberta Government declared a 60-day moratorium on private debts contracted before January, 1936, decided to ignore the judgments of the Supreme Court and offered half-interest rates on four maturing bond issues. Mr. Aberhart admitted, also, that he had been unable to keep his promise as to payment of dividends, but assured the people that the Government would "take final measures for further action."

By way of thus keeping faith with the people and as a gesture of defiance to the courts and the

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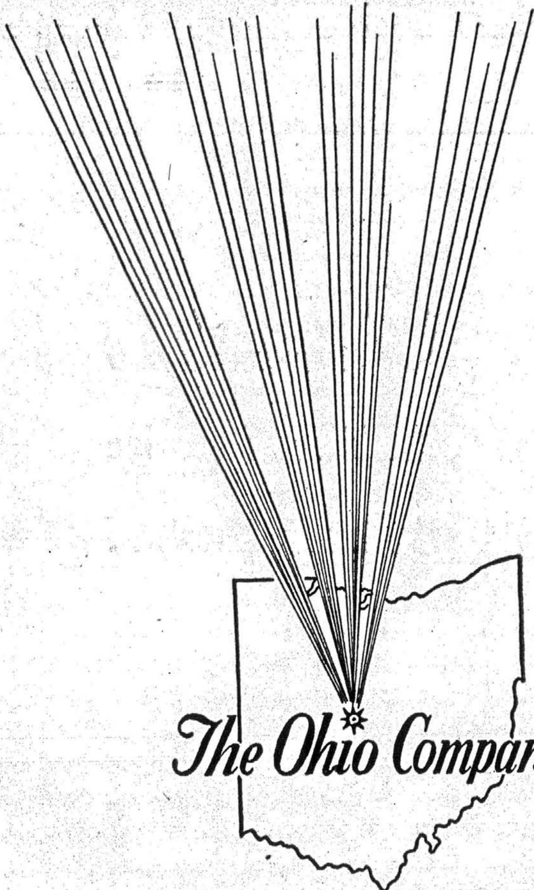

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Social Credit In Alberta

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Dominion Government, in April, 1937, the new Social Credit Act and three other acts were passed repeating and reinforcing previous legislation, especially that reducing rates on public and private debts.

Strange to say, the government now appealed for help from their bitterest enemy, the chartered banks. In a circular letter sent out on July 22, 1937, the Hon. S. E. Low asked the banks to cooperate with the government "so that dividends, taxes, and debts may be dealt with promptly and in accord with the will of the people."

This action was in line with an extraordinary suggestion by Major Douglas that the province should touch a chartered bank for $5,000,000 repayable without interest, or, failing that, should call on holders of stocks and bonds to exchange them for new Alberta securities paying 1%.

In reply to the circular letter, Sidney H. Logan, President of the Canadian Bankers' Association, said that the banks were ready and willing to make their facilities available to the government and the public, as heretofore, "insofar as the services they are asked to perform are within the provisions of the Canadian Banking Act, and in keeping with the principles of sound banking."

Action Against the Banks

Having thus put the banks on record, Mr. Low introduced before a special session of the Legislature a bill to license and regulate chartered banks operating in the province; a second bill to block all appeals in Alberta courts on the constitutionality of Provincial laws; and a third bill designed to close the courts of Alberta to all bankers who refused to take out the licenses in question.

These bills passed the Legislature on Aug. 6, 1937, and were formally approved by the Lieutenant Governor. Naturally, they came speedily to the attention of the Dominion Government, whereupon the Prime Minister, the Rt. Hon W. L. Mackenzie King, in a telegram to Mr. Aberhart, requested the Alberta Government to refrain from enforcing the new legislation until it could be referred to the Supreme Court of Canada.

The request was indignantly denied by Mr. Aberhart who, in concluding a long message to Mr. King, said: "We respectfully submit that we are compelled by the mandate of our people to proceed with the enforcement of our legislation, and with due deference we suggest that the responsibility of questioning its validity should be assumed by those desiring to render it abortive."

A few hours after Mr. Aberhart's message was received, a meeting of the Dominion Cabinet was called and the acts in question were disallowed.

The disallowment aroused consternation and indignation in Alberta and protests came from Major Douglas and many other social creditors at home and abroad, questioning the right of Ottawa to disallow and insinuating that the banks controlled the policy of the Dominion Government. Encouraged by these protests and backed by the most of the social credit members of the Legislature, Mr. Aberhart denounced the banks, defied the Dominion Government, and promised more drastic legislation against them. In a letter to Premier King he said: "Our legislation is still law, and will remain law until declared *ultra vires* by the court."

More Legislation

The first step toward further legislation was taken on Aug. 25, 1937, when a new moratorium became effective postponing until March 1, 1938, with certain exceptions, debts owing to co-operatives and contracted prior to July 1, 1936.

Following that comparatively mild action the Legislature passed two bills for control of the chartered banks and one to control the press. The Credit Regulation Act so recently disallowed, was passed again, and a new bill was passed imposing special taxation upon the chartered banks, estimated to yield more than $2,000,000, on the ground that "credit costs the banks nothing."

The Press Control Act, strongly recommended by Major Douglas, was designed to empower the government to commandeer space in Alberta newspapers for government statements and to force the papers to divulge the sources of their information about government policies and doings.

These three bills were presented to the Lieutenant-Governor on Oct. 9, 1937, but royal assent was reserved in the following terms: "His Honor, the Lieutenant-Governor doth reserve these bills for the signification of His Excellency, the Governor-General's pleasure therein."

After this, Premier Aberhart, with the consent of his cabinet, retreated from his indefensible position and requested the Dominion Government to refer the proposed acts, and the question of disallowance as well, to the Supreme Court of Canada. This time the Dominion Government, instead of disallowing the bills, complied with Mr. Aberhart's request.

Acts Declared Unconstitutional

All the questions at issue were then referred to the Supreme Court and, after hearing both sides, decision was rendered on March 4, 1938, when the court ruled against Alberta as follows:

Powers of the Governor-General-in-Council to disallow provincial legislation were found valid and unrestricted.

Powers of the Lieutenant-Governor to reserve provincial legislation for the signification of the pleasure of the Governor-General were found valid and unrestricted.

The Alberta press control regulation and the bank taxation bills were found unconstitutional.

Mr. Justice L. A. Cameron declared that the Federal Parliament alone had power to control the freedom of the press and said that the press bill represented an interference with the workings of the parliamentary system.

The bills taxing and regulating the banks were, of course, declared unconstitutional as invading the field of banking reserved to the Dominion Government.

The Social Credit Act, parent act and corner stone of the social credit scheme, had not been referred to the courts, but Chief Justice Duff and Mr. Justice Davis volunteered the opinion that it was unconstitutional as interfering with the reserve powers of the Dominion Government in respect to money, banking, and inter-provincial trade and commerce.

Commenting on these devastating decisions on March 5, 1938, the Montreal "Gazette" editorially said: "The acts of the Legislature which were called in question cannot be enforced and the whole Social Credit structure, flimsy as it always was, has collapsed. The result is a triumph of sound constitutional procedure and clears the way for the gradual restoration of the credit of Alberta and for the eventual complete rehabilitation of the province as a co-operative entity in the conferation of the provinces."

Was this a prophetic utterance? It would almost seem so in view of the fact that since the debacle no important social credit legislation has been passed in Alberta, and the social crediters have given more attention to financial rehabilitation, the development of resources, and other practical economic problems.

Social Credit Party Survives

Social Credit as a purely provincial movement was dead, but the party survived and prospered, according to the well known habit—almost a law—of organizations to continue after their original purpose has been accomplished or

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Social Credit In Alberta

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has largely failed. Moreover, the Alberta Government — largely composed of schoolmasters—with all its vagaries, had given the province a fairly honest and economical administration, had tided over a desperate time of depression, had improved the school system, had gained experience and wisdom, and could be trusted to carry on pretty well for some time to come, and surely better than the Canadian Commonwealth Federation, which had won control in Saskatchewan and tried to lead Alberta also along the path of Socialism.

It was not surprising, therefore, that the Social Credit party, in spite of backsets, won 36 out of 57 seats in the election of 1940 and 51 out of 57 in the election of August, 1944. In fact, in the latter election it had, by and large, the support of the business interests who, fearing Socialism more than Social Credit, preferred the devil to the deep sea. Besides, they were assured that the question of public debt would be settled by the Social Credit party—and so it was.

A New Debt Redemption Plan

Mr. Aberhart having died on May 17, 1943, his mantle fell to the Hon. E. C. Manning who, on July 24, 1945, at a special session of the Legislature, presented in two bills the Alberta Debt Reorganization Plan, providing for the payment and refunding of the provincial debt of some $113,000,000. The plan provided for an immediate cash payment of more than $51,000,000 to meet over-due securities at par value amounting to $33,000,000, plus an adjustment of accrued interest for the last nine years to be paid approximately 50% in cash and 50% in five equal annual instalments.

Holders of obligations which mature after June 15, 1945, will receive in exchange, on a par for par basis, new 3½% serial debentures or stock maturing from 1961 to 1980, plus an adjustment of unpaid interest for the last nine years. The plan, it might be noted, had been mostly prepared during the previous session by the Hon. Solon E. Low, then Provincial Treasurer.

On this notable day, in moving the reply to the speech from the throne, Mr. Ivan Casey said: "It will be of special value and significance to have the decks cleared of old issues when it comes to dealing with the problem of the post-war period—Alberta's fine position will be the best of all the Canadian provinces. Not only will we have the lowest interest rate of any province, but we shall be the only province with full provision for redemption of our total debt over a certain period of years."

The social creditors of Alberta have certainly changed their tune, but even though they have been checkmated in the province, they have by no means abandoned their characteristic theories. Realizing that they can make little or no headway in the province, because of the stone wall of constitutional limitations, they have largely transferred their attention to the broad field of the Dominion Parliament, to which in June, 1945, 13 social crediters were elected and all from Alberta, including their chief leaders, the Hon. John H. Blackmore and the Hon. Solon E. Low.

The Social Credit Charter, published in May as a party platform, demanded a "national dividend" in addition to all other incomes, "so that the people's buying power may be always equal to the prices of the goods for sale," and the issue of money at the rate necessary to ensure continued expansion of production and consumption. It stood also for free enterprise, systematic retirement of public debt, progressive reduction of taxation, protection against monopolies and cartels, and parity prices for agricultural products, together with various other measures advocated by all the other political parties.

That the social crediters intend to carry on their propaganda on the broader stage of Dominion politics was indicated by the Hon. E. C. Manning in a long brief presented to the conference of provincial premiers on Aug. 6, 1945, in which, referring to the alleged chronic shortage of buying power, he said:

"It lies within the sovereign power of the Dominion Government, through the Bank of Canada, to monetize fully the real wealth of the nation as represented by our abundant natural production, and to utilize the financial credit representing the monetization of that real wealth to supplement the ordinary public revenue of the Dominion and of the Provincial Treasuries."

Whether the social crediters in the Dominion Parliament will continue to harp on their single string and talk to deaf ears, as they have so often done, or whether they will give and urge more attention to problems of transportation charges, tariff rates, export markets, monopolies, and cartels, and pursue attainable objectives remains to be seen. Perhaps they should listen to the editor of the Winnipeg "Free Press" who, deploring the negative and futile phrases of Saskatchewan socialists and Alberta social crediters, said:

"Eighteen men talking socialism are not going to advance the true interests of Saskatchewan a jot. Thirteen rubber-money enthusiasts at Ottawa will not serve the true interests of Alberta. It is not that protest movements are at fault; rather they should be constructive. The rebel should vote fruitfully for what he believes rather than barrenly against something he dislikes."

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part of the increase as compared with 1914. The balance of merchandise exports was the largest by far in the country's history, being $4,017,714,265, as against $3,117,874,835 in 1918, $3,281,044,642 in 1917 and $3,091,005,766 in 1916, and but $324,348,049 in 1914. Notwithstanding the tremendous magnitude of the favorable balance, augmented still further by large silver exports, the United States was obliged the last seven months of the year to make heavy shipments of gold abroad. On June 9 the Federal Reserve Board removed all restrictions on the exportation of gold and thereafter the metal moved out in large quantities. The net outflow for the 12 months was $291,651,202, against net imports of $20,972,930 in 1918, net imports of $180,570,490 in 1917, $530,197,307 in 1916, and $420,528,672 in 1915. The bulk of the gold went to South America (mainly the Argentine) and to the Far East (principally to Japan, China and India), and the explanation is found in the fact that in the case of those countries the trade balance ran strongly against this country. This being the case and the United States being once more (as far as the outside world was concerned) on an unqualified gold basis, the adverse balance had to be settled by shipments of gold. On the other hand, Europe (in the trade with which the balance in favor of the United States was of such huge dimensions) was unwilling to part with any of its stock of the metal, the restrictions against a gold outflow being as rigidly maintained as before. Europe, being anxious to protect its gold reserves at a time when such a step seemed imperative because of the tremendous addition made since the beginning of the war to the paper currency issues in all the belligerent countries. The effect was to cause a severe drop in the exchanges, particularly in the case of the exchange rates on London, Paris and Rome. This matter of the depreciation in the exchanges is dealt with more at length in our review of the foreign exchange market further below. Under ordinary circumstances the takings of our goods and manufactures by these European countries would have been heavily reduced. As it was, the purchases here were, as we have already seen, heavily increased. The reason was that with the close of the war Europe needed large amounts of raw materials
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and other things in order to rehabilitate its devastated areas and also for its economic reconstruction, while at the same time food supplies, which could not be obtained elsewhere, had to be obtained from us in order to avert starvation for large masses of people.

Our Agricultural Productions

From an agricultural standpoint, the year proved a distinct disappointment. In 1918 when the war was still in progress the Government had extended its guaranteed price for wheat so as to cover the wheat crop to be raised in 1919, since abundant supplies of wheat seemed so essential, not only for the benefit of the United States, but for its allies and associates in the war, and accordingly the area devoted to autumn sown wheat under the stimulus of this guaranteed price was decidedly increased, far surpassing the area sown to winter wheat in the best previous years. The seed was also put in under most favorable auspices, so the crop started under most propitious circumstances. Accordingly a wheat yield of unexampled dimensions seemed in prospect. But, as it happened, expectations in that regard were grievously disappointed—this, too, notwithstanding that the plant wintered unusually well so that condition of the winter wheat crop as a whole which on Dec. 1, 1918, had been officially reported at 98.5 stood April 1 at 99.8 and May 1 at the phenomenal record of 100.5. Accordingly, the forecast at that date pointed to a probable winter wheat yield of 900,000,000 bushels and the possibility of producing a full billion bushels did not seem to be out of the question. But from that time on the situation changed very rapidly and prospects quickly became seriously impaired; partly by reason of cold weather and partly because of excessive rain in certain regions and, finally, in the Southwest because of red rust. The result was that in the end the winter wheat yield proved no more than 731,636,000 bushels. As it happened, too, the spring wheat crop proved a failure almost from the start owing to a variety of circumstances and proved one of the very smallest on record. In the end the product of winter and spring wheat combined turned out smaller than what had been counted upon for winter wheat alone, reaching only 940,987,000 bushels, or but little better than the 921,438,000 bushels of wheat harvested in 1918 when the wheat crop had been of good average proportions, but by no means up to the best previous record. The oats crop turned out to be only 1,248,310,000 bushels, as against 1,538,124,000 bushels in 1918 and 1,592,741,000 bushels in 1917. The barley crop and the rye crop also fell below those of 1918. The corn crop ran better than the poor yield of 1918, but below that of several other years; the official figures placed it at 2,917,450,000 bushels, against 2,502,665,000 bushels harvested in 1918 and 3,085,233,000 bushels raised in 1917. In the South the cotton crop proved the fifth in a series of short yields, with a yield, including linters, not much above 12,000,000 bales; back in 1911 the crop had been over 16,000,000 bales.

The old Congress before its expiration on March 4 enacted a law appropriating $1,000,000,000 to enable the President to carry out the price guarantees made to producers of wheat of the crops of 1918 and 1919, "and to protect the United States against undue enhancement of its liabilities thereunder." The new Act gave the President blanket authority to provide all the machinery for handling the wheat from the time when purchased from the farmer until sold to the consumer, with control over millers, wholesalers, jobbers and bankers, importers, manufacturers, etc. Besides appropriating $1,000,000,000 as a revolving fund to carry out the guarantee, discretionary powers were conferred to continue the old agency for handling the wheat crop or to create a new one. The bill also carried as a rider, a cotton futures provision under which only 13 grades of cotton (from low middling up) can be delivered on future contracts and all cotton so delivered must be classified by Government graders. This last minute legislation (it did not become a law until March 4),
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brought about the closing of the New York Cotton Exchange on March 5. This was in order that arrangements might be made for the readjustment of trading to meet the requirements of the new law. The Exchange had also been closed March 4, on account, however, of the Mardi Gras celebration at New Orleans, which was a holiday on the New Orleans Exchange, and an agreement existing between the New York and the New Orleans Exchanges by which the holidays observed on one Exchange are also observed by the other.

Effort at Price Stabilization

One of the incidents or episodes of the year was an attempt at price stabilization in which Secretary of Commerce William C. Redfield was particularly prominent. As it happened, the movement came to grief after several weeks' earnest effort by Mr. Redfield. At a conference on Feb. 5, called by Mr. Redfield and attended by a number of former heads of the more important divisions of the War Industries Board, representatives of various Government departments and others, action was taken toward evolving plans for establishing a fair post-war level of prices for basic commodities. This meeting, which followed a series of conferences between members of the Cabinet and others interested in the matter, was held for the purpose of considering the industrial situation with particular reference to the unemployment which it was feared would result from the demobilization of the army and the return of so many soldiers from France. Price stabilization, it was expected, would lead to the resumption of active buying, then held in abeyance out of a fear that current tendencies would inevitably force lower prices later on if the trend in that direction should not be arrested by some general scheme like that in contemplation. The meeting resulted in the adoption of a resolution requesting Secretary Redfield to seek the approval of President Wilson for the appointment of a committee to deal with the situation. A statement given out by Mr. Redfield after the conference said that "it was contemplated that this committee should call into conference the representatives of the basic industries of the country to examine conditions in industry with a view to the formulation of a scale of prices at which the Government departments and other buyers would be justified in buying freely and at which the manufacturers would be willing to sell with a view to maintaining or restoring business activities to a full volume." The Secretary added that "it was believed that public announcement of the conclusions of such a committee would have a great value in establishing confidence in a level of prices and would be accepted by bankers and others as a basis for credit." It is significant of the views so widely entertained in the early part of the year as to the likelihood of trade reaction, unemployment and price deflation—in all of which particulars the year turned out so differently than expected, as already noted—that in an enumeration of the "conditions confronting the country," Mr. Redfield in the statement referred to put first of all, "Unemployment of labor, now large and rapidly increasing." The Secretary also spoke of "a stagnant condition of industry" and said that prices were "high and unstable, due to the effect of the war, which interfered with the ordinary operation of the law of supply and demand" to which he added that "prices were inflated beyond the possibility of maintenance upon the same scale during peace time."

On Feb. 15 President Wilson cabled to Mr. Redfield his approval of the proposal. On Feb. 18 Mr. Redfield announced that George N. Peek, formerly Vice-Chairman of the War Industries Board, had been chosen by Mr. Redfield as Chairman of the Board, Mr. Peek to select his associates on the Board. From the first the price stabilization plan evoked much criticism and met with no little opposition. On the one hand there was impatience with any further attempts of any kind at regulation on the part of the Government and on the other hand there was opposition from certain sections of the community who feared that price stabilization would mean to them simply lower prices and diminished profits. For instance, a protest was said to have been cabled to President Wilson on February 17 by a number of Senators—among others Senators Lenroot and La Follette of Wisconsin; Gronna of North Dakota; Borah of Idaho; Curtis of Kansas; Gore of Oklahoma; Smith of South Carolina; Smith of Georgia; Ransdell of Louisiana, and Sheppard of Texas—saying it had been called to their attention that Secretary Redfield had evolved a plan to stabilize prices, including farm products, and that the signers,

Sen. Bob La Follette

"members of the Senate speaking for themselves and the farmers of their States," desired to register a decided protest and to be heard on the matter "before it receives any sort of official sanction." On Feb. 23, Mr. Redfield announced that the Board which he had appointed under the Chairmanship of George N. Peek was to be known as the Industrial Board of the Department of Commerce. He said that they were "to put into practical effect a program for the readjustment of prices for basic materials in such a fashion as to create a firm foundation on which the consumer could base his future purchases and the producer could form necessary estimates." The Industrial Board, he said, had the assistance of the Council of National Defense.

The iron and steel trade—where price stabilization was most to be desired—fell in very readily with the suggestion of the Department of Commerce. At a meeting of representatives of the iron and steel industries on March 6 it was unanimously voted to accept the invitation of the Industrial Board "to cooperate in the endeavor to stabilize business conditions, and the whole subject matter was referred, with power, to a committee." After a number of conferences between steel men and the Industrial Board it was announced on March 20 that a full agreement had been reached upon a new schedule of prices. In making this known, Judge Elbert H. Gary, Chairman of the Board of the U. S. Steel Corporation, took occasion to state that in lowering prices there was no intention to make decreases in wages except perhaps at some mills operating under contracts between employers and employees providing for a sliding scale. He added that it was not expected that prices during 1919 would be any lower. Judge Gary pointed out that "the objects to be secured are in revival and stabilization of business by establishing a reasonably low basis of prices which would be satisfactory to the consuming public and yet, so far as practicable, would yield a moderate and reasonable return to the investors." The Industrial Board on its part issued a statement saying that in giving its approval to the schedule of prices decided upon the Board was carrying out the purpose for which it had been created and believed that a level had been reached below which the public should not expect to buy during 1919. The purpose of

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the Board was to bring about such a lower level of prices as would effect stability and stimulate trade, to the end that business and industry could proceed and build up with confidence and provide maximum employment.

The new schedule of prices went into effect the next day, March 21, and provided for drastic reductions in prices. It should be added that these reductions were in addition to sharp cuts in prices made at the close of 1918 (after the conclusion of the armistice) and which became operative Jan. 1, 1919. A few illustrations will serve to indicate the extent of the two reductions combined. Thus, basic pig iron, which the previous December had been marked down from $33 per ton to $30, was now reduced to $25.75. Large steel billets which in December had been reduced from $47.50 to $43.50 were now cut to $38.50. Merchant bars, plates and structural steel which had been reduced $4@$5 a ton in December were marked down further $7 a ton. In the case of rails no change had been made in December; they were now marked down $10 a ton to $45 a ton for Bessemer and $47 a ton for rails of open hearth steel. The expectation that no lower prices than those now agreed upon would come in 1919 was fully realized. In the second half of 1919 a great change in the outlook for iron and steel occurred. Demand revived, while at the same time the strike, first in the steel trade and later at the bituminous coal mines, the latter depriving furnaces and mills of a sufficient supply of fuel, reduced the output of iron and steel products. The inquiry finally became so urgent that open market prices for iron and steel ruled far above the schedule fixed March 21, and high premiums had to be paid in order to secure immediate delivery.

