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# The COMMERCIAL and FINANCIAL CHRONICLE

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## The Obstacles To Reconversion

**President Lewis H. Brown of Johns-Manville Cites His Problems as Typical of the Experience of Manufacturers Who Supply Durable Goods Industries. States That Shortsighted Policies of Government and Labor May Prevent Capital Investment Needed for Production Facilities. Contends That Unemployment Compensation Should Be Used Only for Relief and Should Not Be Allowed to Block Reconversion. Uncertainties as to Costs Seen as Grave Danger to the Construction Industry.**

Lewis H. Brown, President of Johns-Manville Corporation, in explanation of what is retarding conversion, has recently cited some facts about his company as typical of the experience of manufacturers who supply durable goods industries. These expressions were made at the Johns-Manville plant at Waukegan, Ill., to newspaper representatives touring America under the auspices of the National As-

Lewis H. Brown

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## Must We Have Post-War Inflation?

By ALVIN H. HANSEN
Littauer Professor of Political Economy, Harvard University

**Dr. Hansen Bases His Belief That We Are Not Headed for Inflation on (1) Taxes Are at a High Level; (2) Public Savings Are Large; (3) Output of Consumers' Goods Has Been Increased; and (4) Price Controls and Rationing Have Been Effective. Holds That Barring a Severe Depression, Savings Will Be Maintained and War Bond Purchases Continued. Sees No Danger of a Capital Spending "Spree" as After Last War, and No Unloading of Bonds on Banks. Denies That High Interest Rates Curb Inflation or Speculation, and Maintains That Tougher Methods, Such as High Taxes and Savings, Should Be Used. Upholds the Compensatory Fiscal Policy as a Means of Business Stabilization and Concludes We Must Maintain a Policy of Wage and Price Stability.**

I do not think anyone will deny that the prevention of any substantial war-time inflation up to date in the United States, Canada and England is a remarkable achievement. It is moreover unprecedented. It never happened before. Every earlier major war ushered in a price upheaval. Back in 1940 no one believed it could be done. But here it is.

Alvin H. Hansen

In all earlier wars we have witnessed high interest rates and price inflation. This time we have witnessed low and declining interest rates with substantial price stability.

It is not possible in this brief article to expound modern economics. The literature is however available and there is no great mystery about what has happened. I can here only make a few common sense reflections.

Why have these countries been able to achieve during the war a high degree of price stability? Broadly speaking the record is

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## Truman Wage-Price Policy

**President Explains New Policy on Wages and Prices. Holds Maintenance of "Take Home" Pay Essential to Prevent Depression and Deflation, but Insists Price Controls Be Continued to Avoid Inflation. Does Not Recommend a Percentage Wage Increase, but Issues Executive Order to Permit Higher Wage Rates: (1) When Present Wage Rate Does Not Cover Rise in Living Costs Since January, 1941; (2) When Necessary to Insure Full Production in an Industry to Accomplish Reconversion; and (3) When Made to Correct Wage Inequities Among Plants in the Same Industry or Locality. Holds Many Industries Are Profitable and Can Afford Higher Wages, but Warns Labor Not to Ask Too Much and "Kill the Goose That Lays the Golden Egg." Stabilization Director Clarifies Policy via Questions and Answers.**

President Harry S. Truman, on Oct. 30, delivered a nation-wide radio address in which he announced the Administration's policy regarding wage increases and price controls. Complete text, as reported by the Associated Press, follows:

Fellow Citizens:

On Aug. 18, 1945, four days after the surrender of Japan, I issued Executive Order 9599 which laid down the guiding policies of your Government during the transition from war to peace.

President Truman

Briefly stated these policies are:

First, to assist in the maximum production of civilian goods.

Second, as rapidly as possible to remove Government controls and restore collective bargaining and free markets.

Third, to avoid both inflation and deflation.

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## Fallacies of Transition Price Control

By JULES BACKMAN
New York University, School of Commerce, Accounts and Finance

**Asserting That the Price Control Program Must Be Revised Promptly, Dr. Backman Criticizes the Present Policy as (1) Freezing the Price Level; (2) as Assuming War-Time Price Controls Can Hold During Transition Period; (3) That Demand and Supply Can Be Equalized Under Price Control; (4) Prices Are Determined Entirely by Costs; and (5) That Prices Can Be Held Stable While Permitting Wages to Rise. Says Continued Price Control Leads to a Shortage of Finished Products.**

Jules Backman

Every wartime agency, except the OPA has shown by its actions that it realizes the war is over and that a major change has taken place in our domestic economy. The War Production Board has decontrolled itself out of business. The War Manpower Commission has modified its rigid wartime controls. Wage policy has been liberalized considerably and many increases in wage rates impend. The area of rationing has been substantially reduced and further changes are soon to take place. Only OPA goes on its wartime way, steadfast and determined. Some slight modifications in price policy have taken place since V-E Day; few significant changes have been announced since V-J Day. Instead we

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# A Picture of the Future

**Dr. Jordan, President of National Industrial Conference Board, Says Atomic Bomb Has Made Us Realize That Framework of a Familiar World Has Broken Up and That We Are Facing a New Industrial Age. Predicts That if We Have a "Slot-Machine, Push-Button Economy," the Values Put Upon Effort, Time, Thrift, Money and Property Must Change. Says We Are No Longer Living in a Money Economy, and That Labor-Management Relations Have Become a Branch of Government.**

Dr. Virgil Jordan, President of the National Industrial Conference Board, gave the opening address on Oct. 26 before the Associated Industries of Massachusetts at the Hotel Statler, Boston.

The keynote of his address was "The frame of the future," and he pictured the transformation of our industrial age into an age of chemicals and atomic energy, with radical changes developing.

Dr. Virgil Jordan

Dr. Jordan declared that we have lost our bearings and "the framework of the familiar world we know has dissolved."

"A generation ago the frame began to break up on the technological and economic side of the industrial picture," he said, "and the world emerged from the mechanical to the chemical age, and this was not fully realized till the atomic bomb burst in on our consciousness."

Continuing, Dr. Jordan said in part:

"What has happened is not merely or mainly that in the release of nuclear energy the world has found a new source of power to move machines. We did not need that, for our present sources in coal, oil and water are inexhaustible, or ample for all needs, and still cheap enough to be wastefully used, nor are we yet sure that the new sources of atomic energy are abundant, widely distributed, economical or

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# Future of the Securities Business

By LESLIE GOULD*

Financial Editor, New York "Journal American"

**Mr. Gould Points Out That Notwithstanding There Are More Securities Holders Than Trade Union Members They Do Little to Influence Legislation in Their Behalf. He Urges More Aid to Mr. Schram in Protecting the Securities Market. Calls Attention to the Fallacies of the Margin Requirements and the Capital Gains Taxes and Holds That Administration of the SEC Should Be Improved by Raising Commissioners' and Staff Salaries and Keeping Them Permanently in Office. Is "Bullish" on the Securities Business and Advocates Incorporation of Stock Exchange Member Firms.**

I have been asked to discuss the future of Wall Street securities business. The securities business, to my mind, is Wall Street, or the other way around—Wall Street is the securities business—whether the deals are done in New York, in Chicago, San Francisco or Peoria.

Leslie Gould

I have no crystal ball, but it doesn't take any clairvoyant powers to see that if this country is going to go ahead under the private enterprise system the securities business is going to expand with it.

In fact, the best assurance we have of keeping the free enterprise system—that is, business and industry privately owned and privately operated—is to have widespread public ownership of securities. And that means a free and open securities market.

The more people owning securities, the less chance there is of changing our system into some form of Communism or State Socialism. As a matter of fact, today there probably are more security holders than there are workers in industry. Around 17 to 18 millions are employed in industry. And there are at least that many holding stocks and bonds in our corporations.

Numerically they should be just as big a factor in shaping up the legislation and in electing our officials as the unions. But they aren't. And the reason is because they are not organized, and are either too lazy or they suffer from an inferiority complex—probably a little of both—and therefore do not make themselves heard.

### Organize Securities Holders

Organization is a difficult and expensive job. Too often efforts along that line are to feather the nest of the sponsor first, and then, a poor second, comes the interest of the security holder. You need better leadership than that offered by a strike suit lawyer, no matter how warm his heart supposedly beats for the poor shareholder.

But that doesn't mean something can *not* be done. And that something to stir up security holders should *not* be tried.

That's where you—the one group in the securities business that has direct contact with the investing public—can be helpful.

I wonder how many of you personally know your Congressman or your Senators.

Oh, yes, I know you write letters of protest once in a blue moon, but have you ever taken the trouble to make direct contact with your Congressman and your Senators? And where you made such contact, followed it up?

There is where you should take a tip from the unions. They make it a business not only to have representatives in Washington making almost daily contact with your Congressman and Senators. But they follow this up with calls by other union members back home, through the mails and through personal visits.

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*An address by Mr. Gould before the Association of Customers' Brokers, Governors' Room, New York Stock Exchange, Oct. 30, 1945.

# What's Ahead for Auto Industry?

By GEORGE ROMNEY*

General Manager of Automobile Manufacturers Association

**Answering the Question "When Can We Get New Cars?" Mr. Romney Blames the Government for Not Permitting Prior Reconversion Efforts and States It Is Doubtful If the WPB Quota of 241,916 Cars Can Be Reached This Year. Estimates Registered Cars Will Reach 40 Millon in 1960 and That by 1952 Foreign Markets Will Again Be on an Economic Basis. Contends Industry Cannot at Present Give 30% Wage Increase Without Raising Prices to Detriment Chiefly of Farmers, Professionals and White Collar Workers and Denies That Workers' Productivity Has Increased in Late Years. Refutes Charge That Manufacturers Aim to Destroy Unions and Says That if Producers Deal as a Unit With the Workers, It Will Lead to Monopoly With Employer-Employee Conspiracy Against the Consumer.**

We are now in the post-war period we talked so much about during the war. One of the most significant predictions about post-war conditions was made by "Boss" Kettering when he said, "there will be a lot of confusion then because people are being led to expect so much."

George Romney

About a year and one-half ago, six Swedes prominent in business and Government made a special visit to this country. They came to Detroit and visited with us as part of their trip. They were interested not only in the course of the war but in the degree of inflation that existed in our country, in the wage-price level, and in the post-war situation that was likely to exist. Mr. Wilson, President of GM, asked them about the degree of inflation in their country—how they had handled prices and wages. They said:

"We have agreements with our unions that wages will go up half as fast as the cost of living."

He said: "How did you happen to work that out?"

They replied: "We knew that we could not arm Sweden to defend itself and pay for all the extra costs of being a neutral while the world was on fire, and at the same time raise our standard of living."

He said: "Of course that was very true, but how did you persuade the workmen that it was so?"

They replied: "Oh, because they are Swedes first, and unionists second."

Fantastic expectations, considering the war's unparalleled destructiveness, and our failure to follow the Swedish pattern during the war, have brought American industry and the entire nation to a major crossroad in our country's history. No doubt I was invited to be your speaker because the automotive industry has the biggest reconversion problem and because Detroit is the national proving ground for new

*An address by Mr. Romney before the Associated Industries of Massachusetts, Boston, Oct. 25, 1945.

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# A Realistic Plan To Aid Britain

By HERBERT M. BRATTER

**Congressman Crawford of House Banking Committee Tells of His Conferences With the British Financial Delegates and Proposes That the Treasury Offer to the Public Special British Loan Bonds, Which Will Tell Public Nature and Character of the Obligation Britain Is Assuming. Says British Representative Opposed to Idea, and Will Refuse to Give Up Empire Trade References Unless U. S. Removes Tariffs and Eliminates "Most Favored Nation Clause" From Reciprocal Trade Treaties. Holds if Financial Aid Is Given Britain, China, Russia and Other Countries Will Also Demand Similar Grants.**

WASHINGTON, D. C.—Before very long there should be an announcement giving the results of the current Anglo-American conversations in Washington relative to financial assistance for Britain and understanding on commercial policies. The American negotiators are understood to have submitted a proposal which has been transmitted to the British Government for its reaction.

F. L. Crawford

Coupled with a plan for a long-term credit involving in effect certain "gift" features are the commercial conditions which the negotiators believe Congress will insist upon. Although every attempt has been made to sound out Congressional opinion, no one can be sure how Congress will react when the program is laid before it in black and white. The American negotiators are relying to a considerable extent on the judgment of Secretary of the Treasury Vinson, who for many years was a member of the House of Representatives and therefore knows how Congressmen think.

The British officials taking part in the negotiations on their part also have been very much interested to know whether the plans under discussion are likely to appeal to the Congress. They have arranged meetings with small groups of members of the Congress. One such meeting with Keynes, Halifax and others in a Washington apartment was attended by six or seven members of the House including members of the Banking and Currency and Foreign Affairs committees. In-

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# The Labor Situation

By LEWIS B. SCHWELLENBACH*

Secretary of Labor

**Secretary Schwellenbach Pleads for Return to a Free Economy. Calls for Collective Bargaining in Lieu of Compulsion, as the Democratic and Effective Means for Settling Disputes. Is Confident That if the Delegates to the Imminent National Labor-Management Conference Realize Their Responsibility, It Will Mark a Significant Milestone in the History of America.**

In our economic life, on the contrary, we abandoned many of the principles and practices of a free society in order that we might win the war quickly and with a minimum loss of human life. We regulated and controlled almost every area of economic activity.

L. B. Schwellenbach

Wages, profits, products and conditions of work were all subject to directives and decrees by the Federal Government. Management sacrificed the right to produce what it pleased and subjected itself to wartime profit levies. Labor surrendered the right to strike and permitted its wages to be controlled by formulas and directives. The consumer became accustomed to ceiling prices and the alphabetic complexities of ration books. The taxpayer learned about higher rates, pay-as-you-go, and many new tax forms. And all of us conserved paper and fats, bought billions of bonds and did all we could to achieve victory on the home front.

No reasonable person regrets these voluntary and forced contributions to victory. Civilians, in their several capacities, realize only too well that such sacrifices were indeed petty compared to the final sacrifice paid by so many American youth. And, in their thoughtful moments, they realize how insignificant were their postponements and troubles when compared with those of millions of men and women in the armed services.

But now the fighting war is over and the necessary political and economic post-war adjustments are in process. There is danger, it seems to me, that some may forget too easily that our economy has been and should be basically free. There is further danger that our armed forces, having fought for freedom, may return to a country that is not as free as it should and could be.

It is beyond my assignment to discuss the whole economic and social scene. As Secretary of Labor, I am directed by statute to promote the welfare of the wage-earner and to minimize industrial strife. I want to talk about some of the problems that we face in this area as we make the rather slow and painful transition from a controlled wartime economy to a free peacetime economy.

I want to talk to you about two

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*An address delivered Oct. 31, 1945, at the New York "Herald Tribune" Forum on Current Problems.

# Venture Capital Needs In New England

By EDWARD E. CHASE*
President, Maine Securities Company
Chairman, New England Council Special Committee on Ownership and Finance

**Stating That We Want the Industrial Structure of New England Fortified and Reinforced by Venture Capital, Mr. Chase Expresses Belief That In Recent Years There Has Been a Great Running Away From Risks. Urges Banks and Other Financial Institutions to Liberalize the Application of Their Funds and Advocates the Setting Up of Equity Capital "Pools." Says Bank Collateral Should Be Based More on Intrinsic Merit and Less on Market Activity.**

The taking of creative and constructive risks under a leadership based upon demonstrated ability and merit is the justification of free enterprise. Risk is a prime fact of life. The risks always remain. The economic system depends upon the answer to the question: Who will take them? To a man on a desert island, or even in a small town, the answer is obvious. But as society becomes more complex, we are bound to encounter a certain amount of buck-passing.

Edward E. Chase

There seems to be no reason to believe that people like risks for their own sake. Willing risk-takers require either romance or purpose, and sometimes both. The hope of money-profit alone is perhaps not enough, if there is no thrill participation. There is some romance in a horse race, but not very much in a race of competitive business, from the standpoint of a stockholder who sees only dimly the creative purpose of a remote corporation. There is romance in individuals, romance in action, but little visible romance in a general principle. And I need not prove to you that the conviction of purpose, either in economic systems or even in life itself, is not held as strongly as once it was.

Romance and a sense of creative purpose are part of an American tradition and character, and it can hardly be expected that any economic system which conceals these qualities behind a veil of complexity can command public support for long. It is, therefore, important that romance and purpose be kept in the light, so that the thrill of risk-taking may be restored to all who are expected to participate in supplying credit and capital to business enterprise.

The New England Council's Committee on Ownership and Finance adopts the method of stating a purpose or aspiration.

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*Mr. Chase's remarks in presenting the Report of the New England Council's Special Committee on Ownership and Finance to the New England Bank Management Conference, Oct. 11, 1945.

# Full Employment and the British

BY FRANK CIST

**Writer, in Contrasting the Conditions Under Which the Keynes and Beveridge "Full Employment" Schemes Are Applied in the United States and in Great Britain, Contends That Great Britain Is in a Better Situation to Depart From "Orthodoxy" in Solving the Problem Than the United States. Points Out That Inflation in Great Britain Will Have a Less Adverse Effect, Because the Pound, Unlike the Dollar, Is Not Tied to Gold. Gives Eight Reasons Why in Great Britain, a Full Employment Program Can be Conducted by Government Rather Than by Private Enterprise, and Concludes That Eventually All Nations Will Return to the Orthodox Principle That You Cannot Pay Out More Than You Take In.**

The "Full Employment" program now before Congress had its origin in England in the bold, resourceful, astute mind of J. M. Keynes whose proposals have often proven more defensible in practice than by his logic. In the precise shaping of the plan, the British plan at least, we owe more to W. H. Beveridge, a man of different stamp, more visionary, more utopian, almost a highly educated British Dr. Townsend. Sir William, one fears, although he calls his book "Full Employment in a Free Society," does not take freedom very seriously. It is something slightly vestigial, faintly anachronistic, to be let out on good behavior and popped back in the cage at the first sign of nonsense, on a short chain, like an organ-grinder's monkey.

Frank Cist

Entirely aside from origin, however, there seem sound reasons for serious consideration of such a plan by the British and, as these reasons are either entirely invalid here or should have relatively little weight they may deserve our study whether for the adoption or the administration of the plan. In spite of some overlapping they can be considered under eight convenient heads which will now be enumerated.

**Background of British Schemes**

1. The British have been so hard hit by the war that they dare not risk much unemployment. 2. Although the plan is inflationary in either country the British, because their pound is untied from gold, would suffer less than we as to their foreign trade. 3. Traditional respect for sound budget practice is still strong in England and would be likely to limit inflation in England more closely than we could expect to do here. 4. The British are more dependent than we are on foreign trade and hence have greater need to insulate their economy against the many unsound trade practices now gaining such wide prevalence. 5. Lacking control over our severe depressions and suffering greatly from them they also need to insulate their economy against them. 6. England has almost been driven to unorthodoxy whereas we have not made an honest effort to try it. 7. England has two fields for government employment both of which tempt action and neither of which is available to us. One is in rebuilding her devastated areas. 8. The other is in modernizing her antiquated industrial plant to meet the demands of modern post-war competition.

Before addressing ourselves to these items in detail we may pause to note that Britain, along with other foreign countries, would be likely to look with great benevolence upon the adoption of a "full employment" program here. Such a program, to be effective, must be inflationary, and higher prices here would help the British, encouraging their exports in competition with ours and limiting their imports from us. On this point Albert Janssen, President of the Belgian Bankers' Association, is quoted in the Commercial and Financial Chronicle of Sept. 27th by Herbert M. Bratter as saying: "I think if the United States would have a little

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## Kearns Rejoins Staff of Doyle, O'Connor & Co.

CHICAGO, ILL. — Hugh T. Kearns has resumed his association with Doyle, O'Connor & Co., 135 South La Salle Street, after serving three years in the U. S. armed forces. Mr. Kearns' association with this organization dates back to 1927.

# Arguments for Full Employment Bill

By HON. HENRY A. WALLACE*
Secretary of Commerce

**Holding That We May Be Faced With a Severe Depression, "Which Will Not Be Tolerated Again," Secretary Wallace Urges the Passage of the Full Employment Bill as a First Step in a Long Range Program. Says There Are Three Elements Involved in Problem, viz. (1) Creating Confidence in Future; (2) Better Coordination in Government, and (3) Modernization of Our Administrative and Legislative Procedures. Denies That Bill Will Necessarily Lead to Budgetary Deficits, and Asserts That if Private Capital Will Not Invest to Create Employment, Government Should. Sees No Violation in Bill to Free Enterprise or Financial Soundness and Calls for Passage Without Weakening Amendments.**

Mr. Chairman and members of the Expenditures Committee:

I am glad to be here and to have the opportunity of discussing with you this problem of full employment.


Henry A. Wallace

In the newspapers and magazines, and on the air, and in the proceedings here in Congress, I have noticed an almost universal agreement that full employment is the number one postwar objective for this country. I have seen this conviction growing for two or three years now, but even so, I am a little surprised at how nearly unanimous we are now. There are some differences of opinion, really rather slight, in respect to definitions and statistics. There is considerably more disagreement about ways and means. But hardly anybody is willing today to take a position that full employment opportunity is undesirable or even that it is not substantially attainable in a free economy.

Most of us feel very definitely that it will be sheer folly to risk another major depression if we can find any possible way of avoiding it. Some people have forgotten how close we came to real disaster in the early 1930's, but most of us remember quite clearly and realize that mass unemployment simply will not be tolerated again. This free and self-reliant people simply will not

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*Statement by Secretary Wallace before the House Committee on Expenditures in the Executive Departments, Oct. 30, 1945.

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# Should Banks Furnish Venture Capital?

By PRESTON DELANO*
Comptroller of the Currency

**National Bank Supervisor, Stressing That Banks Should Direct Credit to Serve a Vigorous Free Economy, Cautions Against Too Great Use of Depositors' Money for Equity Financing. Favors Limited Amount of Long Term Loans and Use of "Pools" in Granting Capital Credits, but Maintains That the Furnishing of Venture Capital Is Not a Field for Commercial Banks.**

It is our fortune, or perhaps our misfortune, to live in a turbulent and dangerous time. It has the smell of fire about it. There is a pleasant touch of nostalgia in turning back the clock to the teens of our now maturing 20th Century and comparing the problems which we knew as young men and those which confront us today. We had our economic and social difficulties then, even our wars, but somehow from this distance they seem much more simple, candid, and direct than those which plague us now.


Preston Delano

They did not strike at foundations. We still had a stable footing. There were distant rumblings but the great majority of thinking people dismissed quite casually the idea that there could be a real threat to our competitive, individualistic economy or to our social structure. Socialistic and communistic theories were regarded as the indoor sport of slightly pink individuals who carried no weight. Science was beginning to have doubts about some of its treasured principles, but here again the new doctrines typified by Einstein's relativity were regarded with rather amused tolerance and as significant only in the classroom. The gay and roaring '20s, now dangerously prophetic in retrospect, confirmed our basic idea that after all it was a pretty good world, particularly if you were on the right side of the market.

Now suddenly and ominously we are aware that the rumblings of distant drums are catching up with us. With the British elections staring us in the face, we no longer lightly brush aside the talk about a collective or socialistic economy. We begin to realize that the maintenance of a society of individualism and free enterprise is a rather serious business, our serious business if you please. And

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*An address by Mr. Delano before the Buffalo-Rochester-Syracuse Chapters of the Robert Morris Associates, Buffalo, N. Y., Oct. 26, 1945.

## Lt. Read Rejoins Cohu In St. Petersburg

Lieutenant Edmund D. Read, USNR, former head of the investment research department of Cohu & Torrey, One Wall Street, New York City, members of the New York Stock Exchange, has returned to the firm after more than three years' service in the U. S. Navy. He will make his headquarters at the St. Petersburg office, Florida National Bank Building, and will act as coordinator of Cohu & Torrey's Florida activities, including originations, investment research, and other customer services. The other Florida offices are located at Miami, Fort Lauderdale, Orlando, Tampa and Sarasota.

## Milo Snyder Rejoins Loewi & Co. Staff

MILWAUKEE, WIS. — Loewi and Company, investment securities house at 225 East Mason Street, announces the return of Milo F. Snyder, effective Nov. 1. Mr. Snyder was associated with the company from 1932 to 1941, as head of the Securities Analysis Department; also serving as Secretary of the firm. During the war he has been Controller of Ampco Metal, Inc. of Milwaukee.

In rejoining Loewi and Company, Mr. Snyder will have charge of research work, an increasingly important phase of the investment business.

## Paul J. Marache With Harbison & Gregory

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul J. Marache has become associated with Harbison & Gregory, 210 West Seventh Street, members of the Los Angeles Stock Exchange. Mr. Marache in the past was an officer of Fewel, Marache & Co., and prior thereto was head of his own investment firm, Paul J. Marache & Co.

# Public Utility Securities

## Holding Company Plans to Be Revised?

The advance of 25% or more in the market value of operating company common stocks during the past year was thrown "out of kilter" some of the carefully devised recapitalization plans for utility holding companies. Most holding companies were over-optimistically capitalized in the prosperous 1920's, with respect to their ability to pay preferred dividends, and hence rolled up substantial preferred arrears during the difficult 1930's.

Since the holding company integration program got under way a few years ago, the SEC in some cases has rather frowned upon any distribution of earnings to the senior stockholders. Profits have been plowed back into the operating companies, or have accumulated as cash in holding companies' treasuries pending recapitalization.

In perhaps a dozen cases where there were substantial arrears the SEC has approved a "recap formula" whereby a new issue of common stock was to be distributed to holders of the old preferred (including their claims for arrears) and the common. Usually the ratio assigned to the preferred issues as a class was between 80 and 95%, with the common stock taking the remainder. A number of these plans have been successfully consummated but others have been subject to long delays, for one reason or another.

Encouraged by the sharp advance in the prices of operating company stocks, the junior security holders of a number of holding company systems have been demanding a revision of integration plans in their favor. Where the common stock has enjoyed strong sponsorship and the recap plan was not too far advanced, plans have been changed without great difficulty and all classes of security holders now appear to be satisfied. This was the case with Columbia Gas where there were no preferred arrears. Niagara Hudson's small arrears were not due to lack of earning power, but only to technical difficulties due to a proposed plant write-off several years ago, and its plan (or rather that of its sub-holding company, Buffalo, Niagara & Eastern) has also been revised to satisfy the common stockholders, as represented by the top holding company's equity interests. The Central & Southwest plan has been voluntarily modified by Middle West in favor of public holders of CSR; some representatives of the latter would like to get still better terms, but this appears doubtful.

Some other plans are so far advanced, however, that a strenuous fight in the courts may be necessary to overturn them and revise upward the portion of new common stock allotted to equity holders. There are at least three such cases where the market action of the junior issues seems to indicate high hopes that a change in the plan can be engineered in some way. The most prominent is Commonwealth & Southern (see this column in the Sept. 27 "Chronicle"). CW is currently selling at 2, the year's high (during a reaction in the general market), although it would be worth only about 1 if the present plan were consummated. The SEC has already approved the present plan giving the common stock 15% of the new equity interest, and the program was scheduled to be voted on by C. & S. stockholders. Obviously the result of such a vote, in view of Mr. Snyder's campaign against the plan, might have proved embarrassing for the SEC, and it now appears likely that the voting arrangement will be cancelled.

Mr. Snyder will doubtless have a day in court if and when the SEC takes the plan to a District Judge under the mandatory provisions of Section 11 (at present the plan is still classed as "voluntary"). It is possible, of course, that the C. & S. management may itself apply to the SEC for a reconsideration of the terms but this is problematical. Large corporate holders of the common stock some time ago permitted the preferred stockholders to revise the plan in their favor, but this was before the principal rise in operating company stocks occurred; if these important interests should join with Mr. Snyder in seeking another revision, it would greatly strengthen his hand (at present he represents only about 1% of the common stock).

Another outstanding case is that of Standard Gas & Electric. Since the present plan of apportioning certain underlying holdings, plus the stock of the recapitalized holding company, has already been approved by the SEC and by two courts, so far as the terms to stockholders are concerned, it would seem hopeless to attempt a change at this late date. The plan has been delayed about a year over the issue as to whether bondholders should be paid in cash instead of securities, but this proposal by the District Court was rejected by the Appeals Court. Now, however, the suggestion will be made at the instance of a stockholders' group (C. A. Johnson and two other Johnsons). The original point made by Judge Leahy himself was that the bondholders should be guaranteed $1,000 cash, since the package of securities might not be worth the assigned amount; now the plea is that the package is worth entirely too much and the bondholders are getting assets which should belong to the stockholders. Judging from the action of the $4 second preferred (which is now selling too high in relation to the first preferred issues) it is hoped that the $10-15,000,000 estimated excess value which might be taken away from the bondholders would accrue to the benefit of the second preferred; but it is hard to see why the first preferred stockholders would not also claim a substantial share of the "gravy."

A third holding company where recent market action of the junior stock seems to indicate a possible move "behind the scenes" to appeal the present plan is Northern States Power of Delaware. Thus far there has been no effort to try to amend the plan to favor the Class A stockholders, but the advance in the stock over the past few weeks from 18 to 28 seems to indicate that "something's cookin'." Each share of Class A is scheduled (under a plan not yet finally approved by the SEC) to receive two shares of common of the Minnesota operating company. On a pro forma basis with EPT eliminated, it appears unlikely that the latter stock could earn much over $1—the SEC estimate of future share earnings is susbstantially lower. Thus the Class A stock at 28 is selling at the generous equivalent of 14 times maximum estimated earnings. However, if some new deal could be worked out to sell the Minnesota stock and pay off the preferred stocks in cash (arrears are small) this might materially improve the statistical position of the Class A stock. Whether such a move is in prospect is not yet clear, however.

# The International Situation

By ALF M. LANDON*

**Former Presidential Candidate Asserts That the Allied Policy Toward Germany and the Execution of the Morgenthau Plan Means Heading for Another War. Says Democracy Cannot Be Taught by the Bayonet and Calls San Francisco Conference Only a First Step Toward International Peace. Decries Unanimous Consent Procedure of United Nations Council and Lays Down Six Principles Upon Which to Build a New Foundation for Peace, First of Which Is to Make the United States a Sound Financial Mooring Post for the Rest of the World.**

Our foreign policies involve not only our future peace and prosperity but such every-day affairs as—how long your boy is going to stay in the army or navy—whether your boy is to be conscripted under a permanent peacetime compulsory military draft — how much of your earnings we are to give to Great Britain and other foreign countries, as subsidies, and the atomic bomb in the hands of other countries.

Alf M. Landon

All the money we may give to Great Britain and other countries, in our interest, to help the economic world get on its feet, all the collaboration that might have been but was not at the London Conference, the UNO, will not stabilize the world as long as we push the basic error of the ghastly insane Morgenthau plan in the treatment of Germany, and as long as other errors are committed equally destructive to lasting peace.

First, we have removed the surplus-producing territories of Germany and crowded about 70,000,000 people into what we now call Germany.

Second, even with this surplus-producing area, Germany had to import foodstuffs before the war.

Third, the Germans will only be able to produce about 1,500 calories per day per person. Two thousand calories are a rock-bottom diet to sustain life. Approximately 3,000 calories are necessary for a healthy living.

Fourth, we are wrecking Germany industrially so that she will not be able to purchase the additional foodstuffs she must have.

Fifth, all that, plus the mass shifting of peoples around like cattle positively means a great explosion in the future.

### Headed for Another War

Once again our political leaders have lost the fruits of the glorious victories of our army and navy and we are headed straight for a third World War unless there is

(Continued on page 2114)

*An address by Mr. Landon before the Kiwanis Club, Lawrence, Kan., Oct. 25, 1945.

# Real Estate Securities

## Three Issues That Appear "Above Average"

**Alden Hotel Corporation:** These first mortgage bonds are secured by a 15-story modern and well appointed apartment hotel on one of the most desirable residential streets in New York — Central Park West at 82nd Street. It is a 15-story structure, containing 583 rooms arranged in 329 suites of from one to three rooms, and provides accommodations for both permanent and transient guests. Assessed valuation of $2,530,000 compares with $2,285,320 of bonds outstanding. Bonds pay fixed interest of 4% until Feb. 1, 1949; 4½% until Feb. 1953 and 5% until maturity Feb. 1957. A feature of the bond is that earnings after fixed interest are applied to a sinking fund — either 50% of such earnings or an amount sufficient to purchase $52,000 principal amount of bonds annually, whichever is greater. ($313,880 retired since reorganization in 1937 to Oct. 31st, 1944.)

Current earnings about two times interest requirements.

**Park Central Hotel** (870 — 7th Avenue 4½s 1957): Now that the first mortgage on this property has been reduced to $900,000, it is expected that a sinking fund will shortly operate on the $4,055,200 bond issue. The entire funded debt of this property (first mortgage and bond issue) amount to $4,955,200, compared to an assessed value of $6,725,000. The property is located at Seventh Avenue from 55th to 56th Streets, New York, only a short distance above Times Square with its theatre district, and is easily accessible to the shopping and business sections.

The Hotel is modern and well maintained. It contains 1600 rooms. The rooms are larger than average and three-fourths of them are arranged in small suites. Bonds carry stock representing an equal share in 66⅔% of the ownership of the property. Bonds pay fixed interest of 4½%. 1944 earnings indicated percent earned on the bonds of over 16%.

**Broadway & 41st Street 4s, 1954:** This issue only represents a lien on a leasehold estate, not on the fee. A feature of the bonds is the large sinking fund operation. Since 1935 and until Oct. 1944, $1,307,000 bonds have been retired, reducing the bond issue from $4,500,000 to $3,193,000. Indenture provides that, earnings permitting $139,500 bonds must be retired annually. Interest is fixed at 4% increasing to 4½% in 1946 and 5% in 1949 until maturity in 1954. Property consists of leasehold estate in land occupying the entire block front on the south side of West 41st Street (157 feet) between Broadway (92 feet) and Seventh Avenue (118 feet), New York and a 33-story store, loft and office building completed in 1930. Plot has an area of about 18,222 square feet. 1944 net was $234,705, allowing $108,105 for sinking fund after fixed interest of $126,600.







# The Anglo-American Money Parley—London Views

By PAUL EINZIG

Formerly Foreign Editor of London "Financial News"
Political Correspondent, London "Financial Times"

**British Voice Different Attitudes Toward an American Loan and Elimination of Empire Preferences. Opposition to Bretton Woods Arises From Desire to Maintain Exchange Restrictions and Power to Devaluate the Pound.**

The Washington financial negotiations have received but little attention in the British Press during the last few weeks. After the burst of publicity that followed the termination of Lend-Lease in August, American-British financial and commercial relations have faded into the background. Most people have been too perturbed by the failure of the Foreign Secretaries' Conference, the atmosphere of tension in Europe, the trouble in French Indo-China and Java and, nearer home, by the strikes, to find time to follow the progress of Lord Keynes's discussions. In any case, there has been very little solid information available on this side. Now and then the report of some striking proposal is cabled over from Washington, and finds a duly prominent place on the front pages of the newspapers — only to be cancelled out next day by another report, or an inspired statement in London. On even days the conclusion of an all-embracing agreement is stated to be imminent, while on odd days a deadlock or breakdown is

Paul Einzig

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# Buckley Adds Four In Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — C. Frank Lee, Douglass M. Hodson, Ralph T. Chace and Richard E. Mertz have become associated with Buckley Brothers, 530 West Sixth Street. Mr. Lee was formerly associated with Quincy Cass Associates for many years. In the past he was an officer of D. A. Hill & Co. Mr. Hodson was with Merrill Lynch, Pierce, Fenner & Beane.