The Railroad Administration insisted upon lower prices than those fixed for rails and opposed the March 21 schedule from the start. Its declination was announced April 2 and made final April 10. Director - General Walker D. Hines, of the Railroad Administration, denied the right of the Industrial Board to impose a price upon the Railroad Administration, and clung to the opinion that the prices fixed were too high. He accordingly took the position that the railroad Administration could not approve them as being reasonable prices. Chairman Peek, of the Industrial Board, on the other hand, took the ground that the stabilization plan could not be carried out successfully unless with the complete cooperation of all departments of the Government, and as "at this late date in the execution of the plan this important essential to its success has been denied by the Director-General of Railroads, by that denial the labor of the Industrial Board is set at nought and the Government is exhibited as setting up an industrial policy with one hand and destroying it with the other." On April 18 Washington dispatches stated that President Wilson had directed the Industrial Board and the Railroad Administration to reopen discussion and endeavor to find a common ground on which they could agree. The attempt, however, proved futile. Several further conferences were held and all were fruitless of results. On May 8, the 1st day, Mr. Hines announced that the conferences were at an end and that the Railroad Administration would proceed to ask for competitive bids for steel materials. It appeared later that on May 2 President Wilson had sent a cablegram that it would be best to discontinue the Industrial Board, particularly in view of the fact that the Attorney-General regarded its action as questionable under the law. Apparently this cable was forwarded by the White House to Mr. Hines, but not to Mr. Redfield or Mr. Peek. At all events the two latter did not learn of the message until knowledge came to them regarding it through a letter from Mr. Hines. Chairman Peek and the other members of the Industrial Board had tendered their resignations to Mr. Redfield in April when the Railroad Administration first declined to be bound by the March 21st schedule and Secretary Redfield now accepted them, sending to each an identical letter under date of May 9th. The dissolution of the Industrial Board then followed as a matter of course. Secretary Redfield's file of correspondence when made public also revealed that under date of April 18th the President had cabled that he was sincerely sorry that the efforts of the Industrial Board had met with serious check, but was afraid that this was partly because the public and some members of the Board itself and been under the impression that they were fixing prices, whereas the board had been intended merely as a court of mediation between buyer and seller.

This, too, was the view of Carter Glass, Secretary of the Treasury, who had sided with the Railroad Administration in the controversy with Mr. Hines. In a statement issued on May 12th, Secretary Glass stated that the Industrial Board in attempting to "fix minimum prices for the public did precisely that which it had been warned not to do," and that the action had been promptly repudiated by him as "contrary to fundamental principles of economics, of public policy and of the law." He said the Treasury had

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consistently striven since Armistice Day for the removal of all Government restraints, controls and interferences. The original plan which in its general features had had his approval, he asserted, was to endeavor to bring about a meeting of minds, between the producers and those Governmental agencies which had large purchases to make, upon bed rock prices which would carry conviction that new enterprises might be undertaken with safety and the hope of profit. The Industrial Board having departed from this idea he was now confirmed in the view "that the Board was hopelessly committed to an unsound and dangerous policy." The controversy between Director-General Hines and Mr. Glass on the one side and Chairman Peek, of the Industrial Board, and Secretary Redfield on the other, finally took a very acrimonious turn. In the last analysis the Attorney-General's opinion regarding the illegality of any price arrangement of this sort was doubtless the most important element in leading to its abandonment.

The action of Director-General

Carter Glass

Hines in asking for competitive bids for 200,000 tons of steel rails, as noted above, failed of its object and did not bring lower prices than those fixed on March 21. Six leading steel concerns bid uniform in all respects as to prices and conditions of manufacture and in absolute accord with the prices approved by the Industrial Board. A seventh steel concern proposed prices $10 in excess of those named in March. In these circumstances Mr. Hines did not hesitate as to the course to pursue. In view of the immediate need of the rails, orders were placed at the price indicated (that is, $46 per ton for open hearth rails), but under protest, the Director-General saying: "This action is taken not only without approval of the prices, but . . . with emphatic disapproval of the prices and the manner in which they have been established."

Government Financial Operations

The financial operations of the Government were not of the huge magnitude of those of the previous year, and yet were of large extent. The long delayed War Revenue Bill, fixing new rates of income and excess profits and war profits taxes, after having been agreed to in conference, finally passed both Houses of Congress in February—in the House, Feb. 8, and in the Senate, Feb. 13—but was not signed by President Wilson until Feb. 24 after his return from his first trip to France. The President affixed his signature to the bill while on the train en route from Boston to Washington. Mr. Wilson, however, was not successful in prevailing upon Congress to expedite other needful legislation which during his absence in Europe had been progressing quite tardily. As a matter of fact, he was greatly provoked over the action of a few members in the Senate in blocking desired legislation. The result was that the life of the old Congress expired on March 4 without the passage even of most of the appropriation bills. Republican leaders had expressed a desire to have the Deficiency Bill carrying the $750,000,000 revolving fund for the Railroad Administration enacted into law, and conferred with the majority leaders to that end (the Democrats were still in control in the old Congress), but the managers on both sides were unable to accomplish anything, due to protracted speeches by Senators La Follette, France and Sherman, who held the floor from 10 a.m., March 3

Joseph I. France

until the hour of adjournment March 4. The President thereupon issued a statement dealing with the dereliction of Congress in failing in these particulars, saying:

A group of men in the Senate have deliberately chosen to embarrass the administration of the Government, to imperil the financial interests of the railway systems of the country and to make arbitrary use of powers intended to be employed in the interest of the people.

It is plainly my present duty to attend the Peace Conference

L. Y. Sherman

at Paris. It is also my duty to be in close contact with the public business during a session of the Congress. I must make my choice between these two duties, and I confidently hope that the people of the country will think that I am making the right choice. It is not in the interest of the right conduct of public affairs that I should call the Congress in special session while it is impossible for me to be in Washington because of a more pressing duty elsewhere, to co-operate with the Houses.

I take it for granted that the men who have obstructed and prevented the passage of necessary legislation have taken all this into consideration and are willing to assume the responsibility of the impaired efficiency of the Government and the embarrassed finances of the country during the time of my enforced absence.

With the expiration of the life of the old Congress the political complexion of the legislative body changed, the Republicans holding control in both Houses in the new Congress. It was freely charged that the action of the Republicans in the old Congress was influenced in no small degree by knowledge of that fact—they feeling that in the new Congress they would be in position to act with greater freedom on that account.

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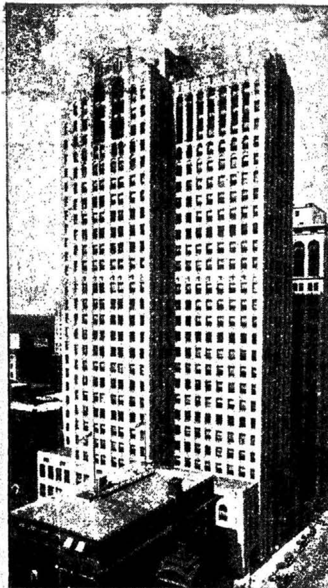

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It was also charged that for the same reason the Republicans were desirous of having the new Congress convened in extraordinary session at an early date, the sooner to exercise their power of political control. The President on his part made no secret of his intention not to call the new Congress into being until it became absolutely impossible to carry on the Government without such a step. Notwithstanding the old Congress had left so much needful legislation unfinished, statements emanating from the White House at Washington kept persisting to say that the President would not convene Congress in extraordinary session until the summer, after his second return from France—he having set sail for Europe again on the morning of March 5 after a strenuous ten days in this country crowded with important events. It will be noted that in the statement we have quoted above he took express occasion to say that it was not "in the interest of the right conduct of public affairs that I [he] should call Congress in special session while it is impossible for me to be in Washington, because of a more pressing duty elsewhere, to co-operate with the Houses." However, the President had to yield in his determination. The needs of the Railroad Administration were very urgent and apparently also the representations of the Secretary of the Treasury as to the embarrassment to result from the failure of Congress to pass the annual appropriation bills likewise carried much weight with the President. On May 7 a call for an extra session of Congress, to convene Monday, May 19, came by cablegram from the President and was made public by proclamation at Washington.

As already noted, Government borrowing during 1919 was not on the enormous scale which marked the fiscal operations of the calendar year 1918. Only one large public loan was floated, the old Congress having made full provision for this before it went out of existence. The rest of the Government financing was carried on by means of Treasury certificates of indebtedness—largely certificates put out in anticipation of tax collections, but also considerable amounts in the shape of loan certificates. Preliminary steps bearing upon the new borrowing to be done were taken at the very beginning of the year. On Feb. 10, Carter Glass, the Secretary of the Treasury, addressed a letter to Claude Kitchin, Chairman of the House Ways and Means Committee, in which he asked the attention of the committee to the necessity of the immediate enactment of legislation amending the Liberty Bond Acts so as to make possible the funding by a Victory Liberty Loan in the spring of the floating debt already incurred or which would be incurred up to that time. He contended that this Victory Liberty Loan could not be issued successfully now that hostilities had ceased within the limitations imposed by existing laws. Although it was not contemplated to float the new loan until the spring, he deemed it proper to urge prompt action in view of the early expiration of the life of the existing Congress (on March 4) and the apparent impossibility of convening and organizing the new Congress in time to enact further bond legislation before the Victory Liberty Loan campaign should begin. As considerable time was still to elapse before the actual offering of the new loan, he felt obliged to ask greater latitude in the exercise of a sound discretion as to the terms of the proposed Victory Liberty Loan than had been conferred by Congress in respect to previous Liberty Loans. The Secretary submitted the draft of a bill to amend the Liberty Bond Acts so as to achieve the ends desired. Congress, however, was not prepared to go quite so far in the leaving of discretionary powers with the Secretary as he had desired. The Secretary had asked for authority to issue in his discretion either bonds or notes, as market conditions at the time might warrant, but the Committee, bearing in mind that a new loan must in all probability bear a higher rate of interest than the rate in the Liberty Loan issues, and that such higher rate might adversely affect the financial markets, on Feb. 19 definitely decided in favor of short-term notes, and were thereupon advised by the Assistant-Secretary of the Treasury that this plan would be acceptable to Secretary Glass. Because of a misapprehension that the Victory Liberty Loan plans had been abandoned or modified materially by reason of the Committee's decision, Mr. Glass on Feb. 20 again announced that the campaign for a loan in the spring would be carried out and that a campaign would be inaugurated on April 21, or possibly earlier, and would be popular in nature.

In his letter to Chairman Kitchin of the House Committee, Mr. Glass had suggested that authority be conferred upon the Secretary to issue $10,000,000,000 additional bonds or notes. He had pointed out that the amount of bonds unissued under the Liberty Bond Act was slightly in excess of $5,000,000,000—the authorization under the first Bond Act having been $2,000,000,000 and under the second, third and fourth Acts $20,000,000,000 and approximately $17,000,000,000 of bonds having been issued under the four Acts. In the bill, however, the limit of the new notes was put at $7,000,000,000 instead of the $10,000,000,000 suggested by the Secretary. In the form proposed by the Committee the Victory Loan Bill passed the House on Feb. 26 with but 3 dissenting votes. The Bill was favorably reported to the Senate Feb. 28 and passed in that body without a roll call on March 2 after the collapse of a Republican filibuster marked by more than twenty hours' debate. The Bill became a law with the President's signature on March 3. By Section 3 of the Bill the aggregate of certificates of indebtedness granted under previous acts that might be issued from time to time was increased from $8,000,000,000 to $10,000,000,000.

The new statute while limiting the amount of notes that might be put out to $7,000,000,000 and providing that the notes must be issued at not less than par granted authority to the Secretary to prescribe the terms and conditions of the loan and to fix the rate or rates of interest. It was provided that the maturtiy should be not less than one year nor more than five years from the date of issue. The Act included certain alternative proposals with respect to exemption from taxation, and the Secretary was given discretion to choose from among four classes of exemptions. For the purpose of stabilizing the market for the 4% and the 4¼% Liberty Loan Bonds the law provided additional exemptions from taxation.

On March 12 the Secretary issued a public statement definitely fixing April 21 as the date for the opening of the Victory Liberty Loan campaign and Saturday, May 10, as the date for the close. In this statement he pointed out that under the Liberty Loan Acts

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he still had authority to issue bonds similar to those of the second, third and fourth Liberty Loans in amount of $5,022,518,000, but any issue of bonds under authority of those acts would have to be at 4¼% interest as a maximum. After studying financial conditions, however, he had determined, he stated, that the interests of the United States would be best served by the issuance of short-term notes rather than of longer term bonds "which would have to bear the limited rate of interest of 4¼%." He also expressed the belief that a short-term issue would maintain a price at about par after the campaign had been closed far more readily than would a longer term issue. Even at this time he was obliged to state that he had reached no "conclusion as to the rate of interest and exemptions from taxation which these notes will bear because this decision must be based on conditions existing immediately prior to the opening of the campaign." The details of the proposed Victory Liberty Loan were announced by the Secretary on April 13. The Secretary fixed the amount at $4,500,000,000. This was smaller than had been expected, which created a favorable impression, reports having been current that the amount might be in the neighborhood of $6,000,000,000. Furthermore, the Secretary officially proclaimed that "this will be the last Liberty Loan," to which he added the following explanation: "Although, as the remaining war bills are presented, further borrowing must be done, I anticipate that the requirements of the Government, in excess of the amount of taxes and other income, can, in view of the decreasing scale of expenditure, be readily financed by the issue of Treasury certificates from time to time, as heretofore, which may be ultimately refunded by the issue of notes or bonds without the aid of another great popular campaign such as has characterized the Liberty Loan."

The Secretary also now stated that the Loan would take the form of 4¾% three-four-year convertible gold notes of the United States exempt from State and local taxes, except estate and inheritance taxes, and from normal Federal income tax. The notes would be convertible, at the option of the holder, throughout their life, into 3¾% three-four-year convertible notes of the United States exempt from all Federal, State and local taxes except estate and inheritance taxes. These 3¾% notes were in turn made convertible into 4¾% notes. Both series were to be dated and bear interest from May 20, 1919, and mature on May 20, 1923. All or any of the notes might be redeemed before maturity, at the option of the United States on June 15 or Dec. 15, 1922, at par and accrued interest. As was the case with the four huge issues of Liberty Loans this Victory Liberty Loan proved a great popular success, the aggregate subscriptions reaching $5,249,908,300—an oversubscription of $749,908,300. In accordance with the terms of the issue the oversubscription was rejected and subscriptions allotted to the amount of $4,500,000,000. Subscribers were permitted to make payments on an installment plan stretching over the six months' period from May 10, 1919, to Nov. 11, 1919, as follows: 10% with application on or before May 10; 10% July 15; 20% Aug. 12; 20% Sept. 9; 20% Oct. 7, and 20% on Nov. 11 with accrued interest on deferred installments. Payments in full could be made with application or on May 20 (except as to subscriptions subject to allotment, in which case payment might be completed on June 3) provided the 10% required with application had been duly paid on or before May 10. It was also permissible to complete payment on any installment date with the accrued interest.

The temporary financing of the Government through the issue of Treasury certificates of indebtedness, which was a feature of Government financing throughout the war, was continued during 1919, but on a greatly reduced scale. These certificates of indebtedness served to provide the Government with funds in advance of receipts from the sale of bonds or notes, or in anticipation of revenue from income and profits taxes, and also operated to distribute payments on bond and note subscriptions and for taxes over extended periods of time, thereby avoiding tremendous transfers of funds on any one date with consequent money stringency. On July 25 Secretary Glass addressing a communication to the banking institutions of the country revealing a very favorable state of Treasury finances and indicating the policy of the Government with reference to the issue of *loan* certificates of indebtedness for the immediate future. He said that three months had passed since the last offering of Treasury certificates other than those issued in anticipation of taxes. This interval had been made possible, he stated, by the rapid decrease in the current expenditures of the Government, the very large early payments on the Victory Loan and the ready sale of tax certificates. The time has now come when the issue of Treasury Loan certificates should be resumed. It had accordingly been determined to issue loan certificates of five months' maturity. These were to be issued on the first and fifteenth of each month, beginning Aug. 1, 1919. The minimum amount of each semi-monthly issue of the certificates should not in any case exceed, say, $500,000,000, and after September and during the remainder of the calendar year should not on the average exceed half of that amount, for then all the Victory Loan certificates would be paid or provided for and such progress made in army settlements and in demobilization as greatly to reduce the requirements of the current program. That would mean the issue, during the remaining five months of the calendar year of certificates to the amount of, say, $3,500,000,000. As against this, there would during the same period mature and be paid loan and tax certificates in the aggregate amount of $2,997,540,500, leaving a net increase of $502,459,500. The Secretary also said that the figures he was now able to present fully justified the announcement made the previous April that the Victory Loan could be regarded as the last of the series of Liberty Loans and that the Treasury would be able to finance its further temporary requirements "by the sale of Treasury certificates of indebtedness bearing interest at the rate of 4½% or less and also to fund as many of these as it may be desirable to fund by the issue of short-term notes in moderate amounts at convenient intervals when market conditions are favorable and upon terms advantageous to the Government." It was indicated to the banking institutions that in pursuance of this program they would be expected to take from time to time "not less than 1.6% of the gross resources of each bank and trust company for each semi-monthly issue during August and September," and the percentage it was stated might fall "as low as 0.8% towards the end of the calendar year." As showing how much less of a draft upon the resources of the banks this was than the similar drafts which had to be made in the previous year, it is proper to point out that in the last half of 1918 Secretary McAdoo was obliged to advise the banks that what they would be expected to take would equal roughly "2½% of the gross resources of each bank and trust company for every period of two weeks, or a total of 5% monthly."

On Aug. 25th the Secretary went a step further and notified the banking institutions that in view of the success of the first two issues of Treasury certificates, in pursuance of the program outlined above the third semi-monthly issue dated Sept. 2nd would be offered without asking the banks and trust companies to subscribe for any specified quota. This third offering, free from the suggestion of any compulsory feature, fully met expectations and proved an unqualified success. Accordingly, the Treasury Department was enabled to advance another step. On Sept. 8th the plan was varied by suspending the sale of loan certificates for the time being and offering two series of tax certificates, both dated Sept. 15, 1919, one series maturing in six months and bearing interest at the rate of 4¼% and the other maturing in one year and bearing interest at the rate of 4½%. This was the first time in over a year that certificates had been offered at less than 4½%. In addition, it was announced that all certificate maturities prior to 1920 would be provided for from tax receipts or out of cash in bank. Subscriptions to these two offerings of tax certificates proved very heavy, aggregating $758,600,500, of which $101,131,500 represented the 4¼% six-month series and $657,469.000 the 4½% one-year series. The success of these offerings made it possible to suspend for another period the offering of further loan certificates. It was not until Nov. 23rd that announcement came of the resumption of Treasury certificate issues. When offering the two issues of tax certificates in September the Secretary had stated that while it could not be said definitely when semi-monthly issues of loan certificates would be resumed, such issues would certainly not be resumed before Oct. 15th. He now stated that though most factors in the general situation since that time had been adverse, the position of the Treasury had developed more favorably than then there seemed any reason to hope, and this had made it possible to avoid earlier resumption of further issues of certificates. He announced both a new issue of Treasury certificates of indebtedness for Government loan purposes and an offering of Treasury certificates in anticipation of taxes. Both issues were dated Dec. 1, 1919, the loan certificates falling due Feb. 16, 1920, and the tax certificates March 15, 1920. both bearing 4¼% interest. The subscriptions to the tax certificates closed Dec.
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2nd and reached $250,942,500, while the subscriptions for the loan certificates closed Dec. 1 and aggregated $162,178,500. On Dec. 8th the Secretary offered another issue of Treasury certificates in anticipation of taxes. They were dated Dec. 15 and payable June 15, 1920, but with interest at 4½%. In this last instance the subscription books were closed Dec. 19 and aggregate subscriptions reached no less than $728,130,000, of which $257,455,500 represented certificates paid for in Treasury certificates of earlier issues. On Dec. 29th the Secretary offered still another issue of Treasury certificates in anticipation of taxes and this time advanced the rate of interest to 4¾%. The new certificates were dated Jan. 2, 1920, and became due Dec. 15, 1920. In making his new offering the Secretary said the success of this issue should assure the consummation of the Treasury's plan for financing the unfunded portion of the war debt in such a way as to avoid the necessity for great refunding operations by spreading maturities and meeting them so far as may be out of tax receipts. Subscriptions in this case continued until Jan. 16th and it was announced after the close of the year that $703,026,000 had been subscribed for.

Growing Tension In Money

As already indicated, the year was one of currency and credit *inflation*, and of price inflation, and it was also a year of growing tension in the money market. On Jan. 24th, at a meeting of the Sub-Committee on Money of the Liberty Loan Committee in this city it was decided to announce the removal of all the money restrictions in New York. A statement was issued in which it was pointed out that on Dec. 30th of the previous year (1918), when the arrangement whereby the New York banks had been furnishing funds to stabilize rates on loans on Stock Exchange collateral was about to expire (it would have expired Jan. 10, 1919), the Committee had inquired whether the Treasury Department wished an extension of the arrangement then in force and had been requested by the Treasury Department to continue its operations in aid of the Government's financial requirements. Acting in accordance with the wish of the Treasury thus expressed, the Sub-Committee on Money had arranged with the New York banks to continue the arrangement then existing until after the next Government Loan and, with the authorities of the Stock Exchange, to continue exercising control of the loan account to prevent its expansion in the aggregate. Now, however, the officials of the Stock Exchange in a written communication to the Money Committee had stated that conditions had so changed that "there is now nothing to indicate the probability of a speculative movement which would absorb large amounts of money," and accordingly the Sub-Committee on Money, after consultation with and the approval of the Treasury Department, had come to the conclusion that control by the Stock Exchange Committee might for the present be suspended. At the same time, it was thought best that the Stock Exchange authorities be requested to continue to receive from members of the Exchange daily reports of their borrowings until after the next Liberty Loan had been placed, but that "the definite arrangements made with a large group of New York banks to furnish funds for Stock Exchange loans, if and as required, should now be terminated."

With this action, the so-called "Money Pool" created in October, 1917, ceased to function. The result was seen the very next month when with the revival of Stock Exchange speculation call loan rates advanced to above the figure of 6% which had previously arbitrarily been fixed as the figure beyond which the call loan rate would not be allowed to go. On Monday, Feb. 24, the call loan rate shot up to 7%. This, however, proved merely a temporary flurry and the rate quickly dropped back to 6% and did not again go above that figure the remainder of the month. It was not until June that real money stringency developed. In that month call loan rates got as high as 15%; in July a still higher figure was reached, namely 18%. Then after a period of relative ease in August and September new tension developed in October, and continued through November, in which latter month the quotation for call loans at one time got as high as 30%. A like high figure was not again touched in December, but the money market remained tight until the close of the year.

Exertions of the Federal Reserve Board

These high rates on the Stock Exchange came as a revelation to the financial world which had been led to believe that, under the operation of the Federal Reserve System, extreme rates for money such as had often prevailed on the Stock Exchange before the establishment of that system would never again be possible. The notion, of course, was preposterous. But from the start the idea had been sedulously cultivated—and by no one more persistently than the Federal Reserve authorities themselves—that the possibilities of credit expansion and loan accommodation under the Reserve system were limitless. While the campaign for the Victory Liberty Loan was being carried on, considerable restraint on the part of borrowing was enforced and the situation was kept well in hand, but thereafter it got out of control. The Federal Reserve authorities now began to make strenuous efforts to check further credit expansion. The spurt in call loan rates on June 3 to 11% had been the first occasion since the advent of the Federal Reserve system (barring a temporary spurt in December, 1916) that the rate on Stock Exchange loans had

W. P. G. Harding

been allowed to go appreciably above 6% and the circumstance naturally caused great commotion among speculators who imagined that immediate steps would be taken to extend borrowing facilities and bring about a renewal of ease. But the Federal Reserve Board was not blind to the dangers of the situation. On June 10 news came from Washington saying the Federal Reserve Board had addressed a letter to the Chairman of each of the Federal Reserve Banks seeking information as to the extent of borrowings by member banks on Government collateral for other than purely commercial purposes. In this letter which was sent out over the signature of Governor W. P. G. Harding, concern was expressed on the part of the Federal Reserve Board "over the existing tendency towards excessive speculation." It was stated that while ordinarily this could be corrected by an advance in discount rates at the Federal Reserve Banks it was not practicable to apply this check at the moment because of Government financing. After pointing out that by far the larger part of the invested assets of the Federal Reserve Banks consisted of paper secured by Government obligations, the Board indicated anxiety to get some information on which it could form an estimate as to the extent of member bank borrowings on Government collateral "made for purposes other than for carrying customers who have purchased Liberty Bonds on account, or other than for purely commercial purposes." New warnings came in July cautioning the Federal Reserve Banks not to permit the use of their facilities in aid of Stock Exchange speculation. There was a disposition at first on the part of the Reserve authorities to make light of the high rates on the Stock Exchange and to have it appear that what the Stock Exchange speculators were obliged to pay for ac-
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commodation was a matter of little consequense so long as funds might remain available for ordinary mercantile borrowers at moderate rates. But it was soon seen that no such distinction was possible—that stringency in the call loan branch of the money market was sure sooner or later to extend to other branches of the market.

The rest of the year the activities of the Federal Reserve Board were employed largely in efforts to guard against the use of the facilities of either the member banks or the Federal Reserve Banks in the promotion of speculative enterprises or for speculative ends. Repeated warnings came from the Federal reserve authorities, intended as reminders on that point. The difficulty of dealing with the situation was in some measure increased by the removal of the embargo on gold exports towards the end of the half-year, as more specifically set out further along in this article. The Reserve authorities were confronted on the one hand by the circumstance that new demands on the credit facilities of the banks were constantly arising, while on the other hand the removal of restrictions on gold exports—which was almost immediately followed by a considerable outflow of the metal—meant inevitably cutting down of cash reserves and a fall in the ratio of cash reserves to liabilities. A bull movement of large extent and great energy was under way on the Stock Exchange and this necessarily meant pressing demands upon the banks for accommodation. In July high rates for call loans on the Stock Exchange were of daily occurence. In the early part of July rates on call as high as 8%, 10%, 12%, 15%, and even 17% were reported. Indeed, after the close of business on Monday, July 7, 20% was said to have been charged for "all industrial" money. Some slight relaxation of the stringency occurred later in the month, but the situation remained more or less acute, and on July 31 the call loan rate mounted to 18% on both mixed and "all industrial" collateral after a period of some days, with ruling quotations 6 at 7%. At the end of July current gossip had it that the aggregate of Stock Exchange loans stood at $1,750,000,000 against $1,500,000,000 at the beginning of the month, $1,000,000,000 at the opening of June and only $600,000,000 at the beginning of March. These figures may have been exaggerated to some extent, but they doubtless reflected correctly the prevailing trend. In a statement issued on July 9, the Federal Reserve Board observed that flurries in the rates for call money on stock collateral were "inevitable so long as the present methods of financing and settling speculative transactions in stocks are persisted in," regrettable as this might be. It went on to add:

As things are now they can be guarded against only by such methods as were adopted during the war, providing a reasonable supply of credit for carrying stocks but, contrariwise, taking effective measures to prevent undue speculation or expansion of the loan account, but it would be in every way undesirable and unfortunate to perpetuate in peace times such arbitrary measures.

It is not the function of the Treasury nor of the Federal Reserve Banks or the banking institutions of the country to provide cheap money for stock speculation, and the Board feels that the reflex action of the rates for call money on stock collateral upon the Government's financial program and the requirements of commerce and industry has greatly decreased (as, indeed, was evidenced by the small redemptions of Treasury certificates notwithstanding high call money rates and the relatively small effect upon the rates for commercial borrowings), and will continue to decrease as it becomes better and better understood that the true functions of the banking institutions of the country and of the Federal Reserve system, acting in their aid, is subject to the temporary requirements of the Government, to finance commerce and industry. Only those banking institutions which adhere to this policy are performing their true function and are being wisely and conservatively handled in the real interest of their stockholders and the public. The demand for credit for stock speculation must yield precedence to these prior demands, and the rates for stock speculation ruling from time to time, however erratic, can have no permanent effect upon the rates for Government and commercial and industrial purposes.

To have definitely established the fact that there is no necessary connection between rates for speculative purposes and for commercial transactions is in itself an important development.

The hopeful views here expressed were not realized. As already indicated, it soon became apparent that rates for money on call could not be treated with indifference or be ignored—that they would be inevitably followed by growing tension in other branches of the money market. During August the money market was distinctly easier, but it was evident to careful observers that when the autumnal demand for money came there would be renewed pressure and at the close of September rates for call loans again spurted upward, touching 9% on Sept. 26, 15% on Sept. 29 and 12% on Sept. 30, while in October call loan rates were high throughout the month and the tension continued throughout November and was only partially relieved during December. It became apparent at the beginning of October that the policy of the Federal Reserve Banks with respect to discount rates would in some important particulars have to be modified. Even in advance of the action of the Reserve Banks, the member banks began to alter their own practice with respect to loans on Government collateral. Information the latter part of October was that banks which in October of the previous year had agreed to lend money to subscribers to the Fourth Liberty Loan at 4¼% for a year were now telling their clients that if these loans were renewed at the expiration of the year's time 5% would be charged. Bankers explained that with the termination of the period agreed upon they felt free to institute a rate more in keeping with the prevailing market for funds. For the Victory Loan of the previous May the banks had in many instances agreed to lend money to subscribers for six months at 4¾%, the rate carried by the Victory notes themselves. These agreements generally expired the next month and here, too, it was certain the rate charged would be advanced. The Federal Reserve Board gave a very plain intimation of the forthcoming change in its own policy in the "Bulletin" for October. This official publication in discussing the discount policy of the Federal Reserve Banks took occasion to observe that "the disappearance of the U. S. Treasury from the long-term loan market and the rapid reduction in its requirements for short-term accommodation foreshadows the approach of the time when the financial operations of the Government will cease to be the important factor in shaping Reserve Bank policies which they have been and Federal Reserve Bank rates once more will be fixed solely with a view of accommodating commerce and business."

Action in accord with the views here laid down came soon thereafter. In November some call loans were negotiated at 30% per annum, the highest quotation recorded since the panic of 1907 and reflecting a degree of stringency which it had been supposed the establishment of the Federal Reserve banking system had rendered forever out of the question. On November 3 the Federal Reserve Bank of New York made an advance in its discount rate and this was subsequently followed by all the other Federal Reserve Banks throughout the country. The step was taken to curb credit inflation and prevent the further use of the facilities of the Federal Reserve Banks in promoting speculation on the Stock Exchanges and in commodities. In issuing the schedule of new rates effective November 3, Benjamin Strong, Governor of the Federal Reserve Bank of New York, gave out a statement on November 2, saying:

The reason for the advance in rates announced today by the Federal Reserve Bank of New York is the evidence that some part of the great volume of credit, resulting from both Government and private borrowing, which war finance required, as it is released from time to time from Government needs, is being diverted to speculative employment rather than to reduction of bank loans. As the total volume of the Government's loans is in course of reduction corresponding reductions in bank loans and deposits should be made in order to insure an orderly return of normal credit conditions.

The advances in the discount rates of the Federal Reserve Banks and the soaring of money rates to new high figures caused a collapse in values on the Stock Exchange and on November 11 the credit situation was discussed at a special meeting held at the Federal Reserve Bank of New York and attended by the Governor and Vice-Governor of the Federal Reserve Board. In response to a letter from Senator Owen under date of November 14, Governor Harding of the Reserve Board, contended that "the high rates for call money which have prevailed continuously for the past two weeks, and intermittently for several months past, were in themselves very clear indication of the strained position into which the unbridled speculation had thrown the stock market," and he pointed out that "during the week ending November 8 the Federal Reserve Board had sold to other Federal Reserve Banks $90,000,000 of acceptances for account of the Federal Re-

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serve Bank of New York, but in spite of this action the reserves of the New York Bank had fallen to 40%." "In these circumstances," he added, "in order to prevent further expansion it became necessary to call the attention of the large rediscounting banks to the situation." He also laid stress on the fact that "during the summer the Board had made the specific announcement that it would not sanction any policy which would require the Federal Reserve Banks to withhold credits demanded by commerce and industry for the processes of production and distribution in order to enable member banks to furnish cheap money for speculative purposes." Later in November (November 19, 20 and 21) a three-day conference between the Governors of the 12 Federal Reserve Banks and the members of the Federal Reserve Board took place. Prior to this, there had been a conference between the Board and the Advisory Council. Nothing transpired with reference to the results of these meetings. After the break on the Stock Exchange in November and the resulting liquidation of speculative holdings it was claimed that the aggregate of Wall Street brokers' loans had been reduced to $1,350,000,000 as against $1,750,000,000 in July. However, two further advances in discount rates were made by the Federal Reserve Banks in December. The first advance came December 11 and the second December 30. The effect of this latter was to establish a rate of 4¾% for advances on all classes of paper and for all maturities except for agricultural paper of from 61 to 90 days maturity, the rate for which was left at 5%.

In a statement bearing on the discount policy of the Bank issued on December 30, Benjamin Strong, Governor of the Bank, pointed out that in view of the fact that the U. S. Government had completed its permanent financing and the further fact that Government income in relation to expenditures had reached a point where temporary borrowing would be on a greatly reduced scale, and in view of the further fact that the U. S. certificates of indebtedness outstanding were now widely distributed (it being estimated that not over one-half of the certificates outstanding were now held by the banks), the directors of the New York Federal Reserve Bank had "eliminated the preferential rates heretofore maintained in favor of advances and rediscounts based on bonds, certificates of indebtedness and acceptances and for the time being at least have established a single rate for credit at the Federal Reserve Bank, thereby greatly simplifying their future rate policy." It was also announced in Washington dispatches December 30 that the Federal Reserve Board had telegraphed all Federal Reserve Banks that it would approve the schedule rates doing away with the preferential rates theretofore given to paper secured by certificates of indebtedness—the differentials in favor of paper secured by other Government obligations having been abolished by the action taken earlier in the month (December 11) and already referred to. On the Stock Exchange call loans on December 29 commanded as high as 25%, and this figure was repeated on December 30 and December 31, the renewal rates on these three days being respectively 10%, 15% and 15%—the year thus closing in a way plainly suggestive of the monetary tension for which the year was noteworthy.

Benjamin Strong

Condition of Clearing House Banks and Federal Reserve Institutions

It remains to be said that the weekly returns of both the New York Clearing House institutions and those of the Federal Reserve Bank of New York as well as those for all the Reserve Banks in the country, gave constant indications from week to week during the last half of the year of the strained credit situation and of the inflation in note issues with the impairment of reserve position to which this was giving rise. On Dec. 27, 1919, the New York Clearing House banks and trust companies, according to the weekly returns for that day, showed an aggregate of loans, discounts and investments of $5,197,484,000, as against $4,659,461,000 Dec. 28, 1918, showing an increase for the 52 weeks of roughly $538,000,000. In the deposits the increase for the 52 weeks was only $250,568,000, the grand aggregate of demand and time deposits, Dec. 27, 1919 being reported $4,309,830,000, against $4,059,262,000. At the end of 1919 it will be observed the loan item exceeded the deposits by $887,654,000, which compares with an excess at the end of 1918 of no more than $600,199,000. The fact that the loans so largely exceeded the deposits—the excess running larger by $287,455,000—affords perhaps as good an indication as any of the augmented credit demands and the loaned up condition of the New York Clearing House institutions. The figures of deposits here has no reference to the ordinary deposits and does not include Government deposits against which no cash reserves are required and which add that much to the loaning capacity of the institutions. But though Government deposits were somewhat larger this will account for only a small part of the great expansion in the loan item; the total of the Government deposits having been reported $225,030,000 Dec. 27, 1919, against $177,559,000 Dec. 28, 1918. In the autumn before the plans inaugurated by the banks for curtailing loans—in response to urgings from the Federal Reserve authorities—became fully effective, the aggregate of the loans stood at even larger figures, being reported no less than $5,433,003,000 October 11, which was the maximum for the year. Of course, the banks greatly extended their borrowings at the New York Federal Reserve Bank. Beginning with the return for Feb. 21, 1919, the New York weekly Clearing House return commenced reporting an entirely new item. We have reference to the item designated "bills payable, rediscounts, acceptances and other liabilities." This constitutes a sort of tell-tale of the borrowings at the Reserve Bank. On February 21 the amount of this item was given as $808,180,000. For Dec. 27, 1919, it was $1,004,338,000. At times during the year the amount was yet larger, being highest November 8 at $1,064,705,000. The increase in the bill holdings of the New York Federal Reserve Bank similarly indicate the growth in the extent to which resort was had to the facilities of the Reserve Bank. For Dec. 26, 1919, the total of bills in the portfolio of the New York Federal Reserve Bank was $979,506,000, as against $721,698,000 Dec. 27, 1918. The holdings of bills secured by Government war obligations decreased from $610,770,000 to $584,588,000, but the bills discounted secured by mercantile paper increased from $41,605,000 to $203,606,000, and the holdings of bills purchased in the open market ran up from $69,323,000 to $191,313,000. The surplus reserve of the New York Clearing House institutions, above legal requirements, on Dec. 27, 1919, was $8,232,540, against $42,804,340, Dec. 28, 1918. The surplus varied widely from week to week, on occasions during the year, particularly in the autumn, and it happened twice that there was an actual deficit below the legal requirements (only reserves held with the Federal Reserve Bank counting as "legal" reserves, cash in vault never being included as far as member banks of the Federal Reserve system are concerned). The dates of these deficits were September 20 and December 20, the amount of the deficit at the earlier date having been $53,186,140, and on the later date $12,320,830. On the first of these occasions the matter caused uneasiness, it having been the first time that such a situation had arisen since the establishment of the Federal Reserve System. Later the fluctuations in the reserves of the New York institutions ceased to attract much notice, it having been demonstrated over and over again that the reserve position of the Clearing House banks varied in almost direct ratio with the borrowings at the Federal Reserve Bank. One week the borrowings would be sharply reduced and reserves would fall to a low figure or be entirely wiped out. The next week new borrowing would again be indulged in, thus adding to reserves with the central institution and the cash reserve position would once more take on a favorable or seemingly favorable aspect. This new borrowing, however, would impair the reserve position of the Federal Reserve Bank itself, with the result that the Reserve Bank would now be obliged to take extra precautions to restrict borrowing so as to improve its own position. Yet in the latter half of the year this shuttlecock performance continued for long periods of time, a good bank statement being concurrent with a poor Federal Reserve return or vice versa, an unfavorable Clearing House statement being coincident with a favorable Federal Reserve report. Quite early in the summer the New York Federal Reserve Bank found its reserves down close to the legal minimum and for the rest of the year it was a constant struggle to prevent impairment of its reserve position. The New York Reserve Bank had $824,944,000 of Federal Reserve notes in actual circulation December 26 1919, against $736,553,000 December 27 1918.

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For the Federal Reserve system as a whole—that is, for the 12 Federal Reserve Banks combined—the course of things was much the same. The last six months of the year were a period of constant strain, with the Federal Reserve Board and the officials of the Federal Reserve Banks making strenuous efforts to prevent an increase in the demands upon the facilities of the Federal Reserve Banks and meeting with only indifferent success in the endeavor. It was the hope of the Federal Reserve authorities that holdings of war obligations carried in loans by the banks would be gradually liquidated and they urged particularly that as the credits thus employed were released measures should be taken to guard against their being used for speculative purposes. The warning at first seemed to be directed mainly against Stock Exchange speculation, but it soon became apparent that speculation of any kind also must come under the ban — whether in commodities, in real estate or in anything else. It cannot be said that the promptings and urgings of the Federal Reserve authorities were without avail, but despite all they said and did the demands upon the credit facilities of the Federal Reserve Banks kept constantly increasing. Borrowing on war paper diminished somewhat, though very much less than had been counted upon or hoped for. On the other hand, other kinds of borrowing kept steadily expanding and ran far in excess of the reduction of bill holdings through liquidation of war paper. To meet the calls for further accommodation large additional amounts of Federal Reserve notes had to be issued. Reference has already been made to the expansion in Federal Reserve note issues by the Federal Reserve Bank of New York. For the 12 Reserve Banks combined the aggregate of Federal Reserve notes in actual circulation stood at $3,057,646,000 Dec. 26 1919, against $2,685,244,000 December 27 1918. During the same 52 weeks an increase also occurred from $117,122,000 to $261,039,000 in the volume of Federal Reserve *bank* notes in circulation. Gold reserves fell off somewhat, being $2,078,432,000 December 26 1919, against $2,090,274,000 December 27 1918; and as the deposit liabilities of the Federal Reserve System, like the note liabilities considerably increased the ratios of cash reserves naturally were reduced. On December 26 1919, the ratio of cash reserves to net deposit and Federal Reserve note liabilities combined was 44.8%, as against 50.6% December 27 1918. The statute requires 40% reserves against note circulation and 35% reserve against the deposit liabilities.

The State of the Foreign Exchanges

In the foreign exchanges, the year will always stand as one of the most momentous in history. In the years while the war was actively in progress, exchange rates on Great Britain and France and in minor degree also on Italy had been maintained at artificial figures. Hostilities having ceased with the signing of the armistice in November 1918, a new situation confronted the great Powers in 1919. It was recognized that under peace conditions artificial aids of this kind would have to be abandoned—support indefinitely was out of the question—and even if attempt should be made to continue the practice for the time being the effort must sooner or later prove futile. Accordingly, quite early in the year, artificial restraints, which for so long a period had been maintained with absolute success in the case of both Great Britain and France, were removed and the exchange market left to itself, free to respond to the play of natural influences. This action meant a complete readjustment of exchange values on all the belligerent countries of Europe to much lower levels. There was nothing to do except to let these new and lower levels be found. The situation was without parallel. All the Entente Powers were heavily indebted to the United States, and their needs in the way of food and other supplies and for materials necessary in the process of reconstruction in rectification of the havoc created by the war were such that the trade balance must run heavily against them and in favor of the United States for a long time to come. In these circumstances drastic declines in exchange rates were inevitable and the year will always be memorable for the extent of these declines. But though it was generally realized how heavy were the handicaps under which the Entente countries labored in their dealings with the United States, the drop in rates went much further than anyone supposed likely or even possible—and as it happened, still lower depths were to be reached in 1920. In the case of the exchange rates on the countries which were neutral during the war quotations also moved to a lower basis, not merely in sympathy with the general slump, but because these neutral countires with the cessation of hostilities lost in not a few instances certain advantages which they had enjoyed during the war. In the case of Germany and Austria it is almost needless to say the bottom dropped almost completely out.

In January and February quotations for sterling bills and for French francs and Italian lire continued pegged with transactions limited to routine requirements. In March there came the change discussed above. Things had been following the customary routine when on Tuesday, March French exchange. This was followed on Thursday, March 20, by the announcement from J. P. Morgan & Co. that the British Government had ordered the cessation of purchases of sterling exchange, which meant, of course, the removal of the "peg" which had held sterling exchange at an arbitrary fixed figure for so long. Complete demoralization developed the latter part of the month as a result of these steps. The rates for cable transfers on London had been held at 4.76 7/16, while the rate for sight bills on London had been maintained in the immediate vicinity of 4.75¾. On March 20 there was a drop in the former case to 4.71 and in the case of sight bills to 4.70. By the end of the month cable transfers were down to 4.59 and sight bills to 4.58. The lowest point previously reached by sterling during the war had been in September 1915, when 4.50 had been quoted for demand bills just prior to the placing of the Anglo-French loan. In the case of the French franc there had never been any attempt to maintain absolutely fixed rates, larger or smaller deviations having been permitted, the support having been apparently general rather than specific. On March 3 the quotation for checks on Pairs was 5.49@5.45½ francs to the dollar. Until the middle of the month there was relatively little change. On Saturday, March 15, there came a small drop and this the next week was succeeded by a decline at an accelerating pace. The rate then recovered only to drop again the next week, and March 31 saw French exchange down to 6.07 francs to the dollar. The previous low point for French checks during the war had been in 1916 when the quotation April 13 had been 6.07½ francs to the dollar.