# Foreign Influences On Price Level

By G. HABERLER*

Professor of Economics, Harvard University

**International Monetary Expert, Contending That Economists Should Not Bank Too Heavily on Forecasting, Asserts the United States Is in Strong Position to Combat Foreign Inflational Influences. Says We Should Watch the Gold and Dollar Reserves of Foreign Countries and Advises Against Letting These Countries Have a Free Hand in Disposing of Their Dollars and Gold by Purchases Here. Sees Such Buying "Adding to Our Headaches" or Being a Constructive Influence Depending Upon Whether We Are Confronted With Inflationary or Deflationary Conditions at Home. Urges Adopting a Flexible Policy.**

Economists are constantly asked whether inflation or deflation is around the corner and they debate incessantly the question of what is likely to happen. Some are afraid of inflation and draw up plans accordingly. Others sense deflation in the air and propose measures against it. May I suggest that this approach is not very fruitful?

G. Haberler

Suppose you wish to keep the temperature in a home at a comfortable level, not too hot or too cold. How would you go about it? Well, one method would be this: You could ask the weather man for a long-range forecast including an accurate estimate of the average temperature over the next two weeks, let us say. Then on the basis of that forecast, you give instructions to your janitor to keep the steam pressure in your heating system at a certain level and to change it in a week according to the long-run weather forecast then.

I think we shall all agree that this would be a foolish thing to do. But it is precisely what economists are asked to do and are busily trying to do. Why not learn a little from our heating methods? What we do there is this: We install a heating plant which can change the temperature at short notice. We have such gadgets as thermostats which do the changing automatically and continuously.

My suggestion is that the economist should do the same. He should spend less time on forecasting the economic weather and more on perfecting the methods of compensating for unforeseen changes in the weather. The truth

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*An address by Dr. Haberler before the Boston Conference on Distribution, Boston, Mass., Oct. 16, 1945.

# Howard Browne Is Partner in Tweedy Co.

## Firm Name Is Changed

Incidental to the admission of Howard S. Browne as a general partner, Tweedy & Co. announced a change in name to Tweedy, Browne & Reilly. Prior to his new association, Mr. Browne had been with Bristol & Willett for 20 years and a partner since 1928.

Other members of the firm are Forest B. Tweedy and Joseph R. Reilly. The business was originally established by Mr. Tweedy in 1920.

Mr. Alvin C. Browne, who had been in the trading department of Bristol & Willett since 1927, is also with Tweedy, Browne & Reilly.

# New Prospects of War-Strengthened Railroads

By HASKELL P. WALD*
Current Business Analysis Unit
U. S. Bureau of Foreign and Domestic Commerce

**Government Analyst, Asserting That Rails Are in a Much Strengthened Financial Condition, Lays Situation to Fuller Utilization of Equipment, Operating Efficiencies and Reduced Unit Costs Arising From Greatly Increased Traffic Density. Contends There Is Little Deferred Maintenance as Road and Equipment Were Kept in Condition. Holds Actual Net Earnings Have Been Understated Because of Use of "Carry Back" Provisions of Excess Profits Taxes, and Taking Into Account the Reductions in Fixed Charges and the Accumulation of Reserves, He Concludes That the Railroads Appear to Be in a Considerably Improved Financial Position as Peacetime Transportation Again Becomes Their Major Task.**

American railroads are returning to peacetime operations in a much strengthened financial condition. An extended period of freight and passenger revenues far in excess of any previous amounts has enabled the roads to make substantial progress in scaling down their fixed charges by paying off funded debts and by favorable refunding operations, while at the same time making large capital outlays and building up substantial reserves to meet emerging postwar problems.

Haskell P. Wald

Clearly, the rail carriers have been given a sharp financial lift which has far-reaching implications for the industry's postwar outlook.

Several indicators testify to the phenomenal recovery of railway finances. Annual net income after taxes averaged 16 times larger during 1942-44 than during 1935-39. On the basis of income before taxes, the increase was 26 fold. At the end of June 1945, class I roads as a whole held enough cash and Government securities—over $3 billion—to cover all current liabilities with money to spare.

Coupled with these financial gains—which are quite in contrast to the experience of World War I—have been impressive economies of operation and performance achievements never before approached. Indeed, the salient feature of the wartime record of the railroads is the manner in which the carriers have handled the greatly expanded traffic load with relatively small increases in the resources at their disposal.

The developments in railway finances and operations during the war period should be viewed against the background of the dismal experience of the prewar decade when, at one time, as many as 109 line-haul steam railroads (including 39 Class I roads), operating 31% of the total miles of line operated by all roads, were in the hands of receivers and trustees; and against the background of events during the 20's when the rail carriers were burdened with surplus capacity chiefly because of the competitive inroads made by trucks and passenger cars.

**Role of Railroads in the Economy**

The contrast between this history and the more recent events focuses attention on the extent to which the railroads will contribute to the post-war goal of high and sustained production and employment. It is clear that the industry can no longer provide the mainspring of economic activity as it did during much of the last century—particularly during the 1880's when the rate of railroad construction reached its peak—but it can still play an important sustaining role in the national economy.

The war period has highlighted the stake of the railroads in the achievement of high national production and income by demonstrating the full potentialities of the decreasing cost phenomenon which is an outstanding feature of the industry. Surplus railway capacity and a heavy burden of fixed charges are problems that need lead to crises only in periods when over-all business activity is low. Given the prospect of a sustained period of good business conditions, the railroads can embark on a program of new construction, replacement of equipment, and wide-scale modernization which could entail capital outlays approaching the highest amounts spent in any earlier period.

During the period between the two wars the railroads spent an average of over $500,000,000 a year on plant and equipment. This amount was more than one-fifth of the annual capital outlays of all manufacturing and mining industries and about 8% of total annual expenditures for producers' durable goods.

It is reasonable to expect that railway investment will continue to afford an important outlet for savings in the period ahead. The dollar volume of railway investment will probably be much larger than the average amount in the inter-war years, although the relative share of the railroads

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*Reprinted from "Survey of Current Business," published by the Bureau of Foreign and Domestic Commerce, United States Department of Commerce.

# U.S. Must Pay the Price of Assuring World Peace: John A. Stevenson

**President of Penn Mutual Life Insurance Company of Philadelphia Says We Should Discard War's Motives but Not Its Weapons. Warns Against Committing Naval "Hara-Kiri" by Skeletonizing Our Navy.**

America's future destiny as the powerhouse of world peace will be imperiled if we fail to keep abreast of scientific development in an atomic age, if we fail as a nation to remain on a permanent alert or again commit Naval "hara-kiri" in an ill-advised disarmament program. This warning was sounded by John A. Stevenson, President of the Penn Mutual Life Insurance Company, who spoke at the annual Navy Day dinner at the Bellevue Stratford Hotel in Philadelphia on Oct. 27. Mr. Stevenson further predicted that the United States inevitably will be marked as World Target Number One by any nation attempting future conquest.

"The United States, having served as the arsenal of democracy in the world's greatest war, must now become the powerhouse of peace," Mr. Stevenson said. "In helping to win the war, we brought upon ourselves responsibility to supply the motive force for maintaining peaceful relationships among all nations.

"As citizens of one world we can no longer be passive in our attitude toward peace. We must be aggressive for peace with power behind it. We must pay the price of maintaining peace, in the coin of international cooperation, or face chaos and possible ultimate destruction.

"Americans hate war. Ours is not a militaristic-minded nation. We will do all in our power to outlaw war, but should never again hesitate to defend peace with the most advanced of war's own equipment. We will discard war's motives but not its weapons.

"American wealth, industrial power and scientific progress made victory possible. If there is another war, the United States will be the logical World Target Number One. The atomic age has abolished the element of time for preparedness in warfare. Potential wars of the future may now be in the making in the laboratories of the world. Until international cooperation has produced an orderly world or until some united basis for the control of the atomic bomb is developed, we have no alternative but to sustain our armed might, our research and development at a high level.

"We must maintain our Navy at adequate strength. In the reaction toward peace that followed the last war, we went in for ill-advised disarmament. Over 750,000 tons of capital ships were sunk or demilitarized. We skeletonized our Navy to the danger point. Let's not scuttle our Navy this time. The Jap and German fleets lie on the bottom of the seas. Let's not send our fleet to join them. We dare not commit Naval "hara-kiri" again. Our Navy is the cheapest and most effective peace insurance this nation can have. Only through power and adequate force can we support world organization and help to control possible future international crime waves. Only through strength can we negotiate the basis for world peace.

"Reports from abroad show that the rapid demobilization of the last few months is already being interpreted as weariness on our part, lack of firm purpose and naivete. Our country today also is in danger of becoming psychologically demobilized. In thinking of the pleasures of peace we are in danger of shirking the burdens of peace and the responsibilities of international security. As citizens we have to work at this business of democracy and peace and we must all widen our horizons to include world neighborhoods. No nation can live unto itself alone. Isolationism was blasted from the earth by the atomic bomb.

"We are poised today on the threshold of the most challenging threats and opportunities we have ever known. Ours is the first generation of Americans to face life in an atomic age. Ours is the first ever confronted with cares and concerns on a global scale. As it emerges from devastation and destruction, an anguished world looks to America today for aid and moral rearmament. Millions are turning to us as their one last hope on earth. It is squarely up to us if America is to play its mighty role as the powerhouse of peace in an unpredictable future."

## Fairman & Co. Moves to Larger Quarters

LOS ANGELES, CALIF.—Removal of their offices to larger ground floor quarters at 210 W. Seventh Street, was announced by Fairman & Co., members of the Los Angeles Stock Exchange. In addition to its head office in Los Angeles, the firm maintains branches in San Diego and Riverside.









# Railroad Securities

Illinois Central is coming into the home stretch of the aggressive debt retirement and fixed charge reduction program that has been under way for the last few years. On Oct. 19th it was announced that the Directors had authorized a call for tenders of a number of underlying liens maturing in the years 1950-1952, inclusive. The issues involved were outstanding in the amount of $54,805,000 as of the end of 1944 but apparently have been reduced somewhat since then through open market purchases. With the exception of regular serial equipments and approximately $2,000,000 of Cairo Bridge 4s, 1950 they constitute the entire direct funded debt of the company maturing during the three year period. There are also about $15,000,000 of bonds of the leased Chicago, St. Louis & New Orleans maturing in 1951 which will not be affected by the call for tenders.

The bonds for which the call for tenders has been authorized represent divisional and underlying liens on all of the system mileage north of the Ohio River with the exception of the Cairo Bridge. Most of this mileage is also covered by the lien, largely junior, of the roughly $35,000,000 Refunding 4s and 5s, 1955. It is generally expected, therefore, that if the call for tenders meets with any considerable success the next step will be a major refunding operation. None of the underlying liens are callable. Kansas City Southern was faced with the same consideration in the case of its 1st 3s, 1950 in its recent refunding and met the problem by arranging to make an offer to purchase the bonds on a 1.36% maturity yield basis. Funds sufficient to cover the principal and interest to maturity will be deposited to take care of bonds not presented under the purchase offer, thus releasing the mortgaged property and making way for the creation of the new first lien.

A similar program would give the Illinois Central a very strong refunding medium with a direct first lien on all of the northern properties. In view of the progress already made by the Illinois Central management in its financial program and the wide potentialities inherent in this most recent step it is hardly surprising that railroad security analysts visualize a fairly early solution to what has long been considered as a potentially dangerous maturity schedule.

Not only are prospects bright for elimination of maturity worries but, also fixed charges are well on their way to a truly conservative level. On the basis of the debt outstanding with the public at the end of 1944 fixed charges were indicated around $12,400,000, including some $226,000 amortization of discount on funded debt. Any marked success with the call for tenders, if followed by a refunding operation such as appears feasible, should result in a further reduction in these fixed charges to below $10,000,000. In the mid-1930s the road supported fixed charges of over $17,000,000, and fixed charge coverage only once dropped below 80%. In 1935 charges were less than 50% earned but that was largely in reflection of extraordinary maintenance charges applicable to other years.

Illinois Central is one of the very few of the so-called "marginal" roads which has not as yet resumed dividends in the face of the substantial war earnings. The end of the long dividend drought may well be in sight. Some time ago the management told stockholders that fixed charges must be reduced to $10,000,000 before consideration would be given to dividend payments. By implication this has been taken to mean that when charges are down to that level the stockholders may look for some reward for their long patience. This goal of $10,000,000 annual fixed charges should be reached next year unless there is a change in bond market conditions drastic enough to prevent a refunding.

Rail analysts look favorably on the post-war earnings prospects of the road. Inherently it is an efficient property as evidenced by its ability to carry an average of 15.5% of gross through to net operating income before Federal income taxes in the pre-war years 1936-1940. Also, traffic should be well supported by resumption of foreign trade through Gulf ports supplementing a high rate of industrial activity in the mid-continent area. All in all, the stock is being pointed to as one of the most interesting speculations in the present rail list.

# Swedish Industry Studies Efficiency


By INGVAR SVENNILSON

Economic Expert, Commission on Post-War Planning, Sweden

Director, Swedish Institute of Industrial Research


**Swedish Economist Tells of the Interest of Both the Swedish Government and Industrialists in the Improvement of Productive Efficiency. Recounts the Work of the Swedish Institute of Industrial Research in Studying Into the Structure of Different Branches of Industry and in Post-War Planning.**

A continual effort to rationalize its production and thus contribute to a rise in the standard of living is characteristic of Swedish manufacturing industry. This effort has lately been accentuated, on account of the interest now shown from the state towards the problem of efficiency. Lack of efficiency in a manufacturing industry has thus come to be one of the most important arguments for nationalization or at least for a stricter Government supervision.

Ingvar Svennilson

Because of the limited home market Swedish industry has to overcome many difficulties in its work to rationalize production. The Possibilities of producing in long series and thus bringing down costs are in many cases small. The more important, accordingly, has been the work of Swedish industrialists to raise the output per manhour by introducing new machinery, speed up production, etc.

Industry's efforts to rationalize take place at different levels. Most important no doubt is the work within the single firm, taking the form of for instance time studies. At the other end is the work done by different branch organizations or by institutions, common to all industry. An instance of this later type of bodies is the Swedish Institute for Industrial Research, founded in 1939 by the Swedish Employers' Association and the Federation of Swedish Industries. As the name implies its task is to study industrial economic problems. Although the institute keeps close contact with industry through its founders, it is under no obligation to these two organizations, in so far as it within its research program works quite independently according to strict scientific standards.

Coordination of the work of the institute falls upon its staff of permanently engaged personnel. For special investigations experts from science, industry and state administration are hired. When undertaking bigger studies special advisory committees are set up, consisting of representatives of the branch concerned, to follow more closely the work. By this arrangement the institute tries to close the gap between the world of theoretical thinking and the world of practical application and so to speak pool their knowledge. The subject matter of the investigation is thoroughly discussed with the research personnel of the institute and the advisory committee, so that the author has the benefit of criticism and suggestion by many other competent minds.

In the above mentioned investigations into the structure of different branches of industry, which form the most important part of the institute's work, such advisory committees have been set up. There are now three of these investigations going on, concerning the textile, shoe and forest industries respectively. These studies are founded partly on official statistics, partly on the material gathered directly from the firms by questionnaires or otherwise. The lay-out of such a branch investigation of course depends upon the nature of those problems, that are of current interest to the branch concerned. In some cases the raw material problem perhaps requires a special study of the location of firms and their raw material supply. In other cases one might wish to study differences in machinery and production methods between the firms. As a rule however three different aspects of a branch are studied. First one tries to establish production capacity for various goods compared with actual demand. Secondly the distribution of production between different goods and firms and the degree of specialization within the individual firm is analyzed. Finally the structure of the distribution net is studied.

Through these investigations the institute aims to give industrialists a thorough knowledge of their own branch. Generally their knowledge of the structure of production and distribution is scant. Only on the basis of a clear picture of the branch position can the single firm in an efficient way arrange its production. These investigations therefore must be considered as part of industry's effort to rationalize production. At the same time that the studies make possible a more efficient production in the single firm they also form the basis for rationalization measures as regards the branch as a whole, so called structural rationalization. They can thus be a starting point for such measures as a common rationalization of distribution, higher specialization of production at the various firms, or standardization of products. A recent example of this form of branch cooperation is to be found in the shoe industry. This industry has set up a special committee with the task of investigating the possibilities of eliminating seasonal variations in employment. The committee is basing its recommendations on the results from the institute's study on the structure of the shoe industry.

## Gar Wood Industries Preferred On Market

A new issue of 70,000 shares of Gar Wood Industries, Inc. 4½% Cumulative convertible preferred stock (par $50) was offered Oct. 26 at $53 a share and accrued dividends by an underwriting group headed by Lehman Brothers, Emanuel & Co. and Blair & Co., Inc.

Of the net proceeds of this issue, approximately $2,200,000 will be used in payment of the purchase of approximately 92% of the outstanding capital stock of The Buckeye Traction Ditcher Co.; approximately $200,000 will be used to purchase machinery now under lease from the United States Government; approximately $500,000 to replace working capital heretofore expended in the construction of the company's new plant at Mattoon, Illinois; and the balance, estimated at $600,000, to finance sales and for inventory requirements.

The Preferred Stock is convertible into Common Stock at $12.50 per share if converted on or before Oct. 31, 1955 and at $17.50 per share thereafter, taking each share of the Preferred Stock at the par value thereof. The Preferred Stock is redeemable at $55.50 per share if redeemed on or before Nov. 1, 1950; the redemption price declining 50c per share each year thereafter to Nov. 1, 1954, after which date it is fixed at $53 per share, plus accrued dividends in each instance.

# Reports All Europe on Brink of State Socialism

**J. Patrick Lannan, on Return From European Visit, Is Struck By the Universal Swing to the Left. Contends That United Kingdom Is Bankrupt According To Business Standards.**

J. Patrick Lannan, senior partner of the Chicago investment house of Kneeland & Co., who has recently visited the major European capitals, reports that most European observers privately predict that all of the continent, which is veering sharply to the left, will end in state socialism. "There will be many political upheavals throughout Europe during the next few years," predicted Mr. Lannan. His observations as reported in the Chicago "Journal of Commerce" of Sept. 11 and 12, continued: The recent victory of the Labor Party in England is only a sample of what will happen on the continent. Political leaders such as Laski and France's Pleven are in agreement with the demands of the masses for higher taxes, capital levies, larger death duties and a wider distribution of wealth.

J. Patrick Lannan

These new doctrinaires promise that additional revenue coming from these sources will be spent on housing, public improvements and free education of the multitudes.

Mr. Churchill preached a continuance of wartime sacrifices in order that England might be able to concentrate on reestablishing its foreign trade and thus keep its empire intact. The answer to his pleadings was a clear cut, "we are tired of sacrifices." Since his defeat, British propaganda has been "polishing the apple." Take these explanations as you would a grain of salt, for that is all they are worth. The finality of the British elections was the first official indication of the deep restlessness of the man on the street. Not only is this true in Great Britain, but throughout the continent.

Holding that a business audit would show that the United Kingdom is bankrupt, Mr. Lannan stated that Britain's first economic necessity is to import, and she has been in fact, the world's best customer. In 1938 her imports amounted to $4,200,000,000 or 17% of the world's imports. The United States' purchases in the same year totaled $1,950,000,000, or 8% of world imports. The necessary amount of imports required by the United Kingdom in the postwar years is difficult to estimate. First of all, she has the problem of wholesale replacement and repairs of bomb damage as well as household equipment and personal belongings.

During the war there has been a tremendous rise in prices. The new and higher prices automatically result in a very substantial increase in the cost of England's imports. Some portion of the additional imports needed to rebuild the widespread damage from bombing could be reduced by a continuance of the present rationing program which allows the population only the barest necessities. Winston Churchill advocated such a scheme and was promptly liquidated as Prime Minister, and any government that recommends these personal sacrifices will meet a like fate.

During the war Britain found it necessary to sell more than $4,000,000,000 of overseas marketable assets. Interest and dividends from these were an important part of the general economic system. This source of revenue must be permanently eliminated from her income accounts.

### Shipping Losses Cited

Shipping revenue will be reduced to 75% of the prewar level, continued Mr. Lannan.

The United Kingdom lost 12,000,000 tons of merchant shipping out of 17,500,000 gross tons she had at the beginning of the war. Replacements and acquisitions from other sources, including the United States, will bring net shipping back to about 13,500,000 tons, or 77% of the prewar fleet.

In addition to the permanent loss of income suffered as a result of the war, Britain, now that the shooting is over, finds herself saddled with a potential interest bearing obligation arising from large sums of sterling indebtedness due almost every non-enemy country in the world. This debt, outside of Canada and the United States, is estimated at $12,000,000,000.

The sums required to service this debt, the loss of income from soldout investments, the reduction in revenue from shipping and other sources, means that Britain, which entered the war as a great creditor nation (excluding her World War I debt to the United States) ends it heavily in debt. This result was attained without ever taking into account payments for goods received from lend-lease.

It is very difficult to estimate the volume of exports Britain will have to achieve in order to maintain her present standard of living, let alone improve it as promised by the Labor Party. It appears safe to guess exports will have to be increased at least 50% from prewar levels before providing for payment of interest or principal on newly created debt.

Britain's men of affairs are glad to see and talk to Americans. They are very frank about their problems. I found them genuinely frightened about the future, and willing to admit that they could not "openly" compete with American industry. In fact, many of these men seemed tired and spent. Some of this physical and mental exhaustion is the result of the prolonged spell of bombing, but a good portion of it is plain "resignation." In their opinion, they have a "dim outlook."

# Rollin Bush Is With National City Bank

Rollin C. Bush is now associated with the National City Bank of New York in their municipal bond department, it is announced. Mr. Bush has served as a Lieutenant in the U. S. Naval Reserve for the past three years. Prior to entering the Navy in 1942, he was the New York representative of Kaiser & Co., San Francisco.

# Dealer-Broker Investment Recommendations and Literature

*It is understood that the firms mentioned will be pleased to send interested parties the following literature:*

**Air Transportation** — Pamphlet reporting on the outlook for Alaska Air Lines, Inc.; All American Aviation, Inc.; American Export Airlines, Inc.; Chicago & Southern Air Lines, Inc.; Continental Air Lines, Inc.; Delta Air Corporation; Expreso Aereo Inter-Americano, S. A.; Inland Air Lines, Inc.; Mid-Continent Air Lines, Inc.; and Taca Airways, S. A.—Troster, Currie & Summers, 74 Trinity Place, New York 4, N. Y.

**Chemical and Pharmaceutical Companies**—Study of the 1946 outlook for 23 companies—Goodbody & Co., 115 Broadway, New York 6, N. Y.

**Dow Theory Barometer** — A weekly service predicting future trends in the stock market—Four weeks' trial, $1—Gaylord Wood, Inland Building, Indianapolis Ind.

**Freemangraph**—Current issue contains detailed study of Lehigh Valley Railroad Company—Freeman & Co., 61 Broadway, New York 6, N. Y.

**More Bank Stock Extras Seem Imminent**—New bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also a new bulletin on **Third Quarter Statistical Comparison of 19 New York City Bank Stocks.**

**Real Estate Security Index**—Study of 50 active New York City securities, discussing the current situation—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

**Research Comment**—Circular on Pittsburgh Coal - Consolidation Coal and investment vs. speculative railroad equities—H. Hentz & Co., 60 Beaver Street, New York 4. N. Y.

**Allerton New York Corp.**—Circular—Walter Murphy, Jr. & Co., 49 Wall Street, New York 5, N. Y.

**American Forging and Socket**—Circular—De Young, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2, Mich.

**American Vitrified Products Co.**—Study of potentialities—Kneeland & Co., Board of Trade Building, Chicago 4, Ill.

**Arizona Edison Co.**—Descriptive circular—Seligman, Lubetkin & Co., 41 Broad Street, New York 4. New York.

Also detailed circulars on **Foundation Co.; Fashion Park, Shatterproof Glass,** and **Wellman Engineering Co.;** and reports on practically all **Real Estate** issues in New York City.

**Aviation Corporation** — Memorandum on new cumulative convertible preferred discussing interesting possibilities—Stern & Co., 120 Broadway, New York 5, N. Y.

**Baker-Raulong Company**—Analysis of condition and post-war prospects—F. H. Koller & Co. Inc., 111 Broadway, New York 6 N. Y.

Also available are analyses of **Liquidometer Corp., Delaware Rayon and New Bedford Rayon.**

**Blair & Co.**—descriptive memorandum on interesting low-priced speculation in financial underwriting—Du Pont, Homsey Co., Shawmut Bank Building, Boston 9, Mass.

**Boston & Maine Railroad**—circular—Adams & Peck, 63 Wall Street, New York 5, N. Y.

**Cliffs Corporation** — memorandum—Kitchen & Co., 135 South La Salle Street, Chicago 3, Ill.

**Consolidated Cement Corp. Class A**—Bulletin on recent developments—**Lerner & Co.,** 10 Post Office Square, Boston 9, Mass.

Also available are circulars on **Central Iron & Steel, Oregon Portland Cement.**

**Consolidated Gas Utilities** and **The Chicago Corp.**—Circulars—Hicks & Price, 231 South La Salle Street, Chicago 4. Ill.

**Dayton Malleable Iron Co.**—Study of outlook and speculative possibilities for appreciation for this company—Ward & Co., 120 Broadway, New York 5, N. Y. Also available are late memoranda on: **Great American Industries; Alabama Mills, Inc.; American Hardware; Douglas Shoe; TACA Airways; American Window Glass; Michigan Chemical; Lawrence Port. Cement; Oxford Paper; and Purolator Products.**

**Dunningcolor**—Descriptive circular—J. F. Reilly & Co., 40 Exchange Place, New York 5, N. Y.

Also available is a memorandum on **International Detrola.**

**Electromaster Inc.** — Recent report — **Mercier, McDowell & Dolphyn,** Buhl Building, Detroit 26, Mich.

Also available a report on **Sheller Manufacturing Corp.**

**Empire Steel**—circular—J. F. Reilly & Co., 40 Exchange Place, New York 5, N. Y.

Also available are circulars on **Delta, Chicago & Southern, Dri-Steam Products, du Mont Laboratories.**

**Franklin Railway Supply Co.**—Analysis—W. J. Banigan & Co., 50 Broadway, New York 4, N. Y.

**General Public Utilities Corp.**—study of successor company to Associated Gas & Electric—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

**Greiss-Pfleger Tanning Co.**—descriptive circular—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

**Hajoca Corp.**—Circular on interesting possibilities—Hoit, Rose & Troster, 74 Trinity Place, New York 6, N. Y.

Also available is a memorandum on **Thermatomic Carbon Co.; Red Rock Bottlers,** and a new analysis of **Panama Coca-Cola.**

**Le Roi Company** — Study of common stock as a sound speculative purchase — First Colony Corporation, 70 Pine Street, New York 5, N. Y.

Also available are studies of **Pittsburgh Railways, Simplicity Pattern Co., Inc.,** and **Winters & Crampton.**

**Magnavox Company**—Report—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

**The Miller-Wohl Company, Inc.**—circular on this operator of a chain of retail stores selling popular-priced women's and children's apparel—Hardy & Co., 30 Broad Street, New York 4, N. Y.

**Mississippi Glass Co.** — Recent analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

**National Bank of Tulsa**—statistical memorandum—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

**National Casualty Company**—study—Huff, Geyer & Hecht, 67 Wall Street, New York 5, N. Y.

**National Radiator Co.**—Analysis, for dealers only—**C. E. Unterberg & Co.,** 61 Broadway, New York 6, N. Y.

**Norfolk Southern Railway Co.**—Study of the situation which offers interesting possibilities—Thornton & Co., 60 Wall Street, New York 5, New York—Ask for Circular "N."

**Ohio Water Service**—Memorandum — Otis & Co., Terminal Tower, Cleveland 13, Ohio.

Also available are memoranda on **Leland Electric Preferred; U. S. Truck Lines, Inc.,** and **Standard Stoker Co.**

**Pennsylvania Company** — analytical circular—R. M. Horner & Co., 30 Broad Street, New York 4, N. Y.

**Philadelphia Transportation Company**—descriptive circular—Stroud & Company, Inc., 123 South Broad Street, Philadelphia, Pa.

**Pittsburgh Equitable Meter Co.**—Memorandum—J. G. White & Co., 37 Wall Street, New York City.

**Pollak Manufacturing**—analysis—Raymond & Co., 148 State Street, Boston 9, Mass.

Also available is a study of **Baltimore & Ohio;** and a New England company established in 1862 which has arrears of $67.50 on the 5% $100 par preferred stock—ask for analysis M.C.P.

**H. K. Porter Company**—analysis—Sills, Minton & Company, Inc., 209 South La Salle Street, Chicago 4, Ill.

Also available are statistical memoranda on **Liberty Loan Corporation; Maryland Casualty Co.,** and **Serrick Corporation.**

**Sardik, Inc.,** and its wholly-owned subsidiary, **Sardik Food Products Corp.**—Circular—George F. Breen, 20 Pine Street, New York 5, N. Y.

**Schenley Distillers Corporation**—Brochure of articles they have been running in the Chronicle—write to Mark Merit, in care of **Schenley Distillers Corporation,** 350 Fifth Avenue, New York 1, N. Y.

**Standard Stoker**—Memorandum—Buckley Brothers, 1529 Walnut Street, Philadelphia 2, Pa.

Also memoranda on **Gruen Watch** and **Wellman Engineering.**

**Vinco Corp.**—Circular—James M. Toolan & Co., 67 Wall Street, New York 5, N. Y.

**Wawaset Securities Company**—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelpia, Pa.

**Wellman Engineering Co.**—circular—Simons, Linburn & Co., 25 Broad Street, New York 4, N. Y.

**Whiting Corp.**—Late memorandum—Strauss Brothers, 32 Broadway, New York 4, N. Y.

# Pennsylvania Brevities

## Pennsylvania Power & Light Plan Approved

As part of the plan for the dissolution of National Power & Light Co., ordered by the S.E.C. in 1941, the Commission has approved the recapitalization program filed by Pennsylvania Power & Light Co.

Under the terms of the plan, holders of Pennsylvania Power and Light $7, $6 and $5 preferreds will be offered an exchange into 440,000 shares of a new cumulative preferred of a lesser dividend rate. Unexchanged shares will be redeemed.

Considerable interest rests in the proposed issuance of 1,818,719 shares of new common stock of Pennsylvania Power & Light which will reach the public at $10 per share through the offering of rights by National Power & Light Co. to its own stockholders. This will be the first time that equity shares of the popular Pennsylvania operating company will have been made publicly available. The plan also includes certain capital contributions to be made by National Power & Light, thereby establishing a capital surplus, and certain accounting adjustments by Pennsylvania Power & Light to be made in accordance with requirements by the Pennsylvania Public Utilities Commission and the Federal Power Commission.

### Wawaset Securities Company

As a result of the recently completed recapitalization of Warner Company, Wawaset Securities now owns 241,800 shares of the 475,284 shares of Warner Company common issued and outstanding. This represents 50.87% of the voting control of Warner Company. The merger, dissolution or liquidation of Wawaset Securities is not immediately contemplated due to adverse existing tax consequences.

**The market price of Wawaset's securities is based upon the prevailing market for Warner common. The former sell at a varying discount thus occasionally affording an opportunity of purchasing an equity in Warner Company common upon favorable terms.**

In announcing a dividend declaration of 50 cents per share last week, the United Gas Improvement Co. estimated its 1945 income as 54 cents per share. An initial dividend of 45 cents was paid last February, declared out of 1944 earnings.

It is expected that Philadelphia Reading Coal & Iron Co. will pay a dividend on its common stock before the end of the year. The company was reorganized in January of this year with a capital structure of 1,444,086 shares of common. Net income for the first four months of 1945, after all charges and taxes, amounted to $756,000, or about 40 cents per share.

Revenues of Tacony-Palmyra Bridge Co. for the third quarter of the current year almost equalled the tolls collected during the first six months. The bridge provides a short-cut from the Chestnut Hill, Germantown, North and Northeast Philadelphia districts to the New Jersey shore resorts. It is also a main thoroughfare for many industries along the upper Delaware River. Another favorable factor is the fact that it directly serves substantial areas where residential home building is likely to develop. Dividend policy has closely followed earnings trends. Last year 75 cents was paid on the Class A and common shares. Thus far, $1 has been paid in 1945 and another distribution is probable before the year-end.

**Holders of Pennsylvania Power Co. $5 preferred had until today, November 1, to deposit their shares for exchange into new 4¼% preferred on a share-for-share basis plus a cash adjustment amounting to 8⅛ cents per share. The company has reserved the right to reject all exchange offers if less than 85% of the 42,000 shares are tendered and will not consummate the plan if less than 75% of the shares are deposited.**

Under an agreement announced by the Transport Workers' Union, CIO, 9,200 operating and maintenance employes of the Philadelphia Transportation Co. will receive a flat bonus of $65, payable immediately. In addition, under the terms of a settlement previously made, the employes will receive retroactive payments ranging as high as $300 in some instances. These will be paid December 1.

A spokesman for the company stated that the bonus would amount to about $593,000. This is in addition to about $2,000,000 previously paid under a contract which included a $35 allowance per person for uniforms.

## Phila. Naval Officers Resume Inv. Business

Buckley Brothers, 1529 Walnut Street, Philadelphia, announce the return of Lt. Com. Dorsey A. Buckley, USNR, formerly a limited partner, and his admission as a general partner in the firm, effective Nov. 1.

Lt. Com. John B. Swann, Jr., USCGR, has been released from active duty and has resumed his position with Lilley & Co., Packard Bldg., Philadelphia.

Lt. J. Richard Ranck, USNR, has resumed his association with the Philadelphia office of Kidder, Peabody & Co., 123 South Broad Street.







NATIONAL SECURITY TRADERS ASSOCIATION INC.

# NSTA Notes

**SECURITY TRADERS ASSOCIATION OF LOS ANGELES**

At annual election meeting Oct. 22, the following officers were elected:

**President**—Clifford E. Poindexter, Turner, Poindexter & Co.
**Vice-President**—A. S. McOmber, Revel Miller & Co.
**Treasurer**—Thomas J Euper, Nelson Douglass & Co.
**Secretary**—W. P. Bunyan, Edgerton, Wykoff & Co
**Board of Governors**—James Cockburn, Crowell Weeden & Co., Frank J. Ward, Merrill Lynch, Pierce, Fenner & Beane.
**National Committmen**—Miles A. Sharkey, Jr., Blyth & Co., Clifford L. Hey, Nelson Douglass & Co. (Alternate).

Officers will be installed Nov. 29, 1945.

**EDUCATIONAL COMMITTEE FOR 1945-1946**

Paul I. Moreland, Chairman, Moreland & Co., Detroit; John C. Hecht, Butler, Huff & Co., Los Angeles; Harry Reed, Loeb, Rhoades & Co., New York; Ellwood S. Robinson, A. Webster Dougherty & Co., Philadelphia; Irving J. Rice, Irving J. Rice & Co., St. Paul; Morton A. Cayne, Cayne, Ralston & Co., Cleveland; Fred E. Busby, Busby & Co., Chicago, and John G. Heimerdinger, Walter, Woody & Heimerdinger, Cincinnati.

**INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA**

In forwarding its views to Thomas Graham, president of the National Security Traders Association, a committee of the Philadelphia Investment Traders Association, headed by John Hudson Thayer, Baker & Co., chairman, will express itself as follows in respect to contemplated changes in the National Association's constitution:

For—Enlarging the Executive Council.
A permanent, paid secretary and treasurer.
A change naming the second past president as chairman of the Nominating Committee.

Against—Changing the name of the National Association.
Changing the fiscal year to the calendar year.
Changing the number of National Committeemen of any affiliate from its present maximum of five.