Support was also withdrawn during March from Italian exchange. Until March 21 the quotation for cable transfers on Rome by the Federal Reserve Bank had been 6.35 lire to the dollar. On the day mentioned there was a drop to 7.05 and on March 22 to 7.70, while on March 27 the quotation got down to 8.00 though by March 31 there was a recovery to 7.45@7.40 to the dollar. The reason for the collapse here was that on March 21 Fred I. Kent, Director of the Division of Foreign Exchange of the Federal Reserve Board, gave out a statement saying: "All restrictions as to the sale or purchase of lire exchange by dealers as described under the executive order of the President of Jan. 26 1918, are hereby removed until otherwise instructed." The course of the exchange market for the rest of the year was a record of renewed further declines interspersed with recoveries from time to time, none of which, however, proved lasting. In April sterling bills enjoyed a substantial recovery, but neither the French franc nor the Italian lire shared in this to any substantial extent. In May very pronounced weakness again developed in sterling exchange, while the decline in francs and lire reached sensational proportions. In June weakness was again the predominating feature in sterling exchange while French exchange and Italian exchange showed no improvement. In July rates for sterling bills dropped lower even

Fred I. Kent

than in 1915 when, as already stated, demand bills got down to 4.50 just before the British Government stepped in and extended support. In French exchange, new declines were reported almost daily and the Italian lire also broke to still lower figures. In August the foreign exchange market at times was utterly demoralized and new low records were established all around. In September exchange after a further manifestation of weakness in the early part of the month, in which new low levels were established in the case of exchange on the former belligerent countries of the continent of Europe, quite a striking recovery ensued the latter part of the month. This recovery extended into October, but pronounced weakness once more became the dominant characteristic the latter part of this month. Brief spurts of strength would be almost immediately followed by renewed weakness. In November the pound sterling dropped below $4.00 and new low records were also established for exchange on Paris and on Rome, not to speak of Berlin and Vienna, while in December utter demoralization developed under further startling declines in rates. Indeed, the collapse was so complete that the market the early part of the month fell into a state closely bordering on panic. Demand bills on London on December 12 got down to 3.65¼ (this comparing with 4.86⅝, the value of the pound sterling when at par), and though by December 17 there was a recovery to $3.91¼, this recovery was not maintained, and by December 31 the rate was down again to $3.75. The French franc during December continued to decline until on December 10 it required 11.84 francs to make the equivalent of a dollar (the value of the French franc when at par being 5.18 francs to the dollar); the close December 31 was at some recovery, with the quotation 10.92@10.87 francs to the dollar. The Italian lire in the closing months of the year also suffered another drop with the effect of breaking all the preceding low records—followed then by an irregular period of recovery. The rate on checks on December 11 got down to 13.60 lire to the dollar, with the quotation December 31 13.27. As for rates on Germany and on Austria, trading in exchange on those countries was not resumed until July, and therefore no quotations were available

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prior to tnat time. Transactions in exchange on Berlin began around noon on Wednesday, July 16. Opening quotations were at 8 cents for checks and 8¼ cents for cable transfers, which was practically the basis previously established for dealings in marks on occupied territory in Germany by the American authorities. As compared with the value of the reichmark when at par, namely, 23.82 cents, these looked like very low figures; in December, however, the mark got down December 9 to 1.87 cents with the close December 31 at 2.03 cents. In exchange on Vienna, quotations first appeared July 26, the rate for checks being 3.25 cents and for cable transfers 3.50 cents, the value of the Austrian crown when at par being 20.26 cents. By the following December the rate had dropped almost out of sight, the quotation December 9 being only 0.51@0.55 for checks and 0.53 @0.57 for cable transfers; on Dec. 31 the quotation was 0.58@0.60 and 0.60@0.62, respectively.

In the case of exchange on the other European centres, it will be sufficient to give simply the quotations at the beginning and the end of the year to indicate that the trend in all cases was strongly downward and to show the extent of the decline. The Swiss franc suffered less depreciation than any other European currency, but even in that case the rate moved lower. In this instance, however, the value of the medium was at a premium with the opening of the year. The Swiss franc when at par is 5.18 francs to the dollar. The quotation for sight bills on Switzerland, January 2, was 4.86@4.85 units to the dollar; on December 31 1919, on the other hand, 5.62 @5.52 francs were required in exchange for the dollar. Guilders on Amsterdam for sight bills were quoted at 42 7/16@42½ Jan 2, and at only 37¼@37⅜ Dec. 31. At normal parity the value of the guilder is 40.20 cents. The Spanish peseta for checks was quoted at 20.05 cents January 2 and at 19.20 December 31. The normal value of the Spanish peseta is 19.30 cents.

Exchange on the Scandinavian centres, experienced a tremendous slump. When at par the Scandinavian kroner or crown is worth 26.80 cents. On January 2 the Danish kroner was quoted at 26⅞, while on December 31 the quotation was only 18.82. Similarly the Swedish crown which had been quoted January 2 (for checks) at 29⅛, on December 31 commanded only 21.25 cents in our money. In like manner the Norwegian crown against 28.00 cents January 2 commanded only 20.25 cents December 31.

An important factor in foreign exchange rates and dealings during the year was the removal of embargoes on the exportation of gold. Restrictions on export shipments of manufactured gold were removed in effect by regulations issued by the War Trade Board effective May 9. These regulations provided that all manufactures of gold, the bullion value of which did not exceed 65% of the total value, might be exported without individual export license under special export licenses applicable to the exportation of commodities not on the Export Conservation List. Manufactures of gold, the bullion of which exceeded 65% of the total value, it was stated, would be regarded for the purpose of exportation as gold bullion, the exports of which were still under the exclusive control of the Federal Reserve Board. On June 9, there came the announcement also of the removal—this time by the Federal Reserve Board—of the embargo on exports of gold as also the termination of restrictions affecting transactions in foreign exchange. Some of the Reserve Board's comment in its announcement of the

William Z. Foster

withdrawal of the ban on exports of gold is decidedly interesting in the light of the subsequent developments. It expressed the opinion that our gold reserves were so strong that even a very considerable outward movement of gold could be faced without any apprehension. To the extent that such shipments tended to restore normal conditions elsewhere they would tend to increase the buying power of nations that wished to become and should be our customers. The advances by the United States to Governments associated with this country in the prosecution of the war were rapidly coming to an end with the result that the command of the rest of the world over our gold would be decreased and it was quite possible that with the restoration of more normal conditions elsewhere and the continuance of large favorable trade balances a movement of gold toward the United States might set in. Such a movement, the Reserve Board urged might "well prove to be undesirable tending as it would to keep our prices above the level of other markets and so put us at a disadvantage in international trade." The movement of gold this way which might prove the occasion for the anxiety and apprehension here expressed did not materialize; the outflow of the metal, on the other hand — to South America and the Far East principally — reached far larger proportions than expected; and, as for our gold reserves being so strong that we could readily spare considerable amounts out of it, the credit situation became so strained the latter part of the year and borrowing at the Reserve Banks was so greatly augmented that the double process of depleting the ratio of reserves (1) by increase of liabilities and (2) by reduction of gold holdings, began to be viewed with no little concern. Beginning with June the United States lost heavily on the international gold movement each and every month, and for the seven months ending with December 1919, the net loss of gold to the outside world was $301,926,083. For the 12 months of the calendar year 1919, the exports of gold exceeded the imports of the metal in amount of $291,651,202, as already stated further above.

Course of the Stock Market

In the stock market the year will always be memorable for the wonderful advances in prices recorded in the shares of the industrial properties. The railroad stocks, except in a few special instances, failed to participate in the upward flight in prices. This was because of the doubt surrounding their future, inasmuch as they were still under Government control (the effect of which had been to saddle them with a growing burden of high wages, besides steadily impairing the efficiency of railway labor), and Congress having displayed complete indifference to enacting the necessary legislation providing for the return of the roads to private control. Barring the apathetic character of the transactions in the railroad shares, the speculation for higher prices on the Stock Exchange can be said to have had few, if any, parallels in the similar movements witnessed in the past. In this we have reference alike to the buoyancy and activity of the market and the ascent of prices. Beginning about the middle of February, the speculation took on more and more the character of one of those great bull movements which at the most are witnessed only once or twice in a generation, when the whole community seems to be seized with a frenzied desire to acquire stocks on the theory that whatever the immediate outlook a period of great prosperity must be deemed to lie ahead in which all undertakings will share save only those absolutely destitute of merit. In the fervor characterizing the speculation it was comparable only to the great revival which occurred on the Stock Exchange in 1879 and 1880, following the resumption of specie payments on Jan. 1 1879, and with that other great upward swing in values which culminated with the corner in Northern Pacific shares in May 1901. The pace was fast and furious most of the time, with new high records of prices constantly being established. Cliques and pools were ceaseless in their efforts to bring about advances in particular stocks, and their manipulation played, of course, an important part in the success of the movement. But these are inevitable concomitants of "bull" campaigns, and the underlying strength of the movement lay in the wide and general support which it had received at the hands of the public and without the aid of which it would have been foredoomed to failure.

The factor of paramount importance in this tremendous speculation was unquestionably the waging to a successful conclusion of the greatest war in human history with the resources of the United States only slightly impaired—whatever might be the financial and economic aspect of the European countries which had been associated with this country in the war. While the conflict was in progress the ban put on the use of money and of capital in the promotion of undertakings not deemed essential for the conduct of the war had imposed a check upon speculative endeavors of every kind on the Stock Exchange. During the preceding year—in 1918—stock prices had over and over again manifested a rising tendency which undoubtedly would have developed into

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a speculative movement of large proportions had it not been that the New York financial authorities (in pursuit of their policy of husbanding their resources so as to be able to finance the needs of the Government) had refused to encourage Stock Exchange speculation and had declined to furnish monetary facilities for that purpose.

Thus the situation at the opening of 1919 was that, while substantial advances in prices had been established on the Stock Exchange during 1918, there had been no broad and sustained bull movement nourished by popular support, while following the signing of the armistice, in November 1918, somewhat of a downward reaction had actually occurred. But in January the restrictions imposed upon the money market and upon Stock Exchange dealings were removed. The announcement that these restrictions were to be discontinued came on Jan. 24. With that action control by the Stock Exchange Committee over borrowing was definitely suspended and simultaneously the arrangement which the Money Committee had made with a large group of New York banks to furnish funds for Stock Exchange loans also came to an end. Thus the restraint upon Stock Exchange borrowing, which had previously existed for about a year and a half, was now to be absent, or at least was no longer to be a damper upon Stock Exchange operations, though it remained true that at the request of the Money Committee and the Treasury Department the Stock Exchange authorities continued to exercise a certain degree of surveillance over Stock Exchange speculation—that is, there was compliance with the request that they "continue to receive from members of the Exchange daily reports of their borrowings until after the next Liberty Loan is placed."

With the removal of the restraints that had repressed speculation so long, pent-up energies were released and quickly began to make their influence felt. In the early months of the year much doubt existed as to the course of business for the immediate future, as indicated further above, many predictions being made of a trade reaction. These doubts, however, gradually passed away, and with this the forward movement of prices began to gain steady headway, despite numerous unfavorable developments of one kind of another. From the middle of February to the end of May the rise in prices made almost uninterrupted progress, the pace being fast and furious, and the rise in prices reaching tremendous proportions with the speculation constantly broadening. In the summer months, however, the speculation encountered serious setbacks in high and advancing money rates. Those engineering the bull campaign had counted upon continued low money rates. During the period of war it had been deemed best by the financial authorities not to let call loan rates go above 6% per annum. Whenever indications of a scarcity of funds for the limited speculation that was permitted became manifest, the local combination of banks, which was cooperating with the Treasury Department in conserving banking facilities in the interest of Government needs, would furnish funds at the 6% rate mentioned. These speculators for a rise supposed this policy would be continued. They also imagined that with the Federal Reserve Banking System in operation, affording to member banks of the system rediscounting facilities of huge magnitude, accommodation for Stock Exchange purposes would be of practically unlimited extent. In both expectations they were to be sadly disappointed. Call loan quotations went far above the 6% rate counted upon as the maximum and, what is more, not only was no attempt made by either the Reserve Banks or the member banks to hold money rates down, but the Reserve Bank authorities uttered repeated warnings against the use of the credit facilities of the banks at all for Stock Exchange speculation. The consequence was that the Stock Exchange had many a bad turn during the summer months, with violent breaks in prices. Through it all, however, the underlying strength of the market was fully maintained and quick upward rebounds in prices occurred with every removal of monetary pressure. In the autumn the labor troubles came to supplement the unfavorable influence exerted by the monetary tension. But in the case of the steel strike, which was inaugurated in September, it was quickly seen that the strike was foredoomed to failure and there were also multiplying evidences that labor movements were recoiling upon their authors. As one illustration of this, there was the Boston policemen's strike, where the policemen lost their jobs, and Governor Coolidge of Massachusetts received unqualified popular approval for his firm and uncompromising stand against the striking policemen, he even getting a telegram of commendation from President Wilson. Accordingly, the stock market once more showed that its normal tendency was still strongly upward. Unmistakable evidence of this appeared in September, while in October tremendous activity again developed with further great advances in prices. During all this time money rates continued to rule high, and there were other untoward happenings and incidents. In November, the money situation once more began to assert its full influence; and with the Federal Reserve authorities looking with extreme disfavor upon the wild and apparently uncontrolled speculation on the Stock Exchange and determined to prevent the further use of the resources of the Federal Reserve Banks for the promotion of speculation of any kind, tremendous liquidation in stocks now took place on the Stock Exchange and caused a collapse in prices compared with which few parallels are to be found in Stock Exchange annals. Some recovery from the low points reached in November occurred in December, but the result altogether was that the year closed with substantial recessions all around from the extreme high figures of the twelve months, after one of the most pronounced bull campaigns in Stock Exchange history.

The Stock Market in 1919

A survey of the stock market by months shows that in January and the first half of February the course of prices still continued strongly downward under the influence of a series of unfavorable developments which are enumerated at length in our monthly narratives on subsequent pages. In January about the only interruption to a continued decline came on Saturday, Jan. 25, as a result of the announcement made after the close of business the day before that money restrictions as regards Stock Exchange loans had been discontinued. On this news active stocks opened at an advance of from 1 to 2 points over the closing figures the previous day. The advance, however, was not maintained, the most of it being lost before the end of the half-day's session and the next week the market again resumed its downward course. In February, after further important declines as a consequence of a variety of depressing influences, there came that complete change in the character and tone of the market to which reference has already been made. The definite turn of the market may be said to have come on Friday, Feb. 14. In the upward swing the latter part of the month the advances reached substantial proportions, though it was not then apparent that the turn in the market, which came with Feb. 14, was to inaugurate one of the most gigantic bull campaigns in Stock Exchange history. At the outset, there were many doubts and misgivings as to whether the market course had been permanently changed, and a genuine revival of Stock Exchange speculation for higher prices had been begun. In March the upward movement was carried still further, despite some further adverse developments and untoward happenings—the effect of which, however, was merely to cause downward reactions. Some of these downward dips were quite severe, but quick recovery always followed. Accordingly, confidence in the stability and permanence of the rise in prices was manifestly strengthened. One of the depressing influences in March was the utter demoralization of the foreign exchange market that developed the latter part of the month as a result of the withdrawal of support from the French franc and the removal of the "peg" which had so long held sterling exchange rates at practically fixed figures. The way the stock market bore up under this strain did much to inspire confidence in the speculation. In April the upward movement continued to gain momentum and the character of the market became unmistakably fixed as a type of one of the greatest speculative campaigns in Stock Exchange history. In May the buoyancy continued unabated and the rise in prices assumed even larger dimensions than before. In June the market received a severe jolt by the advance in call loan rates on the Stock Exchange. This happened at the very beginning of the month and prices took a general tumble, the declines in some of the specialties being as precipitate and as pronounced as the previous rapid and huge advances. The speculative fraternity had supposed that the Federal Reserve Banking System afforded a guaranty against high money rates. When, therefore, on June 3 there came a spurt in call loan rates, and some borrowers found themselves obliged to pay as high as 11% per annum to get the accommodation they needed, consternation seized possession of the speculative fraternity. Later in the month there came other similar spurts in call loan rates, 15% being reached on June 16 on industrial collateral and 12% on mixed collateral, with reports that 20% had been paid after the close of business on loans of about $1,000,000. However, the stock market, and the speculators behind it, quickly accommodated itself to the new situation and appeared to be all the better for the shake-down it had received. Each downward plunge — and there were many of them during the month—brought a new set of buying orders, and, notwithstanding the general market experienced a severe decline, not a few stocks advanced and established new high records.

In July the condition of money again exerted a dampening influence. During the first three weeks of the month the disposition was to ignore the money market and to proceed in disregard of the same. Pool operations continued in many of the minor stocks and notable and even sensational advances were established in such stocks—often when the rest of the list was displaying a reactionary tendency. In the end, however, the money situation dominated everything else. On Monday, July 21, a general break in prices occurred second only to that experienced at the beginning of June. This break, however, was followed the next day by a quick recovery, and this recovery continued on succeeding days, the steel, oil, motor and tobacco stocks moving up several points. But the loan situation did not improve and on July 29 another general all-round tumble in prices occurred, and the market closed on July 31 in a decidedly nervous state.

In August the market had some decidedly bad turns, and the downward tendency of prices not only continued but proceeded at a greatly accelerated pace. In the last week of the month, however, there was a decided change for the better. This further break in August, it is proper to state, had no connection with the condition of the money market, which assumed a distinctly easier tone. The causes of the sensational declines were found in the unsettled labor situation and the radical doctrines promulgated in connection, therewith, though the further great weakness in foreign exchange also was a contributing influence. Apprehensions regarding the labor situation were later in the month considerably relieved by the action of President Wilson and the Director-General of Railroads, and this will explain the recoveries in prices at the close of August. In September the market once more revealed the characteristics common to periods of active speculation at rising prices, and it became apparent that the bull campaign, which had been such a marked feature earlier in the year, had during the summer months been merely suspended

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The First Year After World War I

(Continued from page 1132)

instead of definitely checked and ended. Some remarkable advances in prices now occurred. There was some further adverse developments, and in particular the further weakness in foreign exchange furnished occasion for worriment, but interest was chiefly centred on the labor troubles, and as these assumed a less menacing phase, the stock market reflected the fact in higher prices and renewed buoyancy. Efforts to avert the steel strike proved unavailing, and the strike was definitely inaugurated on schedule time, namely Sept. 22, and was maintained for several weeks thereafter, but the certainty of its defeat was obvious from the start, and, inasmuch as the labor situation elsewhere had so greatly changed for the better, the speculative spirit also revived, and prices once more rapidly moved upward. Towards the close of September the improvement developed into positive buoyancy, an attempt to widen the scope of the steel strike by extending it so as to include the plants of the Bethlehem Steel Company having proved an absolute failure. In October tremendous activity, with further great advances in prices, distinguished the speculation. In the case of many of the higher-priced specialties the upward spurts were of sensational proportions and, considered in connection with the antecedent great rise, served further to mark the bull movement of 1919 as among the most notable in Stock Exchange records. Bear operators had their innings on occasions, the market yielding to pressure when developments in industrial affairs were unpropitious, but their successes were invariably temporary, and after each reaction the market quickly resumed its upward course.

In November a tremendous slump in prices occurred and the bull movement was definitely terminated—and in a way that could leave no doubt of its termination. Renewed tension in money resulted in the calling of loans on a large scale, and this in turn led to extensive forced liquidation. The recrudescence of the speculative fever in October had given the stock market a dangerous aspect, and it had become manifest that further drafts on the credit facilities of the banks must involve menace to the entire credit structure, if permitted. Bank officials were as cognizant of the peril as Federal Reserve officials. Both were determined that Stock Exchange borrowing must be further extended, but must be gradually reduced. This meant that new accommodation was out of the question and that prevailing accommodation to Stock Exchange borrowers must be lessened. Inability to replace existing loans brought many daring operators to a realizing sense of the risks they were running and induced them to lighten the loads they were carrying. On Nov. 12, call loan rates got up to 30%, with disastrous effect on Stock Exchange prices. While the market had many bad days during the month, Nov. 12 may be said to have been the worst, because on that day the declines were most violent and general and then it first became apparent that the bull element had lost control and manipulation no longer availed to check the downward avalanche. Further liquidation carried the market to new low levels on subsequent days, the unfavorable foreign exchange situation being an additional depressing influence. The railroad shares at first suffered comparatively little, which was natural, inasmuch as they had not participated in the long series of sensational advances made in the spring and summer in the industrial properties, but towards the end of the month they also had to undergo severe liquidation and showed weakness though never to the same extent as the industrial properties.