## Robert T. Cass With Morton Seidel & Company

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert T. Cass has become associated with Morton Seidel & Co., 458 South Spring Street. Mr. Cass was formerly associated with Quincy Cass & Co. for a number of years.

## W. H. Bell Installs Phone Between N. Y. & Boston

W. H. Bell & Co., Inc., announce that they have leased from the American Telephone & Telegraph Co. a private telephone wire from New York to their Boston office, Canal 6-3667.

The Boston office is located at 49 Federal Street; the firm's main office is at 1500 Walnut Street.

# Pennsylvania Municipals

Although a great part of the decline in municipal bond prices since V-J Day has been occasioned by the admittedly correct belief that the supply of local tax-exempts is destined to be materially augmented in the near future, recent evidence indicates that the scarcity factor continues in force in many instances. This is particularly true, naturally, in the case of less prominent borrowers, as the geographical size of such units, among other factors, miiltates against their incurring more than a moderate amount of indebtedness. In these instances, investors are disposed to evince the same degree of avid interest they displayed in municipals generally, particularly throughout the war years.

**Conversely, dealers are prone to watch for such offerings with more than ordinary interest with a view to taking an active part in the bidding. The result is that the degree of competition greatly dwarfs the significance of the issue involved from such angles as to the amount of bonds involved, etc.**

The foregoing remarks would appear to be somewhat pertinent in connection with recent new issue offerings by various Pennsylvania municipal bodies. Such operations have been all too few in number and this, of course, has been a contributing factor in the strong competition among dealers for the business involved. Among recent examples was that furnished in the case of East Stroudsburg, Pa., whose offering of $30,000 bonds, due 1946-50, attracted seven bids, with the top three naming prices of 100.192, 100.183 and 100.178, respectively, for 1s.

**The primary item of interest in the Pennsylvania market during the past few weeks, however, was the Chester, Pa., issue of $500,000 improvement bonds, due serially from 1946 to 1958, incl. The City received a total of 10 offers for the bonds and awarded the loan at a price of 100.279 for 1¼s. Second high bidder, specifying the same coupon, offered to pay 100.057, and the remaining eight bids were for 1¼s, with prices ranging from 100.97 to 100.207.**

The Bloomsburg School District sale of $115,000 refunding and improvement bonds was of particular interest in that it represented the district's first appearance in the long-term capital market since February, 1926. The bonds, due annually from 1947 to 1958, incl., brought a price of 100.31 for 1⅛s, and attracted 13 separate offers. On the occasion of the district's previous bond award in 1926, the issue of $350,000, with an average life of 19.29 years, was sold as 4½s and on a net cost basis of about 4.31%.

At this writing, the outlook for any material improvement on the supply side of new business for dealers is singularly bleak. Actually, the record shows that only one Pennsylvania unit is scheduled to dispose of bonds between now and the close of the year. This is the City of Yeadon, which will open bids Nov. 23 on $42,000 25-year serials. It is possible, of course, that this condition will be rectified to some extent, particularly as a result of the Nov. 6 elections.

**Even here, however, the calendar shows only a relatively few prospects, with the largest consisting of the scheduled vote on an issue of $3,000,000 Allentown School District bonds. Some of the other taxing units which will seek voters' approval of bond issue projects include the following: Abington Township, $1,390,000 for sewer system and treatment plant; Avonworth Union School District, $500,000; Ellwood City, $100,000 for a swimming pool; Silver Springs Township, $60,000; Leechburg, $35,000; Yardley School District, $30,000; Aspinwall School District, $25,000.**

* * *

Pennsylvania dealers welcomed the recent decision of the Treasury Department to admit its error in attempting to justify the imposition of a stamp tax on part of the bonds issued by the Delaware River Joint Commission. The Treasury's action, which included the refunding of about $10,500 paid by the Commission under protest, constituted another acknowledgment of the immunity of State agencies, not to mention States and local governments generally, from Federal taxation. This point was strongly emphasized by Joseph K. Costello, General Manager of the bridge commission, who commented in part as follows:

"Of much greater importance than the money in this case was the attempt by the Government to violate the historic principle of the immunity of State Agencies from Federal taxation. The progress of this case was watched with much concern by State officials throughout the country, who regarded the attempt to assess a stamp tax upon Commission bonds as the first step toward Federal taxation of all State and municipal bonds. Our Commission strenuously maintained that the imposition of the tax was a violation of the immunity of State instrumentalities engaged in the exercise of essential governmental functions."

## Sutro Opens Dept. Under W. McCandless

LOS ANGELES, CALIF.—Sutro & Co., Van Nuys Building, have opened a trading department under the management of William W. McCandless. Mr. McCandless has been with the firm for some time. Prior thereto he was with Searl-Merrick Co. and B. B. Robinson & Co. In the past he was a partner in McCandless, Troyer & Co.

## Harrington & Co. Opening

SAN MARINO, CALIF.—Mark H. Harrington is forming Harrington & Co., with offices at 1590 Shenandoah Road, to engage in an investment business. Mr. Harrington has been serving in the U. S. Navy. Prior thereto he conducted his own firm, Mark H. Harrington & Co., for many years.



# Post-War Farming

By W. T. MYERS*
Dean, New York State College of Agriculture

**Agricultural Expert, Holding That Farm Prices Will Depend Upon the General Price Level, Asserts That "There Is Danger in Carrying a Price Support Program Too Far." Says Government May Guarantee Prices but Cannot Force Purchases of Farm Products and That Efforts at Production Control Have Been Failures. Contends That Full Employment and High National Income Is Basis of Farm Prosperity and Urges Better Diets and Greater Food Consumption, as Well as Making Farming Attractive. Foresees No Farm Surpluses.**

This is the first time in our history that we have had two great wars within the lifetime of one generation, and I hope it is the last. Since these disasters have occurred it is important to avoid as many as possible of the mistakes that followed World War I, in domestic as well as international affairs.

W. I. Myers

World War II, started while we were still in a depression, brought prosperity to agriculture. The general pattern of New York farm prices thus far has been similar to that of World War I, with 1945 average farm prices about the same as in 1920.

The farm price of milk and costs in dairy farming have doubled since 1939. Farm wages have increased rapidly to meet the competition of war jobs and are more than twice as high as in 1939.

New York farm prices are about 20 to 25 per cent above their normal long-time relationship to the general price level and costs other than labor. We are very likely to lose this advantage over the next few years through a decline in prices or a rise in costs or both.

The violence of the readjustment in farm prices depends on the trend of the general price level over the next few years. If the price level declines, farm prices will fall faster and farther. This is what happened in 1920-21 when farm prices fell 50% in about a year. If the general price level remains stable, a moderate decline in farm prices would be expected; while if the price level rises moderately, farm prices would decline little if any.

**Danger of Supporting Prices**

Congress has passed measures to protect farmers against drastic price declines before they have time to readjust farming operations to a peacetime basis. There is danger of carrying a price support program too far, considering the long-time interests of farmers. For some commodities, especially those whose production was greatly increased in wartime, these support prices are likely to result in greater production than can be sold at these prices. The government can guarantee prices but cannot make consumers buy more than they desire, and if large government expenditures are required to make good on price guarantees, they are quite certain to result in rigid production control for such products.

Experience of the '30's proved that production control of individual farm products is not a solution for a too-low level of farm prices and incomes. Any program to raise total income by reducing

(Continued on page 2106)

*An address by Dean Myers before the 26th Annual Meeting of the Dairymen's League Cooperative Association, Syracuse, N. Y., Oct. 18, 1945.

# Bank and Insurance Stocks

## This Week — Bank Stocks

By E. A. VAN DEUSEN

There are still profits to be made in bank stocks. Standard & Poor's weekly index of New York City banks was 123.5 on Oct. 24, compared with the 1937 high of 154.5 and the 1929 high of 660.1. This is not to imply that the 1929 high will again be reached; in fact, it is devoutly to be hoped that it will not even be approached. But it seems entirely probable that by the time the present bull market has run its course, the 1937 high of bank stocks may have been well exceeded, and this indicates an average appreciation from present levels of at least 25%.

It is of interest to review the relative appreciation potentials of individual stocks, by comparing their current market prices with their highs of February 1937, as in the following table:

| | Asked Price 10-24-45 | Asked Price 1937 High | Potential Appreciation |
|---|---|---|---|
| Bank of Manhattan | 35 | 41½ | 18.6% |
| Bank of New York | 480 | 550 | 14.6 |
| Bankers Trust | 52½ | 72 | 37.1 |
| Central Hanover | 123¾ | 153½ | 24.0 |
| Chase | 45⅞ | 65½ | 42.8 |
| Chemical | 64¾ | 86 | 32.8 |
| Continental | 23½ | 22¾ | — 3.2 |
| Corn Exchange | 63 | 77¼ | 22.6 |
| First National | 1,975 | 2,710 | 37.2 |
| Guaranty Trust | 390 | 394 | 1.0 |
| Irving Trust | 20⅜ | 20¾ | 1.8 |
| Manufacturers Trust | 64 | 71 | 10.9 |
| National City | 50 | 61½ | 23.0 |
| New York Trust | 114 | 164 | 43.9 |
| Public National | 54 | 52¾ | — 2.3 |
| United States Trust | 1,595 | 2,150 | 34.8 |

The 1937 high of Bankers Trust, before retroactive adjustment for the 1944 20% stock dividend, was 86½, while that of Public before adjustment for the 1945 10% stock dividend was 58.

It is interesting to note that Continental and Public have already surmounted their highs of 1937, while Guaranty and Irving are very close. Chase and National City have reversed their relative positions; the former, which has recently developed a

| | Book Value Per Share 12-31-36 | Book Value Per Share 9-30-45 | Increase |
|---|---|---|---|
| Bank of Manhattan | $22.72 | $29.85 | 31.4% |
| Bank of New York | 316.55 | 431.69 | 36.4 |
| Bankers Trust | *33.00 | 47.28 | 43.3 |
| Central Hanover | 83.62 | 106.46 | 27.3 |
| Chase | 30.68 | 40.69 | 32.6 |
| Chemical | 36.69 | 46.66 | 27.2 |
| Continental | 19.94 | 25.42 | 27.5 |
| Corn Exchange | 43.25 | 52.73 | 21.9 |
| First National | 1,169.61 | 1,320.46 | 12.9 |
| Guaranty Trust | 299.29 | 344.79 | 15.2 |
| Irving Trust | 22.13 | 22.12 | 0.0 |
| Manufacturers Trust | 36.26 | 54.06 | 49.1 |
| National City | 25.31 | 42.80 | 69.1 |
| New York Trust | 80.54 | 91.68 | 13.8 |
| Public National | *33.93 | 49.00 | 44.4 |
| United States Trust | 1,525.54 | 1,530.33 | 0.3 |

*Adjusted for stock dividends.

lag, will have to appreciate 42.8% to reach its 1937 price, while City will have to advance only 23.0%. New York Trust is furthest behind of the 16 stocks listed. possibly on account of the dilution of equity which occurred in May 1943 when capital was increased from 500,000 to 600,000 shares through the sale of stock.

In relation to book-values, bank stock prices today are still cheaper, compared with 1937, than is indicated by their absolute price differences, as is brought out in the above table:

Stated book-values, as of Sept. 30, 1945, average 28.5% higher than the book-values of Dec. 31, 1936. Maximum gain in stated book-value is registered by National City, while Irving Trust shows no change, and U. S. Trust shows the minimum gain of 0.3%.

Currently these 16 stocks are selling at an average ratio to book-value of 1.15. Only two stocks, viz: Continental and Irving, are selling below book, while First National sells at the highest ratio of 1.50. The average ratio to book-values as of 12/31/36 for the 16 stocks, at the February 1937 high, was 1.80. To reach an equivalent ratio the bank stock market would have to advance approximately 56.5% from present levels.









# Ambassador Caffery Foresees Hard Winter In France

**American Diplomat Points Out Shortage of Food and Coal as Affecting Adversely France's Economic Recovery, but Is Optimistic Regarding Success of Nation's Reconstruction Efforts.**

PARIS, FRANCE—"French economic conditions are slowly improving, but nonetheless a hard and difficult winter looms ahead for the people of France," said Jefferson Caffery, United States Ambassador to France, in an exclusive statement to a representative of the "Commercial and Financial Chronicle."

Jefferson Caffery

The Ambassador pointed out that lack of food and coal are still two of the main factors impeding France's recovery, and added: "French production of these two key commodities has greatly suffered as a result of the period of German occupation. Sufficient imports of these two items to meet France's minimum requirements would not only substantially improve the serious French economic picture but would greatly hasten French over-all economic recovery."

In speaking of France's coal situation, Ambassador Caffery observed: "Even pre-war French production was scarcely sufficient to meet two-thirds of France's requirements, and although French progress to re-attain this level has been necessarily slow, great efforts and very real progress have been made in the past few months: During the week ending Sept. 10, coal production reached 80% of the 1938 average. Despite this improvement, the French coal situation is still critical, since prior to the war France depended on large coal imports from European sources which are no longer available."

The Ambassador also pointed out that the food shortage in France has had a direct effect on French coal production. "Prior to the war a miner extracted about 2,500 pounds of coal per day, whereas at present the current average is approximately 1,800 pounds per man per day. This is in a great measure the direct consequence of the fact that the caloric ration is now only about 1,700 per day. The French Government is striving to raise this food ration to 2,500 calories per day, but to do this will take time and food imports will be necessary."

"Transportation, on which depends the distribution of food and necessary commodities, is also predominately dependent on coal," said the Ambassador, "and although facilities have improved, there is still only half as much rail traffic as prior to the war. Railways operate with a coal reserve sufficient to cover only a few days of normal operations.

"Furthermore, particularly during the winter months, French production of electricity which furnishes power not only for industrial plants but also for the operation of essential public utilities, is often dependent to a very considerable extent on thermal electric power produced from coal.

"It is obvious," said Ambassador Caffery, "that French economic recovery is linked with the problem of food and coal, which France must import to meet her most minimum requirements. The United States is helping and we are now in fact shipping an average of almost 500,000 tons of coal a month. But even with this, the amount of coal which will be available in France will still fall short of France's essential minimum. And this minimum is a modest one — for example, the minimum established for a French family is only one half ton of coal for the entire winter.

"Despite the privations and difficulties which the French people are suffering, I am confident that if they are able to procure the necessary imports to permit them by their own efforts to rebuild France, they will proceed courageously with the task of reconstruction. And French reconstruction will bolster economic and social stability not only in France but throughout the world."

# A Survey of Business Conditions*

**National Association of Purchasing Agents' Committee Sees Slight Upward Trend, With Unchanged Prices and Lower Inventories. Holds Government Controls Still Control Buying Policy in Some Fields.**

The Business Survey Committee of the National Association of Purchasing Agents has released the following report on business conditions as of Oct. 28:

George E. Price, Jr.

Our reports indicate a slight upward trend, although the increase in general business is being seriously affected by strikes. The shortage of manpower plus reconversion problems are a check on progress. Business still remains good, however, and the prospects are for continued good business for some time, if the labor unrest diminishes.

While additional contract terminations and shortages of materials have largely offset the increase in civilian production, the general tone remains strong.

Increased buying by war veterans is offsetting the slowdown of war workers' buying. Retail trade is still good.

Where war contracts are out of the way, orders for civilian goods are piling up. Some buyers report civilian business now exceeds military cancellations.

Business on the West Coast has been hit hard by war contract cancellations. Despite this, general business activity is reported up 6% over the same period a year ago.

In Canada, the demand for goods seems unlimited. Labor conditions are worse. Regulations

(Continued on page 2112)

*Composite opinion of purchasing agents who comprise the N. A. P. A. Business Survey Committee, whose Chairman is George E. Price, Jr., Purchasing Agent, The Goodyear Tire & Rubber Company, Akron, Ohio.

# Leisure Stocks Discussed

By ROGER W. BABSON

## Mr. Babson Suggests Capitalizing on Fact That People Now Have More Leisure Time

BABSON PARK, MASS.—When war plants were going full-blast, I suggested to readers of this column that they buy the stocks of merchandising companies **because people then had MONEY to spend.** Now, when these war plants are shutting down, I suggest the serious consideration of the stocks of leisure companies **because people now have TIME to spend.**

Roger W. Babson

### Leisure Stocks

There are several examples of leisure stocks—namely, stocks of companies which have their peak business when people have the most spare time;—that is working forty hours per week instead of fifty-four hours. Ordinarily, movie stocks would be a good example; but they have already gone up so much in price that they may not now be attractive. A true leisure stock is one which was obliged to curtail and cut its dividend during wartime.

Perhaps the simplest examples of companies profting most when wage workers have reasonable leisure are those making bowling alleys, billiard tables and the like. This should be especially true if the company has funds so as to be able to sell on installments as soon as the restrictions are off installment selling. Please, however, do not ask me to name any such company. Go to your broker and ask him to tell you what concerns are the leaders in the field. Incidentally, such stocks are the best hedge against the unwarranted activities of labor leaders.

### Opportunities For Veterans

I hesitate to advise any returning veteran to enter business for himself at this time. By all means make every effort to buy out some small existing business rather than to start a new business. However, if a reader is really determined to enter business for himself he had far better stick to the "service" line of companies. They are more adapted to being run by their owners and—as a rule—are not dominated by labor leaders.

A company which installs bowling alleys and similar apparatus is usually prepared to enter the installment business. Certainly, installment stocks, which have been held back throughout the war, should be better purchases than the stocks of most concerns. Hence, a veteran may open a new bowling alley with the payment of a very little money down because these "sports" concerns are prepared to "install on installment payments." Another thought: Such sports as bowling, pool, etc., which up to now have been patronized 90% by men, will soon also become a women's sport as well.

### Recreation Becoming An Industry

A generation or so ago, sports were carried on in an informal way—largely by colleges, Y. M. C. A.'s and clubs of various kinds. This was because people worked long hours and only the young, the old and the unemployed indulged in baseball, bowling, pool, etc. But today the situation is rapidly changing. I even forecast that football teams will be incorporated and stock sold to the public.

The commercialization of sports has both advantages and disadvantages. If it is controlled by men of good character and kept clean, it will work out for the good of all. Certainly, men and women, after finishing their day's work, would be better off by bowling than by drinking—and the two cannot successfully be combined. Another thing which should be remembered by all readers of this column: Although it is the personal affair of an individual and his employer what he or she does during his working time, it is of paramount importance to the entire community what he or she does during the leisure hours.

### Remember Filling Stations

Yes, it is a sure bet that wage workers will have more leisure time during the next few years than they have had any year since 1939. May it not be wise to capitalize this coming change? Readers remember how I urged the buying of closed filling stations two years ago. Well, they are now selling for double and treble their then wartime prices. Look **forward — not backward!**

# Meyer Willett With C. E. Unterberg Co.

Following the dissolution of the firm of Bristol & Willett, Meyer Willett has become associated with C. E. Unterberg & Co., 61 Broadway, New York City.

# President Calls on Mayor LaGuardia

New York's City Hall received the first recorded visit of a President of the United States when President Truman, on Oct. 27, en route uptown from the Battery for the Navy Day ceremonies, stopped off to pay a visit to Mayor LaGuardia. The President, whose arrival was watched by a crowd of 20,000 persons congregated in City Hall Park and nearby streets, remained just long enough, the New York "Times" reported, to listen to a hymn sung by the chorus from Columbia University Midshipmen's School, shake hands with a few attaches of the Mayor's office, and wave at the assembled crowd. The President received a rousing cheer from the thousands in the street as the official party left City Hall.

# Robt. Jones Resumes Duties in Firm

WASHINGTON, D. C.—Col. Robert C. Jones has returned to his investment firm, Robert C. Jones & Co., Metropolitan Bank Building, after more than three years of active military duty with the Army overseas. Colonel Jones, who was assigned to the staff of Gen. H. H. Arnold, Chief of the Army Air Forces, was awarded the Legion of Merit and wears the American, European, African and Asiatic Pacific theater ribbons. He has two sons who have had long overseas service and are still in the European theater, Capt. Robert C. Jones, Jr., and Sergt. Kenneth P. Jones.

# Mutual Funds

## "Events Without Parallel"

In his letter to stockholders accompanying the quarterly report of **Incorporated Investors,** William A. Parker, President, draws attention to the "succession of military and economic events almost without parallel" which occurred during the three months under review. Among these events he lists the following: the atomic bomb, the entrance of Russia into the Japanese conflict, the surrender and occupation of Japan, the sudden termination of war production, the demobilizing of the armed forces, and the outbreak of strikes on a broad front.

It should be reassuring to investors that during this period the securities markets behaved so well. Their performance is reflected by the increase in per share net asset value of Incorporated Investors from $28.78 at the beginning of the period to $29.91 as of Sept. 30. Total net assets of this fund increased from $73,723,428 to $78,016,659 during the quarter.

The report also calls attention to the increase in holdings of cash and Governments in the quarter from 3.9% to 8.4% in accordance with the previously stated policy of accumulating liquid funds with which to pay a capital gain dividend in December. Although the exact amount of this dividend cannot yet be determined, in the judgment of the management it will probably amount to not less than $2.50 per share.

*Fundamental Investors*

Stating that "good management is cumulative," **Hugh W. Long,** in a current bulletin on **Fundamental Investors,** compares the performance of this Fund with the average of the 22 common stock funds covered in Barron's investment company gauge. The figures reveal that in every period shown from the end of 1936 to date Fundamental has substantially outperformed the average of the 22 funds.

The cumulative improvement in Fundamental's performance over the average was as follows:

| | |
|---|---|
| In 1¾ years | 18½% |
| In 3¾ years | 39% |
| In 5¾ years | 49½% |
| In 7¾ years | 55% |
| In 8¾ years | 116% |

*Reconversion*

**Distributors Group** has an interesting Investment News with a chart showing the long-term trend of industrial production which is now off rather sharply from its wartime peaks. A straight red line is drawn through the chart at the lowest level of production anticipated during reconversion. This low point substantially exceeds the best levels ever attained in previous peacetime years.

"We believe," writes Distributors Group, "that the 160-level will mark the low point of the reconversion decline. This is 42% higher than the 1937 average of 113, and 32% higher than the 1937 high point of 121. . . .

"Following reconversion we expect a growing volume of peacetime production to carry the index back to higher levels—probably to 200. It should be particularly significant to investors that a peacetime production level of 200 on an average 38-hour work week will mean more actual physical production—more business—than we had at the wartime peak of approximately 250."

*"Getting Sales Results"*

Douglas Laird of **National Securities & Research Corp.** has reissued an excellent booklet originally prepared by him in 1936 which is addressed to salesmen and discusses some of the problems involved in "getting sales results."

The booklet lists 10 laws of salesmanship. A careful study of them is certainly recommended for new salesmen—in fact, we suspect that most oldtimers could review them with profit.

*Whipsaw*

**Lord, Abbett's** current Investment Bulletin on **Union Bond Fund C** presents a startling chart showing the "whipsaw" which has caught most of us as a result of the rising cost of living on the one hand and the decline in bond yields on the other. The bulletin reveals that it now takes $58,000 of high-grade bonds to support the standard of living possible with $25,000 only 10 years ago.

Lord, Abbett suggests that "investors faced with these unhappy facts may find at least a partial answer in the shares of Union Bond Fund C." While not made up of high-grade bonds, the combination of issues in diversified industries, professionally selected, should not represent an unreasonable increase in risk.

*Wartime Taxation and Speculative Stocks*

**Keystone Co.** continues its series of charts on the effect of wartime taxation on security earnings in the current issue of Keynotes. The stocks covered in this study are the 50 lower-priced common stocks currently held in Keystone S-4.

As a group, these stocks earned before taxes $7.83 per share on average last year. Income and excess profits taxes took $5.75 per share, leaving only $2.08 net for shareholders. With elimination of the excess profits tax alone, these same stocks on the same earnings before taxes could show net income of $4.50 per share.

*Growth Industry*

"40 Million Cars by 1960!" is the heading **Hugh W. Long & Co.** gives to a new bulletin on the **Automobile Industry Series** of **New York Stocks.** This forecast was made by George W. Romney of the Automobile Manufacturers Association and would mean a production of something like 6,000,000 cars each year over the next six years.

Since "volume spells earning power to the auto industry," the bulletin asks, "What could be more reassuring to the investor who is intent upon placing his funds where sustained earning power at a high level is virtually assured beyond the ordinarily foreseeable future?"

*General Investors Trust*

In their report for the nine months ended Sept. 30, the Trustees of **General Investors Trust** point out that during the last three years the portfolio has produced for shareholders a better-than-average income of about 5%. At the same time and notwithstanding the management's conservative policy, there has been a gain of 62% in the assets which is reflected in the price of the shares.

Net assets as of Sept. 30 amounted to $2,202,894 or $6.19 per share.

*Stocks vs. Bonds*

**Selected Investments Co.,** in a current bulletin, compares stock and bond yields at current price levels. The spread is 1.24% for industrials, 2.63% for rails and 0.69% for utilities. These spreads compare with —0.06 for industrials, —0.61 for rails and 1.41% for utilities at 1937 highs.

The bulletin points out further "that the only way bond yields can rise is for bond prices to fall." On the other hand, stock dividends are expected to rise with relaxation of wartime taxes and controls. And "when dividends on stocks rise, stock prices also usually tend to rise, thus making the change doubly favorable."

*George Putnam Fund*

In the Trustees' Report to Beneficiaries of **George Putnam Fund** for the quarter ended September 30, 1945, the net assets of the Fund are shown at $14,596,000, as compared with $13,904,000 at the beginning of the period. During the quarter, the investment backlog portion of this Fund was increased from 27% to 31%, the dependable fixed income portion was reduced from 28% to 27% and the common stock portion was reduced from 45% to 42%.

"We are very conscious of the kind of money that is in this Fund," write the Trustees; "we know that most of this money represents savings — important dollars of people who cannot speculate with them. . . . We believe that this Fund under prudent management provides an answer to this problem."

*Broad Street Investing Corp.*

Net assets of this Fund as of September 30, 1945 amounted to $8,229,988, equivalent to $38.11 per share of capital stock.

*National Investors Corp.*

Net assets of this Fund as of September 30, 1945 totaled $15,103,303, equal to $10.65 per share of stock outstanding.

**Mutual Fund Literature**

**North American Securities Co.**—A memorandum on **Commonwealth Investment Co.,** showing diversification of a $10,000 investment in Commonwealth as of September 30. . . . **Selected Investment Co.**—Current issue of "These Things Seemed Important." . . . **Keystone Co.**—Revised portfolio folders on **Keystone Custodian Funds B-1, B-2, B-3 and B-4.** . . . **Lord, Abbett**—A new folder containing revised portfolio leaflets on all Lord, Abbett sponsored funds; current issue of Abstracts. . . . **National Securities & Research Corp.** — Current memorandum showing current portfolio of **National Stocks Series;** revised folder on **National Low Priced Bond Series.** . . . **Distributors Group**—An Investment News entitled "Intermission"; a letter to dealers discussing "Salability of **Group Securities, Inc.**" . . . **Hare's Ltd.**—Revised folders on the four funds in **Institutional Securities, Ltd.**

**Dividends**

**New York Stocks, Inc.**—The following dividends, payable Nov. 26, 1945 to stockholders of record Nov. 5:

| Series— | Distribs. per Share Reg. | Extra | Total |
|---|---|---|---|
| Agricultural | $.16 | $.26 | $.42 |
| Alcohol & Dist. | .10 | .09 | .19 |
| Automobile | .09 | .26 | .35 |
| Aviation | .30 | .47 | .77 |
| Bank Stocks | .09 | .00 | .09 |
| Building Supply | .12 | .29 | .41 |
| Business Equip. | .13 | .62 | .75 |
| Chemical | .14 | .24 | .38 |
| Electrical Equip. | .11 | .29 | .40 |
| Food | .20 | .28 | .48 |
| Government Bonds | .00 | .00 | .00 |
| Insurance Stock | .07 | .03 | .10 |
| Machinery | .13 | .21 | .34 |
| Merchandising | .11 | .78 | .89 |
| Metals | .10 | .21 | .31 |
| Oil | .21 | .34 | .55 |
| Public Utility | .04 | .55 | .59 |
| Railroad | .11 | .49 | .60 |
| Railroad Equip. | .11 | .22 | .33 |
| Steel | .16 | .22 | .38 |
| Tobacco | .11 | .25 | .36 |
| Diversified Invest Fund | .23 | .23 | .46 |
| Diversified Spec. Shares | .12 | 1.09 | 1.21 |













## Clark Again Named to Head IBA Group

Sydney P. Clark

PHILADELPHIA, PA.—Sydney P. Clark, E. W. Clark & Co., has been renominated as Chairman of Eastern Pennsylvania Group, Investment Bankers Association. Others renominated are: H. Gates Lloyd, Drexel & Co., Vice-Chairman; Albert R. Thayer, Thayer, Baker & Co., Secretary-Treasurer.

## Dunn Southeastern IBA Group Chairman

WASHINGTON, D. C.—Richard P. Dunn, of Auchincloss, Parker & Redpath, has been elected Chairman of the Southeastern group of the Investment Bankers Association. Mr. Dunn, formerly Vice-Chairman of the group, succeeds J. Creighton Riepe, of Alex. Brown & Sons.

Other officers of the group elected were: George G. Shriver, George G. Shriver & Co., Inc., Vice-Chairman; Shirley C. Morgan, Frank B. Cahn & Co., Vice-Chairman, and George D. List, Robert Garrett & Sons, Vice-Chairman; all are from Baltimore.

T. Baker Robinson, Robinson, Rohrbaugh & Lukens, Washington, was elected to the executive committee for a three-year term. Edward C. Anderson, Scott & Stringfellow, Richmond, was named for a one-year term.

## C. C. Collings & Co. Opens New York Branch

C. C. Collings & Co., Inc., Philadelphia investment house, is opening an office at 149 Broadway, New York City.

# War Labor Disputes Act Condemned

**Assistant Secretary of Labor, D. W. Tracy Says It Confronts Government With Almost Impossible Administrative Job and Increases Friction Between Labor and Management. Asks for Retention of Seizure Provisions of the Act.**

Daniel W. Tracy, Assistant Secretary of Labor, appearing before the House Committee on Military Affairs on Oct. 19, as a spokesman for the Department of Labor, strongly urged the repeal of Section 8 of the War Disputes Act (the Smith-Connally Act) which established the practice of holding supervised secret strike votes. Speaking on House Bill 3937, Mr. Tracy expressed the opinion that the bill should be examined from the standpoint of its practical effect on industrial relations. Where need has been shown for a change in the law, then a change should be made.

Daniel W. Tracy

There is a very serious need for a change with regard to Section 8 of the War Labor Disputes Act which establishes the procedure for filing notices of labor disputes, holding secret elections on the question whether the workers want to strike and providing for a so-called cooling-off period, continued Under Secretary Tracy, and he stated further:

Mr. Houston of the National Labor Relations Board spoke to you on Wednesday about the administrative troubles facing the National Labor Relations Board. The Board just cannot handle the volume of work that is being put on it by reason of the increase in the number of disputes notices. I looked at the figures on dispute notices before coming to this hearing and found that in the week ending Oct. 17 there were 123 notices filed as against 13 notices in the same week last year. That amounts to an almost tenfold increase in the number of notices. When you consider that a recent notice involved over 3,000 separate employers and that many notices involve entire industries, I believe you will agree that the Government is confronted with an almost impossible administrative job.

I am also of the opinion that we are not getting results that justify the amount of time and money we are putting into the job.

Although this law is on the books and was intended to reduce labor disputes, Mr. Tracy said, it is having no such effect. In fact, the information I have received indicates that this part of the law serves to increase friction between management and labor. The advantages of a strike vote conducted by the Government have not been overlooked. It can be used and is used as a part of the collective bargaining process. Furthermore, the so-called "cooling-off" period of 30 days frequently becomes the white heat point of the dispute.

Since this part of the War Labor Disputes Act is not workable and is hurting rather than helping the cause of industrial peace, I am of the view that it should be repealed. Regarding other provisions on the existing law, Mr. Tracy remarked:

I do not believe that the same can be said of the other parts of the Act which relate to labor relations. The seizure provisions of the War Labor Disputes Act should be retained for the time being since they may prove useful in the event of emergency. The fact that these provisions are in the law does not mean that they must be used. I can assure you that the Secretary of Labor fully recognizes that this power is to be used sparingly, if at all. We do not believe it wise, however, to eliminate this precautionary measure at this time.

I am also of the view that it would be premature to take the action proposed by the bill with respect to the National War Labor Board. The entire question of methods of handling labor relations is under consideration by industry and labor. As you know, the President has called a conference of management and labor to meet on Nov. 5 for the purpose of considering ways and means of handling labor relations. I would suggest that it would be more timely to consider the appropriate legislative action on the National War Labor Board after there has been an opportunity for management and labor to discuss and develop their views on the subjects of the conference.

# Victory Loan Drive Opens

**Constitutes Final War Bond Drive. President Truman Buys First Roosevelt Bond at White House. The Financial Community Gets Into Action. Quotas for Sales to Individuals Sharply Reduced. Appraisal of Sales Results Will Be Unavailable Until Nov. 25.**

The Victory Loan—the eighth and last Bond Drive—was officially opened in Washington Oct. 29. In a ceremony outside the White House executive offices President Truman initiated the campaign by purchasing one of the new Franklin D. Roosevelt E-Bonds from Secretary of the Treasury Vinson. In the evening, Mr. Vinson set the national campaign in motion in a coast-to-coast radio broadcast. Also on the broadcast was General Omar Bradley, formerly commander of the 12th Army Group and now chief of the Veterans' Administration. General Bradley pointed out that one of the largest Government expense items arises from the necessity of providing for disabled veterans.

The financial community signalized its entry into action when Emil Schram, President of the New York Stock Exchange, bought a bond jointly from James E. Hollingsworth, director of the Banking and Investment Division, and Richard L. Kennedy Jr., Chairman of the Broker-Dealer Syndicate. Mr. Schram pointed out that war bonds comprise the only security recommended by the New York Stock Exchange, and he revealed that 70% of the Exchange's current assets are already invested therein. The War Finance Committee's Banking and Investment Division, made up of bankers, brokers and dealers, is working feverishly to boost its all-Loans total sales to $37,000,000,000. Today a giant rally is being held in front of the Sub-Treasury Building on Wall Street, at which Mr. Vinson will speak, singers will entertain, and brass bands will hold forth.

### The New Quotas

The total quota for sales to "corporate" borrowers, at $7 billion, is the same as that in the last Loan. The quotas of sales to individual buyers are, however, sharply reduced. The goal for series E bonds is only $2 billion, which is but one-half the total in the last Loan, and lower than for any previous Loan. The quota for sales of all issues to individual buyers is set at $4 billion contrasted with a quota of $7 billion and sales of $8.7 billion in the last Loan. This $4 billion quota is less than in any Loan since the second.

Appraisal of this drive's results will not be ascertainable until Nov. 15. As the open market issues carry interest only from that date, the substantial orders thereof will be held in abeyance until then. Prior thereto only the E, F and G bonds and savings notes will be purchased at their average rate. The one-year certificates bear interest only from Dec. 3 on. All subscriptions by "corporate" buyers will be counted only in the six-day interval of Dec. 3 through Dec. 8.

# Robert Fitts President Of Paper Bag Institute

At a recent meeting held in New York City, Robert L. Fitts, President of the Southern Advance Bag and Paper Company of Boston, Mass., was elected President of the Paper Bag Institute, Inc.

Robert L. Fitts

Mr. Fitts was a member of the War Production Board Pulp Allocation Committee during the war. As President of the Paper Bag Institute, Inc., he represents an industry which in normal times does approximately $90,000,000 worth of business and consumes more than 600,000 tons of kraft paper annually in the production of grocers' and variety bags.