The November collapse, however, did not continue into December. In fact, this last month was one of distinct recovery in values even though the market had some more bad days, and the ease with which upward reactions were established seemed to afford evidence that the underlying strength remained unimpaired and that the reverses encountered during November, notwithstanding their severe character, had served in no manner to under-

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RANGE OF LEADING STOCKS IN 1919
ALL PRICES DOLLARS PER SHARE, NOT PER CENT

	Par	Opening	Lowest	Highest	Closing
Trunk Lines—					
Baltimore & Ohio	100	50	28¾ Dec 15	55¼ May 27	31⅝
Cleve Cin Chic & St L	100	36	32 Feb 17	54⅞ Jun 6	52
Erie	100	17⅛	12⅜ Dec 30	20¼ May 19	13
New York Central	100	75	66¾ Dec 12	83¾ Jun 6	69½
N Y Chicago & St Louis	100	30	23¾ Sep 24	33¼ July 10	27¾
Pennsylvania	50	45½	39⅞ Dec 16	48½ May 19	40⅝
New England and Eastern—					
Boston & Albany	100	135	116 Dec 16	145 Apr 3	123
Boston & Maine	100	31	28 Jan 30	38½ July 29	37
N Y N H & Hartford	100	31⅞	25⅛ Dec 12	40⅞ July 17	26⅝
Coal Roads—					
Central of New Jersey	100	207	170 Sep 23	213 Aug 19	175
Delaware Lack & Western	50	182¾	172½ Mar 18	217 May 7	190
Delaware & Hudson	100	104	91½ Dec 1	116 May 29	93
Lehigh Valley	50	55⅛	40½ Dec 30	60⅜ Jun 2	42
N Y Ontario & Western	100	20	16½ Nov 28	24¼ July 18	16¾
Reading	50	82¾	73⅞ Dec 12	93⅝ Jun 6	76¾
Western and Pacific—					
Canadian Pacific	100	160	126⅛ Dec 1	170⅞ July 10	132½
Chicago & Alton	100	7⅝	7¼ Jan 13	12½ May 15	7¼
Chic Milw & St Paul	100	39½	34⅛ Dec 12	52¾ July 17	37
Chic & North Western	100	96	85 Nov 28	105 May 26	86⅞
Chic Rock Isl & Pac (new)	100	25¼	22⅛ Jan 21	32¼ July 17	26¾
Colorado & Southern	100	21⅛	19 Dec 13	31¾ May 5	22
Denver & Rio Grande	100	3¾	3½ Apr 7	15½ July 14	6¾
Great Northern, pref	100	95¼	75⅛ Dec 12	100⅝ May 27	78⅜
Illinois Central	100	97¾	85⅞ Dec 30	104 May 16	86
Minn St Paul & S S M	100	91	70 Dec 16	98¼ May 29	72⅝
Northern Pacific	100	94½	77 Dec 12	99⅞ May 27	79
Southern Pacific	100	102	91⅞ Nov 29	115 Jun 2	102¾
Union Pacific	100	128¾	119⅛ Aug 8	138½ May 29	123⅝
Southwestern—					
Atch Topeka & Santa Fe	100	93½	80½ Dec 12	104 May 27	83⅞
Kansas City Southern	100	19	13 Nov 28	25¼ May 19	15½
Missouri Kansas & Texas	100	5	4⅝ Feb 10	16⅝ July 22	9½
Preferred	100	8¾	8½ Jan 13	25⅛ July 18	12¾
Missouri Pacific	100	25	22⅛ Nov 29	38⅞ July 9	25¼
St Louis-San Francisco (new)	100	13½	10¾ Jan 21	27¾ July 17	18⅜
St Louis Southwestern	100	17⅞	10⅞ Dec 18	23⅜ Jun 9	13
Texas Pacific	100	29⅛	27½ Jan 21	70½ July 2	41¾
Southern Roads—					
Chesapeake & Ohio	100	56½	51½ Dec 16	68½ May 17	55⅜
Louisville & Nashville	100	118½	104⅞ Aug 19	122¾ May 17	109¼
Norfolk & Western	100	107½	95 Dec 1	112½ May 19	97
Seaboard Air Line	100	8⅞	6⅝ Dec 27	12 July 23	6⅞
Preferred	100	17⅝	12 Dec 19	23¾ July 17	14
Southern Railway	100	29⅞	20¼ Dec 12	33 May 19	22⅜
Preferred	100	70	52⅞ Dec 12	72½ May 27	56
Miscellaneous—					
Allis-Chalmers Mfg	100	32⅞	30 Jan 21	51⅝ Oct 8	50⅞
Amer Agricul Chemical	100	101	87 Sep 2	113¾ May 1	91⅜
American Beet Sugar	100	65	62 Jan 3	101¾ Oct 21	94
American Can	100	47	42⅞ Feb 11	68⅝ Sep 30	55
American Car & Fdry	100	93⅞	84½ Feb 10	148⅜ Nov 5	140¼
American Cotton Oil	100	39⅝	39⅝ Jan 2	67½ July 14	50¾
Amer Internat Corp	100	**55⅞	**52⅜ Feb 8	††132¼ Oct 31	††116⅝
American Locomotive	100	61	58 Jan 21	117½ Oct 7	101
Amer Smelt & Refining	100	76⅝	61½ Dec 1	89¾ July 16	69¾
American Steel Foundries	33⅓	§36	33¼ May 10	47 July 7	45¾
Amer Sugar Refining	100	112½	111¼ Jan 21	148⅜ Oct 29	139⅞
Amer Telep & Teleg	100	100⅞	95 Dec 30	108⅝ Mar 10	96⅛
American Tobacco	100	195½	191⅞ Feb 4	314½ Oct 24	277
Amer Woolen of Mass	100	51	45¼ Jan 16	169½ Dec 31	162½
Anaconda Copper	50	60½	54⅝ Nov 29	77⅞ July 16	63⅝
Atl Gulf & W I SS Lines	100	107¾	92 Feb 8	192⅝ Oct 31	168¾
Baldwin Locomotive	100	74½	64⅞ Jan 29	156¼ Oct 22	113¼
Bethlehem Steel Corp	100	61¼	55½ Jan 20	107¾ July 15	94¼
Class B common	100	61¾	55⅜ Jan 21	112 Oct 23	97¼
Calif Petroleum v t c	100	20⅜	20⅜ Jan 2	56⅞ Oct 20	43¼
Central Leather	100	60⅝	56½ Feb 8	116½ July 24	100⅜
Colorado Fuel & Iron	100	36⅝	34¾ Feb 10	56 July 14	42¼
Continental Can	100	69⅛	65½ Feb 10	103¾ Jun 7	88¼
Corn Products Refining	100	48⅛	46 Jan 21	99 Oct 22	85
Crucible Steel of America	100	58	52⅛ Feb 7	261 Oct 23	217
Cuba Cane Sugar	No par	29½	20⅜ Jan 27	55 Dec 8	52½
Distillers Secur Corp	100	x49¾	x49 Jan 2	66⅜ Mar 14	‡
Fisher Body Corp	No par	39	38¼ Jan 8	173 Oct 8	131¼
General Electric	100	151	144½ Feb 2	176 Oct 20	169½
General Motors Corp	100	133	118½ Jan 21	406½ Nov 5	x339
Goodrich (B F) Co	100	57	56½ Jan 10	93⅜ Oct 29	81
Int Mercantile Marine	100	26⅞	21¼ Jan 31	67¾ July 11	49¾
Preferred	100	112⅛	92¾ Feb 10	128½ May 28	109½
International Paper	100	30⅝	30¼ Jan 3	82 Nov 5	79¾
Kelly-Springfield Tire	25	69¾	68 Jan 21	164 Nov 3	143½
Kennecott Copper	No par	32¾	27⅝ Nov 29	43 July 15	29⅞
Keystone Tire & Rubber	10	¶99	38⅝ Dec 29	126½ July 14	43½
Lackawanna Steel	100	67⅝	62½ Jan 21	107¾ Nov 1	87⅝
Maxwell Motor	100	28½	26¾ Jan 22	61 July 28	31¼
Mexican Petroleum	100	179½	162¾ Jan 23	264 Oct 22	217
National Lead	100	65⅞	64 Jan 11	94½ Oct 23	82⅜
New York Air Brake	100	105	91¼ Feb 3	145¾ Oct 22	112
Pacific Mail SS	5	38	29½ Feb 8	42⅜ July 11	38
Pan Am Pet & Trans	50	69¾	67 Jan 21	140¼ Oct 22	104½
People's Gas Lt & Coke	100	49	32 Dec 30	57 May 26	34½
Pressed Steel Car	100	62½	x59 Feb 11	109 Oct 20	101⅛
Railway Steel Spring	100	76	68½ Feb 10	107½ Nov 5	98½
Republic Iron & Steel	100	74¾	71½ Jan 18	145 Nov 1	122½
Sinclair Cons Oil Corp	No par	*34	*33¼ Jan 2	*69¾ May 8	43¾
Sloss-Sheffield Steel & Iron	100	49¾	46½ Feb 10	89 Nov 3	73½
Studebaker Corp (The)	100	52	45¾ Jan 22	151 Oct 28	109
Texas Co (The)	100	184¾	184 Jan 2	345 Oct 30	226
U S Food Products Corp	100	†66	66 Apr 8	91⅜ Oct 1	78½
U S Industrial Alcohol	100	104	x97⅛ Dec 1	167 May 27	112¼
U S Rubber	100	80¾	73 Jan 21	139¼ Nov 6	136⅜
U S Steel Corporation	100	94¾	88¼ Feb 10	115½ July 14	106⅝
Preferred	100	113⅝	111¼ Dec 12	117½ July 17	113¾
Utah Copper	10	74⅞	65⅛ Feb 7	97½ July 16	76½
Virginia-Carolina Chemical	100	53	51 Feb 10	92½ July 14	67¼
Western Union Telegraph	100	88	82 Sep 22	92½ May 26	87
Westinghouse Elec & Mfg	50	41⅜	40½ Jan 21	59⅞ Jun 9	55
Willys-Overland (The)	25	26⅜	23¼ Jan 22	40¼ Jun 2	32

x Ex-dividend. *Sinclair Oil & Refining Corporation; name changed in September to Sinclair Consol. Oil Corp. †First sale was made April 8; formerly Distillers Securities Corporation. ‡See U. S. Food Products Corp. §First sale was made May 7; previously to that date par value was $100 and range was from 68 Feb. 8 to 109⅛ May 1. ¶First sale April 11. **80% paid. ††Full paid.

Below are general statistics for 1919 and 1918:

GENERAL SUMMARY FOR TWO YEARS

		1919	1918
Coin and currency in U. S. Dec. 31	$	7,961,320,139	7,780,793,606
Bank clearings in United States	$	417,519,523,388	332,354,026,463
Business failure	$	113,291,237	163,019,979
Sales at N. Y. Stock Exchange	shares	316,787,725	144,118,469
Imports of merchandise (12 months)	$	3,904,406,327	3,031,212,710
Exports of merchandise (12 months)	$	7,922,150,592	6,149,087,545
Net exports of gold (12 months)	$	291,651,202	*20,972,930
Gross earnings (12 months)	$	5,173,647,054	4,915,516,917
Net earnings (12 months)	$	764,578,730	908,058,337
Railroad constructed	miles	x686	x721
Wheat raised	bushels	940,987,000	921,438,000
Corn raised	bushels	2,917,450,000	2,502,665,000
Oats raised	bushels	1,248,310,000	1,538,124,000
Cotton raised	bales	a11,030,000	11,602,634
Pig iron produced	(tons of 2,240 lbs.)	31,015,364	39,054,644
Lake Sup. ore shipments by water	(gross tons)	47,177,395	61,156,963
Copper production, refined, in U. S.	lbs.	1,863,580,381	2,476,077,401
Anthracite shipments	(tons of 2,240 lbs.)	66,855,462	76,649,918
Coal of all kinds	(tons of 2,000 lbs.)	544,263,000	678,211,904
Petroleum production (whole U. S.)	bbls.	377,719,000	355,927,716
Immigration into United States	No.	247,338	b115,916
Building operations, 286 cities	$	1,505,317,260	496,537,914

*Net imports. a Agricultural Department's estimate, which does not include linters. x Estimates of "Railway Age Gazette." b These are the arrivals of alien immigrants. The net alien arrivals (immigrant and non-immigrant) for 1919 were 17,912, against 41,471 in 1918.

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The First Year After World War I

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mine confidence on the part of Stock Exchange habitues or the general public in the enduring character of the speculation. The railroad shares in most cases reached the lowest figures of the year in December, owing to the delay by Congress in the enactment of legislation providing for the return of the railroads to private control, though the latter part of the month prospects in that regard improved, and President Wilson, after the close of business on Dec. 24, gave notice that in order to allow a reasonable time to elapse for the completion of pending legislation the date for the termination of Government control would be deferred until March 1.

The year's record for the railroad shares is of very substantial declines for the reason already indicated, while on the other hand the record of the industrial shares is of general advances, even huge advances in the great majority of instances notwithstanding the severe break which occurred the latter part of the year. The fluctuations in railroad shares all through the year were less extreme than in the case of the industrial properties. These shares were laggards in the great advance of the spring and yet did advance nevertheless. The last six months they always declined when the general market was weak and often sagged when the industrial list was marching ahead with great rapidly. Among the trunk line stocks we find New York Central opened in January at 75, reached 83¾ in June, touched 66¾ in December, and closed December 31 at 69½; Pennsylvania opend at 45½, sold at 48½ in May, reached 39⅞ in December, and closed Dec. 31 at 40⅝; Baltimore & Ohio common opened in January at 50, touched 55¼ in May, dropped to 28¾ in December, and closed the year at 31⅝. Among the Western and transcontinental roads, Union Pacific stood at 123⅝ at the close of the year, against 128¾ at the opening, and in the interval sold as high as 138½ in May and as low as 119⅛ in August. Southern Pacific is an exception to the rule, and at 102¾ Dec. 31, sold a trifle higher than the opening price in January at 102, after having meanwhile been up to 115 in June and down to 91⅞ in November; for Northern Pacific the price Dec. 31 at 79 compared with 94½ Jan. 2, the high figure for the year having been 99⅞ May 27, and the low figure 77 Dec. 12. Great Northern pref. opened at 95¼, got up to 100⅝ in May and down to 75⅛ in December, with the close Dec. 31 at 78⅜. Of all the railroad shares the Canadian Pacific suffered the widest fluctuations; opening at 160 in January, it got up to 170⅞ in July, and dropped to 126⅛ in December, with the close 132½. Milwaukee & St. Paul common, opening at 39½, reached 52¾ in July, touched 34⅛ in December, and closed at 37. Atchison moved up from 93½ in January to 104 in May, but December saw it down to 80½; the close was at 83⅞. There was a speculation two or three times during the year in the low-priced railroad shares, and these make a better record than the rest of the railroad list. Texas & Pacific, in particular, belongs in this class, it having enjoyed a sharp rise on the Texas oil developments; from 27½ Jan. 21, it sold up to 70½ in July, but closed Dec. 31 at only 41¾. Minor improvements also occurred in St. Louis & San Francisco, Missouri Pacific and Rock Island shares. Among Southern railroads, the Southern Railway stock did not share in this improvement. Opening at 29⅞, the common shares sold at 33 in May and dropped to 20¼ in December, with the close Dec 31 22⅜.

The record for the industrial shares, as already stated, is one of very noteworthy improvement. The motor stocks were very prominent in the rise, and General Motors Corporation common jumped up from 118½ in January to 406½ in November; even after the break the latter part of the year the close Dec. 31 was at 339. Studebaker Corporation common rose from 45¾ in January to 151 in October, and closed Dec. 31 at 109. The oil and rubber stocks were also pushed up with great rapidity. As illustrations, Texas Company stock, which was quoted at 184 in January, sold at 345 in October, with the close Dec. 31 at 226; and Pan-American Petroleum & Transport moved up from 67 in January to 140¼ in October, with the close Dec. 31 at 104½. United States Rubber common, from 73 in January, got up to 139¼ in November, with the close 136⅜, and B. F. Goodrich common, as against 56½ in January, sold at 93⅜ in October, with the close at 81. Sugar stocks, on the great rise in the price of the commodity, were likewise distinguished in the same way. American Beet Sugar, from 62 in January, advanced to 101¾ in October, and closed at 94; American Sugar Refining common, from 111¼ in January, rose to 148⅜ in October, and closed at 139⅞; and Cuba Cane Sugar common jumped from 20⅜ in January to 55 in December, with the close 52½. Some of the steel shares were marked up with great rapidity under violent and wide fluctuations. This is not true of the shares of the U. S. Steel Corporation, which moved up and down in orderly fashion; Steel common, opening at 94¾ in January, touched 88¼ in February, reached 115½ in July, and closed Dec. 31 at 106⅝. On the other hand, Crucible Steel common, after selling at 52⅛ in February, was quoted at 261 in October, with the close 217, while Republic Iron & Steel common, from 71½ in January, advanced to 145 in November, with the close 122½. The equipment shares were among the conspicuous features of the year. Baldwin Locomotive common fluctuated between 64⅞ and 156¼, American Locomotive common between 58 and 117½, American Car & Foundry between 84½ and 148⅜. Among shares in other lines of industry distinguished in the same way, might be mentioned American Woolen common, which against 45¼ in January sold at 169½ in December, and International Paper common, which against 30¼ in January sold at 82 in November, and these illustrations might be extended indefinitely. As a matter of fact, to enumerate all the noteworthy advances in the industrial group would be to give nearly the entire list.

Railroads in Peacetime

(Continued from page 1071)

Expect Reduced Earnings

From now on we are naturally going to have lower gross revenues on American railroads. For the first seven months they were about the same as last year, but as you see carloadings go down and gross go down, and obviously net, you will see the carry-over from the first seven months of EPT equalize that lowering in gross, so that in my opinion the net income, despite the fact that gross may have gone down 30% in the last five months, will be almost the same—maybe 10 or 20% lower than last year.

The railroads have no reconversion problem. The other day in Chicago somebody said to me, "What is going to happen to Atchison common if gross goes off 30%?" I said, "What's happening to General Motors? The gross has gone off 100%." There is not going to be much gross for most industry in the next four months.

In other words, those who do not like rails can always think of a hundred reasons why rails are of no value and in the same breath have no rebuttal as far as industrial stocks are concerned.

In order to forecast the future, as to what I think will happen to railroad bonds and stocks, we must necessarily review the history of the industry. In 1931, we had about 10½ billion dollars worth of railroad bonds, about 98% of which were owned by the institutions.

Real Bond Prices in the Thirties

Most of this 10½ billion dollars worth of debt was owned by financial institutions. Then the depression came along, and on top of the depression, the unregulated trucking industry came along. It was bad enough with the depression, but with the unregulated trucks, the rails also took a 25% cut in rates. That was a double blow to the railroad industry.

As a result, we have such things happening as this: In April, 1930 a financial syndicate brought out millions of Wabash 5's of 1980. We sold them to the banks and insurance companies at 102¾. One year later in 1931, those bonds sold on the New York Stock Exchange at 2¾, $27.50 for a $1,000 bond. How can such things happen? Obviously, with the institutions owning all the bonds, if they had not sold, it would be impossible that prices could ever decline to those levels.

It's simple enough as you analyze it. Supposing, in 1930 and 1931, all the buyers of sugar in the world stopped buying, and started selling. They couldn't sell to each other, they couldn't sell to anybody. Obviously sugar would sell for .01 of a cent a pound.

The buyers of railroad securities stopped buying and started to sell. They had nobody to sell to, so, generally speaking, almost all railroad bonds went down, even Pennsylvania bonds, to 35 cents on the dollar; the borderline bonds like Southern Pacific, 20; and the defaulted bonds almost without exception to 10 cents on the dollar.

Basis of Market Recovery

This being my business, I thought that there must be some answer to the riddle, so, for the last eight years, I have been trying to create a market among individuals for railroad securities, on the theory that those low prices didn't indicate what the bonds were worth. They simply indicated a condition in the market which would happen to anything. It would have happened to utilities or real estate securities as well.

Even before the European War started we knew that our approach would work out, because we had the reorganization of Chicago and Eastern Illinois long before the European War, and that change from bankruptcy to solvency was indicated in the prices.

Let's cite another example: Only three years ago Nickel Plate preferred sold for about 25, the common sold at about 11, and the bonds at about 52. The 5½% bonds sold for 52. Today the bonds are all paid off and the preferred stock is worth, under the exchange which is being offered, 140. Those Nickel Plate bonds at one time sold down to 12 cents on the dollar, and stocks down to a dollar.

I am not trying to indicate that the institutions own stocks. They didn't. But bonds control stock prices. If you sell the bonds of a company down to 10 cents on the dollar, the stocks must go down to 2 even though you don't own a share on them. Of course the same things happen on the upside, because when Nickel Plate reduced fixed charges from 7½ million, as they have, down to 3½ million, that restored their credit, and those same people who sold out the bonds at 10, 20, 30, and 40 cents, bought Nickel Plate 3⅜, only three months ago, at a premium.

In 1942 Delaware and Hudson sold at $7 a share and the bonds for 50. They reduced their fixed charges from 5 million 1 to 1 million 7, the bonds are selling at the call price; the stock went up to 57, and is now selling at 44.

In 1942 when I first talked to you, Chicago North Western 4's of '87 were selling at 21. They are now selling at the equivalent of 121. I predicted then that in the worst time, Chicago North Western preferred would be worth $20 a share. It was then seling at $2. Even today it is selling at 66 and it has paid $23 in dividends.

In other words, the extreme lows which were created, by this mechanical factor, of no buyers and the buyers becoming sellers, created those low prices. Just think of this; if institutions were allowed to use "prudent" judgment instead of "statute" judgment; if they were allowed to average and invest at 10, the same amount as they did at par, they would have a beautiful profit today. But unlike real estate, where they are allowed in effect to average,—in effect, if they got stuck with a business corner, they didn't go out and give it away for 5 cents on the dollar the next day. They built it up, held it, carried it along, and eventually bailed out.

But in 1942 you knew what you were going to get in Northwest. You knew you were going to get a $200 first mortgage bond and a $500 income bond and 4½ shares of preferred and a half share of common, and if you put values on them it was just a question of waiting until they were once again a solvent corporation.

The very people who created those low prices eventually bought first mortgage 3's of the Northwest which now sell at 104.

The Dow, Jones Averages Again

Going back a moment to the difference between industrials and rails, as I said, one sells at 172, as far as the public is concerned, and the other at 55. The Dow Jones industrials just made a new high for eight years. They are still about 22 points under their high of 1937. The rails are likewise 11 points under their high of 1937.

The Dow Jones industrial stocks yield 4% on the average, and high grade bonds yield a little less than 3%. Yet we have L. & N. yielding 7%, Atchison yielding 6.75%, Pennsylvania yielding 6.75%, Coast Line yielding 6.50%, Southern Pacific over 6.50%, and Great Northern over 6.50%. I think that railroads will get their share of the peacetime business, and with the other facts

(Continued on page 1135)

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Railroads in Peacetime

(Continued from page 1134)

that I will relate to you, they will be justified in going on a regular dividend basis.

If you do not believe we are going to have any kind of business in peacetime, I don't know what you can buy to protect yourself, because well do I remember in 1937 when industrials were selling higher than they are now. Obviously, stocks are not going to go on a 3% basis. The market is discounting increased dividends, when EPT goes off, even though gross goes off 40 or 50%. That certainly is what they are discounting in industrial stocks. Why can't we do the same thing in railroad stocks? Don't forget, if we have bad times, nothing stays up, as far as stocks are concerned.

You remember 1937 and 1938. Go down the Dow Jones Averages. Allied Chemical sold down from 258 to 124. American Telephone sold from 187 down to 111, Chrysler from 135 down to 35, and so on. Nothing was exempt. The oil stocks, like Standard Oil, went down 50%.

I think you will all grant me that today's industrial stock prices indicate that we are going to have a relatively good peacetime business over the next four or five years. Therefore, I believe the railroads, which are at such a great spread from the industrial stocks, particularly in yield, that we can look forward to good railroad stocks selling on a 5% basis with the present dividends, and the gradual entry into that dividend-paying field of a great many other stocks.

Great Northern, for example, has cut its fixed charges 10 million dollars, which amounts to about $4 a share. They have cut their debt 55%. I see no reason why Great Northern, for the foreseeable future, cannot become a regular dividend-paying stock the same as C.&O., Pa., and U.P. Even before the collapse in railroad credit, Atchison had a good capitalization, yet since 1939 they have cut their fixed charges 34%. I see no reason in the foreseeable future why Atchison can't maintain a $6 dividend, and at 90 it yields almost 6.60%.

The Dividend Factor

The next group in the Dow Jones averages includes New York Central, Northern Pacific, Southern Pacific, Southern Railroad, Atlantic Coast Line, and D.&H. Those are the stocks that are now on a dividend-paying basis. Those are the stocks, incidentally, which in 1943 earned $10 a share and paid an average of only $1 a share. They were cleaning up their house by buying bonds. They were spending all their money to improve their financial condition at the expense of the stockholders. **The stock market unfortunately recognizes dividends more than any other one particular factor, and if these railroads had paid out $7.50, they would have sold probably twice or three times as high as they are now selling. If that situation had happened they would have been war babies. But they didn't do that.**

Take the non-dividend group of stocks. In 1943 they earned about $11 a year and paid nothing. All the money went to debt reduction and for other purposes in order to improve their credit.

Dividends determine to a great extent where stocks sell. It will determine rail stock prices to a considerable extent after this period, and after the bond recovery has been complete.

In the period, for example from 1937 to 1943, industrials earned about $68 and paid out $50. They paid out about 73%. The railroads earned $40 and paid $10. They paid out 25%. That represents about 2 billion dollars for the 20 rails in the Dow Jones average. In other words, if the railroads had paid out as much as the industrials, the railroad stockholders during the war would have received about 2 billion dollars in dividends. Instead, 2 billion dollars was used to buy bonds in the open market and to improve their plant. **But nevertheless, the way the stock market recognizes things, if they had paid that 2 billion dollars, Southern Pacific, for example, would probably have sold up to 150, paying $15, and then it would have been a war baby.** But it didn't do that. Southern Pacific earned about $70 and gave the stockholders about $4. As a result, the stock sells in the low 40's.