# Full Employment Bill—Aims and Methods

**By ELISHA M. FRIEDMAN**
**Consulting Economist**

**Mr. Friedman Holds That Notwithstanding the Noble Intent of the Full Employment Bill, It Is Not Practical Because of the Inability of "Mortals" to Forecast Economic Conditions. Gives Illustrations of Erroneous Forecasts, and Urges That Congress Study Individual Employment Problems Instead of General Economic Conditions. Says Profits Create Employment and That Congress Can Create Relatively Few Jobs and It Is a Fallacy to Say Government Can Employ Workers if Industry Won't.**

The intent of the Full Employment Bill, S. 380, is noble. In an ideal society, its members are all employed. That is a high goal of aspiration. But the methods outlined in the bill will not realize that goal. The bill calls for "a national production and employment budget for the ensuing fiscal year or longer period." It is beyond the possibility of any man or group of men to make such a forecast.

E. M. Friedman

Look at the fluctuations in the index of production over the past 30 years or more. What businessman or economic organization, what Government official or political administration in the past 30 years has predicted these fluctuations correctly, even up to 50%?

The history of prophecy by government officials is none too brilliant, even by our Presidents. During the weary years of depressions, from 1930 to 1932, we heard a memorable, short-term prophecy from President Hoover, "Prosperity is just around the corner." In the spring of 1937, when President Roosevelt said, "we planned it that way", the country went into a depression a few months later at a speed unparalleled in American history. In 1928 President Coolidge and Secretary Mellon said that stocks were not too high and that brokers' loans were not too high. In the spring of 1937 President Roosevelt said that commodity prices were too high and a few months later the administration was frantically trying to lift commodity prices off the bottoms to which they collapsed.

Who can guess the future? Forecasting economic conditions 16 months ahead is a task for gods, not mortals. When the Interstate Commerce Commission tried to forecast earnings of railroads in reorganization, Commissioner Carroll Miller, an engineer by profession, wisely said, "We are not omniscient and cannot foresee the future" (242 ICC 475).

The human mind is fallible. A hundred human minds are equally fallible, even if they be government officials engaged in forecasting. What a strange dogma we hold, that a government forecast is infallible. Look at government estimates in a narrow field made by specialists in that field. Look over the Department of Agriculture forecasts in the spring of what the final crop would be for the year. Yet the size of the crop determines the market price and both determine farm purchasing power and demand for machinery and automobiles.

Look at the ICC forecasts over a period of years. Read Fairman B. Dick's revealing history of the complete failure of the ICC to forecast economic conditions or earnings, cited in his testimony before the House Judiciary Committee on the Hobbs bill (H. R. 2857 of 1943, pp. 85-86). What government forecasts have ever been reasonably correct over a period of years? How much government foresight is revealed in the Pearl Harbor report? Or in our pre-war policy of unpreparedness?

For the Government to forecast an employment budget 16 months ahead is obvious nonsense to any dispassionate economist, even now. It will be obvious nonsense to the man in the street after the first few guesses. The notion will be discarded, undoubtedly. In addition, the proponents of the forecasting feature of this measure will be discredited. The Government's prestige will fall both in the eyes of its citizens and in the opinion of the rest of the world. No other government ever attempted such an impossible task as is now proposed. The whole conception is naive. It represents wishful thinking by sincere high-minded men. In 1933 we lagged 30 to 50 years behind Europe in unemployment insurance, old age pensions and other social legislation. In 1945 we rush thoughtlessly ahead in a field where other nations have feared to tread.

For Congress now to pass a bill that all Americans have the right to regular, full-time employment and for the Federal Government to assume the responsibility, is similar to a convention of physicians voting perpetual perfect health for everybody. But, medicine did reduce disease and mortality rates greatly in the past century. How did the doctors attack their problem? They conducted research in each disease—typhoid, smallpox, etc. As a result, the scientists devised methods to prevent a particular disease. Typhus, cholera and smallpox, the scourges of a century ago, have been effectively prevented. Scientists also found means of curing particular diseases like pneumonia and tuberculosis.

Similarly, our Congress in Washington must study individual unemployment problems. Is unemployment in the building industry due to the gap between the wages of masons and of tenants? Can a $20 a day mason be kept employed building homes for clerks who earn $25 a week? Is the high cost of building affected by uneconomic labor practices and rackets such as Attorney General Thurman Arnold pointed out in his Congressional testimony before the Truman Committee? Are workers in the electrical equipment industry idle because the SEC is breaking up the utilities instead of consolidating them into regional systems as the law requires and as the British did with their railways? Are railroad workers idle because the Government is subsidizing the competitors of the railroads? There is no panacea for general unemployment. Each particular industry must be studied. When Louis D. Brandeis was asked "What is your social philosophy?" he answered, "I have no general philosophy. All my life I have thought only in connection with the facts that come before me."

The United States Government has few jobs and it can create relatively few. The Soviet Government, which is in business, has many jobs and can create others. But it has a very low wage-scale and low standard of living, lower than our relief clients. It is so low, that in the Potsdam Declaration, the Big Three agreed to keep Germany's standard of living below the average of European countries, excluding Soviet Russia, which was presumably too low even for a defeated enemy.

Whoever produces goods, whether the private businessman or the capitalist state, can give jobs. In the United States, business is still conducted by private enterprise. All the Government really can do is to see that suffering due to widespread unemployment is alleviated. The Government can increase employment by encouraging the job-givers. Encourage the entrepeneur. Or, at least cease penalizing him unduly by taxes on production and by wasteful labor practices which raise costs.

The question of full employment can be made clear through the income account of a business. Profit is what makes the economic machine go. Profits create employment. Periods of maximum employment are periods of maximum profits. Periods of maximum unemployment are periods of maximum losses. If the costs exceed the selling price, a business loses money. Costs must be reduced. Then labor is discharged temporarily. If not, the employer becomes bankrupt and the jobs disappear permanently.

In the order of priority of claim, wages come first, and dividends, if any, come last. To employ workers involves risks. The volume of employment depends on the risks, economic and political. But when our Government employs, it takes no risks. It "passes the buck" to business, which provides the taxes. But when the Soviet Government employs workers, it does take a risk. It cannot transfer the responsibility. There is no private business which provides income for taxes. Therefore in Soviet Russia, wages are fixed to leave a profit. Therefore there is full employment.

The Soviet Government can take responsibility for full employment because it has power over wage rates. Strikes are not allowed.

No union dare fight the Soviet State. The American employer has no such power over wage rates. American unions, however, undertake to manage, but refuse responsibility for business losses and resulting unemployment. They look to Government to bail them out. The Government then assumes the responsibility for union policy. We talk about the profit motive and then permit or foster policies which prevent profits and create unemployment.

It is a fallacy to say that the Government can employ workers if industry won't. If there is a profit, industry will operate. But if there is a loss, even a government cannot operate permanently. Permanent subsidies for unprofitable public business is impossible. The full employment bill must be checked against a businessman's statement of income, or profit and loss.

Public works, the reliance of Bill S. 380, are not important factors in employment. Look at the record from January, 1934, to January, 1939. Our unemployment figures were about the same at both dates. But our debt increased about $13 billion. When a national income falls by twenty billion dollars, a public works program is insignificant.

What we need are flexible wages. When selling prices decline, costs must decline. Only under flexible wages is constant high employment possible. Dividends average about 6% of the national income and wages about 70%. Even if the stockholders were wiped out and the workers took over the business, costs could not exceed selling price. Wages would then have a ceiling, determined by selling prices. Today there seems to be no ceiling.

In a simple primitive economy the wage of the artisan depends upon the selling price of his product. That is clear. In our complex modern economy of mass production by coordinated specialists, wages must also be determined by selling prices. That is not so clear. It is the task of economists to enlighten the public.

We should not talk in generalities. We must study individual causes of unemployment. We must change our attitude to the railroads and the utilities. The British in 1921 consolidated their 126 railroads into four systems. None went bankrupt ever since. Orders for locomotives and cars were fairly steady. Employment was steady. We do have a single nation-wide telephone service. But we did not permit our railroads to consolidate. Almost 40% went bankrupt in the last 10 years—the highest in history. Their orders for equipment fluctuated violently. Then workers in the railroad-equipment industry lost their jobs.

We are breaking up the utility holding companies. In two years, 1934-35, orders for electric utility equipment declined 80% below the average of 1919 to 1933. We should not disintegrate but consolidate the utilities as the law demands. We could thus stimulate expansion and employment.

If selling prices remain flexible, as our anti-trust laws contemplate, wages must remain flexible. Rigid wages would require rigid selling prices. Labor monopoly requires industrial monopoly. High employment requires balance between wages and selling prices. Not legislation, but bookkeeping tests, will give us full employment.

The full employment bill S. 380 has embarked on a huge undertaking in Government control of business. We might well recall a dissenting opinion, by Justice Louis D. Brandeis, on the right of the State of Oklahoma to control the manufacture and sale of ice (1932): "We have been none too successful in the modest essays in economic control already entered upon. The new proposal involves a vast extension of the area of control. Merely to acquire the knowledge essential as a basis for the exercise of this multitude of judgments would be a formidable task."

This wise man, in a letter to Robert W. Bruere in 1922, wrote: "And do not pin too much faith in legislation. Remember that progress is necessarily slow; that remedies are necessarily tentative; that because of varying conditions there must be much and *constant inquiry into facts* * * * and much experimentation."

By all means, let us keep in mind the high goal of full employment. But let us concentrate more on the method of attaining this goal. There is no immediate danger. We need not worry about long-term unemployment immediately, or even for several years, until the unsatisfied demands of consumers are met. Then, long-term unemployment may become a pressing problem.

Therefore, let the Congress appoint a committee of experts to study the causes and cure of unemployment, not merely in its broad aspects, but also industry by industry. Let this committee of experts point out what evil practices, by business, by government and by labor, prevent employment and create unemployment. Here is a task for practical social idealists. The passage of the bill as it stands can only result in failure to realize the goal and thus discredit the lofty aim with which there is universal agreement — "useful, remunerative, regular and full-time employment".

## Kidder, Peabody Offers Pacific Greyhound Pfd.

An investment banking group headed by Kidder, Peabody & Co. and Dean Witter & Co. on Oct. 26 offered to the public at par ($100) and dividend, (subject to authorization by the Interstate Commerce Commission), 50,000 shares of Pacific Greyhound Lines 4% cumulative preferred stock.

Proceeds, together with other funds of the company, will be applied to the redemption of the $94,455 shares of $3.50 convertible preferred stock at $55 per share and accrued dividends. The new preferred is subject to redemption at $103.50 per share and accrued dividends to Jan. 1, 1947, and thereafter at prices decreasing 50 cents each year to Jan. 1, 1953, and thereafter at $100 per share. It is also redeemable for the sinking fund at $100 per share.

The sinking fund provides for retirement each year, beginning with 1947, of 2% of the number of shares issued, and the company may also make certain additional optional sinking fund payments.

The company is the largest operating unit of the Greyhound System which operates through the coordination of separate units controlled by The Greyhound Corp., a motor bus system in 44 states and in several provinces in Canada. The Greyhound Corp. owns 56,270 shares or 59.5% of the company's outstanding convertible $3.50 cumulative preferred stock, which will be eliminated as a result of the present financing, and 256,000 shares, or 60.9% of its outstanding common stock. Southern Pacific Co. owns the balance of the common stock, consisting of 164,000 shares, or about 39%.

Giving effect to this financing the company's outstanding capitalization will consist of long term debt of $866,423; 50,000 shares of 4% preferred stock and 420,000 shares of common stock.

## Liberty Fabrics Stock Offered at $7 1/8 Per Sh.

Offering of 100,407 shares of common stock, $1 par value, of Liberty Fabrics of New York, Inc., was made Oct. 30 by R. H. Johnson & Co. The stock, priced to the public at $7⅛ per share has been oversubscribed. The shares are being sold for the account of stockholders, principally in liquidation of an estate.

The outstanding capitalization of the company consists of a $500,000 promissory note to the Chase National Bank of the City of New York at 3½% per annum; $150,000 principal amount of 4% promissory notes; and 150,407 shares of $1 par value common stock.

The company was incorporated in 1910 as the Liberty Lace and Netting Works under the laws of New York. The name was changed recently to Liberty Fabrics of New York, Inc., and the company is now engaged in the manufacture and sale of nettings made of Lastex yarn and other fibres such as rayon, nylon and cotton used principally in the making of two-way stretch girdles. It also makes elastic and non-elastic laces such as are used by the hosiery, dress and underwear industries, and produces veilings, and other meshes of various fibres used in the manufacture of hair nets.

The company expects to increase its production of elastic fabrics to a point where its sales of these fabrics will approximate its former percentage of gross sales in this type of material to total sales.

# A Picture of the Future

(Continued from page 2074)

safe enough to use freely for a long time. The age of electronic alchemy in which we live today means essentially that it is now potentially possible to make anything—materials, machines and energy—out of anything or almost nothing, anywhere in the world, in any amount, almost without measurable cost in terms of time and labor.

**The Alchemy of Modern Industry**

"The atmosphere of magic that surrounds the alchemy of modern industry seems to have released men's minds from the spell of the age-old ideas of scarcity and sacrifice, effort and thrift, and made them concerned for the first time in history with the problem of consumption. Whether or not this preoccupation may prove a delusion, it is already clear that in little more than a generation modern industry, as we know it, especially in America, has ceased to be merely an assemblage of miraculous and almost human machines living around coal and iron mines, or even at the end of electric power lines. It has become a chemical or electronic laboratory process, a continuous flow of atoms, molecules and energy, involving less and less men, or money, or machines, or natural materials, and almost no necessary local habitation or name.

"The most general fact we must face is that if the age of alchemy means what it seems to mean, it must ultimately dissolve and, indeed, is already dissolving, the monetary mechanism of exchange of goods and services as we have known it, just as it is transforming other materials and machines. It is not merely that we have found the philosopher's stone and could make gold or almost any other element in our laboratories, but that it would really no longer be worth doing, because nothing, whether gold or any other material, can be of permanent or lasting value to anybody when a technology of transmutation supplants one of manufacture. Even today one can no longer define with any confidence or clarity what a dollar is or what it is worth, in terms of gold or anything else, except in connection with some specific current international transaction or immediate domestic use; and no one would dare to guess what it would be worth 50 years from now for either purpose. Dollars are now being made not in mints, or even in banks, but in laboratories and government bureaus. What they are or will be worth depends mainly upon atoms, chemists and governments, to some extent still on management, but hardly at all on land and labor.

"As you come to a time when gold or paper or anything can be made anywhere of anything else, money as we have been accustomed to it must be of little or no use as a store of wealth, and its value must tend to evaporate. We can now think of such a process only in terms of rising prices shaped by voluntary supply and demand in a free market, or what we call "inflation" or currency depreciation; but it may not happen that way at all, for if things were freely available, without much effort or time, money would be of little use, except as an arithmetical or accounting convenience, which might be served in some other way, as by some sort of general ration card, universal consumer's license, or blanket lien on the national product. Certainly no one would think of saving any of it, for it would be terribly subject to the erosion of time and technological change.

"As one implication of this process, long-term, fixed-interest investment in fixed plant or property would seem likely to disappear, not only because interest would have no point where money as such has no value, but because the value of fixed plant itself must evaporate very swiftly in a productive system so varied in its output, flexible in its process and fluid in its location as the industry of the alchemic or atomic age is likely to be. For a while, in some remote parts of the planet still struggling to master the methods of mechanical mass production on the pattern of 40 years ago, a few primitive and predatory political junkmen like Uncle Joe may continue to collect and cart off pieces of second-hand machinery and set up factories financed with 1,000-year mortgage bonds, or government securities, but in American even now most of the plants, machines and productive methods of yesterday are out of date tomorrow, and whatever form of financing may be used for them must correspond to the perishability of such property and its product. Perhaps the only kind of mortgage on any sort of real property it is possible to imagine in the age of alchemy would be some form of general obligation or nominal lien on the national income, resembling public debt; and indeed, with a national debt approximately the national wealth, we are close to that condition today; but even this would not have much practical meaning in an economy where money has none.

"To speak of property at all in an age of automatic or magical abundance is probably a confusion out of the past, except as regards passing possessions of purely personal use. The seizure of plants and business concerns by the State to compel continuous production or enforce the demands of labor, and the nationalization of banks and basic industries in Britain, are symptoms of what has happened to the sense of property rights. Already a large and growing part of our consumption, use or ownership of goods and services in peacetime is communal and compulsory. We all have to lay out a large portion of our personal money income for things we did not individually choose to buy or own, whether we use them or not. The amount of things we are individually able to consume voluntarily is limited, and it is plausible to expect that in an era of unlimited and almost effortless production an increasing portion of the output would have to be bought or distributed collectively for communal use.

**Frame of Future Not Competitive**

"As it is shaping up today, the frame of the future does not include the free competitive world market for voluntary exchange of raw materials and manufacture, which built the British Empire and the prosperity and depressions and wars of the machine age. If the atomic bomb has not vaporized it, the chemical age is dissolving it.

"A major economic enigma remains, which I can only put to you as a question, since I do not pretend to know the answer. In the era of limitless, effortless, automatic production which the age of alchemy makes possible, what will replace money wages, dividends, interest and profits, and property ownership, as incentives to labor, enterprise and saving? The immense expansion of production, the spread of prosperity and employment, the rise in the standard of living that came with the development of the machine age after the first Industrial Revolution—indeed, the emergence of the age of alchemy itself—were the product of the intensified individual voluntary initiative, enterprise and thrift, and the impulse and power to acquire property that accompanies the transition from a social system of status, serfdom or slavery to political freedom, civil liberty and individual responsibility.

"In an economic organization in which goods and services may become available anywhere almost without limit or cost or with less and less labor of muscle or mind, the values put upon effort, time, thrift, money and property must change. In the slot-machine or push-button economy of the chemical age it seems likely that the conflicts and collective bargaining problems as between labor and ownership—already rather illusory—about wages and work-time will disappear, though the political problems of management may not. When work, and even mental labor, is worth so little or is so unnecessary in industrial production that the distribution of the product cannot be related to it; the main economic problem will probably be to get the product consumed and the main political problem to keep the population occupied and amused. It must be plain already that some other way of distributing the products of industry for consumption or use than by means of money wages, interest, dividends or profits proportioned to time, effort, thrift or enterprise, or to collective bargaining, must be invented. Indeed, there are many indications that such means are being attempted now in the many devices of government to provide free goods and services, social security, minimum wage guarantees, et cetera, though the traditional arithmetic of the money system is still being used in most of them. Through compulsory collective saving and consumption, through the growing tendency to equalize and guarantee money incomes or living standards by law, taxes, subsidies and public spending, it is clear we are moving swiftly away from the form of economic organization that related remuneration in some fashion to individual effort, thrift, risk, ingenuity or enterprise, or to collective bargaining power or even "social justice"; and thus the force and significance of these ideas, instincts, manners, morals, customs and institutions is being dissolved. But what is replacing them as the impulse, motive power, or principle of life and work?

"To anyone who understands the meaning of what is happening today it must be plain that in fact we are no longer living in a money economy, or at least living very precariously, for under prevailing policies and current ideas no one can say what will happen to money as we know it. We sense that something must happen to it, but the bridge to the future, over the abyss—not merely of financial bankruptcy, but of human behavior—has not yet been built.

**What About Labor-Management Relations**

"What function labor organizations will serve in the atomic age is doubtful, too, for in most countries they have already become a form of government monopoly, operated mainly for purposes of political stage-setting or choral activity. They have long since ceased to be able to assert any real group economic interest as against ownership, which has become more or less nominal or impersonal in most of industry, except for legal or accounting purposes. Professional management, which has come to personify the modern employer, has become increasingly a branch of official bureaucracy, and where it is not able to cope successfully with it by using less labor as times goes on, it will more and more pass what remains of the buck of the labor problem to government.

"Indeed, today, though labor-management relations have become a branch of government, labor organization is less and less willing or able to assert any effective economic interest or power against the State. Even in Soviet Russia, still 40 years behind us industrially, the position of labor unions tells us all we need to know about that aspect of freedom in the frame of the future. As we move into the chemical and atomic technology there will be less and less for labor and management to dispute about anyway, so far as problems of production and wages are concerned.

"In the future, when less and less labor will be necessary, a system of status cannot easily be based on compulsory labor, except for purposes of providing occupational or military discipline, but must be centered as it is today in control of consumption, and depend upon monetary and mental manipulation of the masses by government. In most countries the idea of a kind of universal labor pool, expressed in the current concept of 'the labor force,' has already developed as a result of the war; but the State is now increasingly concerned with citizens, subjects or workers mainly as consumers, with problems of their consumption and occupation, and with mechanisms of controlling them by systems of compulsory collective saving, investment and spending. The labor problem, as we knew it, is already rapidly becoming on the economic side a problem of distribution and marketing, and on the political side a problem of discipline and morale. However it may be solved, we may be sure that if the frame of the future does not include free employers, it will not include free labor unions either."

# The Securities Salesman's Corner

By JOHN DUTTON

The recent rise in the average of stock prices has created another problem for security salesmen. Many of the same people who were looking high and low for someone to give them sound investment advice two years ago have now decided that they don't need any assistance from anyone; their recent profits (still on paper) have made them believe that they know it all. This is nothing new; there were a lot of security buyers who felt the same way back in the spring of 1929. They found out they weren't so smart in 1930.

Meanwhile a salesman who has some of these accounts (and the fellow who doesn't today is lucky) had better get them straightened out; that is if he expects to continue to do business with these people. If there is anything that will lick a buyer of securities it is the "big head." As long as the trend of common stock prices is upward almost any chump can pick out a few common stocks and ride the trend. This takes no more brains than is necessary to read the papers and buy a few market leaders—the trend does the rest. It is an entirely different story to select undervalued situations that have growth possibilities and that over a period of time will out-perform the averages. In fact, many such special situations have advanced in price so much farther than the market that even during a period of deflation the holders of this type of security have found out that their profits have carried them right through a depression. If this is the kind of common stock that you have been digging out and offering to your customers, only to wake up some day and find out that they don't even recognize the research, thinking and original analysis that has gone into your recommendation to them—IT'S TIME YOU SET THEM STRAIGHT.

It has always seemed to us that the average security buyer is somewhat like a spoiled child. If he makes a profit he begins to believe that he did it; if he has a loss, his broker or his salesman is responsible. Of course there are exceptions to this rule, but by and large it will hold good. Since this is the way of human nature, the successful salesman dominates his clinents—he runs the show. He doesn't allow his customer to push him around. Any time a customer starts telling the salesman what he should do, LOOK OUT. That customer will soon be a lost customer.

When customers buy a few market leaders in the kind of a bull market we've been having for the past few years, and get the idea that just because these securities have gone up in price along with the average of the market as a whole, that they know more about how to invest in securities than you do—you had better have a good heart-to-heart talk with them. Show them what the market averages have done. Explain the difference between average performance, and buying into the sort of real growth situations that can, and will, far exceed the averages in performance. Get back to fundamentals. Get your customer away from the idea that he's a market operator. Tell him quite frankly that the only way that you can be of real service to him is that he must rely upon your suggestions and act when you tell him to act. If you've got to have arguments and wear our your tonsils trying to convince some big-headed, overnight genius of a Johnny-come-lately market operator, that he should do the things that are going to be the most productive in the long run (BECAUSE THEY ARE BASED UPON YEARS OF STUDY, COMMON SENSE, RESEARCH, AND CONSCIENTIOUS EFFORT), then you had better save your breath, and your energy, and find another customer to take his place.

The financial graveyards are full of people who thought that because they rode a bull market for a few years they were financial geniuses. A big head cometh before a fall!

## Shaskan to Admit Two

Shaskan & Co., 40 Exchange Pl., New York City, members of the New York Stock Exchange, will admit Betty Waldman and George F. Shaskan, Jr. to partnership as of Nov. 8th.

## Simons, Linburn to Admit

Simons, Linburn & Co., 25 Broad St., New York City, members of the New York Stock Exchange, will admit Myron Simons to partnership as of Nov. 1. Mr. Simons will acquire the Exchange membership of Roy R. Coffin.





# Must We Have Post-War Inflation?

(Continued from first page)

much the same in all three, but I shall limit myself mainly to the United States.

### Effect of High Taxes

First, looking back over it all, I believe that most fair-minded persons will agree that we have done remarkably well in our war-time tax program. It was not perfect, and we could all suggest improvements, but compromise is necessary in a democracy. I do not think anyone back in 1940 would have thought it possible to impose so high tax rates on corporate and individual incomes as were in fact imposed. (Consider also the very important reform—current collection at the source.) In the fiscal year 1944 we collected $44 billion in federal taxes. I think we must conclude that by and large Congress handled this extraordinarily difficult problem pretty well.

The French and German inflations following World War I are often referred to. Will it not also happen here? Let me remind the reader that France financed not more than 13% of her budget from taxes in any war year; Germany at no time more than 15%. In recent years we have financed about 45% from taxes; Canada and England, about 50%. Moreover France obtained from abroad twice the amount raised from taxes; Germany in effect "printed money" equal to four times her tax revenues. In World War I, the highly conservative governments of France and Germany followed incredibly irresponsible fiscal policies. And they paid the price. In contrast no one can say that war-time taxes in the United States were not severe. Our tax structure is an incontrovertible indication that we have followed, and mean to continue to follow, a responsible fiscal program.

### The Public Savings

Second, no explanation for the high degree of stability achieved in the greatest war in history would be at all complete without taking into account the remarkable steadiness and common sense of the public generally. Home owners, farmers and consumers paid off their debts and saved substantial parts of their incomes. Not being able to buy many kinds of consumers' durables, the money was put into life insurance, savings and deposit accounts, and war savings bonds. The record of stable mass psychology is all the more remarkable in view of the many alarmist articles which argued that policies currently pursued were cockeyed and nothing but chaos lay ahead. In the face of all this, businessmen and consumers displayed a sound common-sense; and this psychological stability reflected itself in market stability. In this connection, the reassuring, factual material presented in the **Anti-Inflation Bulletin,** prepared and distributed by the Institute of Life Insurance as a contribution of the Life Insurance Companies in America to the price stabilization program, deserves special mention. This bulletin went to news editors, editorial writers and news commentators, and it played an important rôle in winning public approval and support. When cynics point to the instability and weakness of democracies, the sound common-sense and stability of the American public with respect to the management of their private finances during the war upheaval is reassuring; it affords solid ground for faith in the stability of our social structure.

### Rationing and Price Control

Third, we should not have come through had we not undertaken a thorough-going program of rationing and over-all price control. The doubting Thomases all said it could not be done; the American people, it was alleged, would not cooperate. But it worked. Perfection was indeed not achieved, and there were at times seriously disturbing black markets. But the over-all job is a creditable performance. Who would have believed back in 1941 that the women of the country and the retailers would have cooperated as in fact they did in the intricate regulations involved in the point-rationing system. There were indeed dark days for the OPA but those responsible for the program held the line with bull-dog tenacity. The full story of this achievement has yet to be written.

### Maintained Consumers Goods Output

Fourth, neither the OPA nor any other measure could have succeeded had it not been for the prodigious productive capacity of American agriculture and industry. While spending $90 billion for war, we produced more consumers' goods than in any pre-war year. Mass consumption of food was never so high, and retailers' shelves were never bare. Our productive potential proved to be far greater than any of us had dreamed possible.

Finally, the achieved record of war-time stability is related to the financial strength of the social order in America. This country has demonstrated, I repeat, enormous taxable capacity. Moreover, this country, at high employment levels generates a vast stream of savings out of current income. A country with a vast capacity to save is not in great danger of inflation. This country has at long last developed strong and secure savings and banking institutions. The Federal Deposit Insurance System has become a bulwark of monetary and banking stability.* The Securities Exchange Commission, the control of margin requirements by the Federal Reserve Board, the reforms instituted by the Stock Exchange itself, are now taken so much for granted that we are likely to under-rate the stabilizing role they play.

Inflation alarmists often point to the record of immature and primitive countries. Such analogies are quite irrelevant. These countries had low taxable capacity, and accordingly the credit of the government was weak. Savings institutions were undeveloped and capital markets were lacking. Banking facilities were inadequate and shaky, and there was no powerful central bank to enter as a stabilizing factor in the money and capital markets.

It may safely be asserted without fear of contradiction that no government in all history, no private institution, ever enjoyed a higher credit rating than that now enjoyed by the governments of the United States, Canada, and England.

### Savings Can be Maintained

But we are told that the war has made us too rich. We have accumulated, it is said, liquid assets so vast that we are incapable of holding on to them. Both as individuals and as business concerns we cannot, it is alleged, resist a vast spending spree. We haven't the capacity to conserve our savings. Is this true?

It is highly important in economic matters to view magnitudes in perspective. It is proper indeed to point to the high percentage increase in the liquid holdings (cash, deposits and bonds) of individuals and corporations. But we must not forget that income has also gone up (and we do not mean to let it fall to the pre-war level). It is significant that at high income levels, individuals and corporations save a high percentage out of current income. This fact implies a high capacity to hold savings already accumulated. Only at depression income levels are we likely to have any unloading **en masse** of our savings assets. And under those conditions we should all welcome dis-saving as a cushion against deflation.

### No Capital Expenditure Spree

Business concerns indeed hold around $65 billion of cash and government securities. Will they therefore make inflationary capital outlays? Plant and equipment will no doubt be purchased on a substantial scale. But the days of over-building and the wildly speculative ventures of the late Twenties are still remembered. Judicious capital outlays are now a reasonable expectation. May we not, however, witness a great scramble for inventories such as that in 1919-20? I should doubt it. Our transportation facilities are currently amazingly efficient. Deliveries can speedily be made. Inventory control has not been and should not be abandoned; indeed it has recently been reinstated for certain commodities. We now have pretty accurate inventory statistics. Moreover, businessmen have not forgotten what the wildly speculative inventory spree did to them in 1920. We are on safer grounds today.

Individuals (including farmers) held in January 1945 about $22 billion of currency and around $22 billion of demand deposits. A part is needed for transaction purposes; a part is held as an idle asset. There are many reasons why individuals will want to continue to hold a large amount of cash as an asset. But suppose (as I do not expect) they should decide to spend say $20 billion of their total cash holdings. Would that be seriously alarming in the face of the drastic decline already under way in government spending from $100 billion to $60 billion and before long to $30 billion per annum?

As to mass holdings of savings bonds, the total volume of Series A-D, and E bonds outstanding on Sept. 1, 1945 was $33.5 billion. Some part of this was held by the well-to-do. Any inflationary development in consumers' markets must come from mass purchases; it does not spring from the spending of the rich. Will the war savings bonds held by the masses be unloaded and spent? Yes, certainly to some extent, but so long as we are not faced with serious depression and unemployment, large new purchases of savings bonds will continue. Voluntary payroll deduction for bond purchases is popular. It will decline sharply of course, but it will not drop out. Some billions of bonds will be cashed in each year. But employed workers will continue to buy. The **total** outstanding **may** indeed decline in 1946 and 1947. But even this is by no means certain. There will certainly not be mass liquidation of the whole $33 billion. Should we run headlong into a serious depression, many will of course be forced to sell; but even in depression, many others confronted with impending insecurity will hold on very firmly and will indeed add to their holdings.

### The Debt Situation

Of the $260 billion federal debt in August, 1945, around $165 billion was held by banking, financial and savings institutions, government trust funds, and the Federal Reserve Banks. All of these holdings are insulated, so to speak, from the commodity markets.

It is said that corporations and other business concerns may sell their bonds to the banks in order to build plant and purchase new equipment. In view of the large cash holdings of business (about $35 billion) this is not very probable on any large scale. Such

*Mention should also be made of the Home Owners' Loan Corporation, the Federal Housing Administration, the Farm Credit Administration, and the Reconstruction Finance Corporation.

sales as will occur will largely take the place of commercial loans.

Consumers will indeed go into debt again to purchase automobiles and other consumers' durables. Many will hold their bonds and buy on credit. Consumer purchases, however, are made mainly out of current income. And income payments are now rapidly falling. Some 5 million workers will leave the labor market. Overtime will disappear. Residual unemployment will be greater than in war-time. Purchase of nondurables, closely related to income payments, will almost certainly decline as an offset to the increased purchases of durables. Consumers' durables purchases could not possibly reach a level higher than say $15 or $16 billion per annum, if for no other reason than that the industries involved do not have unlimited capacity to supply a temporary high demand.

The temporary scarcities—housing and consumer durables—create a special problem. This cannot be solved by "over-all" methods. Specific controls should be retained until the temporary scarcities are overcome. They can only be overcome by rapid reconversion and increased production.

Now, in spite of all I have said, there is no denying the fact that we **could** have an **over-all** demand in excess of supply, and so prices would tend to rise. Nor can it be denied that the vast holdings of liquid assets **promote** spending. A society, rich in liquid assets, will certainly **tend** to spend a larger proportion of its current income. It may also be more inclined to speculate, but that is by no means certain. If the urge to speculate, whatever the reason, is present, access to credit may supply the means just as effectively as liquid assets. We have seen that again and again.

Now in the event that an over-all excess of demand should develop, what is the remedy? A high rate of interest, as a remedy against inflation, is a weak reed to lean upon. A high rate of interest did not prevent a substantial price inflation in World War I. Cost of living rose from an index of 100 in July 1914 to 162 in November 1918. Wholesale prices rose from 100 in July, 1914 to 202 in November 1918. After the war was over, high interest rates did not prevent a **post-war** inflation. Cost of living rose from 161 in February, 1919, to 208 in June, 1920; wholesale prices from 192 in February, 1919, to 248 in May, 1920.

No, if we are confronted with over-all inflation we shall have to resort to tougher methods. The only adequate measures against over-all inflation are: (1) to **tax** and (2) to **save.** We are not sufficiently sure what may develop. It is therefore sound common sense to go slow in reducing war-time tax rates. Secretary Vinson has rightly said that we must keep an eye both on the dangers of inflation and deflation. He suggests that a $5 billion relief in taxes, on the best available evidence, is as far as it is wise to go. Should an over-all inflationary tendency appear, we must be prepared to produce a budget surplus and reduce the public debt. A high rate of interest to lure people away from spending is a sugar-coated and very mild remedy. If aggregate demand is excessive, the effective remedy is **to** take away the excess money in **taxes,** curtail government expenditures, and reduce the public debt.

**The Compensatory Fiscal Policy**

It is amazing how many people, otherwise well-informed have not yet learned that compensatory fiscal policy such as I have long advocated, is **not a one way program.** Properly managed it is always on the job, prepared to fight **inflation,** no less than **deflation.** Responsible management of compensatory fiscal policy means the control of expenditures, taxes, and borrowing so as to promote **stability.** To fight inflation, a budget surplus and debt reduction is in order. To fight deflation and mass unemployment, calls for reduction of taxes and increased public outlays on useful well-planned projects designed to improve both our human and our natural resources.

Equally, to fight over-all inflation, during the "re-stocking boom," we should wage savings campaigns and continue as far as possible the payroll deduction plan. It is **mass** savings that are wanted if inflation is threatening. And for the sale of Series E bonds a rate of interest of 5% would probably be no more effective that the current 2.9%.

Whether the rich and well-to-do hold bonds or cash is not very important so far as commodity inflation is concerned. From the standpoint of security or real estate speculation it might indeed be useful to tempt investors out of cash into bonds.† But if the prospects for high speculative profits appear to be good, even 5% bonds would not deter many from going into the stock market or real estate. The high rate of interest during and after World War I did not prevent a violently speculative real estate boom. More direct methods are needed. Especially with respect to real estate speculation we need, until we get over the hump, to institute additional controls. We are thus far not prepared to meet it. Various proposals have been made, which I cannot detail here.

**Summary**

In conclusion, the United States, with its vast capacity to save, its great taxable capacity, and its incredible power to produce goods of all kinds—agricultural products, lighter consumer goods, and heavy goods—is not an "inflation sensitive" country. Considering our vast capacity to produce, together with our high propensity to save, we are in far greater danger of inadequate markets than of a run-away inflation. Nevertheless we need to be on our guard. We must not play with fire. We must be prepared to fight both general inflation as well as inflationary tendencies in specific areas. We must retain controls where needed until temporary shortages are overcome. We must retain a sufficiently high tax structure to guard against an excess over-all demand during the "re-stocking boom." We must have a program of wage and price stability. A stable wage policy means one that permits wage increases as rapidly as productivity permits, but no more. If wages exceed the limits set by productivity, such wage increases are inflationary. Industries enjoying more than average increases in productivity should pass on the benefits to consumers in lower prices. A rational wage and price policy, consistent with the requirements of growth, expansion and ever rising living standards, is a **sine qua non** of economic stability.

The rate of interest, under present conditions, is not a feasible instrument of cycle policy. Adjusted cyclically up and down, it would carry with it gigantic fluctuations in the value of all outstanding securities. Such fluctuations are not tolerable.

As a long run policy a high rate of interest is equally impractical. It would nullify present plans to extend the area of new private housing down to relatively low income groups. It would raise the burden of debt on farm mortgages (now only half as great as a decade ago). It would raise the burden of debt to public utilities and railroads and so tend to raise rates and costs to all lines of business. It would restrict here and there the volume of investment in fixed capital.

Modern economic analysis favors the maintenance of a low rate of interest. This also is the announced policy of all modern democratic governments. Sir John Anderson, until recently, Chancellor of the Exchequer in Great Britain, made the following statement in the House of Commons on April 24, 1945:

"The average rate of interest on the national debt in 1938 was 3.1%. It is now 2.3%. Few people before the war would have believed the possibility of what has been actually achieved. With this experience behind us I reiterate the practical possibility as well as the advisability of low interest rates after the war, although I believe it is wise to move gradually and to avoid sensational changes in a factor so interwoven as is the rate of interest with our social as well as our economic fabric. The favorable effect on the finance, for example, of the housing programme is obvious. But that is no more than one impressive example of the beneficent effects which will be felt in many directions. . . . We shall aim, I hope, at low rates of interest and stability of prices without deflation."

Substantially similar statements have been made by high officials in the United States. In the 1944 Annual Report of the Secretary of the Treasury to Congress we read: "Moreover, the fundamental factors underlying interest rates on government securities, which apply also to interest rates in other fields, give no indication of a change in the direction of a higher level of rates in the foreseeable future. Continued low interest rates will be a major contribution to economic stability and the maintenance of full employment after the war, for low interest rates stimulate business and encourage new enterprise." Nor is this a partisan issue. Governor Dewey, as Republican candidate for President, in his San Francisco speech, Sept. 21, 1944, said: "Whether we like it or not, regardless of the party in power, government is committed to some degree of economic direction. Certain government measures to influence broad economic conditions are both desirable and inevitable. Let me give you just three examples. First, money and credit . . . We cannot afford a substantial rise in interest rates which would still further increase the cost of carrying our national debt. So one result of this unprecedented goverenment debt which now faces us in this: In order to keep down taxes and prevent the price of government bonds from falling as they did after the last war, the Federal Government is going to have to keep interest rates stable."

†I am unable to see that long-term marketable bonds are superior to savings bonds from the standpoint of inducing small investors to hold. Marketable bonds are likely at times to fall in value, and this often causes heavy unloading. If a small investor knows that he can always get at least what he paid, he will not sell for fear of suffering a loss. Experience shows that savings bonds are the only kind that small investors will take and hold in any large volume. And security against loss of principal is surely more important than the rate of interest. It is to the credit of the Treasury that it has been bold enough to permit cash redemption at any time. This instills confidence, and is doubtless an important factor in encouraging bond purchases.

## Debt Service Resumed on French Nat'l Steamship Canadian Gold Dollar 6s

According to information emanating from the French Embassy in Ottawa and the Royal Bank of Canada in Montreal, the French Government has decided to resume the service of the French National Mail Steamship Co., 6% Canadian Gold Dollar Bonds of 1927-52.

It is expected that the payment of the coupons maturing after May 1, 1940 together with the drawing of a certain number of these bonds, should be effected on Nov. 1, 1945.

The question of payment in gold or in Canadian dollars is still pending before the French Court of Justice, and as long as a decision has not been definitely taken the payments will be made in Canadian dollars.

In reality an appeal lodged with the Supreme Court to obtain the confirmation of the ruling of April 24, 1940 of the Court of Appeal of the Seine (Paris) which required the French National Mail Steamship Co. and the French Government to pay in gold or in Canadian paper currency at the parity of the Canadian gold dollar of 1927, is still pending.

## Chas. D. Barney Dead

Charles D. Barney, retired head of the internationally known Philadelphia banking house, Charles D. Barney & Co., predecessor of the present firm of Smith, Barney & Co., 1411 Chestnut Street, died Tuesday, Oct. 23, at his home in Elkins Park. He was 101.

Mr. Barney was a native of Sandusky, O. After completing two years of college at Ann Arbor, Mich., he entered the Union Army at the age of 19 and served as a corporal in the 145th Ohio Infantry.

In 1866, he started as a clerk in the historic banking house of Jay Cooke & Co. Nine years later he was admitted to membership in the Philadelphia Stock Exchange and, forming a partnership with Jay Cooke, Jr., established the banking and brokerage house which bore his name.

Mr. Barney married Jay Cooke's daughter, Laura, in 1868. He was the father of six daughters, two of whom are dead. Two of his surviving daughters, Baroness Frederick von Hiller and Mrs. John H. Whittaker, were at his bedside when he died.

## Three Rejoin Staff of Baker, Simonds & Co.

DETROIT, MICH.—The return of three former associates to Baker, Simonds & Co., Buhl Building, from war production work was announced this week by Ralph W. Simonds.

Paul P. Shesterkin has resumed his connection with the firm as analyst and statistician after serving with Vickers, Inc., during the war. Two additions to the sales department are Nicholas J. Allman, who has returned from the Chrysler Tank Arsenal, and Alfred P. Allis, who was employed by the Ace Manufacturing Company during the war.

## John Ellis Rejoins Eastman, Dillon & Co.

Eastman, Dillon & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce that Lt. Comdr. John Ellis, U. S. Naval Reserve, has returned to active association with the firm.

# Fallacies of Transition Price Control

(Continued from first page)

find a reaffirmation of the determination to hold the 1942 retail price line, a continuation of the futile program to stimulate the output of low priced textiles, a rigid formula permitting some minor and inadequate increases in manufactured goods prices, insistence that retailers absorb these increases in costs, and tighter pricing for many other products, including building materials. Instead of removing price controls, new control orders are issued each day.

What does this all mean? Is OPA engaged in a plot to perpetuate wartime controls during the post war period in order to carry out someone's idea for a planned economy? I doubt if this is the true explanation of this inadequate policy. Rather, I believe that the policy is based upon several misconceptions as to the role of price control and our price system and a misreading of our wartime experience. Six of these misconceptions are discussed below:

**First Misconception: Price stabilization means an unchanging and frozen price level.**

We are told that the 1942 price line must be held. OPA in effect says "We'll allow a few cents here and a few mills there but the line must be held. We'll allow increases in manufacturers' prices where necessary to aid reconversion but retail prices must be held." If it is granted that some price control is necessary temporarily to prevent runaway prices, it does not follow that all prices must be controlled or that all price increases at the retail level are bad. Permitting price increases to cover higher costs does not mean runaway prices. Only by doing this can we be sure to obtain the flood of supplies so urgently required to provide jobs and to prevent runaway prices. Rising prices in wartime could not lead to greater civilian supplies because of urgent war requirements; today, the situation is reversed. The same products and industries which were shut off from manpower and materials during the war are the ones we are most anxious to stimulate today. The agency seems to have forgotten that up to 1942, we had selective price control and that general controls were only imposed when material and manpower shortages began to be of growing significance. Today, surpluses have replaced shortages and hence general control can be replaced once more by selective control.

**Second Misconception: Prices were held stable during the war and therefore they can be held stable during the transition period.**

It is important to look back at the wartime record to determine the extent to which price fixing was responsible for the stability achieved and the extent to which other factors were responsible. Wartime economic stabilization was the result of the following factors:

1. Other wartime controls which implemented price fixing. These included: priorities, allocations, standardization, inventory control, rationing, subsidies, foreign trade controls, installment credit controls, higher taxes and other measures. In fact, as the wartime experience with poultry, meats, many fresh fruits and vegetables, scrap metals and used cars has demonstrated, price fixing alone cannot be counted upon to hold prices when severe shortages develop. The role played by these other wartime controls has been extremely important. For example, the WPB simplification orders reduced the number of products OPA had to price while the standards set up by WPB simplified OPA's task of pricing and enforcement. Without such complementary controls, price stabilization would have been less successful.

2. The public patriotically cooperated—although there were many exceptions.

3. Large savings by individuals because of government exhortation, memory of what happened in the thirties, and lack of goods.

4. Costs—particularly wages—also were subject to some control.

5. Several factors offset the wartime rise in costs. These included: the tremendous increase in volume, the cut in selling costs, standardization, economies of mass production when plants concentrated on one instead of a number of products and the shift to higher price and more profitable lines.

6. Profits on war orders offset lower profits on civilian goods in some cases where a squeeze developed.

7. For many products a major part of the supply was sold directly or indirectly to one customer, the Government, and hence control was facilitated.

8. Singleness of purpose on the part of economic stabilization officials who resisted considerable pressure to break the line.

About the only one of these eight factors still remaining is OPA's singleness of purpose, and I'm afraid this is not enough.

A case in point is consumers' durable goods. The demand for these products will far exceed the supply at or near the prewar price. If we attempt to retain such a price, how will we determine who gets the limited supplies in the absence of rationing or priorities? And, as OPA has conceded, a rationing or priorities system is out of the question when volume begins to increase, because there are no criteria to determine who will have preference for these larger supplies. The wartime standard of "contribution to the war effort" is replaced by sharply conflicting peacetime standards. The choice of customers will lie with the salesman. Wartime experience with meat control, to cite one example, has amply demonstrated that bribery and profiteering flourish under these circumstances. The demand for several of these products will be so intense in relationship to any available supply that it is difficult to believe that any fixed price will do any more than serve as base from which to measure the magnitude of the overcharge.

**Misconception Number 3: Prices should remain controlled until supply becomes large enough to meet demand.**

This seems to be the chief criterion being used to guide decontrol activities. It seems logical and plausible but it is an inadequate standard. Supply, demand and price must be considered together. It is meaningless to talk about adjustments of supply to demand without relating both to price. If such an adjustment is attempted to a price which is too low, the accompanying maladjustments may be as serious as those which would attend an excessive price rise.

Under this test, price, which normally is a result of supply and demand, would remain fixed while supply and demand were adjusted to that price. However, there is no reason to believe that post-war supply and demand will come into balance at the wartime fixed prices. In some cases higher costs will impede the increase in output required to meet the demand at that price level. In other cases, accumulated needs backed up by purchasing power and savings are greatly in excess of the supplies that can be made available at wartime prices.

Moreover, this criterion implicitly sanctifies wartime prices and price relationships and implies that they are the right prices merely because they are already set. This is certainly a questionable assumption. Fundamental conditions have changed so markedly since they were set that, in many instances, these fixed prices will have little relationship to economic realities. These prices are highly abnormal. An attempt to adjust the economy to this wartime price structure seems certain to create many difficulties and will act to disrupt production. It would be more realistic to consider price as one of the variables and to permit moderate price increases, particularly where they would not lead to a spiral of prices, and would facilitate a balancing of supply and demand.

Moreover, the volume of deferred demand for many durable goods plus the large increase in savings and liquid assets probably would mean that control would have to be continued for many years on a number of products if this were to be the main test for decontrol.

**Misconception Number 4: Prices are determined by costs.**

While there is a long-term relationship between costs and prices, this does not prevail in the short run. Demand also is an important factor in price determination. Normally, prices have the function of equating supply and demand. If prices are too high, it is a signal to producers that more should be produced and to consumers that less should be demanded. The higher price does more than give a signal, it cuts off the demand of the least urgent buyers. The "stimulating function" and "rationing function" of prices were suspended during the war period because of government price fixing. But these functions continued to be performed by various wartime controls: priorities, rationing, allocations, export and import controls, etc. These controls replaced the price system in determining what supplies were required and how they should be divided. Under conditions now existing, with most of the supplementary controls being rapidly revoked, there is nothing to take the place of the price system as the guide to the flow of resources.

A series of price relationships frozen under abnormal wartime conditions will not be conducive to the most effective postwar utilization of resources. An unyielding hold-the-line policy is no longer the appropriate basis for national policy in the transition to a high-level post-war economy. Risks and uncertainty about the immediate direction of business characterize this transition period. To stimulate employment both in production and distribution, the price structure must be released from the rigid mold into which our wartime policy has frozen it.

**Misconception Number 5: Wartime prices and price relationships will be appropriate during the transition period.**

Even the most cursory examination of price behavior will reveal the marked changes which ordinarily take place in price relationships under the impact of changing demands, shifts in supply, technological changes, introduction of new products or new models of old ones, and government actions. Under wartime conditions, in large areas of the economy, prices lost their significance as a guide to the proper flow of resources because major changes in the forces influencing prices have not been reflected in particular prices or in their relationship to other prices. As one observer has noted, prices have been becoming progressively "devitalized." To facilitate the most effective functioning of our economy, prices must once more help to channel the flow of resources. This necessarily means permitting significant changes in price relationships. This cannot be accomplished under a rigidly controlled system of price fixing.

Moreover, wartime price relationships reflect historical accident rather than the influence of underlying pressures at the time they were fixed. Products were brought under control at different times, the Emergency Price Control Act limited the levels below which OPA could not fix prices of agricultural products, enforcement of control has varied as among products and sections of the country, looser standards were used where production had to be encouraged, and varying standards were applied. The interplay of these factors has given us a series of price relationships which are not very meaningful.

It may be suggested that OPA could manipulate price relationships to achieve the desired results. This is improbable. The agency would have no criteria to determine how resources should be allocated. And its past record (for example, the mismanagement of feed prices) lends no encouragement to the idea.

**Misconception Number 6: Prices can be held stable while wage rates are permitted to rise.**

Wages represent the most important element of costs for most goods and services. If wage rates are increased without relationship to greater productivity, there will be an insistent and compelling pressure for higher prices. Under Executive Order 9599 (Aug. 18, 1945) a further rise in wage rates seems certain. Although voluntary wage increases are limited to cases where they will not require price increases, it is doubtful that wage increases can be so confined. The Economic Stabilization Director must approve of any wage increases that will necessitate higher prices. This is a meaningless "safeguard." Wage rates within industries and between industries are closely interrelated. If some workers in an industry receive voluntary wage increases under the "no price increase" test, it is certain that similar adjustments will have to be given to the remaining workers in that industry regardless of the effect upon costs and prices. Under these circumstances, it would become impossible to keep prices fixed without adversely affecting profit margins and hence the incentive to produce.

Labor leaders already have served notice of their intention to demand higher wage rates under the new policy. At the same time they insist upon a continuation of wartime price controls. These conflicting policies would only be possible if large scale subsidies were paid—a totally undesirable situation. Wage rate increases on top of those already granted and coming at a time when total output is contracting (although civilian volume will be expanding) will make it impossible to retain price ceilings rigidly.

**Conclusions**

It will be said that modifications of the present program will mean higher prices. That is probably true. But price increases are not to be condemned. OPA has about reached the position that there is something **immoral** about price increases. I cannot agree. As was noted earlier, price increases have two definite functions to perform: to stimulate output and to cut down demand. During the war these functions were not fully performed by the price system. They were taken over by various controls. Now that these controls are being lifted, price must resume its historic function. The alternative is a fixed price which will be widely violated and the growth of a large black market.

I am not much impressed with the argument frequently advanced that higher prices will prevent mass consumption by cutting off many consumers from the market. The price will rise because consumers want more than is available at the fixed price. The price rise will cut off some of these demands which cannot be satisfied anyway because there is not enough to go around. It is probable that for many products more consumers will have their demands fulfilled at higher prices than at lower prices because such price increases will stimulate production.

Our price control program must be revised promptly. The prices of luxury, semi-luxury, and unimportant items must be decontrolled. Some control—on a liberal basis—may be necessary for key cost-of-living items for the next few months. But this calls for selective control, not the general controls now in effect. The best protection against runaway prices will be large scale production. The materials are available. The manpower is available. They must not be kept apart by inappropriate price policies. The key formula to keep in mind is that surplus materials plus surplus manpower plus **surplus price control** add up to a shortage of finished products.

# Offer Textron Inc. Pfd. At $25 Per Share

A banking group headed by Blair & Co., Inc. and Maxwell, Marshall & Co. on Oct. 26 made public offering of 200,000 shares of 5% Convertible preferred stock of Textron Inc. at a price of $25 a share.

The financing is being carried out as one step in Textron's plans to expand its business. Proceeds of the preferred stock offering will be used for the retirement on Feb. 1, 1946 of 10,152 shares of prior preference stock, involving $532,980; for the purchase and installation at an estimated cost of $500,000 of new high speed flat knitting machinery for the production of fine quality knitted fabrics to supplement the corporation's other lines, for the purchase of Lonsdale Company, and for further expansion of operations and acquisition of additional machinery and operations.

In connection with its expansion plans, Textron has arranged for the purchase of over 99% of the stock of Lonsdale Co., Rhode Island, manufacturer of fine cotton goods, which also is in the bleaching and finishing business. This follows the acquisition early this year of all but a small amount of the stock of Manville Jenckes Corporation, producer of cotton and rayon fabrics.

Upon completion of the offering and allowing for the retirement of the prior preference stock, capitalization of Textron will consist of $180,000 4% mortgage notes due 1948, $4,871,875 15-year 4½% convertible debentures due 1960, 200,000 shares of 5% convertible preferred stock, 680,798 shares of common stock and warrants to purchase 148,592 shares of common stock.

# FIC Banks Place Debs.

A successful offering of two issues of debentures for the Federal Intermediate Credit Banks has just been concluded by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $16,275,000 0.85% consolidated debentures dated Nov. 1, 1945, and due May 1, 1946, and $26,165,000 0.90% consolidated debentures, dated Nov. 1, 1945, due Aug. 1, 1946. Both issues were placed at par. The proceeds, together with treasury cash of $12,785,000, were used to retire $42,440,000 debentures maturing Nov. 1. As of Nov 1, 1945, the total amount of debentures outstanding was $244,275,000.

# Future of the Securities Business

(Continued from page 2074)

They really do a job. If they are for or against a piece of legislation, they go well documented to the Congressman, present their case, and follow up to see how the Congressman votes. And they let him know they have been watching.

Our own Congressman from this district will tell you that when he first went to Washington the first persons to call were union representatives. They told him what they were interested in. Gave him supporting information, and made regular calls on him.

But in that time, with legislation vitally affecting the securities business and investors before Congress, where were the representatives of Wall Street and the stockholders? They were too busy with their own affairs to bother to call on him.

Then we wonder why the CIO has so much influence and strength.

**Help Schram**

Well, what can you do about it?

Get to know your Congressman and Senators. Call on them frequently. Talk to them about your problems, and those of your business. Margins. The little SEC. The capital gains tax.

Get your customers to do the same thing. Particularly those in other States.

You and your customers probably won't get very far at first. Or at least it won't seem so, but in the long run it will pay, and pay well. Just remember one thing: Your Congressman or Senator is human. He has to go to the washroom just the same as you and I—maybe more frequently.

The trouble—and I'm no longer referring to the utility room—is there is too much—*let Schram do it!* He has done a great job and has shown what can be done when the legislators have confidence in a person built over months and years of personal contact.

But he can't do the job alone. He must *be backed up* by everyone in the business.

All this may seem a little far afield from the subject—the future of the securities business. But it isn't. It's wrapped right up with it—in the same package.

**The Margin Rules**

Take the case of the present 75% margin rules. These very definitely are holding down volume. Accounts are frozen and customers are prevented from switching or from opening a new account in the same office where they may have an under-margined account. But they can open a new account in another office. This is ridiculous, but it's the law as the Federal Reserve Board sees it.

The Federal Reserve has upped margins on the false, and I think illegal, premise that by so doing it is curbing speculation. And it is talking about raising them further to 100%. Yet the biggest and most dangerous speculation is in cheap stocks—those selling for $10 or less, and these already are 100% margined.

I don't think there is any question about it—the Federal Reserve is out to control prices and volume of trading in securities. And in doing it, in my opinion, is going beyond and contrary to the intent of the law as passed by Congress.

The Federal Reserve was given the power over margins for the sole purpose of preventing excessive use of credit by the stock market, to the detriment of other business. The market isn't doing this. There is no shortage of business credit, and brokers' loans total only something around $850 millions today against $8 billion plus in 1929.

Now, it isn't going to do any good to write to the Federal Reserve Board, or to the Chairman, Marriner Eccles. That has been tried, and some of you probably have seen his replies. They don't make sense, but that doesn't alter the picture any.

But if Congressmen began to hear from the people back home about this situation, how the Federal Reserve is going beyond the intent of Congress, something might be done. After all, next year is an important Congressional election.

**The Capital Gains Tax**

The capital gains tax is another thing that is holding down volume. As it is now, a person with any kind of an income must hold his securities six months or longer in order to take advantage of the 25% rate. As a revenue measure, this tax is not important. But if the holding period were reduced —say to three months — it would be.

This tax is patently unfair. For the person holding an investment —be it real estate or securities—four or five years is taxed the same as the individual making a six months' turn. There should be no gains tax on capital held longer than two or three years.

If it hadn't been for Emil Schram this period would still be 18 or 24 months, and the rate 66⅔% to 50%, instead of the present six months' holding period and 25% tax.

If Emil Schram never does another thing, he will have earned his Stock Exchange salary for that job. He accomplished this through Congress, because Congressional leaders have confidence in him and listens when he presents the facts.

It shows what can be done.

**The SEC**

Now, there's the SEC, about which I have occasionally written. Believe it or not, I think one of the best things that ever happened to the securities business was the creation of the SEC. I think it would be a tragedy if it were to pass out. I don't think that any of you here would want to see it abolished.

There are some changes needed in the laws to make them workable. But the real fault is not so much the laws, themselves, as their administration. Commissioners and the personnel change too frequently, and with each change there is a new interpretation of the rules and regulations. More permanency is needed and the attraction of a higher grade personnel—men and women working to make a career of an SEC job, rather than using it as a springboard to higher political office or more lucrative employment in private fields.

Commissioners receive only $10,000 a year, and the top staff jobs range from $6,000 to $9,000. I think the Commissioners should receive $15,000 to $20,000 and the Chairman $20,000 to $25,000, with corresponding increases for the key staff jobs. Until that is done you'll never see permanency or quality in the Commission.

Here again is a job to be accomplished through Congress. The Congressmen also should be paid better for the same reason.

I've strayed a bit from my advance billing. But what kind of regulation you have determines to a large extent how broad and active a securities business you have. And the only way to ease some of these restrictions is through Congress. You won't get very far working through the bureaus as they are now set up.

**Bullish on Securities Business**

I'm bullish on the securities business, even if there is no change in margins nor in the capital gains tax, nor in the SEC. But I'm hopeful something can be done on all three. It looked good a couple of months ago for two and possibly three changes in the SEC. I think, with a little effort, something along that line might yet be done.

My bullishness is based on these points:

1. The huge amount of money that's around. There's $28 billion in circulation, against less than $5 billions in 1929, plus the $140 billions in savings accounts and war bonds.

2. The new and larger crop of potential investors, built up by war bond sales to more than 90 million people—holders of the E bonds—against only 23 million Liberty bond buyers in World War I.

3. The inflation that we've already got, and the more that we are going to get, with the stock market still behind most other things in discounting this.

4. The distribution of large family and estate holdings due to the tax laws.

5. The opportunities for distribution of securities in new growth industries, as well as refinancing other lines.

6. Foreign investments, which will open up a new field for risk or venture capital, and this will have to pass through Wall Street.

7. Movement of the world's money center to New York. London is never going to recapture that spot. It is here, and it will remain here.

Lastly, the great upsurge that is coming in general business, and in which Wall Street is bound to share. For four years this country has spent its entire energies in winning a war. Whether we actually won it or not I wouldn't know, from what I read on the front pages. But, anyway, the war is over, and the civilian shortages built up in that period will take three—maybe five—years to fill. And that means good business.

After that we may be in for a brief, difficult time, the same as after the last war, in 1920. There will be too much cotton, too much sugar, too much wheat, too much rubber, and so on. But there will still be a shortage of housing and modern buildings, and this should spark another five years of good, prosperous times and active security markets.

I think the stock market is going up another 50 or 60 points in the Dow, Jones industrial price averages before the bull market is over. I did think, though, that there would be a reaction somewhere along here. In fact, I was guessing that way 10 points down.

I don't think to share or participate in this boom—prosperity, or whatever you want to call it—you can sit on your hands and wait for the business to come into the offices, as it did in the 20s. If you try that someone else will get the cream and maybe most of the milk, as well.

**Merchandizing Securities**

You have to merchandise securities today, and I think that makes for healthier markets and better distribution.

The doorbell ringing job is a two-fold one. You have to go out and find the blocks of securities for distribution, and then you have to dig up the buyers. The former can be highly profitable: to wit, the experience of the last two or three years of a few firms you all know.

In the last two or three years some large fortunes have been made down here—in spite of taxes, in spite of the SEC regulation, in spite of the general political attack on Wall Street, in spite of the Federal Reserve Board. They have made it because they have been out hustling.

The money that has been made recently and will be made from here on is from special situations and in things that can be held for six months or longer.

There should be no room in Wall Street for the type of thinking represented by the following experience with a New England concern. It was asked to try something different on its machines, and in a few days this message came back:

"They said it couldn't be done, so we never even tried it."

**Incorporation of Member Firms**

There are two other things I would like to touch on. One is the current study on incorporation of member firms. I don't know whether that is the answer or not, but certainly some way must be found for regeneration of a firm's capital; that is, some method for accumulation of capital by the junior partners so that after 10, 15 or 20 years they can buy out the seniors or capital partners.

Up until a few years ago junior partners could leave a percentage of their earnings in the firm and this would build up in 15 years to permit their taking over. Today a junior partner is lucky if he has anything left at the end of the year over and above his taxes and living expenses. That is not a good condition.

The other is the need for attracting into the business some of the bright, aggressive young men coming out of the service, and training them.

I understand your organization is working on something of this sort, and that the Stock Exchange Institute has a program and, in fact, does have fairly extensive courses on various phases of the business. Also some of the firms have individual training programs. But none of these efforts are coordinated.

## Cleveland Municipal Men Plan Meetings

CLEVELAND, OHIO—A most successful meeting of Cleveland municipal men was held on Oct. 23 for the first time in many years. It is planned that regular meetings will be scheduled for each Tuesday throughout the winter.

Among those attending the first meeting were: William Clark, Merrill, Turben & Co.; Orin Koeser, Blyth & Co., Inc.; Carl Bargman, Braun-Bosworth & Co., Toledo; Clarence Davis, First Cleveland Corp.; Boze Chapman, McDonald & Co.; Harry Conners, Otis & Co.; Robert Shepard, Hawley, Shepard & Co.; Bill Staring, National City; B. R. Mitchell, C. F. Childs & Co.; Paul Bowden, Ball, Burge & Co.; Carl Doerge, Wm. J. Mericka & Co.; Bill Watterson, Fahey, Clark & Co.; H. B. McClaren, McDonald & Co., and Robert Temple, Hornblower & Weeks.

## Langley Opens Syracuse Branch Under Dietzer

SYRACUSE, N. Y.—W. C. Langley & Co. announce the opening of a sales office at 215 State Tower Bldg., under the direction of Donald D. Dietzer.

It the past Mr. Dietzer was Syracuse manager for Blair & Co.

# What's Ahead for Auto Industry?

(Continued from page 2075)
union programs. Those that work soon blanket the nation.

I've decided to talk in the capacity of a reporter who has had a ringside seat to observe peacetime and wartime production in the automotive industry. I'll objectively ask myself the hottest current public questions about automotive reconversion. Until the last few days, the first and more frequently asked question was:

**"When can we get new cars?"**

Not as early as you should have if the Government had accepted industry recommendations.

In its annual report issued just before V-J Day, the Senate Mead Committee (formerly the Truman Committee), after pointing out Government's procrastination in dealing with reconversion problems, said:

"The automobile industry early advocated that essential pre-reconversion work be authorized as soon as it could be carried forward without interfering with war production, but official permission to go ahead on almost all of the significant and important phases of pre-reconversion activities was withheld until April of this year."

Its conclusion was:

"It is already apparent that pacing of reconversion has been too slow for any early achievement of volume production."

Nevertheless, two companies got their shops in shape and started production at surprisingly early dates, one in July and one in late August. Now the shops of all of the producers have been pretty well cleared and prepared for automobile production. A majority of them could be going now if shortages of materials and parts did not exist. However, such shortages do exist and the sole ascertainable reason is the interference created by strikes in plants of suppliers.

The two producers who got an early start found they were false starts. They have lost weeks of production because strikes in parts supplier plants cut off the flow of items needed by the assembly lines, and one of them had, in addition, a strike of foremen.

The physical side of automotive reconversion is sufficiently mastered to state that we are very much over the hump and that should mean we are over the hump nationally. So far, reconversion speed has exceeded expectations of industry and Government.

Arrival of V-J Day before partial reconversion had been completed by most automobile companies resulted in their tackling the full job. As a result, output could have snowballed to a 250,000 rate for the month of December and this could have brought the 1945 total output to 500,000 passenger cars—double the WPB quota.

The two months that have passed since then have sliced that total more than in half for the simple reason that the sliced-off months are what would have been built in December with a two-month running start. As it stands now, the clearing up of all strike difficulties and material shortages in time to permit a real start in November is the best prediction an optimistic speaker could make. Even with such happy circumstances prevailing, **it is doubtful if the industry can reach the discarded WPB quota of 241,916 passenger cars by the end of this year.** It is obvious, also, that every day's delay between now and the time that production does really start will prevent one of those high-level days from coming in December and will whittle this projected output still farther.

Regrettable as it is, there just will not be very many cars to hang on Christmas trees this year.

Projecting forward, if there are no more artificial interferences with the industry's ability to produce, it can scale production up to prewar levels by early spring and go on from there to a new all-time peak annual rate of 6 million units by summer.

**"What will happen to car production and employment when pent-up wartime demands have been met?"**

Several market surveys conducted independently by individual manufacturers indicate an immediate demand for about 18 million passenger cars—exclusive of trucks and buses. Based on company production plans, this probably represents about three years' output, but during those three years approximately 12 million cars will be scrapped. This will leave our national car inventory substantially below prewar levels.

I estimate that the number of cars registered will rise to at least a 40 million level by 1960. it does not appear likely that current and pent-up demands will be met before 1952. By that time, if prepared and programmed national, state and local highway modernization plans are carried out, new peaks of car use should begin to reflect themselves in still greater car demand. Getting cities out of their traffic muddle can mean almost as much as getting the country out of the mud after World War I because the bulk of car use occurs in and near cities.

Surely by 1952 foreign markets will be back on an economic basis to purchase needed cars and trucks in volume. Economic development is commencing in South American, African and Asiatic countries where geographical and population dispersion conditions require highway transportation development along the same lines as in this country. This has never been true of Europe.

Yet, for some reason, certain groups and individuals are picturing the automotive industry as planning to hold production to prewar levels and of being fearful of over-abundance.

In the past few days there has been a marked change in the type of question we are being asked. Leading the list is this one:

**"What is the industry going to do about the unions' 30% wage increase ultimatum?"**

This union demand and the way it is met will directly influence the pocketbook of every American.

Listen to these cost of living, wage, profit and productivity facts and then decide whether the 30% wage demand of the unions is reasonable, or excessive and extortionate—whether it is good or bad for the country!

A majority of a special committee appointed by President Roosevelt reported in February of this year that living costs during the war had increased about 30%. This cost of living study was made because unions insisted that a 45% increase had occurred. Do you think a committee appointed by President Roosevelt would have differed with labor unless compelled to do so by the facts?

The public members of the National War Labor Board say that during the war average straight-time hourly wage rates, which they considered most comparable to the cost of living, increased 36.7%. In addition, due to longer hours, take-home pay at these rates increased about 51%.

Where overtime has been completely eliminated, wage rates are still close to the average straight-time hourly wage rate, which increased 36%. This means the demand for a 30% increase, due to the elimination of overtime, is a demand that wages be increased greatly in excess of the 30% increase in the cost of living.

Is this union demand justified by increased productivity? Listen! Because there was no car production, the usual technological advance, which normally increases productivity two or three percent a year, was stopped. The job of our industry was to apply its previously developed mass production methods to the output of guns, tanks and planes.

Each year, until the 30's, automobile companies produced cars more efficiently and more cheaply. Prices were reduced and wages increased. In other words, productivity increased. **However, since the middle thirties, the rate of increase in productivity has declined and prices have increased. This alarming situation developed before the war.** It resulted primarily from short-sighted auto union policies which, according to Senate testimony of its own president in 1940, had decreased the industry's productivity between five and ten percent.

Last spring, five years later, union, Government and industry witnesses told the Senate Mead Committee that automotive production efficiency on war work was from 15% to 50% below the production efficiency that prevailed in peacetime. In other words, productivity in the automotive industry declined during the war. It did **not** increase above peacetime levels.

What are the prospects for the future?

A few vehicle and parts and supplier companies have resumed their peacetime production. What has their experience been in terms of productivity?

An automobile company sustained a four-day strike when it refused paint spraymen 20 minutes relief time an hour, instead of 15 minutes because they were "doing less than two-thirds as much work as before the war."

In a parts plant where 385 pieces were made each day before the war, the company had a strike over union demands to reduce production below 350 pieces per day.

A foundry in Cleveland is using 25% more men than before the war to get prewar production.

A tool company's new methods and equipment were supposed to raise productivity almost 50%, but notwithstanding these improvements, efficiency is 15% lower than before.

A truck company out west states its productivity is 25% below prewar levels.

The story is the same, whether you talk to production men in Detroit, Chicago, Milwaukee, Cleveland, or Eastern cities. Company size makes no difference. Employers with over 350,000 workers and those with only two dozen men give the same answers.

Under these circumstances, how can a 30% wage increase be granted in anticipation of greater productivity?

It is the union's position that the 30% wage demand can be met without charging the public more for automobiles.

Listen to these facts, all broken down to a man-hour basis so that everyone can understand them.

The average basic hourly wage rate in the automobile industry is about $1.15 an hour. The 30% increase would be 35¢ an hour. In the biggest wartime production year, 1944, car companies paid taxes of 25¢ for each man-hour worked and about 9¢ to stockholders, making a total of about 34¢. These funds, however, have been spent.

All other wartime earnings were earmarked for reconversion and for expansion. If the total amount of these funds for 1942, '43 and '44 were still available, which of course they are not, they would only amount to 25¢ per hour for a 12-month period.

At the present time, every automobile company is losing money and is willing to continue to do so until production has reached volume proportions.

The 35¢ wage increase in our industry simply cannot be paid out of current profits. There are none.

The unions have suggested diverting into wages money to be used to maintain and add to the tools of production. In this they are betraying their own members. A farmer **can** feed his hogs his seed corn, and the goose that lays the golden egg **can** be eaten, but then there'll be no more corn and no more golden eggs.