Effects of Debt Reductions

This $65 equity which has been built up makes the Southern Pacific worth more for the future than it would have been if they used it currently. In my opinion, using that group of stocks, Atchison and Great Northern will go up into that regular dividend-paying group and the rest will follow along as they solve their bond problem and their credit problem.

The war gave the railroads war earnings. Ninety per cent. of those war earnings were used to retire bonds and to build up the railroad plant. There is the first factor in the financial change, the difference between the railroads in 1946 and the railroads in 1938.

The second thing is the reorganization of 37 of them, which completely solved their financial problem. With the exception of Norfolk and Western, the new Chicago North Western has now the best capitalization of any railroad in the United States.

The third factor is money rates. The utilities got the advantage of it for a long time. Now the rails are starting to get the advantage of it. Not far back, you remember, we had Great Northern 6's, 5's, 5½'s and, yesterday, 3⅛.

In order to understand this drastic and dramatic change in the financial setup of railroads—there are so many of them, 137 altogether—I cut them down to 41, and they do 88% of all the business in this country.

Of that number 14 of them retained their credit all through the depression, illustrated by Pennsylvania and C.&O. Thirteen of them became borderline, illustrated by Southern Pacific, Illinois Central, and 14 of them fell by the wayside—Missouri Pacific, Northwest, St. Paul, to illustrate.

During this period, the 14 have been reorganized. The fixed charges have been cut 75%. The stocks were wiped out. The borderlines have reduced their fixed charges in the open market. For example, Nickle Plate reduced its fixed charges in the open market first by about 40%, and then through refunding they reduced it another 20%, or the overall reductions of about 50%. The good ones continued to reduce their fixed charges. For example, Great Northern reduced over 50%.

I think it is a little bit easier to see it if I reduce it to dollars. These 14 roads which did about 36% of all the business, had fixed charges of 158 million, and they successfully carried those fixed charges. The next group, the borderline group, attempted to carry fixed charges of 189 million. The bankrupt carriers, 175 million. Yet the bankrupt carriers only did 23% of the business, and the borderlines 26%.

Without being an analyst you can see the relation of gross to debt. The best ones had the most gross and had the least debt. That of course has switched now so that the 14 doing 23% of the business now have practically no debt.

As I said before, the rails had about 10½ billion dollars worth of debt. As of January 1 of this year, there was about $8,900,000,000 outstanding. Most of this is listed on the New York Stock Exchange.

These good credit railroads, illustrated by the Pennsylvania and Union Pacific, carried $2,100,000,000 of that debt. The bankrupt carriers tried to carry $2,700,000 and the borderlines about the same amount.

If you are an institution and you want to buy railroad bonds, in 1930 you had $10½ billions to choose from. You are not allowed to buy defaulted bonds. That is why the great opportunity is for individuals. You have no competition from the great money interests of this country, trustees, fiduciaries, banks, insurance companies, and the like. They cannot buy defaulted bonds. As of January 1, there were $2,700,000,000 defaulted bonds listed on the board. They cannot be bought by any institution. They cannot be judged, marketwise, by any institutions, because they can't affect the market, except by selling, and generally speaking, they have sold and these defaulted bonds are now held by the public.

The borderlines, $2,700,000,000, sold at an average of 46 in 1942. With four exceptions: Illinois Central, New York Central, and Lehigh Valley, and Missouri, Kansas and Texas, every bond out of that group is now selling at the call price.

Who Purchases Defaulted Bonds?

As far as individuals are concerned, there is not much choice except defaulted bonds, because most all the other bonds are selling at the call price or a 3% basis. There is no money to be made in bonds selling at the call price. It's a one-way street, it can only go down. It can never go up.

The same thing is true with the institutions. Whereas at one time they had a choice of $10½ billions of bonds, they automatically lost $2,700,000,000, because they can't buy defaulted bonds. Therefore, they have no choice but a 3% yield.

So far as quantity is concerned, this change in reorganization has reduced the available amount of bonds for institutions by about one-third. Every day we see this refunding, you see cuts in debt,

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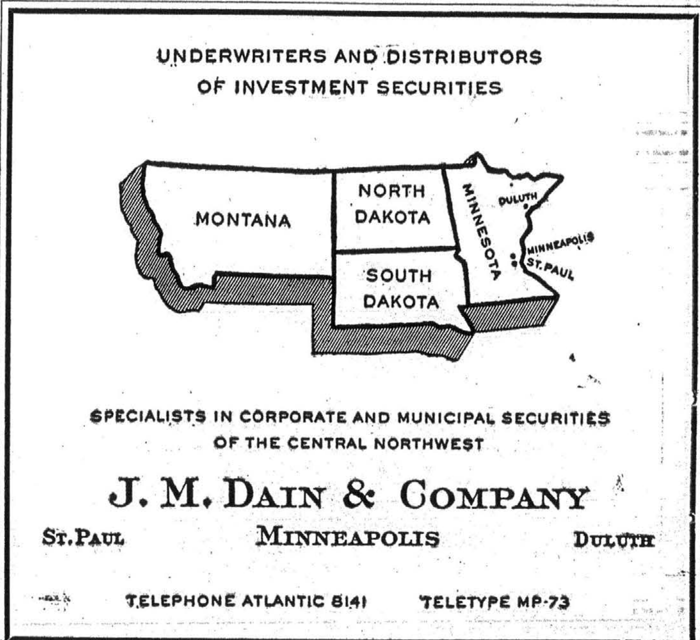

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Railroads in Peacetime

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whether it's utilities or rails or anything else. Constantly, there become less and less amounts of corporate securities to invest in.

There are two ways to make a market go up, and one of them is to cut half of the available supply. That is gradually being done in railroads. As you see these refundings, like Great Northern yesterday, and Southern Pacific, which is coming along, each one involves a further cut in debt, so the supply of railroad corporate securities is gradually becoming less. And yet, as we all know, the amount of money available for investment becomes tremendous every twenty-four hours.

Now that the patriotic motive for investing in government bonds is over, I think that there will be a further search made for corporate yields. In some of the railroads, there is still sufficient yield to attract that kind of buying. During this period these good railroads have reduced their fixed charges from $158 millions to $118 million. The borderline railroads have reduced theirs from $190 million to $148 million; and the bankrupt carriers, in their reorganization, from $176 million to $54 million. When you add up that reduction, it adds up to 204 million dollars. Capitalize 200 million dollars at 4%. That is 5 billion dollars. Two hundred million dollars is 4% on 5 billion. Most railroad debt was pretty close to a 4% coupon. You are going to lose the equivalent of 5 billion railroad bonds; but the process still continues. Refunding will bring it down further.

Therefore, in my opinion, through further refunding these good credit railroads will have reduced their fixed charges from $158 to $107 million; the borderlines from $190 to $130 million; the bankrupt carriers from $176 to $40. That is a total reduction in fixed charges of 50%.

No Rail Operating Deficits

I want you to remember one thing about the railroad industry: They never operated at a deficit. The worst year we ever had, 1938, they made 500 million dollars. They never operated at a deficit All you have to do is look at U. S. Steel for 1938, with a large deficit.

The rail fixed charges are not something we are dreaming about. They are actual. All you have to do is wait for the reorganization to go through. Their actual fixed charges will be down to 280 million dollars, therefore if we ever go back to 1938 we will cover them better than twice, which is as good as the utilities did during that period.

Of the 14 good credit railroads, what is cheap? There are no bonds selling below the call price. Mentioning those for the record, they are Pennsylvania; Atchison; Union Pacific; C. & O.; Great Northern; Norfolk & Western; Louisville Nashville; Chicago, Burlington & Quincy; Reading; Texas Pacific; Pittsburgh and Lake Erie; Duluth, Missabe & Iron Range; Elgin, Joliet & Eastern, and Virginian.

I am trying to cover this afternoon all the railroads in which most people have any interest. In that first group of 14, every one of the bonds is selling at the call price on a 3% basis, or on a 2.90 basis. They are for institutions.

Rail Stock Prospects

I never recommend a controlled stock to any audience. For example, I never recommend Texas Pacific, because it is controlled by somebody else. Reading is controlled by B. & O. Eliminating those controlled situations, it leaves us seven stocks. Among those seven stocks, in my opinion, the cheapest stock is the C. & O., particularly if this merger goes through, because under those terms C. & O. picks up a tremendous leverage which it never had before. C. & O. is known as a stable stock. It doesn't go up much, it doesn't go down much. For the first time, tremendous leverage will be introduced into C. & O. stock if that deal goes through.

Now the stock pays $3.50, and with the Pittston dividend, the equivalent of about $4, selling at 50; you can't get that yield in any good industrial stock. With that added leverage, in that group my preference would be C. & O. It is rather difficult to pick after that. You know all the stocks. I think they will all go to a 5% basis. On Pennsylvania, for example, that would mean going from 35 to 50. On Atchison it would mean going from 90 to 120. Union Pacific is the only railroad stock on a 5% basis. C. & O. would then sell pretty close to 80. It would mean that Great Northern would sell at 80, on a 5% yield, with a $4 basis. L. & N. would be the same way.

So much for that group. In the group of 13, which I formerly called borderline roads, they include Southern Pacific, New York Central, Illinois Central, Southern Railroad, Northern Pacific, Atlantic Coast Line, Nickel Plate, Pere Marquette, D. & H., Boston Baine, D. L. & W., L. V., and M. K. T. Among that group all the bonds are selling at par with the exception of three or four obligations of the New York Central, and two or three bonds of the Illinois Central, which are selling in the high 80's.

Then there are the three special situations, the M. K. & T., the Lehigh Valley and D. L. & W.

Recommended Bonds and Stocks

In that entire group of borderline bonds—and I am covering the entire industry now—there are only three choices: Missouri, Kansas & Texas, Lehigh Valley and D. L. & W. Out of that group, the bonds that I recommend are the Morris & Essex 4½'s and 5's, which are now a direct obligation of the D. L. & W.; and the Lehigh Valley bonds which are selling in the 50's. I think the Morris & Essex bonds are selling in the low 70's. I choose the Lehigh Valley bonds on the theory that the worst that can happen is the McLaughlin Act, where you would get income bonds, and they would not sell at 50, they would sell higher than 50. The Katie has reduced its fixed debt about 40%, and I think will continue to do so, so that somewhere along the line they should command much higher prices.

In stocks of that group, my favorite is the Atlantic Coast Line. Atlantic Coast Line is selling at about 64. There is one share of L. & N. behind each share of Coast Line. L. & N., I think, is selling around 58. In effect you are paying about $6 a share for the Atlantic Coast Line. The stock is paying $4. I think the dividends from the railroad will appear next year. They are paying no dividend now from the railroad. They are simply passing on to you the L. & N. dividend. Coast Line has retired all its callable bonds, and they also retired millions of preferred stock of another railroad which they guaranteed. They have no callable bonds. Last year they earned around $10 a share after excess profits taxes, of $38.00 a share. In that group AX is my particular favorite.

Following that is Southern Pacific. After this refunding Southern Pacific's debt will have been reduced by about 35%, and as they go on to refund the other bonds, they will eventually, I think, get it down to 50%. On that basis I see no reason why Southern Pacific can't remain a $4 dividend payer, with a tremendous carry-over of excess profits to absorb the loss in gross as inevitably must come with the ending of the Jap war.

In that group my next choice is Northern Pacific, with somewhat of a question mark, because their financing comes up September 6, and I assume it will be successful. If it is successful, I think Northern Pacific will sell, within six months, or eight months, with Great Northern, where it always used to sell.

Great Northern has reduced their fixed charges by 50%, but in doing so they diluted the stock. If this Northern Pacific financing is successful, they will have reduced their fixed charges—you know they are retiring 6's—by about 30% but with no dilution of the stock.

Therefore, we get in the last group, the bankrupt carriers, which has always been my particular field. They are in bankruptcy, so they have no fear of bankruptcy, as we did in the borderlines at one time.

The B. & O. Bonds

Without any hesitation, the cheapest bond, in my opinion, and the ones with the best timing, among those that are actually issued, are the B.&O. obligations. Specifically, the B.&O. 4½ of 60, which closed yesterday around 64½, the common stock which sells around 20, and the preferred stock which sells around 31. The B.&O. is our fourth largest railroad. Their fixed charges amounted to about 34 million dollars at the height. During the war they bought in over 100 million dollars worth of bonds in the open market and retired them, and reduced their charges to 25 million dollars. They are now in bankruptcy under Chapter 15 of the Bankruptcy Act, commonly known as the "McLaughlin Act."

They proposed a plan to the Commission which reduces the fixed charges from the now existing 25 million, down to 16 million, the difference between 16 and 25 being represented by contingent income charges. The plan has been approved by the ICC unanimously, and under the Supreme Court decision in the St. Paul case, no court can interfere with an ICC decision unless it can be demonstrated to the court that there has not been sufficient evidence taken or sufficient weight given to such evidence.

The B.&O. plan comes before the court for hearing on September 17, and in my opinion the court will approve the plan and it will become effective. They should be out of bankruptcy by the end of the year. The B.&O., therefore will have reduced their fixed charges from 34 million to 16 million, a reduction of 50%. The worst year the B.&O. ever had was in 1938, when they earned about 19 million dollars. In every other year, however, they earned over 30 million dollars. For example, in 1942—it doesn't mean much, because it was a war year—they earned 76 million dollars, and last year around 50 million. But in a typical year, as I see it, in the future, with normal tax of 50%, and no excess profits tax, the B.&O. can earn 35 million dollars.

That is step No. 1; that is, getting the war money to buy bonds, which they did. The next was to get the fixed charges down where they were bankruptcy proof, which they have done through this plan. What is the third step? Every B.&O. bond, with minor exceptions, is callable. We are certainly going to have low money rates for a long time, long enough certainly for all the railroads to refund their debt.

That will be the next step. Their average coupon now is 5%. If the B.&O. refunds as 3's, their overall charges will be reduced to 16 million from 34 million dollars.

Obviously, that is going to have some effect on the stock, the same as it did on D.&H., Nickel Plate and all the rest of them. In my opinion, when that happens, and if it happens, the preferred stock will sell up in the high 60's, the same as Southern Railroad preferred now sells, and the common stock, even before it goes back on a dividend basis, should sell between 25 and 40.

Therefore, among this group the B.&O., I think, for those reasons, is the cheapest situation. Just to mention it again, the EPT plus the overtime was $18 a share on B.&O. last year.

"When Issued Securities"

On the when issued securities—all these when issued securities are over the counter. Almost without exception, all of these income bonds that are being created are better bonds than the fixed obligations of Great Northern or Southern Pacific or L.&N. It will take some time for the market to recognize that.

I said to you in 1942 when Wabash incomes were 46 that they were going to par. They are today at 94. Erie's were 43, and before this market broke they were 101¾. The cheapest income bond traded today is the St. Paul Series B income 4½s, which are

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selling at about 80, and which carry two years back interest. So they are selling at the equivalent of 71. I predict to you that within a year after the St. Paul is reorganized, those bonds will be selling at par.

The second choice in the when issued bonds is Rock Island, Income 4½s, which are selling at 94, with 9 points accumulation, or the equivalent of 85. The Rock Island is an 8,000-mile railroad, does about the same gross, for example, as L. & N. The ICC, allowed them only 29 million dollars worth of the first mortgage 4% bonds on an 8,000-mile railroad. You can't buy the tie plates for that amount of money.

Obviously, we think the L. & N. bonds are good bonds selling on a 2.80 basis. The Rock Island does about the same gross, but the L. & N. carries a debt of 267 million dollars. Rock Island first mortgage bonds are callable at 105. They will be called and refunded probably as 3's within six months after the reorganization. The total debt of Rock Island is less than $100 millions, and yet you can still buy the Rock Island income bonds at the equivalent of 85.

There are three other income bonds now traded: Frisco incomes, which trade without accumulations, at 82; the Denver incomes, the lowest-priced income bonds, which sell at 72, with three years accumulation, which is the equivalent of 58½; and the Seaboard incomes, which sell at 70, with no accumulations. Those five bonds all trade over the counter, and in my opinion within six months after their reorganization they will sell close to par.

Preferred Stocks

The cheapest preferred stock that we have created through any of these reorganizations is Seaboard 5% preferred, which is selling at 60. There are only 150,000 shares outstanding, and it has the greatest leverage. In other words, I predict a year like 1941, which means a decrease in gross of about 50% from present levels, that Seaboard preferred stock will show substantial earnings per share. Incidentally, that stock sold as high as 80 this year, and because they moved the date of the plan up so that the money went to the old bond holders rather than to the new, it went down 20 points.

My other choice in the preferreds in that group that we are now trading when issued is the Rock Island, which is selling at 72 but which carries $10 accumulation, or the equivalent of 62. Rock Island preferred is just as good a preferred as Atchison preferred, and will demonstrate this, marketwise, I think within six or seven months after its reorganization.

Among the when issued commons which we are now trading when issued, the one which I think particularly stands out is Rock Island new common stock which is selling around 34, 35.

In my opinion the Rock Island will be run by and for the stockholders. I don't mean at the expense of the public or anything like that, but I mean I don't think there will be any creditors running the Rock Island. It has the leverage, it is the most severe reorganization we have had. Even after paying out 34 million dollars worth of cash, which they are going to do within 20 or 25 days, they will still start the new corporation some time next year with a net working capital of over 50 million, and close to 60 million dollars in cash. The Rock Island last year paid excess profits tax and overtime equivalent to $26 a share, on the new stock.

Defaulted Bonds

Among the defaulted bonds, the old bonds as we call them, I would be inconsistent to recommend the Rock Island new securities most highly, without recommending the old securities as being the ones with the largest leverage.

Whatever you think of the market, if you can in some way create something for nothing, you are accomplishing something for yourself. Today, for example, Rock Island, refunding 4's of 34, are selling at about 64. Including the cash of $102 which you will get within a month, and including the cash accruals for these two years, if you hold that bond until consummation, the $1,000 bond which cost you $640, you will get back around $175 in cash.

Let's assume that you believe as I do, that Rock Island common stocks in the future will sell with Atchison. How can you create that stock cheap? If you use prices of 105 for the first mortgage bonds, and par for the income bonds and 80 for the preferred, and after consummation or shortly thereafter, those prices are realized, and you sell the first mortgage bonds, the income bonds and the preferred, you will get back $495.

In addition, however, that bond gives you 5¼ shares of common stock. So through that process, you would have made $30 in cash, and have 5¼ shares of the new common stock of Rock Island, which would cost you nothing. You can do the same thing, if you are more conservative, by creating the preferred for nothing, or the first mortgage bonds, or the income bonds by selling the other three, and in each case receive cash. That is different, as you know, from an arbitrage. Right now the arbitrage in Rock Island is about 12%. That is, if you buy the old and sell the new.

My second choice in defaulted bonds is the Chicago Alton 3's. As most of you know, there is no opposition to this plan. I think we will get the approval from the ICC within two weeks, and we will then start trading "when issued" in the new income bonds, and the new Gulf Mobile & Ohio stocks. The Alton 3's are today selling at about $500. You get a $500 income bond of the Gulf Mobile & Ohio, which in my opinion will sell at par six months after they are issued. In addition, you get 7¼ shares of stock. Stock closed yesterday at 23. The 7¼ shares of stock would cost you nothing. That is my second choice. I think it will become a great trunk line system. I think it eventually should sell at at least $40 a share.

I am not going to bother you with the details, but to add two more defaulted bonds, the next choices would be the Denver 4's of 1936, which are currently selling at 62, and the Frisco 4's at 1950 which are selling at about 55.

To go back to the B. & O. for just a second, we happened to be reading in the Journal of Commerce yesterday that the B. & O. is our seventh largest industrial corporation, with assets of $1,325,000,000, has a debt of $571,000,000. The market value of the preferred is 17 million, and the market value of the common is 50 million. If all the bonds were selling at par, and those bonds that I recommended closed at 64½, you would have a market value for this $1,325,000,000 corporation of about $630,000,000, or less than half of the asset value.

Conclusion

To conclude, I have always found that if you are in an unpopular situation in the securities market, and you have sufficient patience, you usually make out better than if you run with the crowd all the time. You have seen the crowd running with this stock or that stock or that group of stocks, and if you are very clever perhaps you can make money on them. But in any event, in Wall Street, what the crowd wants has never established quality. From the past, you know my comments about the rating system. I have always said that the ratings follow prices, and therefore are of little value in predicting the future.

The Chicago Northwest generals in 1930 were selling at 95 as 4's. They were triple A. When they sold at 10, they were C. Where was the value? The value was the 10, not at par. But the ratings followed the prices down. Do you know what they are rated now? Single A, as 3's, at 104. In other words, high prices don't necessarily mean high grade.

The corollary to that must obviously be that low prices cannot necessarily mean low grade.

Another thing is that information is not judgment. When Nickel Plate notes were selling at $10 apiece, which they did, what you wanted to know, then, was what were they worth? You wanted to have somebody tell you that they were going to pay them off three or four years from now, which they did.

In other words, all the facts and figures up to a point are only information. I have as much information about railroad bonds, I think, as any man; but what good is it unless you forecast with it? That is all you fellows do in the securities market. No matter what business you are in, whether you are in municipals or rails or governments, you are predicting the future every time you buy a bond or stock.

If it was purely based on information it wouldn't mean a thing, because on top of your information you must arrive at a judgment, and your judgment comes from the information, plus your experience; to produce some knowledge of a subject, so that you may convince yourself and then your client that things are going to happen. That is the way capital appreciation has always been made, whether it was in the pioneering days or now.

I have always tried to point out to you value at a discount, and I still think it exists in rails relative to your choice in industrials and in utilities. The yield is there, in a great many cases the market appreciation is still there. It is what I try to call "value at a discount." The corollary is creating something for nothing—to my mind there is very little difference between investment and speculation. **Webster defines speculation as an enlightened attempt to forecast. What is investment?** If you constantly invest in high-grade bonds, corporate bonds, at the call price or above, you must be 100% because you have no opportunity of creating a reserve. If you buy value at a discount and your judgment is correct, you can be wrong once in a while and still have a reserve for those mistakes.

On this occasion, and on the others, I have tried to bring you the benefits of my experience and what information I have about the rails, and to give you my forecasts, which I have done this afternoon. I am pleased that the Association chose to have me again talk on rails.

Educational Committee Report

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requisites as to previous education or experience should be established. Also that a suitable certificate signifying that one has successfully completed such a course should be established.

It is my belief that such a program is necessary to bring new blood into the trading phase of our business. I believe a course offered under the supervision of an Educational Chairman in each local affiliate and with a specialist in each particular subdivision doing the actual lecturing and leading the accompanying discussion would be quite successful.

These latter points are for you gentlemen to discuss and draw some conclusions therefrom.