This wage demand attacks the public interest. Farmers, professional workers, white collar workers and foreign buyers constitute 70% of the industry's customers. If this wage demand were granted, every American, as a customer, would have to pay it through higher prices. Former war workers cannot secure wage increases at their expense without disastrous results.

This wage demand is inflationary. Americans have a potential inflationary spending power of $160,000,000,000. After World War I, it was an inflationary boom, followed by a deflationary depression, that lost for us an economic peace. Under present conditions, improper wage policies could touch off an inflation that would make the last one look like child's play.

Automobile companies have always paid increasingly high wages to match the increasing productivity of workers, and will continue to do so as productivity increases.

But wages **must** be based on productivity.

If 52 hours' pay for 40 hours' work would increase car sales, automobile companies would do it. If that's prosperity, why not pay 52 hours' for 10 hours? Then we could all get rich! But, obviously, we would all starve. It is equally obvious that only by constantly producing more can we get more.

Economics is like a beautiful song or a good story. If the singer is a little off key, or the story teller gets the order of things mixed up, it spoils everything. As usual, the latest auto union plan, "How to Raise Wages Without Raising Prices," just gets things mixed up a little bit. The automotive story is, "How to Raise **Wages** and **Reduce** Prices." The key argument in the union plan is that to get production we must first increase purchasing power.

Now, I can understand the dilemma about whether the hen or the egg came first, but I can't understand any doubt about whether production or purchasing power comes first. Every American knows that our pioneers in any part of the country first had to produce before they could exchange or buy. It is production that makes purchasing power, not the other way around. Yes, and in the western desert areas where my people made "the desert blossom as a rose," it was work, hard but satisfying, that wrought the transformation. That principle has not changed.

Americans must decide whether they want more idle time and job loafing, or are willing to work more efficiently and longer hours to achieve a rapidly increasing standard of living. If some are paid excessive wages for work not performed, others are going to do without goods and services.

The irony of this situation is that unions are deliberately sabotaging their own future. The American customer cannot be kicked around. Most people don't **have** to buy new cars and, at excessive prices, they **won't**. That means the union members would be out of a job.

Whether they like it or not, labor and management are on the same team and, to win, they must please the all-American customer.

As union officials have said, the auto union **does** have the power to destroy industry, but in doing so it would also destroy itself.

**"Is the automobile industry, or any automobile company, trying to break the unions?"**

If harmonious and workable labor-management relationships are to develop on a permanently effective basis, the right answer to this question must be accurately given and widely understood. I believe I can be more definite and positive and certain in answering this question than in answering any other on an industry-wide basis. **There is no effort being made by the automotive industry to destroy the unions.** On the contrary, last spring the entire industry authorized me to make this statement to the Senate War Investigating Committee when it held hearings in Detroit:

"Collective bargaining is an established process in this industry and individual managements are conscientiously discharging their obligations under existing agreements. I know of no policy-making individual, company or organization in the automotive industry that opposes the organization of rank-and-file employees."

It has been widely charged that I am spearheading an effort to destroy unions.

During the Committee's questioning, the Chairman, Senator Mead, asked me: "Are you personally antagonistic, or are you personally in favor of the setting up of these unions in these plants? How do you feel about it personally?"

My answer was: "Senator, I don't believe that these plants in this industry, operating on as large a scope as they do and on as large a scale, could operate effectively and efficiently without their workers being organized."

He then said: "So you favor organization?"

I replied: "Yes, I have tried to make that clear to the best of my ability in these hearings."

This week I was told by one of the leading officials of a leading company that, "if we did not have unions in our plants, it would be necessary for us to organize them. In fact, before the present unions were even dreamed of by their organizers, we were in the process of helping employees to set up organizations in our plants to bargain with us collectively. We can't operate in mass production without workers being organized."

I checked again recently with the heads of the automobile companies and I found all of them sure that unions are here to stay and that they have a potentially permanent constructive part to play in our economy; that, as a new economic force in America, their proper part in the economy must be determined and this part played in a responsible manner if we are to continue our past record of economic progress. Misconstruction of our industry's efforts to bring this about does not aid the attainment of this objective.

A third question in this field that is asked today is:

**"Why don't the automobile manufacturers get together to fight the unions and the unions' demands?"**

This apparently simple question actually has two parts. Its first part is:

**"Why don't automobile manufacturers get together on collective bargaining?"**

Experience abroad and at home demonstrates clearly that getting together on wages and hours, to deal with unions organized on an industry-wide or national basis, is a first step in getting together in the same way on other things—such as production and prices. To get together to bargain collectively, the automobile companies would have to delegate to some group or organization the power to bind them individually on wages, hours and working conditions. Elsewhere this has resulted in organized employers and the organized unions jointly seeking production and price control. This is true in England and it is true in our coal industry and elsewhere in this country. Industry-wide collective bargaining has proved a big step in cartelization.

The auto union is organized on an industry-wide basis and its tactics at present are, according to its own official statements, designed to bring about industry-wide bargaining. It is one of the demands.

For years CIO and UAW have advocated industry councils composed of Government-management-labor representatives empowered to "determine and put into effect" production and other non-collective bargaining programs on an industry-wide basis. What reason is there to believe that industry-wide bargaining would stop with wages, hours and working conditions when "a voice in management" is already a major union objective? As long as unions are organized on an industry-wide basis, granting them this demand would mean that, through the union, the managements of all companies in an industry would be interlocked—a thing Americans have opposed in any other form.

Automotive companies are opposed to cartelization on any basis and are for a competitive economic system based on individual responsibility and voluntary co-operation under economic policies fixed by Government. Union-management cooperation must come quickly, but not at the sacrifice of these fundamentals upon which our past is based and our future depends.

We are confronted with the perplexing situation where centralized unions are growing vastly more powerful than decentralized employers. According to I.N.S., Walter Reuther said recently that the planned union blockade to enforce its demand would "wreck the business of any industry" affected by it. Under these circumstances, it is easy to understand why this question about the companies getting together is asked: The second part of the question is:

**"Why don't the automobile companies get together to fight the unions?"**

There not only is no desire on the part of automobile companies "to fight the unions" but there is positive belief that our economic progress will be ended and the attainment of new job and wage levels blocked if we fail to develop a basis on which collective bargaining can work, the mutual interests of unions and management can be accepted and the separate responsibilities of each can be recognized.

In a sincerely objective effort to help develop a formula under which peaceful and productive labor-management relations would become possible, our industry recommended to the Senate War Investigating Committee a strengthened national labor policy comprehending these points:

(1) A carefully considered policy that would retain or restore to management the ability to manage;

(2) Protection of workers from coercion by unions and protection of unions and management from governmental coercion;

(3) Application of penalties to unions in cases of irresponsibility;

(4) A reversal of the tendency toward centralization of labor policy administration in Washington;

(5) Decentralization of industrial unions and designation for collective bargaining purposes of unions exclusively representing the employees of a single employer;

(6) Protection of separate unions from undue concentration of power in industry and national union organizations.

It was the industry's viewpoint that "there are only three possible courses union-management relations can take:

"1. A continuation of the past pattern of management-union disagreements which would mean more strikes and stoppages and further reductions in productivity;

"2. Achievement of union objectives, either through the intermediate step of industry-wide collective bargaining or in the direct substitution of a centrally-managed economy for our present competitive system;

"3. Adoption of the recommended national labor policy to establish cooperative labor-management relationships on a voluntary basis that would perpetuate a free and competitive industrial system."

With responsibility for collective bargaining equally decentralized, it was anticipated that individual managements dealing with union representatives responsible solely to the workers of the particular company involved could and would work out effective cooperative relationships of mutual interest to the workers, the company and the public.

National and industry unions would require all their present facilities to adequately play their part in servicing autonomous member unions and developing needed cooperation on programs that serve the public interest. Their services would supply separate member unions the economic background and advisory assistance needed for intelligent and responsible collective bargaining.

On the proposed basis, I am convinced that invaluable voluntary cooperative labor-management relationships on an industry and national basis can be developed. In fact, such cooperation did develop in Detroit on manpower problems as a result of WMC Chairman McNutt's far-sighted decentralized approach to these problems and under the sound administration of Edward Cushman, Detroit Area WMC Director.

**"How can union responsibility at contract levels develop when union representatives of workers covered by a contract are not as fully responsible as management for a contract and performance under it?"**

**"How can the essential management-labor cooperation and teamwork develop?"**

Baseball is our national sport; football is our No. 1 college sport. Good teams are characterized by individual skill subordinated to superb team play. Competition determines champions. Individual skill subordinated to team play and measured through competition is the something which has made America the richest and most powerful nation on earth.

Each industrial enterprise, each company, is a team in some industrial league. In the past, certain team members have put their loyalty to their fraternity ahead of their loyalty to the team. Everyone knows the results when this happens to a college team. It is equally bad for industrial teams. At one time, the Banking Trust tried to run all the teams in the country. At another time, Oil, Rail, and Meat Trusts tried to dominate our economy. Today union monopolies are disrupting team play throughout the country by promoting and seeking greater loyalty to the national union fraternities than to the individual industrial team. They say, "Loyalty to your national union must come ahead of loyalty to your company team."

No one has explained how decentralized industry can bargain collectively with centralized industrial unions without losing the individual freedom and responsibility on which competitive enterprise is based.

Decentralization of the tremendous and still-growing economic, political, and social power of industrial unions is in accord with American public policy. Other private economic units have obtained excessive power in the past and they have been decentralized to clear the road for further progress. In no case did decentralization result in destruction. In our early days we had to break up the banking monopoly. Doing so did not destroy the banks. To the contrary, their usefulness increased.

When, at the end of the Nineteenth Century, the American people were confronted with a vast network of strangling monopolies in the fields of railway transportation, meat-packing, food processing, steel-making and oil refining, the measures which the people took to break those strangle-holds **DID NOT** destroy the affected industries. On the contrary, those measures created the necessary ground-rules that enabled those industries to render greater public service than they had ever been able to supply without those rules.

To quote a recent editorial from the "Detroit Free Press":

"When they (the union leaders) publicly proclaim that they will block the return of national prosperity unless they get what they want, they are putting themselves in the same position as big business of another generation when 'The-public-be-damned' was the order of the day.

"The American public has never liked the idea that it can be damned by business, politicians or union leaders."

The following statements are also from the same editorial:

"The worker should be protected from the union politician as well as from the big business politician.

"Our national prosperity is at stake.

"Shuffling the cards in the Department of Labor is not the answer. The people are also tired of card tricks."

May I emphasize, in conclusion that:

1. No effort is being made by the industry, or any automobile company, to destroy unions. On the contrary, sincere efforts are being made to develop a basis on which cooperation and mutual helpfulness can expand our dynamic economy.

2. Industry-wide agreement on wages and hours inevitably leads to industry-wide agreement on prices and production.

Such agreement would be a dangerous first step toward an employer-employee conspiracy against the consumer. That is not only illegal in this country, it is morally wrong. It is contrary to every standard of socio-economic good that has been proved sound and become traditional in this country.

It is, in a word, un-American. To take this step would be to encourage in this nation the growth of that very evil against which this nation has just waged the most destructive war in all history.

We agree with others that the following American principles must be strengthened and meticulously followed:

1. Equal opportunity for all.
2. Personal responsibility for our own individual welfare.
3. No leaning on a beneficent or a bankrupt government.
4. Freedom from coercion for every American.
5. No government favor for any individual or group.

These are the principles that made America great and they are the best ones to keep us great.

## Business Man's Bookshelf

**America's Place in the World Economy**—Fourteen addresses by American economists—Institute on Postwar Reconstruction, New York University, Washington Square, New York, 3, N. Y.—cloth—$3.00.

**City of Flint Grows Up**—Success story of an American community—Carl Crow—Harper and Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth $3.00.

**Great Stewardship, The**—A story of Life Insurance—Albert W. Atwood—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$2.50.

**Group Health Insurance and Sickness Benefit Plans in Collective Bargaining**—Industrial Relations Section, Princeton University, Princeton, N. J.—paper—$1.50.

**Management Prerogatives Defined in Union Contracts**—Verna L. Pace—Industrial Relations Section, California Institute of Technology, Pasadena 4, Calif.—free on request.

**Opening of the Great Southwest 1870-1945**—History of the origin and development of the Katy Lines — Missouri - Kansas - Texas Railroad Co., St. Louis, Mo.—paper.

## Morgan, Stanley Sell Huge Rail Bond Issue In Rapid Fashion

An underwriting syndicate headed by Morgan Stanley & Co. was the successful bidder Oct. 26 for $65,000,000 Chicago, Burlington & Quincy RR. first and refunding mortgage bonds, receiving the award on a bid of 100.0399 for 3⅛% interest rate. The bonds, due in 1985, were reoffered immediately to the public, subject to the approval of the Interstate Commerce Commission at 100.56.

The bankers announce over-subscription and a closing of the books in less than a half hour after the opening of the bids at 11 A. M. This is considered a record minimum time in underwriting circles for disposing of so large an issue. Life insurance companies were said to be exceptionally heavy purchasers of the bonds, with two of the life companies in New York reported taking $14,000,000 and $10,000,000 of the issue respectively. The out-of-town institutional demand also was heavy, according to the bankers.

A second group led by Halsey, Stuart & Co., Inc., submitted a bid of 99.43999 for a 3⅛% coupon.

Proceeds from the sale of the new bonds will be applied by the company to the redemption on Jan. 1, 1946, of $30,000,000 of 3½% collateral trust bonds, due in 1969, at 105½, and $39,493,000 of first and refunding mortgage 3¾s, due in 1974 on Feb. 1, 1946, at 104%.

## Arthur L. Baney With E. R. Jones & Co.

BALTIMORE, MD.—Arthur L. Baney has become associated with E. R. Jones & Co., 221 East Redwood Street. Mr. Baney was connected with the security investigating and auditing division of the SEC, covering Maryland, Delaware, Virginia, West Virginia and the District of Columbia. Before joining the Government agency, he was associated with John D. Howard & Co. and with Jenkins, Whedbee and Poe, both Baltimore Stock Exchange firms.

# Full Employment and the British

(Continued from page 2076)
inflation of the price level it would be helpful to Belgium."

### The Inflationary Aspect in U. S.

Why would a "full employment" program here be inflationary or else disappointing? For the answer to that question one must ask another. Where would the Government get the money for the program? If it gets it from taxes it will not increase employment. It will merely shift money from private hands to those of politicians and hence shift men from private to public payrolls. And the same is true of money derived from the sale of bonds to the public, is it not? In fact either high taxes or the high interest rate probably needed to sweeten the bonds to the public might prove harmful and not helpful to employment. Consequently the effort to finance a "full employment" program by these means would prove ineffective.

There remains only the possibility of manufacturing the money, either by printing it directly or else by selling new bonds to the banks for new deposit write-ups. Both methods, in the long run, are sure to be inflationary and it is that inflation which the British, and the Belgians, and so on, would like to see. A "full employment" program here would be ineffective if financed by one method and inflationary if financed by the other.

### Why England Risks Inflation

Let us now turn to the reasons why sound British thought might accept this risk for England.

1—Britain has been harder hit by the war than have we, so hard hit and so filled with political unrest that her leadership is actually turning socialistic and she dares not permit wide unemployment. She fears deflation, in other words, more at the moment than she fears inflation. The British have been at war longer than we, have suffered greater privations, endured heavier taxes, had greater property damage, lost more sleep from bombing, come out poorer and have harder times ahead. Prudence there dares not risk the unemployment, even though corrective, that might be risked here.

2—Inflation and high prices in England, if they do occur as result of a "full employment" policy, are unlikely to disturb British export sales seriously or to impair the balance of British external accounts. The British, in other words, because they have untied their pound from gold, can do what we cannot—they can inflate without penalizing their export trade. The increase in their costs can be absorbed in the price of their exchange. "A free exchange rate automatically prevents an adverse balance of payments," says Frederick Benham in "Great Britain Under Protection" (The Macmillan Co., N. Y., 1941, p. 156.) Our own foreign trade, although smaller proportionately than the British, would enjoy no such immunity and high costs here would shrink our exports and encourage imports.

If we were led to copy the British and untie our dollar from gold, letting it sink with the pound, Britain would still benefit through the higher price we paid thereby for her newly-mined gold. That is noted parenthetically.

3—England is likely to keep closer watch on expenses under a "full employment" program and permit less inflation than a similar plan would cause here. Everyone knows the high regard the British have for budgetary honesty and also knows what a splendid civil service they have for the administration of their finances. Our handling of government money, by contrast, is often very loose. For illustration I will quote extracts from a radio address by Senator Borah delivered in November 1934, in the second year of the Roosevelt administration, and showing how small sums for straight relief were being diverted from their object and wasted:

"In one city of, perhaps, 200,000 population there were 806 administrative employees in the central office. This is in a Middle Western State. Their salaries, together with incidental expenses, aggregate $1,500,000 a year. Many of the salaries run from $200 to $300 a month. . . . I now call attention to some figures based upon official report in another State. . . . This report discloses that for $5.47 expended for relief $2.68 was expended for administration. Taking counties in that State, the report discloses that the administrative costs of administrating $4,700 was $5,100. In one county the administrative cost was $572, the amount administered $4. In another county it cost $576, the amount administered $6. . . . It seems appropriate to say here that an examination of the records of the Red Cross, covering the Missisippi Flood Relief of 1927, and the Florida and Puerto Rico hurricane relief of 1928 discloses that the administrative expense, including family workers for service following the main work, was about 6½%."

The extent of such misuse of government funds could, quite obviously, be greatly multiplied with the far larger funds necessarily made available under a "full employment" program with the possibility of Tammanyizing our Federal Government. No similar waste of public funds is likely under British civil service and hence it seems correspondingly unlikely that a British "full employment" program will prove as severely inflationary there as a similar one might prove here.

4—The British, being more dependent than we are on their foreign trade and hence more vulnerable than we are to sudden unheralded contractions because of tariffs, exchange depreciation, or other hostile action, are consequently in greater and more urgent need than we are of some employment program wholly independent of foreign trade to cushion their economy against injury to it and to salvage labor which might otherwise be irrevocably lost to the nation. The extent of this wastage is indicated by Sir W. H. Beveridge in his recent book already referred to (W. W. Norton and Co., Inc., N. Y., 1945, p. 73) where he says "unemployment after the First World War was most probably two and a half times as severe as before the war." Without a "full employment" policy the British were helpless to remedy this unemployment.

5—They were also helpless to remedy the considerable unemployment caused in England as a result of our depressions. On that subject I will again quote Sir William, this time at page 224 of his book:

"For a major depression in a major country there is no remedy under a multi-lateral trading system. From 1929 to 1930 imports into the United States fell from $4399 millions to $3061 millions or 30%. $1338 millions of effective demand was withdrawn from the rest of the world between one year and the next. From 1937 to 1938 there was a similar though even greater proportionate fall, from $3084 millions to $1960 millions or 36%; $1123 millions of effective demand was withdrawn from the diminished international market. This withdrawal of demand in 1938 was spread throughout the world; . . . No economic system can be expected to stand such shocks, . . . in 1938 the certain coming of another depression was stopped by a World War."

Obviously normal practice, by the British or anyone else, was inadequate to compensate for such a shrinkage and if Britain now resorts to a "full employment" policy we can scarcely blame her. But it by no means follows that we should follow suit. In 1932 and 1933 the cost of a "full employment" policy here would not have been less than 13 billion dollars for each year (13 million unemployed at $1,000 a year in wages) and would have been added to the costs for prior and subsequent years. Prevention would have been a cheaper way out for us. Our trouble was an overexpansion of money relative to its gold base. Our deposits plus currency were about 14 times our monetary gold stocks. If we will only revert to sound banking practice and limit this expansion by the traditional ratio, that set by long experience as safe, we can ensure reasonably small fluctuations of our cycles around that equilibrium point at which sound sales and employment are at their peak. Canada, with a sound banking system, has had no bank failures since 1923 and but a small one then. (See September Letter of the Royal Bank of Canada.)

In 1938 a "planned economy" was in full swing here with a Keynesian "full employment" program and the trouble was caused by the discontinuity of Federal spending under this program. There again Britain was helpless to avoid the trouble and cannot be too greatly blamed for efforts to immunise herself from possible repetition.

### Why England Deserted "Orthodoxy"

6—The foregoing illustrations tend to show that British experience with orthodox methods of preserving employment, for reasons quite beyond her control, have failed, with the result of destroying some of her faith in the power and effectiveness of orthodoxy. She did ship gold when her exports proved deficient and she did raise interest rates and curtail business expansion and cause unemployment and deflate wages and deflate prices in a thoroughly orthodox effort to achieve a balance in her accounts by increasing exports and decreasing imports. She even tried to push the pound back to former parity, a most quixotic move toward orthodoxy.

Had we been forced to deflation over a period of ten years as she was we would be more easily convinced of the hardship. Rich as we are we would find it politically difficult to condemn our population to so protracted a deflation. But England did try it and then we raised tariffs and made her do it all over again. Robert Boothby, M.P., sums it up in "Bretton Woods Dangers to Britain" in The Commercial and Financial Chronicle of July 19, 1945. He says:—"We found we could not compete in the markets of the world because our costs were too high. There were only two ways in which equilibrium between our internal and external price levels could have been restored — devaluation of the pound or a reduction in the general level of wages. . . . the attempt to do the latter resulted, inevitably, in the general strike and the great coal-mining strike in 1926. So our export trade was crippled."

Orthodoxy proved ineffective in England. Here it has not been honestly tried. In England a "full employment" program seems a refuge from chaos. Here it will be a means of enabling unions to spread unemployment by monopoly union wage scales as has happened in the building trades and of turning the unemployed over to the government.

7—In England there is highly useful work which can perhaps be better done by the government under a "full employment" program than left to private enterprise. If the clearing of the devastated areas and the rebuilding of the slums were left to the profit incentive they might well limp. Consequently government intervention may well be called for there. Here no similar excuse exists for large-scale government made-work as we have no similar wreckage to repair.

8—Still another field in which Government intervention in England seems much more advisable than here is in the revamping of British industry to meet the needs of modern competition from abroad. We have no such problem. But British factories, over many generations, have grown up, a small unit here, another there, into a whole which is not adapted to efficient operation. Somewhat similarly the winding streets of New England towns are ill-suited to modern automobile traffic. If England is to increase her exports by the 50 per cent over pre-war volume which she needs for reasonable survival she must modernize. Under private enterprise such a change would occur as dictated by gradual atrophy and would be slow. For prompt action in an emergency a centralized program may be needed. We have no such need.

### Conclusion

There are therefore clear reasons why orthodox British economists might favor a "full employment" plan for England which would not be valid here. We are not so hard hit by the war, our foreign trade is not insulated from inflation by an untied currency, we lack the British respect for money and their civil service, we are not so much at the mercy of foreign tariffs or of foreign depressions, orthodoxy has not been tried by us and found wanting, and we have not the British excuses for government employment either in rebuilding devastated areas or in modernizing our plant.

The enthusiasm for a "full employment" program here undoubtedly springs in part from the fact that money here has lost its normal meaning. We have tripled our bank deposits, run taxes from small to large figures, raised government debt from 22 billions to about 300 billions of dollars, planned peace-time expenses in unheard of amounts and can no longer think in the old terms of what we can afford. We are unable to get back to earth after dealing for so long with easy money in astronomical sums. Before the war it was freely predicted that another war would destroy civilization. If that can happen it will be because of an irresponsible attitude toward money.

Eventually, of course, we will all, including Russia, return to orthodoxy; not because greedy capitalists impose that system on helpless labor but because long and often painful trial and error invariably teaches humanity that it is better off if it follows certain simple rules. One of these rules is not to pay out more than one takes in. It is the function of economic history and economic analysis to establish these rules and help avoid these painful lessons. The evil results of debauching the currency when the political going gets tough and the invariable return to sound money fill pages of such histories. Unfortunately the battle for reestablishment of faith in sound principle here is more difficult because our leadership does not stand solidly for soundness. Business wants "Free Enterprise"—for the other fellow—for labor, but for itself it wants handouts, loans to promote exports, subsidies, tariffs, undue credit expansion. The punishment for past lapses has been blamed on orthodoxy, not on bad leadership. But orthodox rules derive from natural law and will assert themselves. They are discovered, not made. We must hope that rediscovery this time will not have to await another painful lesson.

# Venture Capital Needs in New England

(Continued from page 2076)

There seems to be a general agreement that this aspiration is a fair statement of what we want to do in New England. The Committee could find no condition to make the aim an impossible one. It seems necessary only to discover what actions are necessary, and who should perform such actions, and how to persuade them to act. You may reasonably entertain the suspicion that I am here to suggest that the banks may have a part in action as well as in persuasion.

The purpose, aim, or aspiration, as you may choose to name it, is this: "We want to maintain in New England, under free enterprise and private ownership, a sound and stable economy, based primarily upon industries which are diversified as to products, adapted in size to the community of location, with management sympathetic to community needs. We want these industries so firmly anchored by interest and sentiment that only the most substantial advantage could induce them to move. We want this industrial structure fortified and reinforced by venture capital which will finance the constant creation of the new to replace the inevitable obsolescence of the old. And without prejudice against men and money coming from outside New England, we want so far as possible to keep a tight grip on our economic destiny by protecting, through ownership, our right of active participation in decisions affecting our future."

Now what are the actions which are implicit in and consistent with this aspiration? A year ago here I cited the authority of Santayana who said that no principle is worth anything as currency unless it can be broken down into the small change of daily experience. In other words, an aspiration is worthless unless it finds expression in a code of individual conduct. Our Committee tries to show what needs to be done, and who ought to do it. We try to pass the risks around among institutions and individuals, according to our view of the practicality of the assignments.

In recent years there has been a great running away from risks. I need not prove to you that the function of commercial banks with respect to risks has greatly changed, or that the vacuums created by their departure from certain fields of risk have not yet been filled in a manner conducive to the survival of private enterprise. This is not said in criticism. It is simply a statement that some of the things which banks used to do are not now being done by anyone. Some of the purposes for which banks were created—some of the things we used to think banks were for—are not now being fulfilled. The factors of credit are different under a national liquidity concept than under a community loyalty concept.

Our Committee considers, beside the banks, other organized and institutional sources of capital and credit. All institutions, however respectable, ought to be examined once in awhile from the viewpoint of social usefulness. George Bernard Shaw once said: "Every person who owes his life to civilized society and who has enjoyed since his childhood its very costly protection and advantages should appear at reasonable intervals before a properly qualified jury to justify his existence, which should be summarily and painlessly terminated if he fails to justify it and it develops that he is a positive nuisance and more trouble than he is worth. Nothing else will make people responsible citizens." This is a radical view of individuals, but applied to institutions, it makes sense. We all know that the old corporate charters often contain provisions of limited life and restrictions on the amount of property to be owned. Once I thought that such restrictions were silly. I now see that our forefathers were men of sense. They knew that an institution ought to have to prove its worth and utility every once in awhile.

Our committee looks at financial institutions and organizations by a test of utility to our stated aspiration. We do not find much fault with bank managements, as to their disposition to extend credit. We do criticize the examining procedure, which seems to us inconsistent with what we want for New England, and with what high Government officials say they want for the country.

We look at trust funds. It seems to us that the zeal of fiduciaries to expand their business has had the effect of putting into manacled hands a large amount of capital which ought to be devoted to risk. We say that "a fiduciary ought not to undermine the foundation of the only edifice in which he can live." We think that trust funds could not be withdrawn entirely from risk without creating by their withdrawal a risk for the system of private ownership and free enterprise—the only system in which a trust fund can be worth anything to anyone.

As for investment funds, the Committee believes that these accumulations of capital, under legal restrictions and adopted policies which practically compel the investment of their funds in stocks of the largest enterprises, has made it increasingly difficult for the new venture, or even for the established typical New England enterprise, to obtain equity capital. I ask you to look at the published lists of some of these funds which are managed in New England. Estimate the amount of capital that they are drawing from your State or community, and compare with what they are putting back in. Then consider whether the regulatory laws or the policies ought to be changed. The banks could correct this condition very quickly, if they would exert their influence in this matter.

In its consideration of various proposals for the formation of capital pools for financing small business and new ventures, the Committee expresses doubts regarding the feasibility of any plan as such. Emphasis is given to the need for men of first-class ability in the management of such a pool. The men, we think, are much more important than the plan. It is believed that a promotional equity capital pool should be confined to a single community or State, rather than extended to New England as a single unit.

The Second Report deals with unorganized sources of capital, and discusses the process of capital procurement from investors through the agency of dealers in securities. The relations of management and ownership are also considered, and the need for more responsible and stable ownership is stressed. Dealers in securities constitute the best existing agency for equity capital procurement, but they are not likely to finance new ventures and small business, in the face of onerous regulatory restrictions and the difficulties of combating the public taste for size and activity, when they can make money more easily by kicking stuff around. If securities dealers are expected to perform the essential service of financing small business and new ventures, they will need help from the banks in re-establishing public faith in the sound small business and in creating a sense of individual responsibility for its financial support. Bank collateral requirements will have to put more stress on intrinsic merit and less on market activity.

As opposed to the prevailing notion of liquidity as a desirable state, these reports stress loyalty. Loyalty has always been the great force making for stability and permanence. Loyalty, as an affirmation of man's faith in man, is akin to religion. Carlyle, in his essay on "Characteristics," said, "It is not by Mechanism, but by Religion; not by Self-Interest, but by Loyalty, that men are governed or governable." I believe that we cannot rely upon any Plan, or Organization, or Market Mechanism, or Money Mechanism, or Regulatory Mechanism, unless we can build upon the firm base of Loyalty.

In his lectures on The Varieties of Religious Experience, William James speaks of the great movements which have been started by humble individuals who acted in their faith. He quotes that eccentric but high-souled lady of conviction, Mrs. Annie Besant, as follows: "Plenty of people wish well to any good cause, but very few care to exert themselves to help it, and still fewer will risk anything in its support. 'Someone ought to do it, but why should I?' is the ever re-echoed phrase of week-kneed amiability. 'Someone ought to do it, so why not I?' is the cry of some earnest servant, eagerly forward springing to face some perilous duty. Between these two sentences lie whole centuries of moral evolution."

I grow older, and cannot wait for "centuries of moral evolution." Neither, I think, can the nation, if freedom is to survive. I do not believe that the sense of individual responsibility is dead. Can any man justify his existence, if he admits that individual actions are insignificant? If the philosophy of this report is accepted, and applied in consistent actions, I am sure that in our own day we can learn to act with money according to our highest conception of moral and social values, and at the same time maintain in dignity and honor the free man.

## New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following weekly firm changes:

Eising & Co., which became inactive on June 25, 1942, because all active general partners were engaged in war service, resumed its status as an active member firm on Oct. 25.

Privilege of George A. Downey to act as alternate on the floor of the Exchange for William F. Stafford, Jr., Stafford & Co., was withdrawn on Oct. 25 (approved but did not become effective).

Privilege of Carroll V. Gianni to act as alternate for Charles S. Moore, D. T. Moore & Co., was withdrawn on Oct. 27.

Privilege of Miles T. Maher to act as alternate for E. Coyne Maloney, Block, Maloney & Co., was withdrawn Oct. 19 (approved but did not become effective).

Privilege of Thomas J. Arciero to act as alternate for Woodley B. Gosling, Bendix, Luitweiler & Co., was withdrawn Oct. 31. Mr. Arciero will retire from the firm as of the same date.

Privilege of William H. Gray to act as alternate for Donald C. Appenzellar, Jr., Talcott, Potter & Co., is withdrawn effective Nov. 1.

Privilege of R. Lawrence Oakley to act as alternate for William W. Dean, Stillman, Maynard & Co., is to be withdrawn effective Nov. 1.

## L. H. Parsons Dead

Lewis H. Parsons, senior partner in the Philadelphia investment firm of Graham, Parsons & Co., died at his home in Villanova, Tuesday, Oct. 23, after an illness of several months. He was 69.

Mr. Parsons was a graduate of Harvard University. He served as Victory Loan Director for the Third Federal Reserve District during the First World War. He was a member of the Philadelphia Club, the Racquet Club and the Rabbit. He is survived by his wife, Mrs. Annabelle C. Parsons.

## Clem Theisen Killed

LOUISVILLE, Ky.—In a freakish accident, in which a B-17 bomber crashed through a fence into his automobile traveling on a highway near Bowman Field here, Clem P. Theisen, for years a securities salesman for O'Neal, Alden & Co., was killed instantly on Friday, Oct. 19. Lewis Theisen, an older brother, was critically injured.

Clem P. Theisen, County Clerk of Jefferson County, had just been renominated in the Democratic primary last August and was up for reelection in November. Theisen, in addition to being a successful securities salesman and a popular political leader, was nationally known in turf circles, having raced thoroughbreds in the '20s, as half-owner of the Kohn and Theisen stable. Theisen, who started as a telegraph operator, traditionally took his vacations during Churchill Downs meets to renew his association with patrons and devotees of horse racing.

The hundreds who attended Theisen's funeral Monday, Oct. 22, were representatives of all walks of life from street vendors, whom he often had favored, to men high in business, professional and governmental positions. Theisen is survived by two brothers and four sisters.

## Oldendorph Joins Smith, Moore & Co.

ST. LOUIS, MO.—Edward R. Oldendorph has become associated with Smith, Moore & Co., 509 Olive Street, members of the St. Louis Stock Exchange, and will represent the firm on the floor of that exchange. Mr. Oldendorph was with the former firm of Francis Bro. & Co. for about 19 years before entering tne armed forces, in which he served with the Third Air Force.

## Ingalls & Snyder to Admit

Ingalls & Snyder, 100 Broadway, New York City, members of the New York Stock Exchange, will admit Chester C. Veldran to partnership as of Nov. 7th.

# Truman Wage-Price Policy

(Continued from first page)

Those are still our policies.

One of the major factors determining whether or not we shall succeed in carrying out those policies is the question of wages and prices. If wages go down substantially, we face deflation. If prices go up substantially we face inflation. We must be on our guard, and steer clear of both these dangers to our security.

What happens to wages is important to all of us—even to those of us who do not work for wages.

It is important to business, for example, not only because wages represent an essential item in the cost of producing goods, but because people cannot buy the products of industry unless they earn enough wages generally.

What happens to wages is also important to the farmer. The income he earns depends a great deal on the wages and purchasing power of the workers in our factories and shops and stores. They are the customers of the farmer and cannot buy farm products unless they earn enough wages.

**All Concerned With Wages**

The fact is that all of us are deeply concerned with wages, because all of us are concerned with the well-being of all parts of our economic system.

This is a simple truth. But like all simple truths, it is too often forgotten. Management sometimes forgets that business cannot prosper without customers who make good wages and have money in their pockets; labor sometimes forgets that workers cannot find employment and that wages cannot rise unless business prospers and makes profits.

Like most of you, I have been disturbed by the labor difficulties of recent weeks. These difficulties stand in the way of reconversion. They postpone the day when our veterans and displaced war workers can get back into good peacetime jobs. We need more of the good sense, the reasonableness, the consideration for the position of the other fellow, the teamwork which we had during the war.

It has been my experience in public life that there are few problems which cannot be worked out, if we make a real effort to understand the other fellow's point of view, and if we try to find a solution on the basis of give-and-take, of fairness to both sides.

I want to discuss the wage problem in just that spirit and I hope that all of us in the United States can start thinking about it in that way.

**Labor's Position**

Let me begin by putting labor's position before you. I do not think all of us understand how hard a blow our industrial workers have suffered in the shift from war production to peace production.

You do know that sudden total victory caused millions of war workers to be laid off with very short notice or none at all. While we hope to overcome that condition before too many months have passed, unemployment is hardly a suitable reward for the contribution which veterans and war workers have made to victory.