It has been a pleasure to work with the Officers of the NSTA and I only regret that I cannot report completion of what I believe to be my assignment.

Respectfully Submitted,

Paul I. Moreland, Chairman,
Educational Committee

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Wartime Operations and Peacetime Future Of the Coal Industry

(Continued from page 1081)

While coal reserves appear impressive in volume, it does not follow that all of the potential 3.2 trillion net tons of coal is recoverable at the present state of the art or of sufficient quality to be commercially usable. The United States Coal Commission and the United States Bureau of Mines have estimated that shrinkages incurred in mining, handling and preparation of coal amount to approximately 35% of the total coal mined. This figure is generally accepted as typical for the industry as a whole although in many mining operations it is found that approximately half a ton of coal is consumed for power, discarded in grading, or lost because of uneconomic geological formations and other reasons, for each marketable ton. Possibly 2 trillion tons of the estimated coal reserves in this country may be available for productive use.

Trend of Bituminous Production

The economic history of coal is one of seeming contradictions. Despite its fundamental importance to industry, coal had lost ground for several years prior to the period of expanding business activity induced by the War. In fact, many individual mines operated at a loss throughout most of the decade of the 30's. Competition resulting from the increased use of fuel oil and natural gas was an important reason for this decline, although general business conditions probably had a more definable effect.

For the five-year period ending in 1925, bituminous production averaged approximately 481 million tons, in the next four years, the average was more than 500 million tons, but in 1931, it fell to approximately 382 millions. The industrial activity of 1937 was reflected in the relatively high output of 445 million tons, but it was not until 1940 that the industry began to march to new high records.

The current gain in production bears a significant resemblance to the pattern of activity which characterized the first World War. In 1915, bituminous production amounted to 443 million tons, rose to 503 million tons the following year, and in 1917 advanced to 552 million tons. Within another year, the output stood at 579 million tons, an increase over 1915 of 30.7%. From 1940 to 1944, output advanced approximately the same.

Despite the record bituminous output of 1944, consumption was 33 million tons greater, the deficit being taken from surplus stocks. Domestic consumption alone was 595 million tons last year, but estimated exports totaled approximately 27 million tons, an aggregate consumption of 622 million tons.

The depletion of the nation's soft coal stockpiles brought reserves down to a new low of 56,692,000 tons, or thirty days' supply as of January 1, 1945. This compares with reserves of 60,079,000 tons at the beginning of the previous month, the equivalent of thirty-six days' supply. It is likely that the 620 million tons mined in 1944 marked the culmination of the recovery which got under way in 1939 when war broke out in Europe. Since then the rise has been steady each year showing an increase over its predecessor, as the war need for fuel mounted. But the indications are that 1944 marked the climax.

Former World War Operations

During these two periods, however, the increased output was accomplished by radically differing methods. In the first World War, the expansion was achieved through the opening of a large number of new mines as well as by increased employment. Bituminous mines increased in number from 5,776 in 1931 to 8,994 in 1919, an advance of almost 56%. As war demands were reduced, this excess capacity which had been built up proved to be a serious burden to the industry, particularly when it collided with the aggressive competition offered by fuel oil and natural gas.

In the second World War, expanding production has been gained through further mechanization of the coal mines, an increase in the length of the work week and by an increase in the number of small mines. The number of mines in the years preceding our declaration of war showed little variation with the exception of the declines noted in 1938 and 1939. In 1941, there were 6,822 mines, an advance of 17.2% over 1939. Little change has taken place subsequently.

Technical Improvements Noted

Another dramatic change in conditions during the two wars is revealed in the fuel value of bituminous coal to the consumer. Substantial improvements have been made by the introduction of mechanical cleaning, a technique which was virtually undeveloped at the time of the first World War. In 1942, an estimated 145 million tons of bituminous coal were mechanically cleaned, 25% of the total output of that year. Fifteen years previously, only 5.3% of all coal was cleaned mechanically.

Fuel value has also been increased as the result of progress in mechanical cleaning and combustion efficiency. Electric utilities, for example, needed 3.22 pounds of bituminous coal to produce one kilowatt hour in 1919, but in 1941, this had been reduced to 1.34 pounds. The railroads needed 164 pounds of coal to haul a ton of freight one thousand miles, as compared with 111 tons in 1941. Fuel per passenger car mile was reduced from 18.1 pounds to 14.9 and enormous savings were made in by-product coking and in the iron and steel industry.

Increased combustion efficiency, according to estimates in the trade, saved the equivalent of more than 100 million tons of bituminous coal in 1942, as compared with 1918. While further progress is now being retarded by wartime shortages of labor and steel, it is obvious that additional progress can be made in this field after the war.

In the middle 20's, less than 2% of total underground production of bituminous was handled by mechanical loading methods as compared with 31% 15 years later. Progress has been rapid since the inception of the war production program, with loading machines advancing from 1,573 in 1939 to 3,225 in 1944. In the latter year, more than 46% of the total underground output was loaded mechanically. Improvements have also been made in drilling equipment, in mechanical cutting, conveying facilities, and mechanical cleansing plants; and electrical equipment for use in strip mining is being more widely adopted.

Coke and Other By-Products

Coke, outstanding by-product of bituminous coal, is produced either in modern retort ovens which capture the gases — and which in turn produce many valuable by-products — or beehive ovens from which the gases escape. Beehive ovens have been brought back into use because of the current great demand for coke; their operation will doubtless be largely discontinued after the war.

Most of the coke produced in the United States is used in blast furnaces for the manufacture of iron and steel, although a small amount is used for domestic heating. Output, naturally governed by the demands of the steel industry, has reached new high levels, production for the year 1944 being estimated at 73,618,000 tons, as compared with 48 million tons in 1930. The 1945 production goal is approximately the same as last year.

Another by-product of coal carbonization is gas, which amounts to 10,000 cubic feet per ton of coal carbonized. In addition, two or three gallons of light oil are normally obtained from the same coal, 10 to 13 gallons of tar, and 22 to 27 pounds of ammonium sulphate. Heat for the coke ovens takes approximately one-half of the gas and the remainder is generally utilized in nearby steel plants or distributed in city gas lines.

These by-products are of direct importance to the war effort. Benzol, our only source of styrene —important constituent of synthetic rubber—is derived from the light oil. Picric acid, used in the manufacture or explosives, in turn, is derived from benzol. Benzol is also converted to phenol (carbolic acid), vital element to the plastic industry.

Competition

The relative dependence of industry on bituminous coal as a source of power has been considerably reduced since World War I. Because of greater efficiency in utilization, consumption has declined sharply. This factor has contributed importantly to the secular loss in tonnage, although it has strengthened the competitive position of coal in existing markets.

In addition, the development of substitute fuels possessing either price, efficiency, or convenience advantages has resulted in a substantial permanent loss of markets. This is evidenced by the fact that, while coal (principally bituminous) supplied 80% of the country's energy requirements in 1916-20, the proportion was only 49% in 1940. In the same period, the proportion supplied by oil almost tripled, to 30% in 1940. War factors have temporarily reversed this trend.

One advantage held by soft coal over competing fuels is the fact that known reserves are ample for around a thousand years at the present rate of consumption, assuming a wastage factor of 35%. Known reserves of oil, natural gas and anthracite, on the other hand, are adequate for only about 14, 32 and 160 years respectively, although total reserves are doubtless much larger.

Inroads of Other Fuels

Petroleum, the principal competitor, has made its inroads both directly through the substitution of fuel oil for coal in the generation of power and heat, and indirectly through the replacement of coal-burning transportation equipment by trucks and diesel engines. In the encroachment of oil on coal markets, the price factor has been the prime determinant. In this connection, the importance of geographical location must be emphasized, because of its effect on actual delivered costs.

The position of soft coal has been substantially strengthened during the war by expanded fuel requirements and oil shortages, the latter as reflected in widespread conversion of oil burning equipment to coal. Renewed pressure from this competing fuel will be witnessed in the post-war period, particularly for domestic heating, which is in a secular uptrend. Nevertheless, part of the wartime gains should be retained, in view of the possible rise in oil prices and limited supplies of fuel oil resulting from concentration of oil producers on the more profitable gasoline. Evidence of this is seen in the trend toward the installation of equipment capable of burning either oil or coal as the price and supply situation dictate.

While a less important competitor of coal than petroleum, natural gas has made notable progress since the early 1920s, although installation costs are somewhat higher, and natural gas, on average, costs more than coal. However, the average price of natural gas declined between 1932 and 1944, while that of other fuels has increased. In addition, natural gas has a high heat delivery efficiency and is easier to handle. The war has tremendously stimulated the development of this industry, particularly its industrial load, which accounted for over half of total natural gas volume in 1943 and 1944. Substantial gains in residential sales are anticipated after the war. Territorial expansion into new markets will be encouraged by the wartime construction of new pipe lines, and further competitive gains are likely in the future.

Increasing sale of electricity has meant new records in the consumption of coal for its production, despite the growth in hydroelectric facilities. However, since the latter are fully utilized even in periods of minimum demand, their construction represents a permanent loss for coal.

Capacity

Despite the fact that a high level of operations is possible during periods of generally satisfactory industrial activity, huge reserves of soft coal have resulted in an almost constant condition of excessive capacity. The peak was reached in 1923, when 9,331 bituminous mines in this country had an estimated annual capacity of 970,000,000 tons; actual output in that year was 565,000,000 tons.

The long-term decline in capacity since 1923 reflects not only abandonment of mines but also a reduction in miners' working hours. Based on the 35-hour, five-day week in effect in 1942, estimated production of 580,000,000 tons represented virtual capacity operations. Extension of the work period to a six-day week, eight and three quarters hours daily (including travel time), has increased capacity to a level sufficient to fill estimated coal requirements for 1945 were it not for continued labor losses.

The bituminous industry is attempting to avoid the tremendous overexpansion that characterized World War I, by increasing capacity temporarily through extension of the work week and establishment of low-cost strip operations involving a small investment, rather than by sinking new shaft mines. However, once present abnormally high wartime demand for coal has subsided, a condition of excessive capacity will again exist, despite the reduction of working time. This factor, particularly in view of the potential increase which could be effected by bringing more mines into production in a period of high prices, constitutes a constant threat to the maintenance of a satisfactory price structure in the absence of Government regulation.

Geographical Divisions

The center of coal production shifted southward between 1913

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Wartime Operations and Peacetime Future Of the Coal Industry

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and 1928, with mines in southern West Virginia and eastern Kentucky gaining tonnage at the expense of those in Pennsylvania, Ohio and Illinois. This shift reflected the lower cost and superior quality of southern coal as well as more favorable through freight rates.

Although the trend has continued in subsequent years, unionization of virtually the entire industry, together wth loss of half of the wage differential in 1933 and the rest in 1941, has resulted in a progressive slackening in the rate of shift. With the southern mines already highly mechanized, little more can be done to raise efficiency to offset the loss of the wage differential and, under normal conditions, this will probably tend to check relative expansion in this section of the industry.

Federal Regulation

The wasteful competition in the industry has led to repeated attempts to regulate bituminous coal production and sale. Two such efforts failed when the NRA and the first Guffey Coal Control Act were invalidated by the Supreme Court.

In 1937, however, the Guffey-Vinson Act was passed; it was extended for two years in 1941. This measure empowered the Bituminous Coal Division of the Department of the Interior to establish and maintain coal prices and minimum wage rates. To cover the cost of regulation, a tax of one cent a ton was levied on all producers.

Dividing the country into 23 producing districts and 10 price areas, regulatory authorities determined minimum prices at the mine on the basis of average weighted costs for producing coal in each area; minimum prices were set in October, 1940, and the first upward revision was made late in 1942.

To permit individual producers to maintain their markets, certain adjustments for transportation costs were provided, and, in addition, a Consumers' Counsel was set up to protect consumers against unduly sharp price advances. Any change in operating costs exceeding 2 cents a ton called for reconsideration of minimum coal prices previously set.

The act finally expired on August 23, 1943, after two short extensions. The administrative functions of the Bituminous Coal Division pertinent to the war effort have since been taken over jointly by the Solid Fuels Administration and the OPA.

Since prices during the present period of abnormally high demand generally are at maximum rather than minimum levels, the need for an act of this type is not immediate. However, a period of severe competition is likely after the war, and the absence of minimum price controls might well result in a repetition of the chaotic conditions that harassed the industry following the last war. In view of these possibilities, several bills embodying the essential features of the original act and of the substitute bill which gained the late President Roosevelt's approval but died in Committee during the last Congress, have been introduced during the current session. Passage over the near term, however, appears doubtful.

High Labor Cost

Mine labor accounts for over 60% of the production cost of bituminous coal. Thus, the rise in labor costs in line with growing unionization has had a marked effect on total costs.

Increases in basic wage rates totaling $2.40 and $2.80 a day, depending on location, were received between 1934 and 1941. In addition, the work week was reduced to 5 days in October, 1933, and the work day to 7 hours in April, 1934. These modifications resulted in a daily basic wage rate of $7, which prevailed at the expiration of the union contract in April, 1943.

With the November, 1943, Ickes-Lewis agreement covering Government operation of the mines, payment for travel time was recognized. Supplemental wage agreements, while retaining the basic hourly wage for production time, also provided for payment for travel time at a rate of 66⅔ cents an hour. With average output per worker employed in the mines approximating 5½ tons per day, the per ton labor cost in February, 1945, based on average daily earnings received during the month, totaled $1.65. Overtime payments for all time spent underground beyond 7 hours daily and 35 hours weekly, together with other fringe increases provided in the 1945 wage agreement, are expected to raise this figure.

Transportation Costs

Because of its bulk, the cost of transporting coal from mine to market is the most important element in its price to consumers. Moreover, since bituminous coal is the most important single item hauled by railroads and supplied almost 13% of their freight revenues in 1943, no major change in rates can be made without vitally affecting the railroad industry. One constructive development in 1943 was the action of the ICC rescinding the rate increases of between three and six cents a ton granted raidroads early in 1942.

Prices

Although seasonal variations in demand, labor disturbances, and the availability of railroad cars for transportation affect soft coal prices, the major price determinant is the level of business activity. The rise in labor costs since late 1934 has prevented any important price reductions, such as occurred in the natural gas industry. Moreover, the establishment of minimum prices in October, 1940, carried the average wholesale price to the highest level since February, 1937. Prices have since exceeded their favorable 1923 level, because of advances granted by OPA to offset higher labor costs under the new miners' contract.

The industry is now operating close to the maximum prices set by the OPA and this should be true as long as extraordinary demand continues. However, over a long period, maintenance of prices at levels which afford adequate profit margins for most producers will probably be possible only if Federal price controls are restored and successfully maintained, or alternative fuels come under Government regulation.

Aside from the industry's labor-relations problems coal must cope with other major difficulties in the opinion of Sawards, leading trade journal.

Just about the strongest statement on the importance of coal was made recently by Solid Fuels Administrator Ickes when he said in substance that it was "either coal or anarchy" in Europe. The widespread quoting of this statement, both in the press and on the radio, has tended to focus public attention on the essential part coal plays.

In the last few years the growing use of stories about coal as a source of chemicals and products needed for the manufacture of a multitude of items has shown how much depends upon coal. Senator Wiley of Wisconsin recently stated that, as of 1944, we have exhausted commercial reserves of 95% of our mercury; over 80% of our lead; over 70% of our chromium, tungsten and zinc; 60% of our copper and petroleum, and over 30% of our iron ore. At the annual rate of use for the period 1935-39 tungsten will be exhausted in four years; vanadium in seven years; lead in 12 years; petroleum in 18 years; zinc in 19 years and copper in 34 years. This country is fortunate to have sufficient reserves of bituminous coal to last, at the present rate of production, for about 3,000 years.

Meager Profits

Yet the profits of this industry, so vital to our daily life, are very meager. A few weeks ago at a Congressional hearing it was shown that the profits for the whole vast bituminous industry, before deduction of taxes, was a mere $65,000,000, a figure which was equalled or exceeded by each one of a number of large corporations. The profits for one such concern were over $470,500,000. At the same time it was revealed that at present 40% of the coal of one district is produced at a loss and, out of 225 mines operating thusly, 120 showed losses of over 15 cents per ton. In the same district there were 119 mines with profits, before taxes, of more than 15 cents a ton. However, the profits of one group are certainly no help to their more unfortunate colleagues. Spread over the 620,000,000-ton production of last last year a profit of $65,000,000 averages less than ten and a half cents per ton before taxes are paid. It is very clear that an increase in prices should be authorized to keep operations that are losing money to the minimum.

The comparisons between the profits of the coal industry and single large corporations, as presented to the Congressional committee, clearly showed that coal mining is not a prosperous business. At the same time it was a self-indictment. Prices in effect when OPA came into existence were largely the basis for the limits set. Consequently, for coal to be caught with prices allowing for only small profits, or not enough to cover expenses, is the result of what the industry was charging when there was no Federal control of ceilings.

While the profits for the industry as a whole have been very small for many years it does not mean that is the way all engaged in the business want it run. Rather it denotes there are enough in the trade who fell back upon cut prices, even if they were below cost, as a means of selling coal when there were no Government controls.

Vital and Huge

In addition to the fact that coal mining is a vital industry it is also huge. Moreover, it is really the sum of a number of parts, many of which do not compete with one another. The overall competition comes about through the reflected action of adjoining fields or regions competing for certain tonnage. Consequently, if all individuals controlling sales policies in each field or region would settle down and realize that in internal competition as well as that with adjoining fields a cut in price does not induce a consumer to buy more tonnage than he can use, a better situation on prices would prevail throughout the industry when Government controls are relaxed.

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Wartime Operations and Peacetime Future of the Coal Industry

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Profits in other industries are on a higher basis, so there is no reason why coal should not improve its position. There would be little difference in the price of a pair of shoes or even a locomotive if the coal consumed in manufacturing these items was sold at a price which allowed the same rate of profit enjoyed by the buyer of the coal. Some might say that would be all right for small consumers but not for large buyers. The annual report for 1944 of a prominent utility does not sustain that argument. After taxes, a net income of $30,374,720 is shown on a total operating revenue of $288,158,280.

Labor has been well treated as far as their rate of compensation is concerned. In fact some take more time off now as they secure the money they want with less work. The funds that make it possible for the miners to have a place where they may go to work for the higher wages are also entitled to a fair rate of compensation.

Admittedly the post-war days will be competitive and coal will want to be prepared for them. Capital, men and management, however, go where attractive opportunities are offered. The margin of profit on coal should be improved.

Coal Trade Conditions in England

Before the war British Coal mines were producing about 228,000,000 tons a year, of which 50,000,000 tons were exported as cargo and as bunkers on foreign-going ships. Up to the time that France was overwhelmed in 1940, production was well maintained and as export trade had, to some extent, been crippled by the occupation of Scandinavian countries and hostilities elsewhere, there was more than sufficient to meet all demands. In fact, just before the middle of 1940 the mines in Britain had been producing as much as 5,000,000 tons per week. If that production had been available in the past year, there would have been no talk of a shortage.

The outstanding event in 1944 was the liberation of the Continent of Europe which threw open the markets to a revival of export coal trade, if such revival had been possible. But it was not possible for two reasons: Britain, whose production had been depleted by the loss of man-power in the coal-fields, did not have enough to supply all that the home market needed and have available at the same time a reasonable export surplus, and secondly, financial considerations and the fact that the military authorities were in control on the Continent prevented a resumption of normal commercial relations.

Britain had previously, in conjunction with the United States, agreed to a wartime division of export trade, the United States taking over the Mediterranean and further afield markets so that British coal might be released to cope with emergency demands from the Continent and other parts of Western Europe.

Roughly, production in 1944 was 190,000,000 tons of deep-mined coal and 10,000,000 tons of open cast or surface coal. As pre-war home consumption was about 180,000,000 tons and open cast coal has an efficiency roughly of 75% of deep-minded grades, it will be apparent that the mines have continued to produce mainly for home consumption. The production position is such that expansion of export trade must continue to be difficult until such time as supplies greatly increase. In the eight months before the war Britain exported goods of all kinds valued at £38,000,000. Coal amounted for £25,400,000 of those millions which shows how vital it is to regain oversea trade. In weight, coal represented three-fourths of export trade.

Like in the United States the present position of the coal industry in Great Britain is causing much concern. National output is at the rate of 185,000,000 tons of deep-mined and exports are about 6,000,000 tons a year as against an average of 54,000,000 tons in 1934-38. Production will have to be increased very considerably before any hope can be entertained of a revival of export markets.

Two big problems face the British coal industry today. There is that of bridging the gap—almost 50,000,000 tons—between present and pre-war production, and bringing prices to a level that will enable export markets to be recovered. The miners' wages are guaranteed until 1949 so that any wage cost economy can only be secured by a better yield per man, largely as a result of increased mechanization, or a cut in costs other than wages by other means. There is concern among shippers at the post-war competitive position. The new Labor Government's policies have become so mixed up with the future of the industry that it is unlikely that there will be any tampering with wages for some years.

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Expanding Post-War Investments

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standard of living or material betterment?

Will Risk Taking be Stifled?

The answer to these questions will depend on the political philosophy that we shall follow. If "statism" and bureaucratic paternalism prevails, as is threatened in England and other leading European countries, it will merely mean that the old spirit of individual enterprise, which has made the nation the richest and the most democratic in the world, will die. America will not only have "become of age" but it will become effete and senile.

As conditions now stand, there should be after the War a broadening of the field of pecuniary investment. Wealth is more widely distributed among the general population than ever before. Private savings have never reached the high level of the present time. The "common man" is no longer the "poor man". He is not only endowed with more intelligence, more skill and more eagerness to "get up in the world" than ever before, but he wants opportunities to place his savings in profit-making enterprises. In other words, he wants to be a capitalist as well as a worker. There is no better way of breaking down the alleged class distinction between the wage earner and other classes of society than that of giving the wage earner and small professional groups the opportunity to seek to participate in the profits of business and other similar income producing undertakings. This is a form of profit sharing under the capitalistic system. But profit sharing should imply risk taking and possible losses as well as gains.

Role of Security Trader

In this movement, the security trader and security dealer should play an important role. It is his primary function to direct the flow of capital into profitable channels. He, in this respect, may perform two duties. If he acts as an intermediary in the distribution of the ownership of gainful enterprises, he performs the service of a merchant. But if he also acts as an advisor and counselor he may have professional standing, but he cannot be held responsible for the acts of his clients. He should be educated for his task, whether he acts in the capacity of a mere merchant, as a broker or as an investment advisor. But his responsibilities in any of these capacities should not be extended to the point where he should relieve his client of the exercise of his own intelligence and acumen, and certainly should not place his customer in the position of being a "non compos mentis". It is a rule of merchandizing that the customer is allowed to make his own choice. Accordingly the security dealer should not be saddled with the responsibilities of a trustee or guardian in his relations with his customers, neither should he be required to assume the function of an investment advisor.

Effect of Low Interest Rates

There will undoubtedly be a demand for broader opportunities for the investment of funds after the war. The present and prospective low interest rates on existing medium and high grade securities is not very encouraging to one who looks to material betterment from his savings and an opportunity to provide for income in old age or because of possible reduced earning capacity or as a means of retirement.

Any one of moderate means can no longer look to the income or increase in value of his investment holdings as a lucrative "nest egg" to accumulate to the extent of assuring both a better living standard and as a pension when earning capacity is reduced or ceases altogether. An old age pension on a subsistence basis is a poor consolation for an ambitious person who seeks throughout his whole career to enjoy the better things of life.

If we look back to the conditions following the last war on the basis of what happened then, we may surmise that there will be developed new forms of speculative investments. One has only to recall the wide popularity of investment trusts, newly introduced in the American securities market after the last war, as well as to oil royalties, guaranteed mortgage participation certificates, and other similar contrived investment instruments as an example. Some new forms may again come up to attract the populace, though what they may be cannot now be foretold definitely.

Will the Investment Trust Mania Revive?

Let us take, as an example as well as a warning, the investment trust mania of the boom days of the Twenties. Investment trusts were introduced on a large scale at the height of the stock market boom. They soon became popular as an instrument of speculation, though many people purchased them for outright, and what was then believed to be, sound investment. The "shares" of these concerns mostly in small denominations were marketed by salesmen much like peanuts at a circus. They became a veritable "Wall Street hash" served every day, everywhere. Almost every community had its own local investment trusts, fostered and promoted by local financiers and promoters. Although they did not become important until about 1925, according to the late Frank A. Vanderlip, "in six years some 600 investment trusts were organized in the United States, and their aggregate assets involved $5,000,000,000. The first six months of 1929 alone saw $2,400,000,000 worth of investment trust securities offered." The fever was intensified by several New York Stock Exchange concerns, and, because of the questionable character of a few of these, the Exchange as early as 1924 adopted a resolution stating "that participation by a member in the formation or management of an investment trust corporation or similar organization which involves features that do not protect the interests of the investors therein may be held to be an act detrimental to the interests of the Exchange."

Yet with all the unpleasantness relating to the late investment trust mania, their existence was not unwarranted by the conditions of the time and they have persisted and are likely to continue and expand as an instrument for the placement of funds.

It should be noted that the legitimate investment trust is a relatively old and well established investment institution, and has served a useful purpose. It originated on the European continent after the Napoleonic Wars, but received its greatest development in Scotland, when it was introduced as a means of scattering the risk of carrying investments in foreign countries. It was, therefore, an instrument of diversification for the small investor. An individual purchasing the obligations or the shares of an investment trust acquired a beneficial interest in a variety of securities. The selection, of course, was made by skilled bankers or financiers, who fathered the project, frequently as a means of thrift encouragement. The individual investor, therefore, could, through the investment trust, avoid the risk of losing all or a very large part of his capital as might occur, if he acquired outright the obligations or shares of a few concerns. The Scottish and British investment trusts were designed, in most cases, as institutions to promote savings and thrift among people of moderate means by affording them a convenient channel of diversifying investment hazards. If the same motive had prevailed here after the last war, there would not have occurred the scandals that were connected with so many of them.

What of Real Estate Investment?

In addition to the expansion of well regulated investment trusts, one may also look for a renewal or expansion of real estate investment under new procedures. This also might be safely accomplished on a large scale, without unsound practices and ruinous results, if carefully managed and supervised under proper restrictions, and under a policy of diversification of commitments. The evils of real estate mortgage investment after the last war need not occur again, and although there is a serious risk in all real estate ventures (as in all business), a sound diversification with proper judgment and guidance as to values will serve as a safeguard against speculation excesses. It should not be forgotten that real estate investments have been and will continue to be the mainstay of investment institutions for centuries.

Foreign Investments

Foreign investments, despite the unfavorable experience in this field in the period of the last war, may be expected again to find a market among American investors. Theoretically, if we are to remain a creditor nation, there is no escape from it. But this field of investment, as shown by British experience, requires the utmost skill and business acumen, and should not be conducted by those who are not equipped to enter upon it or who have not proper guidance. After the last war, many of the foreign loans which were floated in the United States should not have been distributed to the public as investments, but instead should have been carried by capitalists or institutions who were capable of bearing the risks involved. They were not meant for widows and orphans. As stated by Dr. Amos E. Taylor, the Director of the U. S. Bureau of Foreign and Domestic Commerce in a pamphlet issued by the Monetary Standards Inquiry last year:

"It should not be assumed that after the war, the experience in American foreign investment of the Twenties will be repeated.

(Continued on page 1141)

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Expanding Post-War Investments

(Continued from page 1140)
Under conditions short of sustained world prosperity and strongly established political order and world wide monetary stability it is possibly safe to expect that equity investments will provide the primary medium for international investment. So called "direct" investments imply the usual risks and do not exert the pressure on the exchanges under the unfavorable conditions as do obligations calling by contract for specific annual payments in currency to the creditor."

Education Needed

Perhaps the greatest aid to future investment expansion will be adequate and efficient education in the principles of private finance and investment. Like a trained soldier under proper instruction and guidance, American investors should have full knowledge of the conditions they may have to face when they make their investments. They should be made acquainted with the risks involved and the conditions essential for sound and profitable business operations. The prime motive of all private business undertakings is profit. The elements making for profits and the conditions that may cause losses should be made plain to all who invest their funds for income purposes. All this requires not only intelligence but knowledge and instruction. Those engaged in the business of placing investments among the people have the responsibility not only of possessing these qualifications themselves, but of imparting to those with whom they deal these same qualifications.

The desirability of more education and skill in the securities business has been strongly voiced by the Education Committee of the Investment Bankers Association. This committee made last year two distinct recommendations. The first was that the Association engage the services of a well qualified educational director, who would give full time to the development and administration of training courses to be conducted in various financial centers. The second recommendation was the publication and wide distribution of a booklet which would emphasize the purposes of investment banking. This object could serve two purposes. It would furnish young men with the opportunities in the investment business, and at the same time furnish the public with the knowledge regarding investments which will eventually lead to a more stable and expanding investment market.

Security Traders Association of Los Angeles

Clifford L. Hey

Nicholas P. Kirwan

A. S. McOmber

John C. Hecht

W. J. Zimmerman

President: Clifford L. Hey, *Nelson Douglass & Co.; Vice-President:* Nicholas P. Kirwan, *Dean Witter & Co.; Secretary:* Jos. F. Gallegos, *Pacific Co. of California; Treasurer:* A. S. McOmber, *Revel Miller & Co.; National Committeemen:* John C. Hecht, *Butler-Huff & Co.;* William J. Zimmerman, *Bingham, Walter & Hurry.* Clifford E. Poindexter, *Turner-Poindexter & Co.;* Harry Cottingham, *Dean Witter & Co.;* Leo B. Babich, *Hill, Richards & Co.*

Rail Revenues to Decline

(Continued from page 1080)
for many years to come. Despite governmental policies over the past 20 years that have tended toward the destruction of efficient railroading, the United States found itself at the start of the war with the most efficient railroad system in the world. Results produced by the railroads under private management are, indeed, remarkable. Hitler made a fatal mistake of building super-roadways to displace railways in great extent. Thus he was not able to move his war machine into Russia fast enough to disorganize the enemy. Apparently the course of the war turned on efficient handling of American transportation and inefficient handling of Axis traffic. This is a lesson that should be long remembered by the American public and its Governments.

Future of Securities

Regarding the future of railroad securities, it would be wise for investors to assume that the days of widespread bankruptcies of railroad systems are over. The worst that should reasonably be anticipated is the possibility of "voluntary" capital adjustments in a few cases. In fact, nearly all of the railroads have a great degree of give in the matter of bond interest. Fixed charges of the reorganized systems have been cut down drastically and most of the companies have used war-time earnings to reduce charges by 20% and more. The carriers are now well-fortified with cash resources and could stand a considerable period of deficit operations. Past problems of bond maturities in most cases have been relegated to the distant future. Moreover, it seems likely that the Government will stay in the banking business through its Reconstruction Finance Corporation.

The purpose of this writing, consequently, is to point out the possibility of a drop in railway operating revenue, and the temporary upsetting of the earnings levels of many railroads. In presenting these views, we would guess that the initial shock may be the greatest. The matter should be adjusted before too long; but we know that there is always a tendency among investors to over-discount a given situation and to believe that any prevailing condition is likely to prove permanent. Therefore, we would warn against the throwing over of good railroad securities based on thoughts that the railroads have seen their day.

Also we know that there are many views that are contrary to the views expressed in this writing—and they may be right and the views herein may be wrong.

Municipal Bond Committee Report

(Continued from page 1083)
time than to remove the possibility of bureaucratic control over the issuance of and trading in municipal securities. That same conviction is held by members of the Municipal Committee of the Investment Bankers Association of America, with whom your committee has worked closely, the Municipal Bond Club of New York, several municipal organizations and a number of municipal officers. All have been working together closely, and efforts will be redoubled towards bringing the Boren Bill out of committee when Congress convenes in Oct. or sooner.

Your Committee's work has been specifically to obtain endorsements and support for the Boren Bill throughout the country. Members and representatives have contacted state legislatures, city councils, county boards and organizations of municipal officers. Of the 49 endorsements officially listed in the hearings on the Bill your Committee can justly claim credit for having been instrumental in obtaining some 43. In addition to those officially listed uncounted numbers of endorsements have been obtained and forwarded to members of Congress. A great many letters to members of Congress have been written after the meaning of the Boren Bill was explained to citizens. Officially listed endorsements came from the following states:

Arkansas 1; California 4; Florida 7; Illinois 2; Kentucky 2; Louisiana 3; Michigan 1; Missouri 2; New Jersey 1; New York 6; North Carolina 1; Ohio 7; Pennsylvania 6; Texas 2; Miscellaneous 4.

These endorsements refer only to those officially reported in the hearings. Others have been added since, some recently having come in from Oregon and it is indeed a dull week when our valued Vice-Chairman, Buck Alleman does not obtain an endorsement down in his good State of Florida. Obviously there are large territories which have not officially endorsed the Bill, or if official endorsements have been made they have not come to the attention of this Committee. Alabama and Georgia and Tennessee are missing. So are Massachusetts, Connecticut, Rhode Island and New Hampshire. Indiana, Iowa, Kansas and Nebraska are prominent in their absence. Having cool mountain breezes does not seem to answer for Colorado and Washington. Virginia came through by having two of its prominent officials attend the hearing. We urge all of you to double and redouble your efforts on this very important work.

All of us have been interested in seeing the Association gain recognition in the security field. Being the youngest of the national organizations recognition did not come so fast. It was especially slow in coming to the municipal branch of our Association. However, through the work of Russell Dotts on the Port of New York Authority tax case, the work done by our Chairman of last year, and the valuable assistance of his Committee members and representatives, recognition has come. When the Securities and Exchange Commission invited groups to send representatives to the conference held in Philadelphia in July of this year, the invitation went to our President, Mr. Parsons, at the same time that it went to other organizations. Mr. Parsons, Mr. Graham Mr. Pizzini and your Chairman represented our Association. Mr. Dotts and Mr. Al Tryder represented the Philadelphia affiliate of our Association. As stated previously, members of your Committee have kept in touch with and worked closely with representatives of the Investment Bankers Association of America.

Due to the fact that we occasionally have a hot day or two in Louisiana at this time of the year flowers for bouquets were not available. Had they been we would have brought along several. One would have been presented to Tom Graham for the hard and valuable work that he did as Chairman of this Committee for eighteen months and for the guidance which he has given us during the past six months. He has been the wheel horse that the rest of us have been honored to pull with. The second bouquet would have gone to F. Monroe "Buck" Alleman. If the rest of us had gotten just one-half of the results which he has the Boren Bill would have been part of our law long before this. The third would have gone to our good and tried friend from the Queen City of the Ohio, Senator Stanley McKie. The record of interest shown in Ohio speaks for the Senator far better than our words could. Boutonnieres are due to many including Al Tryder, Walter Mason, Jerry Glas and Don Van Boskirk.

It has been a real pleasure to have worked with the members and representatives, with our President, with our very fine Secretary and others of our organization. The cooperation has been splendid in most instances. There is still a lot of work that must be done before it can be reported that our one big battle has been won. Let us all strive to make it possible for the report at our next annual meeting to read "The Boren Bill has been passed. Show us municipal boys something to work on that will further help the corporate business."

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Greetings From NSTA Officials Past and Present

(Continued from page 1069)

HENRY J. ARNOLD

Aggressive in spirit and performance since organization The National Security Traders Association stands on the threshold of a

Henry J. Arnold

new era. There can be no question about the fact that we will continue to be a factor for good in the coming years. Congratulations and thanks to the retiring officers, and every good wish to the new incumbents.

Henry J. Arnold

WILLIS M. SUMMERS

It is once again a pleasure to have the privilege of extending my greetings to the Annual Meeting of the National Security Traders Association and to congratulate Edward Parsons and his official family on their administration during the past year. I was particularly impressed with the time our President and Secretary, Ed. Welch, have given to paying visits to so many of our affiliates. In an organization, such as NSTA, where the membership extends throughout the country, personal visits by the officers and the opportunities they afford to explain the activities of fellow members in other territories, is a great asset in knitting the Association into closer national unity.

I extend best wishes to Thomas

Willis M. Summers

Graham and the incoming officers for a successful year. Tom, as one of the charter members, is thoroughly familiar with the history of NSTA and his activities have contributed to its success.

My one suggestion to the Association this year is to concentrate on the placing of war veterans in our trading fraternity. The security industry is in a greatly improved condition to what it was at the outbreak of the war and I feel it is our duty to do everything possible to obtain positions as quickly as possible for the boys who have been in service.

The war is over and the time for us to act is right now!

Willis M. Summers

JOSEPH W. SENER

Although our industry is not faced with reconversion it has been confronted with many other important problems. The National Security Traders Association has played an increasingly active part in promoting the welfare of our business. We can look forward to a continuation of the Associa-

Joseph W. Sener

tion's progress in this respect under the incoming administration.

I congratulate the retiring officers on a job well done and extend my best wishes to the incoming administration.

Joseph W. Sener

EDWARD D. JONES

I am very optimistic about the post-war possibilities for the financial industry and I am particularly impressed with the National

Edward D. Jones

Security Traders Association's fine start to provide jobs for returning traders. We all have an obligation to the veterans and I hope all phases of the financial industry will follow the pattern set by the National Security Traders Association.

The Middle West appears to be ready for all post-war business and its responsibilities.

Edward D. Jones

Lt. Col. HERBERT H. BLIZZARD (Air Corps)

Greetings to the members and guests of the NSTA! The opportunity to gather in great numbers this year is overshadowed by the

Lt. Col. H. H. Blizzard

need of transportation facilities for the great problem of redeployment. In spite of the difficulty in getting about the country our National organization has kept abreast of the ever changing rules of our profession. Through the competent officers selected last year and the capable committees they appointed we have added another milestone to the slow but sure prestige we are accumulating in National financial circles.

Lt. Col. Herbert H. Blizzard

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Direct Private Wires

Says Housing Bill Will Cost Government $6 Billions

Morton Bodfish Contends That New Housing Construction Proposed Under Measure Will Be At Expense of Taxpayers and Home Owners. Holds Bill Does Not Provide a Practical Means of Encouraging Low-Rental Housing With Private Funds.

A $6,000,000,000 Federally-controlled public housing program is what the nation is being offered in the Wagner-Ellender bill despite the claim of its proponents and the statement in Section 2 (a) of the proposed measure that it encourages private enterprise as the national housing policy.

Morton Bodfish

This is the conclusion reached by Morton Bodfish, Chicago, Executive Vice-President of the United States Savings and Loan League. He says that a thorough study of the proposals in S. 1342 reveals that it would commit the country to subsidized Federal housing to an unprecedented extent and at an unprecedented cost to the public, and that it contains no provisions worth speaking of for any encouragement of home ownership or of private enterprise in home building.

Besides authorizing billions in contributions from the Federal treasury to public housing, without any contemplation of repayment of these funds, the measure involves tax exemptions which would shift the burden of taxation on this $6,000,000,000 of publicly owned rental property to the people who own their own homes and to other property owners in the city, he explained.

The $6,000,000,000 in contributions are authorized in three different sections of the measure, he points out:

1. For the redevelopment of city lands cleared of slums, $900,000,000.

For the above purpose, Section 306 (d) permits contracts to be entered into by the National Housing Administrator the first year for the payment of $4,000,000 annually for 45 years; for other contracts to be entered into the second year for an additional $4,000,000 annually for the next 45 years, and so on up until the fifth year in the lifetime of the project, by which time it will be possible for the Administrator to have contracted, in behalf of the Federal Government, for $20,000,000 in contributions every year for the next 45 years.

2. For subsidized urban public housing projects, $3,960,000,000.

For this purpose, Section 506 (a) authorizes the United States Housing Authority the first year to enter into contracts for annual contributions of $22,000,000 for the next 45 years, and the second year to enter into additional contracts for annual contributions of another $22,000,000 for a period of 45 years, and so on for four years, until $88,000,000 in contributions every year for a 45-year period have been contracted for.

3. For subsidized housing for families of low income in rural areas, $1,125,000,000.

For this purpose, Section 206 (d) authorizes the United States Housing Authority the first year to enter into contracts for annual contributions of $5,000,000 for 45 years; the second year to enter into contracts for annual contributions of an additional $5,000,000 for 45 years, and so on for five years until it will be possible for contracts to be in force, calling for $25,000,000 in contributions every year for 45 years.

In addition to this $5,985,000,000 which the measure would permit to be taken out of the Federal treasury over a period of 45 years, without any repayment expectations, there is a provision in the Title dealing with slum clearance and redevelopment for a fourth type of Federal expenditure in connection with public housing, he points out.

4. For loans to local public agencies for redevelopment, $250,000,000.

For this purpose, Section 305 (b) provides that the National Housing Administrator may have outstanding $50,000,000 of obligations at the end of the first year of operations, an additional $50,000,000 at the end of the second year, and so on through five years, with the ceiling on obligations outstanding raised by $50,000,000 each of those years, to a total of $250,000,000.

Mr. Bodfish said that the savings and loan business in its studies of the question has not hesitated to recommend local, state and Federal expenditures for slum clearance and for aid in converting slum-cleared areas into parks or into other appropriate public uses but principally for private development and ownership. The savings and loan business has also advocated temporary financial assistance for the lowest income groups as long as they are unable to pay for minimum standard housing accommodations.

"The present proposal in the section listing American housing objectives, includes 'encouragement of home ownership, immediately where feasible and as a long-range objective,' but it is impossible to find anything in the bill which deals with home ownership," Mr. Bodfish says. "Apparently the families who will occupy these subsidized public housing units will pay only about 10% of the taxes other people pay, and will not pay anything for the cost of the house itself, because their rent payments are designed to cover cost of only the management of the building, service and utilities."

As to the sections of the Wagner-Ellender Bill which make some gesture toward private enterprise, Mr. Bodfish says that the elaborate Title IV, providing a new scheme for investment of private funds in rental housing, called "yield insurance," has few aspects of practicality, at best would be used only by a handful of large insurance companies, but does not promise any outflow of private funds into low cost rental housing which would be even a drop in the bucket to the $6,000,000,000 public housing gift proposed.

"Aside from the regulation, red tape and other expenses involved, it is hard to see why an investment institution would invest in such an unliquid investment as an apartment house and have the trouble of the management of it for an insured return of 2¾% from which must be deducted an insurance premium of one-half of 1%, giving a net return of 2¼%," he declares.

"While Title III of the proposed measure would make building sites in the city cleared of slums

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available for private redevelopment, it does so under conditions which would appear to be impossible for private redevelopment function," he says. "There is nowhere in the title any direction that the redevelopment project shall be built and financed by private enterprise."

He added that under the provisions of Section 307 (3), obligations of local public agencies operating under this slum clearance title are free from Federal taxation, whereas there is no provision exempting from such taxes the credit necessary for private building and ownership.

As to the research and local market analysis program proposed to be set up to aid private enterprise housing, this work is already being carried on partly by other departments of the Government, and partly by organizations of private industry.

There is no aid for private enterprise in the proposed continuation of the overall National Housing Agency, he points out. Without exception the spokesmen for private enterprise in the Taft Committee hearings on postwar housing policy testified against the continuation of this temporary wartime consolidation, he recalls.

"The language of the measure making the National Housing Agency permanent would create a new and powerful major agency committed to the furtherance of public housing through one of its constituent units, and at the same time able to control and interfere with mortgage credit and home building in the private enterprise housing industry to an extent much more likely to hinder than encourage this activity," he adds.

"A further slanting of the bill strictly in the direction of public housing is the provision authorizing the sale of any portion of the $1,800,000,000 of defense and war housing built under the Lanham Act to local public housing authorities. The Lanham Act, as it now stands, specifically provides that such properties have to be sold to private parties promptly after the war, and specifically excludes transfer to public housing authorities."

New York Quota in Victory Loan Drive

Incident to the Treasury Department's Victory Loan drive for a goal of $11,000,000,000. Frederick W. Gehle, Chairman of the New York State Victory Loan Committee said on Aug. 27 that New York would be asked to raise about $3,500,000,000 or 30% of the nation's total. After a meeting Wednesday, Aug. 22 with a group of men and women who have participated with him in previous drives. Mr. Gehle announced that William E. Cotter of the Union Carbide & Carbon Co. will be Chairman of the Greater New York City Victory Loan Committee; Gale Johnson, 3rd Vice-President of the Metropolitan Life Insurance Co. will be Chairman of the New York County Victory Loan Committee and Seton Porter, President of National Distillers, will be director of the Commerce & Industry Division; Candler Cobb will head the downstate group and Edward H. Letchworth will direct the activities upstate with headquarters at Buffalo. A special committee will be organized to further the sale in New York of the new $200 E bond which will bear the picture of Franklin D. Roosevelt. Indications are that other states will take similar steps.

For individuals the national quota will be $4 billion; corporations, savings banks, life insurance companies, etc., will be assigned a quota of $7 billion. The E bond quota will be $2 billion.

The so-called "baskets" of securities to be offered will be:

Series E, F and G Savings Bonds.

Series C Savings Notes.

2½% Treasury Bonds of 1967-72, maturing December 15, 1972.

2¼% Treasury Bonds of 1959-62, maturing December 15, 1962.

⅞% Certificates of Indebtedness maturing December 1, 1946.

The drive will open for individual subscriptions Monday, October 29th and extend through Saturday, December 8th. The corporate sales will open on Monday, December 3rd and extend through that week to the close of business, December 8th. The accounting period for Savings Bonds and C Notes will cover the two months' period from October 29th through December 31st. The marketable securities will be dated November 15th, except the certificates which will be dated December 3rd.

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(Continued from page 1072)

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