Several months ago I urged the Congress to amend the Unemployment Compensation Law so as to help workers through the difficult months of unemployment until reconversion could be effected. The Congress has not yet passed that legislation.

The responsibility for that is solely up to Congress—and specifically I mean the Ways and Means Committee of the House of Representatives. I hope that this committee will fulfill its obligation to the people of the nation and will give the members of the House an early chance to vote on this important legislation.

We must all recognize that legislation which will help sustain the purchasing power of labor until reconversion is completed, benefits not labor alone but all of us — business, agriculture, white-collar workers and every member of our economic society.

I am sure that the workers of the nation, those who depend upon manual labor for livelihood, also feel a deep concern about full employment legislation which is now pending in the Congress. It is essential that the Congress speedily adopt some effective legislation which embodies the principles underlying full employment.

**Stands for Prosperity and Jobs**

The American people are entitled to know now that this Government stands for prosperity and jobs—not depression and relief. Passage of a full employment bill will give the American people this assurance.

The responsibility for the damaging delay in enacting this legislation is definitely at the door of the Committee on Expenditures in the Executive Departments of the House of Representatives.

I am also sure that the workers of the nation feel the same way about what is now happening to the United States Employment Service in the Senate and in the House. During the next year millions of workers will have to look to efficient and centralized employment offices to find jobs for them anywhere in the country.

The United States Employment Service has done so much during the war, and can do so much during the months ahead if it can continue to operate as a nationwide and unified organization, that I hope the Congress, for the time being, will keep this great public service under Federal management.

But quite as important as these problems of unemployment is the fact that the end of the war has meant a deep cut in the pay envelopes of many millions of workers.

I wonder how many of you know that many war workers have already had to take, or will soon have to take, a cut in their wartime pay by one-quarter or more. Think of what such a decrease in your own income would mean to you and to your families.

**Causes of Wage Reductions**

How does it happen that pay envelopes are being cut so deeply? There are three reasons:

First, there is the present decrease in the number of hours of

(Continued on page 2103)

# Text of Executive Order

*WASHINGTON, Oct. 30—The text of President Truman's executive order amending his Aug. 18 directive on the wage-price policy was as follows:*

**Executive Order 9651**

Amending Executive Order 9599, providing for assistance to expanding production and continued stabilization of the national economy during the transition from war to peace, and for the orderly modification of wartime controls over prices, wages, materials and facilities.

By virtue of the authority vested in me by the Constitution and the statutes of the United States and particularly the Stabilization Act of 1942 as amended, and for the purpose of carrying out the guiding policies of Executive Order 9599 of Aug. 18, 1945, and amplifying the provisions of Part IV thereof, Executive Order 9599 is hereby amended by adding at the end thereof of the following Part VI:

**"VI."**

"1. The stabilization administrator, designated pursuant to executive order 9620 of Sept. 20, 1945, shall approve, under section 2 of Part IV of this order, a wage or salary increase falling into any of the following three classes in any case in which such increase has been found by the National War Labor Board or other designated agency to be necessary to correct a maladjustment or inequity which would interfere with the effective transition to a peacetime economy.

"A. Increases where the percentage increase in average straight time hourly earnings in the appropriate unit since January, 1941, has not equalled the percentage increase in the cost of living between January, 1941, and September, 1945.

"B. Increases necessary to correct inequities in wage rates or salaries among plants in the same industry or locality, with due regard to normal competitive relationships.

"C. Increases necessary to insure full production in an industry, designated by the stabilization administrator, which is essential to reconversion and in which existing wage rates or salaries are inadequate to the recruitment of needed manpower.

"The Stabilization Administrator shall continue to approve wage or salary increases approved by the National War Labor Board or other designated agency in cases in which such increases satisfy standards in effect prior to Aug. 18, 1945.

"The Stabilization Administrator may define additional classes of wage or salary increase which the National War Labor Board or other designated agency is authorized to approve as necessary to correct a maladjustment or inequity under Section 2 or Part IV or this order.

"Nothing in the foregoing shall be construed to require the National War Labor Board or other designated agency to approve any wage increase unless, in its judgment, the increase is necessary, on the facts of the particular case, to correct a maladjustment or inequity which would interfere with the effective transition to a peacetime economy.

"In making findings under this section the National War Labor Board or other designated agency shall be subject to directives issued by the Stabilization Administrator under the authority conferred by Executive Orders 9250 and 9328, or other applicable Executive Orders.

"2. Nothing in this order shall be construed to prevent an employer from putting a wage or salary increase into effect and thereafter applying for approval of such increase, under the standards of this order, so that it may be used as the basis for seeking an increase in price ceilings, or for resisting otherwise justifiable reductions in price ceilings, or, in the case of products or services being furnished under contract with a Federal procurement agency, for increasing the costs to the United States.

"3. Notwithstanding the fact that a wage or salary increase has not been approved in accordance with this order, the Price Administrator shall, after the expiration of a reasonable test period, which save in exceptional cases shall be six months after the wage or salary increase has been made, take such increase into account in determining whether an increase in price ceilings is then required under established standards governing increases in price ceilings."

# Stabilization Director Explains Truman Wage-Price Policy

## In a Series of Questions and Answers, John C. Collet Clarifies Policy Laid Down in President Truman's Executive Order.

John C. Collet, Stabilization Administrator, following the radio address of President Truman, issued rulings and explanations of the Administration's wage-price policy as enunciated by the President and specifically announced in his Executive Order 9651 dated Oct. 30, 1945. His seventeen questions and answers were as follows:

1. Do employers now have to get Government approval before increasing wages?

No. Employers are free to increase wages without Government approval. This was a basic change in Government wage policy made by President Truman when he issued Executive Order No. 9599 on Aug. 18, 1945. Before that date wage increases as a rule were not lawful unless they had been approved by the wage-stabilization agencies of the Government.

There are two exceptions to the general rule that wage increases do not require Government approval. In the building and construction industry, wartime wage controls have been extended until Nov. 18, 1945. Wage controls established by the Department of Agriculture with respect to agricultural labor continue in effect.

2. May unapproved wage increases be used as a basis for an increase in price ceilings?

No. The Executive Order provides that a wage increase may not be used in whole or in part as a basis for seeking an increase in price ceilings, or for resisting otherwise justifiable reductions in price ceilings, or for increasing costs to the United States, unless it has been approved by the Government's wage-stabilization agencies. These are, first, the National War Labor Board or other designated agency, and, second, the Stabilization Administrator. To be approved by these agencies, wage increases must meet certain prescribed standards.

3. The Government's wage-stabilization agencies will approve for pricing purposes wage increases falling into certain defined classes. Does this mean that all other wage increases are disapproved by the Government?

By no means. The wage-stabilization agencies concern themselves only with wage increases which management desires to use as a basis for price increases, or for resisting price decreases or increasing costs to the United States. "Approval" of a wage increase, therefore, simply means that it may be used for one of these purposes and withholding of approval that it may not. Except in this sense (and with the exceptions noted in the answer to Question 1), the Government no longer formally approves or disapproves any wage increases.

4. Does the fact that a particular wage increase falls in a class that will be approved by the Government's wage-stabilization agencies mean that wage increases of this type will be directed by the Government?

No. Just as the Government no longer prohibits wage increases in excess of certain standards so it no longer directs them. Wage increases are to be granted by employers or agreed to as the result of collective bargaining, conciliation or arbitration. The standards for approvable wage increases merely determine when increases arrived at in these ways may be used for pricing purposes.

5. When an employer agrees to a wage increase and puts it into effect without securing approval of its use for pricing purposes, may he seek such approval afterwards?

Yes. By putting a wage increase into effect, an employer waives the right to use it as a basis for an increase in price ceilings (or for the other purposes stated in the Executive Order) unless and until it has been approved by the wage-stabilization agencies. But he does not waive the right to seek such approval. Approval will be given or withheld on the same basis as if the employer had made his application before putting the wage increase into effect.

6. Does an employer's failure to seek or obtain approval of a wage increase mean that he waives indefinitely any right to have it considered for pricing purposes?

No. The purpose of the Executive Order is to encourage voluntary settlements of wage questions. An employer's reasonable expectation that he will be able to absorb a wage increase may be disappointed by unfavorable developments. If this happens he will not be penalized because he was willing to take chances in an effort to settle his wage controversies.

If, after a reasonable test period—six months after the wage increase was made, save in exceptional circumstances — it is shown that an industry will be unable to absorb the increase, the Office of Price Administration will take the increase into account in applying its standards governing price increases. A test period longer than six months will not be required unless the industry's experience within that period is clearly unrepresentative or unreliable. A similar rule will be followed in those cases in which ceiling prices are fixed or adjusted on an individual-firm basis.

7. Is an employer who has in effect an unapproved wage increase barred from receiving any ceiling-price relief at all until the expiration of a reasonable test period after allowance of the wage increase?

No. If the employer sustains other cost increases, such as an increase in materials prices, these may, of course, be taken into account for pricing purposes. In determining what, if any, increase in price ceilings is required because of such factors, before the expiration of a reasonable test period, the increase in costs attributable to the wage increase will be disregarded. In such a case, the amount of the increase in costs attributable to the wage increase will be taken to be equal to the amount of the increase in payroll resulting from the wage increase, unless it is shown to be less than that.

8. When the wage-stabilization agencies approve a wage increase, in whole or in part, does that mean that the employer will then be permitted to increase his prices by the same amount that he has increased his wages?

No. The OPA, in passing on an application for a price increase, will take the approved wage increase into account as an element of costs. The wage-stabilization agencies, however, will not have passed on the question whether, taking the wage increase into account, a price increase is required. That question will be decided by the OPA, applying the appropriate pricing standards. In deciding this question, the OPA will ordinarily act on the basis of estimates as to the effect of the wage increase.

9. What are the classes of wage increases which the wage-stabili-

zation agencies will approve for pricing purposes?

President Truman has announced that approval for pricing purposes will be given to three new classes of wage increases. These are:

First: Increases where the percentage increase in average straight-time hourly earnings in the appropriate unit since January, 1941, has not equalled the percentage increase in the cost of living between January, 1941, and September, 1945.

Second: Increases necessary to correct inequities in wage rates among plants in the same industry or locality, with due regard to normal competitive relationships.

Third: Increases necessary to insure full production in an industry, designated by the Stabilization Administrator, which is essential to reconversion and in which existing wage rates are inadequate to the recruitment of needed manpower.

In addition, approval will continue to be given wage increases which satisfy the wage standards in effect before Aug. 18, 1945.

10. Is the present list of classes of approvable wage increases a final and inflexible one?

No. Other classes will be added by the Stabilization Administrator if experience shows the need for them. In determining whether additional classes of wage increases should be approved, however, the Stabilization Administrator will continue to be guided by the overriding necessity of maintaining the stability of the economy.

11. What will be the practical effect of the first of the above standards?

The cost of living in the nation as a whole has increased approximately 30% since January, 1941. If the average straight-time hourly earnings of employees in the appropriate unit have increased by less than 30% since January, 1941, this standard will permit the removal of price obstacles to a wage increase sufficient to make up the difference.

Straight-time hourly earnings in the majority of industries are currently more than 30% above their January, 1941, levels. This standard, therefore, is needed to facilitate wage increases only in the minority of plants and industries in which wages have lagged behind the cost of living.

12. What will be the practical effect of the second of the above standards?

Wartime dislocations and changes in conditions growing out of the war have resulted in various distortions in wage relationships, as between different plants. This standard will assure that price ceilings do not stand in the way of the restoration or establishment of appropriate wage relationships in these inter-plant situations. It will permit greater flexibility in the correction of distorted wage relationships than was possible under the rigid requirements of wartime wage standards as applied in the so-called "bracket system." Since wage increases under this standard will be made on a plant rather than an industry basis, the standard is unlikely to have a material effect on commodity price levels.

13. What will be the practical effect of the third of the above standards?

Continuous studies are being made of the problems of reconversion industries, in consultation with industry, labor and other government agencies. Whenever it is determined that existing wages in a particular industry are inadequate to recruit needed manpower and this inadequacy is causing a bottleneck which is retarding reconversion, the Stabilization Administrator will so announce. It is expected that few industries will be found to fall in this category.

14. When a wage increase might be approved under two or more standards, will the amounts approvable under each standard be added together and approval given to a wage increase equal to their sum?

No. The correction of an inequity requiring a larger wage increase will result in the correction also of any other inequity requiring a lesser increase.

15. Suppose that a wage rate increase of 6 cents an hour would be approvable, if it stood alone, and an employer grants a total increase of 16 cents an hour. May he still secure approval of an increase of 6 cents?

Yes. The 10-cent increase, in other words, will not be treated as removing the basis for approval of the 6-cent increase.

16. Will the National War Labor Board or other designated wage agency approve a wage increase whenever it finds that it falls within one of the standards for approvable wage increases above described?

Not invariably. A particular wage increase must first be found by the board or other agency to be necessary to correct a maladjustment or inequity which would interfere with the effective transition to a peacetime economy. Usually this finding can and will be made. In such case the further approval of the Stabilization Administrator will have been given in advance. Cases may arise, however, in which, on the particular facts presented, a finding by the board or other agency that a maladjustment or inequity exists would be inappropriate and will not be made.

17. What procedure should be followed by an employer who wishes to obtain approval of a wage increase which he has put into effect or agreed to put into effect?

He should follow the procedures now in existence for obtaining approval from the appropriate wage-stabilization agency. For example, application for approval of a wage increase in a case now falling within the jurisdiction of the War Labor Board should be filed with the nearest local office of the Wage and Hour Division of the Department of Labor on a form supplied by that office (Form 10, pending preparation of a new form). That office will transmit the application to the appropriate office of the War Labor Board.

The War Labor Board or other appropriate wage - stabilization agency will be authorized to give final approval to applications, in whole or in part, if it finds that the wage increase involved is within one of the standards described above or any other standard to which advance approval has been given by the Stabilization Administrator.

The Wage Stabilization Agency will not follow the former practice of referring applications to the Office of Price Administration for an advance opinion as to whether a price increase will in fact be required. The price question will be considered only if the wage increase is approved.

# Truman Wage-Price Policy

(Continued from page 2102)

employment. During the past few years of war, millions of workers were asked to put in abnormally long hours of work. Now that the need is past, the 40-hour week is being restored.

A change-over from a 48 to a 40 hour week means a decrease in take-home pay, the amount in the pay envelope. That decrease is much more than just the loss of eight hours' pay.

Workers have been receiving time and a half for overtime—for all the hours they worked over 40 hours. That overtime pay is now gone in the change to a 40-hour week. The result has been a decrease of almost one-quarter in the workers' weekly pay.

Second, weekly pay is being cut because many jobs are being reclassified to lower paying grades. The individual worker will feel these particularly when he changes from one job to another, starting at the bottom of the grade.

Third, the pay envelopes of the workers will be thinner because millions of workers who were employed in highly paid war industries will now have to find jobs in lower-wage, peacetime employment.

These three factors added together mean a drastic cut in the take-home pay of millions of workers. If nothing is done to help the workers in this situation, millions of families will have to tighten their belts—and by several notches.

It has been estimated that, unless checked, the annual wage and salary bill in private industry will shrink by over 20 billions of dollars. That is not going to do anybody any good—labor, business, agriculture, or the general public.

The corner grocer is going to feel it, just as well as the department store, the railroads, the theatres, and the gas stations—and all the farmers of the nation.

It is a sure road to wide unemployment.

That is what is known as deflation, and it is just as dangerous as inflation.

However, we must understand that we cannot hope, with a reduced work week, to maintain now the same take-home pay for labor generally that it has had during the war. There will have to be a drop. But the nation cannot afford to have that drop too drastic.

### Wage Increases Imperative

Wage increases are therefore imperative—to cushion the shock to our workers, to sustain adequate purchasing power and to raise the national income.

There are many people who have said to me that industry cannot afford to grant any wage increases without obtaining a corresponding increase in the price of its products. And they have urged me to use the machinery of Government to raise both.

This proposal cannot be accepted under any circumstances. To accept it would mean but one thing—inflation. And that invites disaster. An increase in wages, if it were accompanied by an increase in the cost of living, would not help even the workers themselves. Every dollar that would be put in their pay envelopes under those circumstances would be needed to meet the higher living expenses resulting from increased prices.

Obviously, such a juggling of wages and prices would not settle anything or satisfy anyone. A runaway inflation would be upon us.

### Effect of Inflation

When inflation comes and the cost of living begins to spiral, nearly everbody suffers. Wage increases, under those conditions, would defeat their own purpose and mean nothing to labor. White-collar workers would find that their fixed salaries buy less food and clothing than before.

Farmers' incomes would shrink because they would have to pay so much more for what they buy. Increased earnings would mean nothing to business itself. War bonds, insurance policies, pensions, annuities, bonds of all kinds would shrink in value, and their incomes would dwindle in buying power.

Therefore, wherever price increases would have inflationary tendencies, we must above all else hold the line on prices. Let us hold vigorously to our defense against inflation. Let us continue to hold the price line as we have held it since the spring of 1943. If we depart from this program of vigorous and successful price control, if we now begin to let down the bars, there will be no stopping place.

After the last war this nation was confronted by much the same problem. At that time we simply pulled off the few controls that had been established, and let nature take its course. The result should stand as a lesson to all of us. A dizzy upward spiral of wages and the cost of living ended in the crash of 1920—a crash that spread bankruptcy and foreclosure and unemployment throughout the nation.

### The Twin Objectives

If these twin objectives of ours—stability of prices and higher wage rates—were irreconcilable, if one could not be achieved without sacrificing the other, the outlook for all of us—labor, management, the farmer and the consumer—would be very black indeed.

Fortunately this is not so. While the positions of different industries vary greatly, there is room in the existing price structure for business as a whole to grant increases in wage rates.

And if all of us would approach the problem in a spirit of reasonableness and give-and-take—if we would sit down together and try to determine how much increases particular companies or industry could allow at a particular time — I think most business men would agree that wage increases are possible. Many of

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# Truman Wage-Price Policy

(Continued from page 2103)

them, in fact, have already negotiated substantial wage increases without asking for any increase of prices.

There are several reasons why I believe that industry as a whole can afford substantial wage increases without raising prices.

First, the elimination of the time and a half for overtime has reduced labor costs per hour.

Second, the increase in the number of people needing jobs is resulting in a downward reclassification of jobs in many industries and in many sections of the country.

There is a third reason for believing that business can afford to pay wage increases — namely, increased output per hour of work, or what is generally called increased productivity.

While increased production rests ultimately with labor, the time will soon come when improvements in machinery and manufacturing know-how developed in the war can certainly result in more goods per hour and additional room for wage increases.

As a fourth reason, business is in a very favorable profit position today, with excellent prospects for the period that lies ahead. Again, that is not true of all companies. Nevertheless, throughout industry, and in every branch of industry, profits have been and still are very good indeed.

Finally, the Congress at my suggestion is now considering the elimination of the excess profits tax. Provision has already been made in our tax laws to enable corporations whose earnings drop below their normal peacetime level to recapture a high proportion of the excess profits taxes which they have paid during the preceding two years.

These and other provisions of the tax laws were designed to reduce to a minimum the risks entailed in reconversion—and that is precisely what they accomplish. They also add to the ability of industry to increase wages. However, there are important limits upon the capacity of industry to raise wages without getting price increases. Let me put industry's position before you.

### Industry's Risks

Industry has many risks and problems ahead that labor must recognize. For many companies wartime products which were very profitable will have to be replaced by civilian products which will not be so profitable.

There are also problems of reconverting plants, of developing new sources of supply, new products and new markets, of training inexperienced workers, of meeting increased costs of raw materials and supplies. All of these will mean, at the beginning, lower volume and higher unit costs.

These problems and difficulties are particularly true in the case of small business—which is the backbone of American competitive system.

I have said that not all companies can afford these wage increases. I want to make clear, further, that there are companies where wages and even overtime pay continue high, and where no suffering will be caused to the workers during reconversion.

Labor must recognize these differences and not demand more than an industry or a company can pay under existing prices and conditions. It has a stern responsibility to see that demands for wage increases are reasonable.

Excessive demands would deny to industry reasonable profits to which it is entitled and which are necessary to stimulate an expansion of production. We must not kill the goose which lays the golden egg.

### Labor Must Aid Industry

Labor itself has a responsibility to aid industry in reaching this goal of higher production and more jobs. It must strive constantly for greater efficiency and greater productivity — good work done, for good wages earned. Only in that way can we reach the mass production that has brought this country to the front of the industrial countries of the world.

Labor must constantly find ways within its own ranks of cutting down on absenteeism, reducing turnover, avoiding jurisdictional disputes and "wild-cat" strikes. Labor and management must adopt collective bargaining as the effective and mature way of doing business.

The extent to which industry can grant wage increases without price increases will vary from company to company and from industry to industry. What can be paid today when we are on the threshold of our post-war production will be different from what can be paid next year or the year after, when markets have been established and earnings have become apparent.

Both management and labor must keep on exploring these developments and determine from time to time to what extent costs have been reduced and profits have been increased, and how far these can properly be passed on in the form of increased wages.

### How Wages Are to Be Increased

Let me now turn to the question of just how wages are to be increased. Many people have asked the Government to step in and decide, who is to increase wages and by exactly how much.

I have, indeed, been criticized because I have not stepped in to lay down the law to business and labor. My refusal to do so has been deliberate.

Curiously enough, the same people who urge me to use Government wartime machinery of control to determine wage adjustments have on other occasions been the first to point out that the continued intervention of Government must spell the end of our system of free enterprise.

I am convinced that we must get away as quickly as possible from Government controls, and that we must get back to the free operation of our competitive system. Where wages are concerned, this means that we must get back to free and fair collective bargaining.

As a free people we must have the good sense to bargain peaceably and sincerely. We must be determined to reach decisions based upon our long-range interest.

Let me emphasize, however, that the decisions that are reached in collective bargaining must be kept within the limits laid down by the wage-price policy of the Government.

This policy was described in the order of last August which I have already mentioned.

Briefly, it allows management to make wage increases without Government approval before the wage increase can be reflected in higher price ceilings. That is still the policy of the United States.

### The Executive Order

To guide labor and management in their interpretation of this Executive Order I have today issued an amendment amplifying the order and setting forth three classes of cases in which wage increases may be granted even though price ceiling increases may result.

They are all situations where wage increases are necessary, irrespective of price consequences. They will not cause many price increases.

In addition, the amendment makes two points of importance which I wish to emphasize here.

The first point has been true all along, but it has not been generally understood. If management does grant a wage increase, it is not prevented from coming in thereafter and requesting Government approval to have the wage increase considered for purposes of increasing prices. Whether such approval is sought before or after the wage increase is given, it receives the same consideration.

The second point is new and is very important. It is something which I am sure will help industry get over this very difficult period of readjustment. In cases where no approval of a wage increase has been requested by management, or even where a request has been made and denied by the Government, industry will not be asked by the Government to take an unreasonable chance in absorbing such wage increases.

After a reasonable test period, which, save in exceptional cases, will be six months, if the industry has been unable to produce at a fair profit, the entire wage increase will be taken into account in passing upon applications for price ceiling increases.

The Office of Price Administration will have to give its prompt consideration to all applications for price increases.

This is your Government's wage-price policy. For the time being, the machinery that administers it will remain the same as during the war.

### The Labor-Management Conference

But, as you know, I have called a conference here in Washington of the representatives of management and of labor. It will start next week. One of their jobs is to recommend machinery for mediating or arbitrating differences wherever collective bargaining fails to work.

I hope the American people recognize how vital this conference actually is. Out of it can come the means of achieving industrial harmony and a new approach to human relationships in industry.

Until that machinery can be worked out, I urge upon labor and upon management the necessity of getting together on their problems. Public opinion will not countenance a refusal on the part of either management or labor to proceed in a peaceful, free and democratic manner to arrive at just conclusions.

This is the time for proving the lessons we have learned during the war, the lessons of fair play, of give-and-take on a democratic basis, of working together in unity for the future.

We all have a common aim, which is prosperity and security, and a just share of the good things of life. We can help attain this aim if we sit down at the conference table and iron out our troubles together.

### No Room for Unfair Dealing

There is no room in our economy for unfair dealing or for greedy individuals or groups on either side who want their own way regardless of the cost to others. The people will not stand for it. Their Government will not stand for it.

The country is entitled to expect that industry and labor will bargain in good faith, with labor recognizing the right of industry for fair profit, with industry recognizing labor's need to a decent and sustained standard of living—and with both of them realizing that we cannot have either deflation or inflation in our economy.

The country, on the other hand, should be patient and realize that many of the parties are out of practice in collective bargaining. This point at which the people of the country are entitled to become impatient, and to consider the need of Government action, is when one of the parties fails to bargain in good faith or refuses a reasonable offer of counciliation or arbitration.

I know that this is not an easy way to solve the wage problem, but it is the sound way. It is the American way. I am convinced that if labor and management will approach each other, with the realization that they have a common goal, and with the determination to compose their differences in their own long-range interest, it will not be long before we have put industrial strife behind us.

Labor is the best customer management has; and management is the source of labor's livelihood. Both are wholly dependent upon each other; and the country in turn is dependent upon both of them.

Americans have always responded well in times of national need. There are no easy answers, there is no simple formula, for solving our difficult problems.

I have boundless faith in the common sense and ultimate fairness of the American people. Given unity of purpose and a determination to meet the challenge of the times, there is nothing too dificult for them to accomplish.

They have performed miracles during the war. They can, they will, surmount the difficulties which face them now on their road to continued peace and well-being.

# The Obstacles To Reconversion

(Continued from first page)

sociation of Manufacturers to study the progress of reconversion.

Although war shortages in all probability will eventually cause 2 or 3 years of apparent boom in spite of present difficulties, Mr. Brown stated that "shortsighted policies of Government and Labor may prevent capital investment adequate to provide production facilities for new products needed to fill the gap when present shortages have been made up." He said that the main reason for released war workers not going to work on reconversion is that they are encouraged to be idle by the ease of obtaining unemployment compensation. As proof of this he pointed out that at his company's plant at Waukegan, Ill., although it needs 1,400 workers, in the area around the plant 3,300 are receiving unemployment compensation. In the vicinity of the Johns-Manville plant at Manville, N. J., 5,000 are receiving unemployment compensation, although 600 workers are needed now, and 1,800 more will be required to return fully to the 40-hour week. Pointing out that under employment compensation with the 40-hour week, the difference between working and not working by the typical employe will be only $3.83 a week or 77 cents a day, Mr. Brown asked, "What incentive is there for the released war worker to take a new job if he can get unemployment compensation?"

Mr. Brown presented the following figures of past and projected sales, costs, and profits, of his company, in testimony to the inability of industry to give 52 hours pay for 40 hours work without increasing prices:

| | 1944 | 1946 If | 1946 If |
|---|---|---|---|
| | (Millions of Dollars) | | |
| Sales | $101 | $100 | $85 |
| Wages and Salaries | 39 | 47* | 41½* |
| All Other Costs | 48 | 47 | 42 |
| Taxes | 9 | 3½ | 2½ |
| Profits | 5 | 2½ | 1 loss |

*With 30% increase and no overtime.

Contending that rises in costs, as well as uncertainties regarding them, are preventing the construction industry from getting under way, Mr. Brown related that he had found it impossible to make arrangements for a needed new plant because of the inability to get firm bids without excessive provisions for cost contingencies. He pointed out that the volume of housing construction also is being blocked because of increases in materials and labor costs combined with threats of further rises in prices. "This constitutes a grave danger," he said, "since always in the past when building costs have gone up too fast or too far, consumers have refused to buy."

"These questions face Johns-Manville in determining a policy on its expansion program:

"If costs continue to increase and labor uncertainties continue to multiply, why should the company go ahead with its expansion program **now** rather than wait for more settled conditions?"

"Since government policies are encouraging released war workers to go on relief rather than take the many good jobs which must be filled to enable the company to operate its existing plants at capacity, what is the sense of building new plant facilities?"

"If wage and price policies are going to be allowed to squeeze down profits so that the wages of capital are drastically curtailed or wiped out, why should capital go to work?"

"If the country is to continue down a road which would bring depression rather than prosperity during the real postwar years ahead, why should the company build new plants that would have to lie idle?"

"Mistakes made now will seriously delay full reconversion and unnecessarily penalize the American worker—which means everybody," continued Mr. Brown, "but the tremendous needs of the nation plus our unsurpassed ability to get a job done should eventually bring us good business and a resumption in the rise of our standard of living."

"Transition to full peacetime production can be accomplished during the next few months and much future trouble can be avoided if national policies are adopted to encourage our people to get back to work and put reconversion ahead of everything else."

"Otherwise, we can quite easily achieve the goal of 8 million unemployed which the defeatists have too often held up before the American people."

"What is needed is action now to prevent widespread unemployment rather than wait for it to develop and then try to cure it."

"To accomplish our goal will require a high degree of wisdom, statesmanship, vision and courage—much higher than all of us, including business, labor and government have yet demonstrated."

# Mark Elworthy Co. Formed as Partnership

SAN FRANCISCO, CALIF.—Mark C. Elworthy has been elected to membership in the San Francisco Stock Exchange, and Mark Elworthy Co. has been formed into a partnership.

Elworthy & Co. previously held an associate membership on the San Francisco Exchange. Offices of the firm are at 111 Sutter Street.

# B. F. Ward Forming Own Firm in Memphis

MEMPHIS, TENN.—B. Franklin Ward is forming B. F. Ward & Co. with offices in the Sterick Building, to engage in the investment business. Mr. Ward has recently been serving in the Army. Prior thereto he was Vice-President of M. A. Saunders & Co., Inc., with which he had been associated for a number of years.

# "Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

After more than a month of rising prices, the Government bond market turned reactionary last week, as many of the issues backed away from their recent all time highs. . . . The causes of the present readjustment could be attributed to any one or all of the several that have been put forward, such as (1) a normal set-back after such a sharp and prolonged uptrend, (2) starting of the Victory Loan, with attendant "normal portfolio adjustments," (3) more stringent drive regulations including War Loan account restrictions, and indications of a strict enforcement of these rules to check previous loan abuses, as well as (4) deposit changes with portfolio adjustments, caused by the movement of funds from defense centers, to districts that have not been greatly effected by the war effort. . .

### NOT SIGNIFICANT

The most substantial readjustment in the Government bond market took place in the longest taxable bank eligible issue, the 2½% due 9/15/67/72, which had advanced slightly more than 1⅝ points from the middle of September to the high, which was made on Oct. 19. . . .

**However, the earlier decline of about a half-point in this issue from its all-time top of 106 was largely recovered in the sharp advance that took place yesterday (Wednesday).**

If institutions and individuals should sell some of their present holdings it will only add to the floating supply of this issue, which should be readily absorbed. . . . It would be a good thing for the market if more of these bonds were available, since it would temper the price rise, which seems inevitable under the present policy of financing. . . .

### "PROFESSIONAL" MARKET

The 2% taxables, particularly the longer maturities, moved down from their all time highs, on light volume, in a market which thus far has been largely "professional." . . . The 2s seem to be more vulnerable to "normal porfolio adjustments" than do some of the other bank eligible taxable bonds, because of the low yield they give compared with the return that is available in the restricted issues that are now being offered. . . .

**Institutions and individuals that have the 2s as low as 100, can increase their income by disposing of these bonds and putting the proceeds in the 2¼s and 2½s that are available to them in the present drive. . . . This does not make any allowance for the premium that would be taken down through such a switch. . . .**

While the 2% taxables, that may come into the market, should be easily absorbed, it is not expected that the bulk of the bonds earmarked for sale will be offered until the drive is over. . . . Some of this selling may not take place until after the turn of next year. . . .

### HIGHER LEVELS SEEN

Despite the outlook for a somewhat increased floating supply of the bank eligible taxable 2% bonds, these securities are also a buy on price recessions. . . . With money market factors pointing to a lower average level of interest rates, and a definite scarcity of intermediate term issues that can be bought by the commercial banks indicated, the 2% obligation will eventually seek higher prices. . . .

### RESTRICTEDS LOWER

The restricted bonds likewise gave ground, in sympathy with the general market decline, although the volume was not heavy. . . . Changes will no doubt continue to be made between the various issues in this group and the new bonds, for specific purposes, despite the fact that as a whole the restricted issues have quite fully discounted the new financing. . . .

**Indications are that the institutions that can purchase the drive 2¼s and 2½s will take on all of these bonds that they are able to, since with the outlook for less Government financing in the future, it may be a considerable period before they are again offered these issues. . . .**

### PARTIAL EXEMPTS AIDED

The new tax law went somewhat farther than was expected in the way of tax relief and the provision to cut the surtax rate from 16% to 14% is definitely favorable to the partially exempt bonds. . . . This tax change adds to the attractiveness of these obligations, which in many instances have been giving a larger tax free yield than is available in comparable maturities of the taxable bonds. . . . While there is attraction among the intermediate maturities of the partially exempt securities, the more desirable obligations from the standpoint of tax free income are the last four obligations in this group. . . .

**As has been indicated before, the most promising issue among the longer partially exempts is still the 2¾% due 1960/65. . . . If there should be some "normal portfolio adjustments" in these bonds during or after the drive, by insurance companies and savings banks, there should be no trouble in finding a home for these securities, particularly the longest maturities. . . .**

The positions of these institutions in the longest partially exempt bonds have dwindled to a point where they are no longer among the more important holders of these securities. . . It maybe that the country banks, which are fairly substantial holders of the partially exempt issues, and are favorably affected by the new tax law will be sellers of these bonds. . . . On the other hand they must have income in order to carry on, and the high coupon that is available to them in most of their partially exempt securities will no doubt have a restraining effect on proposed sales of these bonds. . . .

### TREMENDOUS SUCCESS

The Victory Loan is now underway and it is believed that the drive will be a tremendous success, with indications that the final total will range somewhere between $18 billion and $20 billions. . . . Although new restrictions have been put on subscription and old ones will be rigidly enforced, there is nothing in these rules that will make for permanent changes in the money markets. . . . Low interest rates will continue and indications are that the general level of interest rates will decline in the future. Excess reserves should increase after the new year because of the return flow of currency and gold imports. . . . Short term low coupon financing is in store for the commercial banks which should result in higher prices for the outstanding intermediate and long term bonds that these institutions can buy. . . . Also the deficit is not expected to be as large as was formerly indicated, which may mean very little new money financing by the Treasury, after this drive, for a considerable period. . . .

**Therefore, it seems prudent for investors, who are in a position to do so, to buy the full amount they are allowed of the Victory Loan 2¼s and 2½s. . . . For the others, who cannot participate directly in the loan, the outstanding eligible issues, particularly the longer terms, should be bought as they come into the market. . . . Periods of price weakness, if they should occur, in the outstanding bonds, should be buying opportunities, that many have been hoping for. . . .**

# OUR REPORTER'S REPORT

Investment bankers and their dealer organizations once more are turning to on the job of helping the Treasury with its task of selling war bonds. This time the order is a big one, even though the total of funds to be obtained in The Victory Loan Drive (11 billions of dollars) is considerably short of the goal set for earlier campaigns.

**The banking and brokerage fraternity has no illusions about the task which lays before it between now and the close of the operation in December. Between the letdown in war work, which has been sharp, as may be noted from the corporation reports coming to hand for the third quarter, particularly those of the steel companies, and the idleness growing out of strikes, payroll subscriptions are not going to be up to what they were previously.**

And with the war over, though not officially terminated, the urge to get behind the drive as a measure of wartime patriotism is no longer present. But the financial community has no doubt that it will be able to turn in a job equally as good as it has done in the past. And on those occasions it usually succeeded in bettering its appointed goal by a comfortable margin.

**One thing in favor of the general setup is the fact that corporate offerings, which have been heavy and steady since the closing of the Seventh War Loan Drive, have been pretty well distributed with only an occasional sticky spot cropping up. In short investment bankers' shelves are quite clear of any substantial cumulations from the last month's tremendous business.**

### October Big Month

And if you don't realize it, October was a month of tremendous activity in the new issue market. Perhaps not quite up to July when new flotations approximated the billion dollar mark, but vast just the same.

**Last month saw the staggering total of about 850 millions of dollars in new issues, the vast bulk for corporation accounts, brought to market and disposed of almost in their entirety.**

The month's business embraced a number of large issues, including one of $75,000,000 for Northern States Power Co. of Minnesota; $75,000,000 for Southwestern Bell Telephone; $65,000,000 for the Chicago, Burlington & Quincy Railroad and $48,000,000 a stock issue for Pacific Gas & Electric Co. On top of these bankers sold $26,000,000 of new bonds for the Province of Alberta, Canada.

### Bulk Move Quickly

Taken by and large the market proved decidedly receptive to the new issues which made their appearance with only a small proportion of the aggregate remaining unsold as the month ended.

**Dealers were not disposed to show any concern about their ability to market loose-ends which remained to be put away.**

Reports indicated that it was still possible to obtain Northern States Power bonds, along with Dayton Powers and Northern Natural Gas serials, which incidentally were the last offered. But the supply was not considered pressing.

### Real Competition

Sale of Northern Natural Gas Co.'s $25,000,000 of serial debentures this week, brought about an unusual situation in the field of competitive bidding. For the first time in quite a while, a commercial bank was in the running seeking the short term portion of the issue.

**It was a real test too, since with the approval of the Securities and Exchange Commission, the issuer dispensed with an original provision which would have permitted bankers to enter "basket bids" for the entire issue.**

Several investment banking groups were in the market for the securities, but a syndicate headed by Kidder, Peabody & Co., stole the show, taking both the short and longer maturities, obtaining the first mentioned even against the bid entered by the Bankers Trust Co.

### Making Another Dent

Action of the New York Telephone Co. in deciding to redeem on Jan. 1 next all of its $25,000,000 of outstanding 3¼% bonds Series B, due July, 1967, reduces by that amount, at least temporarily the volume of high-grade bonds available.

The company has arranged for prepayment of the issue beginning next Monday at the full redemption price of 105 and interest accrued to the call date.

Although the company may subsequently undertake to replace capital so lost, it was stated that the issue would be redeemed without recourse to refinancing at the moment.

# Canadian Securities

By BRUCE WILLIAMS

In a politically chaotic world which has taken a pronounced swing to the left, Canada in unique fashion steers a steady course away from socialistic extremism. Despite C. C. F. fanfares loudly heard abroad, the native common sense of the Canadian people has prevailed.

**The birthplace of these vague socialistic doctrines, the province of British Columbia, saw last week the virtual burial of the movement as a potent political force. One crushing defeat has followed another in the course of a few days—landslide coalition government victories over the C. C. F. in Manitoba and British Columbia and virtual annihilation of the C. C. F. forces by the Liberals in Nova Scotia.**

Thus the Dominion of Canada today stands out in a troubled world as a stronghold of political stability and moderation. This development is by no means illogical. Canada with its small virile population standing on the threshold of further spectacular economic progress is not fertile ground for the sowing of socialistic theories. The rich returns of its soil and its mines create naturally a national spirit of conservatism. It cannot be forgotten also that the great Catholic province of Quebec offers an ever present bulwark against leftist extremism.

This tremendous asset of political stability in conjunction with the huge undeveloped natural resources of the Dominion and its vast unpeopled spaces can very well lead to an early solution of its great problem of under-population. The related evils of over-industrialization and political extremism so prevalent all over the world throw into sharp relief the attractive potentialities of Canada—a country where hard work and initiative can bring rich reward protected by stable laws.

Turning to the market for the past week the Alberta situation again monopolized the limelight. The new issue was successfully placed and the new exchanged bonds were also in good demand with the longest 3½s bid at a 3.85% basis. Nationals continued firm, especially those in the bank-eligible range. There was a little more activity in provincial issues and it can be expected that the recent election results will ultimately favorably influence the course of Manitoba and British Columbia issues.

Internals were strong and with a continuance of demand for the Ninth Victory Loan bonds free funds were firm at 9¼%. Labrador Mining & Exploration stock, the possibilities of which have been previously mentioned, made further spectacular gains and reached a new high of $8.

Another situation long considered worthy of favorable mention is C. P. R. Ordinary Stock. The Canadian Pacific Railroad is not just a transportation system. It is rather an industrial empire whose activities are inextricably entangled with practically all phases of the Dominion economy. Thus the fortunes of Canada and the C. P. R. are inseparable, and the market performance of this stock can almost be regarded as the Canadian economic barometer.

**With regard to future prospects, the recent election results, and the successful completion of the Alberta debt reorganization are favorable factors, which considered in conjunction with the already strong technical position of the market, should be instrumental in causing an eventual general price advance. The lack of supply of high grade bonds is likely to be still further aggravated in the event of the anticipated call for redemption of the C. P. R. 4½s of 1960 which would leave the perpetual 4s as the only remaining C. P. R. public issue payable in U. S. funds.**







# Post-War Farming

(Continued from page 2087)

production is bound to fail because size of crop and price tend to be compensating. It is unwise to acquire such a program inadvertently as a result of reconversion program of price supports at too high levels for too long a time. An orderly transition from war prices and production to peacetime levels is highly desirable. It is probably better for farmers and the nation to taper off support prices and to end them soon.

High employment and production in cities are important factors in the prosperity of Northeastern dairymen. Good farm incomes contribute to full employment in cities through demand for goods and services. Both of these tie together; we cannot stabilize one part of our economy at levels substantially higher than the rest. After reconversion to peacetime production, there are good prospects for reaching high levels of production and employment. It may take 6 to 8 years to make up deficits in homes and durable goods, and this "catching up" period should be reasonably prosperous for Northeastern farmers who do not have heavy debts.

### Farm Incomes Depend On National Income

Farm incomes will not be maintained at a favorable level unless national income is substantially above pre-war. National income is the product of employment and business activity times wages and prices. Hence national policies to stabilize the general price level and to maintain high levels of productive employment are of first importance to Northeastern agriculture, as well as to the nation.

The full employment bill now before Congress emphasizes one of these factors, employment. There is danger of appearing to promise too much, for government jobs for all unemployed is fantastic; only private enterprise can provide high levels of productive employment in a free economy. Primary responsibility of the government is to establish and coordinate policies to encourage private enterprise to provide the necessary jobs. There is need for prompt removal of excess profits taxes and double taxation of private enterprises that provide jobs; and for monetary and credit policies to avoid both deflation and inflation.

Government—federal, state, and local—can also provide well-planned programs of useful public works to try to even out fluctuations in the construction industry. Agricultural leadership is important to help get the rest of the economy moving toward these goals of stabilization of prices and employment at favorable levels.

Any postwar program for Northeastern farmers should first of all aim toward providing an adequate diet for the many millions of consumers who live in this area. We should work toward improving the palatability, quality, and nutritive value of fresh milk and cream, fresh eggs, fruits and vegetables, and other choice foods raised in the Northeast. If public funds are to be used to support agricultural prices, use them to make possible an adequate diet for the low income groups in the interests of good health.

### No Postwar Farm Surpluses

Although we do have plenty of problems, the current pessimism about postwar farm surpluses seems not to be justified. The average per capita food production over the next five years is likely to be below the levels of recent war years. The difficult problem is to adjust production of some products that were greatly expanded in wartime, such as potatoes, canning crops, eggs and poultry. Milk is less serious; there was only a six per cent increase in the number of cows in New York State.

Increased efficiency of farm production, especially labor efficiency, will be a major problem in postwar years, and is the second point in a Northeastern farm program. In order to maintain farm incomes with high wages and lower prices, it will be necessary to increase the output per man by greater use of power and machinery and by careful management and planning to minimize unproductive effort while maintaining high yields.

Third, we should support sound cooperatives to help solve problems of marketing and production. They are the best hope of reducing marketing costs because of the vital producer interest in getting the best possible product to consumers at the lowest cost.

The ability of family farms to compete and to continue as the dominant force in agriculture depends largely on publicly-supported agricultural research, free public education and efficient cooperative businesses to give equality of opportunity with corporations to family farms in marketing and purchasing.

Fourth, farmers should keep debts at a safe level and continue to build financial reserves in government bonds. This is not a good time to start farming for those who must go heavily in debt. Northeastern farm values fluctuate less violently than those of the West, but still caused plenty of grief after World War I. The most effective way of insuring against the disastrous results of deflation is to use the incomes of good years to get debts in shape and to build financial reserves.

Fifth point in the program is to make farming attractive enough to keep an adequate number of the ablest young people on the farms for food production. We need to modernize farm homes and improve other buildings to make good the ravages of depression and war; to use land wisely; to shorten moderately the hours of work and use leisure time wisely; and to have public programs that will give farm people educational, health, and recreational facilities comparable to those in cities.

# Cox 25 Years Pres. Webster Atlas Bank

Raymond B. Cox

Nov. 1 marks the 25th year of association as President of the Webster and Atlas National Bank of Boston for Raymond B. Cox. At the time he assumed this office on Nov. 1, 1920 he was one of the youngest bank Presidents in New England. His prior associations had been with the First National Bank of Baltimore and the Fourth National Bank of New York. The past quarter century has been a hectic period in banking, during which about 40 Boston commercial banks have passed out of the picture. The Webster and Atlas National Bank is one of the few smaller banks of that era to continue and prosper—its total resources having grown from $5,000,000 to over $50,000,000.

At a recent dinner tendered by directors to Mr. Cox in honor of his tenure of service he made the statement that "a primary factor in establishing successful customer-banker relationships is the inculcation among bank personnel of a real desire to serve and a spirit of personal interest in the business of each customer. This factor, combined with adherence to sound banking principles and constant effort to keep abreast of developments in banking and finance, comprises the policy responsible for the stability and growth of this bank."

Mr. Cox holds active membership in the American Bankers Association, Massachusetts Bankers Association and the American Institute of Banking, of which he is a past national President.

The best opportunity for farm people in postwar years as in the past is in continuing to help produce a bigger national pie to be divided fairly rather than in trying to get the biggest piece.

# New Prospects of War-Strengthened Railroads

(Continued from page 2081)
in total private investment may be somewhat reduced, due to more rapid growth in other classes of investment.

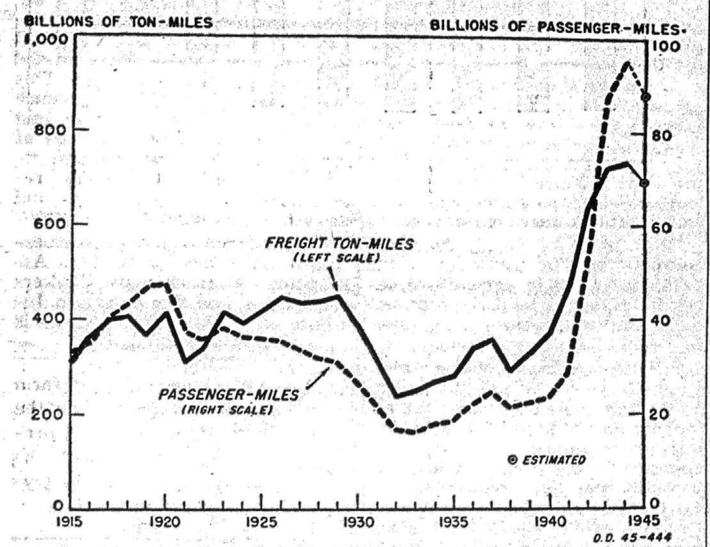
The present study is being published in two parts. This first part surveys the wartime expansion of traffic and the performance record of the railroads and analyzes the changing cost-price relationships from the standpoint of their effects on railway net income before and after Federal income and excess profit taxes.

In the second part of the study, to appear in a subsequent issue of the "Survey," it is proposed to review the disposition of the wartime earnings, the progress which has been made in reducing the burden of fixed charges and the financial outlook for the railroads under alternative levels of national production.

**Expansion of Railway Traffic**

The improved finances of the railroads have their source in the greatly expanded commodity and passenger transportation induced by the war and in the economies of operation which accompanied more intensive use of resources. As shown in chart 1, all previous traffic records have been dwarfed by the rapid rise in recent years. Approximately 96 billion passenger miles were performed by the railroads last year, compared with 24 billion in 1940 and 47 billion in 1920, the pre-World War II peak.

**Chart 1.—Railway Revenue Traffic, All Railways [1]**




[1] Data do not include switching and terminal companies.

Source: Interstate Commerce Commission, except data for 1945, which are estimates of the U. S. Department of Commerce.

Freight movement, which is the predominant source of railway income, reached 741 billion revenue ton miles in 1944, practically double traffic in 1940 and far in excess of the peak in the last war and of the relatively high volume in the late twenties.

Preliminary estimates for 1945 indicate that total passenger miles and ton miles will decline moderately from last year's record amounts as a result of the termination of the war. Nevertheless, the 1945 totals will still be higher than in any year prior to 1943.

The portion of direct war traffic in these record movements of passengers and freight has of course, been substantial. It is estimated that almost half the freight tons originated in 1944 represented raw materials or supplies for use in munitions production or finished war materiel. Military use, plus furlough travel of service personnel, accounted for about 40% of railway passenger miles (excluding commutation) last year.

A further factor contributing to the recent traffic volume has been the diversion of traffic from other forms of transport, arising out of special wartime conditions. Such diversion was first felt in substantial volume in 1941, with the withdrawal from domestic transportation of some coastwise shipping and intercoastal shipping operating through the Panama Canal. Beginning in 1942, the wartime restrictions on gasoline, tires and new equipment fell heavily on private motor cars and on motor trucks, curtailing both the relative and absolute amounts of traffic so hauled.

As a result, the railroads moved 66% of the total domestic intercity freight transportation — including coastwise and intercoastal shipping—in 1944, as compared with 45% in 1940. A still more notable shift occurred in passenger travel, where the proportion of the total passenger miles—including intercity travel in private automobiles —transported by railroads rose from 9% in 1940 to 41% in 1944.

**Moderate Increases in Equipment**

Alongside the unprecedented volume of freight and passenger traffic, the increases in railroad equipment during the war period seem extremely moderate. It is now obvious that we entered the war with a substantial surplus of reserve capacity in the form of equipment which was being greatly under-utilized, was in need of repairs, or was being retained to carry seasonal peak loads or to serve as a stand-by.

The roads have been able to meet virtually all the wartime demands placed upon them with about 1,900 (4.5%) more locomotives in service than in 1940, 109,000 (5.6%) more freight cars and less than 1,900 (4.2%) more passenger cars. (See table 1.)

***Table 1.—Summary of Railway Operating Statistics, 1940 and 1944**

| Volume of Revenue Traffic | 1940 | 1944 | % Increase |
|---|---|---|---|
| Freight ton-miles (millions) | 373,253 | 737,602 | 97.6 |
| Passenger-miles (millions) | 23,762 | 95,575 | 302.2 |
| **Equipment and Manpower** | | | |
| Locomotives: | | | |
| Number | 41,721 | 43,612 | 4.5 |
| Aggregate tractive effort (millions of lbs.) | 2,131 | 2,318 | 8.8 |
| Freight cars (including privately owned): | | | |
| Number (thousands) | 1,956 | 2,065 | 5.6 |
| Aggregate capacity (thousands of tons) | 94,498 | 101,409 | 7.3 |
| Passenger-train cars (including Pullman): | | | |
| Number | 44,727 | 46,588 | 4.2 |
| Aggregate seating capacity (thousands) | 1,662 | 1,705 | 2.6 |
| Employees (thousands) | 1,027 | 1,414 | 37.7 |
| Total hours paid for (millions) | 2,616 | 3,998 | 52.8 |
| **Percent Unserviceable to Total Equipment** | | | |
| Locomotives assigned to: | | | |
| Yard switching service | 16.2 | 8.0 | --- |
| Road freight service | 24.9 | 12.4 | --- |
| Road passenger service | 21.8 | 12.8 | --- |
| Freight cars on line | 7.9 | 2.5 | --- |
| Passenger-train cars (railway owned) | 8.0 | 5.0 | --- |
| **Utilization of Serviceable Equipment** | | | |
| Gross ton-miles per serviceable freight locomotive (millions) | 58.6 | 85.0 | 45.1 |
| Car miles per serviceable pass. locomotive (thousands) | 532.0 | 797.0 | 49.8 |
| Miles per freight car-day of serviceable cars | 38.7 | 50.6 | 30.7 |
| Average carload (tons) | 27.6 | 32.7 | 18.5 |
| Average passengers per car: | | | |
| Parlor and sleeping cars | 9.1 | 20.3 | 123.1 |
| Coaches | 19.6 | 44.0 | 124.5 |
| All passenger-carrying cars | 14.0 | 32.2 | 130.0 |

*Class I steam railways, excluding switching and terminal companies. Pullman Company cars and privately owned freight cars are included. Figures are totals or averages for the year, except the figures for equipment which are for the end of the year.

Source: Interstate Commerce Commission.

This striking result has been achieved by using existing equipment more intensively than ever before—by rebuilding and restoring to operation many locomotives and cars previously in disuse, keeping bad order equipment at a minimum, running locomotives and cars many more miles per day, increasing the length of trains, and heavier loading.

Insofar as passenger traffic was concerned, this was not done without considerable over-crowding and inconvenience to passengers. These discomforts were accepted as a wartime accompaniment and, therefore, afford no measure of what passengers will accept from now on. The carriers will require new passenger equipment, notwithstanding the large drop ahead in passenger-miles.

It is clear that in meeting the challenge of the war years, the railroads have learned many new methods of more economical operation which will lead to increased post-war efficiency. In part, however, the recent achievements in performance on handling freight are not expected to be duplicated in peacetime, since they are the direct result of such factors as the changed composition of traffic and the longer haul brought about by the war, and the concerted action by Government agencies, carriers, and shippers, in recognition of the war emergency, to obtain better loading and quicker release of cars, to divert traffic from congested lines, and to improve operations in various other ways.

The increases in railroad rolling stock since 1940 mark a reversal of a down-trend that began a few years after the last war. The reduction in over-all equipment persisted despite the continued heavy freight movement through 1929 and the revival of traffic volume following 1932. Even after the additions in the past few years, equipment numbers are still far less than in the last war or in the decade of the twenties.

Advances in technology have partially counteracted the decline in numbers of units. The performance differential between new installations and retirements has been largest in the case of locomotives, although the average capacity of freight cars has been increasing steadily for many years. The extent to which these developments have progressed is illustrated by the statistics in table 2, presenting detailed information on railroad equipment and capacity for the end of 1929, 1940 and 1944.

The opposing changes in traffic volume and equipment between 1929 and 1944 highlight the impressive improvements in railroad performance. Revenue ton-miles were almost two-thirds larger in the later year than in 1929 and more than three times as many passenger miles were traveled. Nevertheless, all major categories of rolling stock were significantly below 1929 in terms of both numbers of units and aggregate capacity. The number of railroad employees in 1944 also was substantially less than in 1929.

The figures for passenger-train cars are particularly striking, since the more than one-fourth decline in the number of passenger-carrying cars (coaches, combination coaches, and parlor and sleeping cars) since 1929 has been accompanied by a corresponding reduction in seating capacity. That so many more passengers were able to be carried in 1944 is a reflection of the extreme underutilization of passenger equipment before the war, as well as of the overcrowding to which reference has already been made. The only new passenger-carrying cars built during 1943 and 1944 were 1,200 troop sleepers being used exclusively in organized military movements.

In the case of freight cars, the decline in aggregate freight-carrying capacity during the 1929-44 period was less than the reduction in the number of cars, since average car capacity rose from 46 to 50 tons.

Although the use of powerful diesel units has grown rapidly since 1940, these units still accounted for only 7% of total locomotive tractive effort of Class I roads at the end of 1944. The over-all improvement in the average tractive effort of locomotives since 1929 has been largely due to the retirement of many obsolete steam locomotives and to the marked superiority of steam locomotive replacements over the units retired. As a result of the gain in tractive effort per locomotive, there was only a 10% decline in aggregate tractive effort between 1929 and 1944, as compared with the approximately one-fourth reduction in the number of locomotive units in service.

**Increased Utilization Since 1940**

Because additions to rolling stock were of relatively minor importance in enabling the railroads to meet the demands of the war economy, the major explanation must be found in much more intensive utilization of available equipment. Various indicators of equipment utilization are included in table 1.

In the first place, the carriers achieved notable results in their efforts to keep as much of their equipment as possible in serviceable condition. In many instances equipment repairs were so extensive as to amount to rebuilding. The reductions in the ratios of unserviceable to total equipment since 1940 had the effect of placing into operation almost 4,800 additional locomotives (or many more than the actual increase in the over-all number in service), 112,000 freight cars, and more than 1,100 passenger cars. If 1939 had been used for the comparison

(Continued on page 2108)

# New Prospects of War-Strengthened Railroads

(Continued from page 2107)
with 1944, the gains would have appeared even more marked, since substantial improvement had already been achieved by 1940.

In addition to reducing their bad-order equipment, the railroads have made much more effective use of their serviceable locomotives and cars. As indicated in the table, gross ton-miles per serviceable freight locomotive and car-miles per serviceable passenger locomotive, increased 45 and 50%, respectively, between 1940 and 1944. Moreover, miles per freight-car day of serviceable freight cars rose 31%.

Not only are freight cars traveling more miles per day, but they are carrying much heavier loads. Chiefly in response to Office of Defense Transportation orders prescribing minimum loads for less-than-carload and carload freight, the average loading of freight-carrying cars increased from 27.6 tons to 32.7 tons between 1940 and 1944, a gain of almost one-fifth. The Office of Defense Transportation has estimated that the equivalent of approximately 187,000 cars were added to the car supply in 1944 as a result of the increased loading of merchandise cars and carload freight.

The relative increases in the average number of passengers per car have been considerably larger than the gain in freight loading. This was possible partly because of the extremely low over-all utilization of passenger-carrying equipment before the war.

An average of only one-fourth of the coach capacity and one-third of the parlor and sleeping car capacity was used in 1940. By 1944 the percentage utilization had increased to 63% for coaches and 78% for parlor and sleeping cars. Because of wide variations in demand-supply relationships and because of the necessity of moving trains on fixed schedules published in advance, it is never possible to have full utilization of passenger equipment on a nationwide basis.

The higher wartime occupancy rates reflect to some extent the carrying of standees in coaches on the more conjested runs and also the fact that each berth is counted as having a capacity of one passenger, whereas in military movements two soldiers generally occupy a lower berth.

### Railway Earnings

Equally as impressive as the gains in traffic and in operating efficiency has been the wartime improvement in the over-all financial position of the railroads, as summarized in the condensed income account in table 3. Two developments are especially noteworthy: The sizable contribution to net operating income made by passenger operations (chart 2) and the rise of net income before taxes to amounts which eclipse earlier years by wide margins (chart 3).

*Table 2.—Summary of Railway Equipment in Service at End of Year

| Type of Equipment | 1929 | | | 1940 | | | 1944 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Tractive effort | | | Tractive effort | | | Tractive effort | |
| Locomotives | Number | Aggregate (mil. of lbs.) | Average (thous. of lbs.) | Number | Aggregate (mil. of lbs.) | Average (thous. of lbs.) | Number | Aggregate (mil. of lbs.) | Average (thous. of lbs.) |
| Steam locomotives, total | 56,936 | 2,551 | 45 | 40,041 | 2,038 | 51 | 39,681 | 2,096 | 53 |
| Freight | 33,605 | 1,726 | 51 | 24,466 | 1,394 | 57 | 24,565 | 1,446 | 59 |
| Passenger | 11,321 | 377 | 33 | 6,855 | 266 | 39 | 6,359 | 255 | 40 |
| Freight or passenger | 1,584 | 59 | 37 | 1,552 | 85 | 55 | 1,791 | 101 | 56 |
| Switching | 10,426 | 388 | 37 | 7,168 | 293 | 41 | 6,966 | 294 | 42 |
| Electric locomotive units, total | 601 | 30 | 51 | 858 | 48 | 56 | 863 | 49 | 57 |
| Freight | 288 | 15 | 52 | 422 | 25 | 58 | 452 | 27 | 60 |
| Passenger | 233 | 12 | 51 | 275 | 17 | 63 | 256 | 16 | 63 |
| Switching | 80 | 3 | 43 | 161 | 6 | 38 | 155 | 6 | 38 |
| Diesel locomotive units, total | † | † | † | 797 | 44 | 55 | 3,049 | 172 | 56 |
| Freight | ---- | ---- | ---- | 12 | 455 | 38 | 774 | 48 | 62 |
| Passenger | ---- | ---- | ---- | 122 | 8 | 65 | 296 | 16 | 54 |
| Switching | ---- | ---- | ---- | 663 | 36 | 54 | 1,983 | 108 | 55 |
| Other | 34 | 1 | 35 | 25 | 1 | 23 | 19 | 412 | 22 |
| Total, all locomotives | 57,571 | 2,582 | 45 | 41,721 | 2,131 | 51 | 43,612 | 2,318 | 53 |
| | | ‡Freight capacity | | | ‡Freight capacity | | | ‡Freight capacity | |
| Freight-Train Cars (Including Privately Owned) | Number (thous.) | Aggregate (thous. of tons) | Average (tons) | Number (thous.) | Aggregate (thous. of tons) | Average (tons) | Number (thous.) | Aggregate (thous. of tons) | Average (ton) |
| Box | 1,054 | 43,298 | 41 | 707 | 31,695 | 45 | 746 | 34,170 | 46 |
| Flat | 101 | 4,351 | 43 | 61 | 2,904 | 48 | 68 | 3,320 | 49 |
| Stock | 89 | 3,329 | 37 | 61 | 2,424 | 40 | 57 | 2,269 | 40 |
| §Gondola and hopper | 931 | 49,884 | 54 | 801 | 44,815 | 56 | 872 | 49,192 | 56 |
| Tank | 160 | 7,171 | 45 | 147 | 6,665 | 45 | 150 | 6,880 | 46 |
| Refrigerator | 152 | 5,015 | 33 | 145 | 5,339 | 37 | 139 | 5,109 | 37 |
| Caboose | 29 | ---- | ---- | 21 | ---- | ---- | 25 | ---- | ---- |
| Other freight-carrying cars | 77 | 3,993 | 52 | 13 | 656 | 51 | 9 | 470 | 50 |
| Total, all freight-train cars | 2,593 | 117,040 | ¶46 | 1,956 | 94,498 | ¶49 | 2,065 | 101,409 | ¶50 |
| | | Seating capacity | | | Seating capacity | | | Seating capacity | |
| Passenger-Train Cars (Including Pullman Co.) | Number | Aggregate (thous.) | Average | Number | Aggregate (thous.) | Average | Number | Aggregate (thous.) | Average |
| Coaches | 24,680 | 1,867 | 76 | **17,416 | 1,346 | 77 | **17,736 | 1,364 | 77 |
| Combination coaches | 4,798 | †† | †† | 3,048 | 129 | 42 | 2,625 | 107 | 41 |
| Parlor and sleeping | 9,868 | †† | †† | 7,218 | 187 | 26 | ‡‡8,688 | 234 | 27 |
| Dining | 1,686 | ---- | ---- | 1,536 | ---- | ---- | 1,566 | ---- | ---- |
| Club, lounge and observation | 3,236 | ---- | ---- | 368 | ---- | ---- | 277 | ---- | ---- |
| Postal | 985 | ---- | ---- | 1,829 | ---- | ---- | 1,732 | ---- | ---- |
| Baggage, express and all other | 16,457 | ---- | ---- | 13,312 | ---- | ---- | 13,964 | ---- | ---- |
| Total passenger-train cars | 61,710 | §§2,326 | ¶¶59 | 44,727 | 1,662 | ¶¶60 | 46,588 | 1,705 | ¶¶59 |

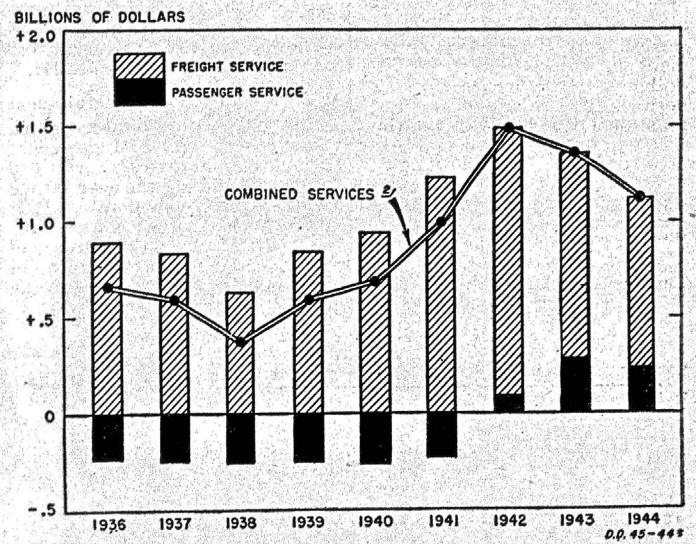
*Class I railways, plus privately owned freight cars and Pullman Co. passenger cars. Switching and terminal companies are not included.
†Included in "other."
‡Based upon average capacity of railway-owned cars only.
§Classified as "coal cars" in 1929.
¶Averages based upon number of freight train cars excluding cabooses.
**Includes a small number classified as "other passenger cars."
††Not available.
‡‡Includes 1,238 troop sleeping cars.
§§Partly estimated by U. S. Department of Commerce.
¶¶Averages based upon total number of coaches, combination coaches, and parlor and sleeping cars.
Source: Interstate Commerce Commission.

*Table 3.—Condensed Railway Income Account
(Millions of dollars)

| | 1940 | 1942 | 1944 | Percent change 1940-1944 | Percent change 1942-1944 |
|---|---|---|---|---|---|
| Operating revenues | 4,298 | 7,466 | †9,437 | 119.6 | 26.4 |
| Deduct: Operating expenses | 3,090 | 4,601 | 6,282 | 103.3 | 36.5 |
| Federal income tax accruals | 60 | 755 | 1,304 | 2,073.3 | 72.7 |
| All other tax accruals | 337 | 444 | 542 | 60.8 | 22.1 |
| ‡Rent payments (net) | 129 | 181 | 202 | 56.6 | 11.6 |
| Equals: Net railway operating income | 683 | 1,484 | 1,106 | 61.2 | —25.5 |
| Add: Other income less miscel. deductions | 136 | 134 | 170 | 25.0 | 26.9 |
| Equals: Inc. available for fixed charges | 818 | 1,618 | 1,276 | 56.0 | —21.1 |
| Deduct: Interest accruals | 472 | 474 | 405 | —14.2 | —14.6 |
| Other fixed and contingent charges | 161 | 241 | 203 | 26.7 | —15.4 |
| Equals: Net income | 185 | 904 | 668 | 261.1 | —26.1 |
| Deduct: Dividends appropriations | 160 | 202 | 246 | 53.8 | 21.8 |
| Equals: Undistributed inome | 26 | 702 | 422 | 1,588.0 | —39.9 |
| Net income before Federal income taxes | 245 | 1,659 | 1,972 | 704.9 | 18.9 |

*Class I steam railways, excluding switching and terminal companies.
†After deductions of $47,000,000 for a reserve for land grant deductions in dispute.
‡Represents rent payments by class I roads to others, principally for the use of privately-owned freight cars.
Note: Detail will not always add to totals due to rounding.
Source: Interstate Commerce Commission.

**Chart 2.—Net Railway Operating Income by Type of Service, Class I Railways[1]**




1 Data do not include switching and terminal companies.
2 Net railway operating income for "combined services" for 1936-41 is less than that for freight service because of the net deficit in passenger service.
Source: Interstate Commerce Commission.

### Passenger Service No Longer in Red

As illustrated in the first of these charts, passenger operations have been making a positive contribution to net railway operating income since 1942, after having failed to pay their allocable share of expenses in each year since 1929.* In 1943, passenger service accounted for $280,000,000 of net operating income, or for about one-fifth of the combined income from passenger and freight operations. Net operating income from passenger service declined in absolute amount in 1944 but continued to account for roughly the same relative share of the combined income.

The gain in passenger revenues has not been caused entirely by the expansion of military and civilian travel, since a 10% increase in standard and commutation passenger fares became effective Feb. 10, 1942. Authority with respect to the increase in commutation fares, however, was revoked some 15 months later. While the increased fares added approximately $130,000,000 to operating revenues in 1943, and somewhat more than that in 1944, probably not over one-fourth of the increase in revenues was carried through to net income after taxes, due to the high income tax rates paid by most roads on their marginal earnings.

*Net railway operating income is the amount after the deduction of operating expenses, rent payments, and tax accruals, but before the deductions of fixed and contingent charges and miscellaneous nonoperating expenses. (See table 3.)

Coach fares at present are on the basis of 2.2 cents per mile and the fare applicable in sleeping and parlor cars is 3.3 cents plus Pullman surcharges. Actual revenue collected per passenger-mile is considerably below these standard rates, due to reductions in round-trip fares, application of direct-line fares over circuitous routes, and special reduced fares for furloughed and discharged personnel of the armed forces.

During 1943 and 1944, revenue per passenger-mile (excluding commutation traffic) was about 1.9 cents (an average of 1.7 cents in coaches and 2.4 cents in parlor and sleeping cars). Commutation traffic, which is carried on a lower fare base, yielded about 1.1 cents per passenger-mile in these years.

### Gain in Freight Earnings

Net operating income allocable to freight operations, if taken before deduction of Federal income taxes, increased about proportionately with the gain in traffic volume between 1940 and 1943. The heavy wartime tax rates, however, held the gain in net operating income after taxes in 1943 to about 15% above 1940. Declines were registered between 1943 and 1944 in net operating income, whether measured before or after income taxes, due to a rise in operating costs relative to revenues.

As indicated in chart 2, net operating income from freight service, as well as income from combined services, has been declining since 1942. It is shown in subsequent paragraphs that this reversal in trend, which was counter to the movement in traffic volume, is attributable for the most part to the operation of the carry-over provisions of the Federal income tax laws.

The general level of freight rates now in effect is practically the same as has existed continuously since 1938, with the exception of the period between March 18, 1942, and May 15, 1943, when rate increases were authorized by the Interstate Commerce Commission. Owing in part to changes in length of haul, composition of traffic, and the importance of land-grant and special governmental tonnage, and in part to individual rate reductions, revenue per ton-mile declined to 0.949 cents in 1944, as compared with 0.983 cents in 1938.

Net railway income after fixed charges, taxes, and all other deductions showed a much larger gain between 1940 and 1944 than did net operating income. The different rates of increase simply reflected the effect of deducting from net operating income the heavy load of fixed charges. Because of these charges, the proportion of operating income which is carried through to net income increases sharply with advances in operating revenues.

The earning power of the railroads at close to capacity operations is strikingly demonstrated by the steeply rising trend of net income before Federal income taxes, shown in chart 3. The peak of $2.2 billion reached in 1943 compares with an annual average of almost $75,000,000 during 1935-39 and a prewar high of $980,000,000 in 1929. This response of income to the rise in traffic volume has obvious postwar implications from the standpoint of potential railway earnings under the existing cost-price structure and relatively heavy traffic volume.

Despite wartime tax rates, net income after taxes has increased several fold since 1939. Income after taxes of Class I roads exceeded $900,000,000 in 1942—slightly more than the previous record amount earned in 1929. The reductions in the following two years left earnings at approximately the level of 1925-29.

**Large Income Tax Payments**

The behavior of income after taxes should be interpreted in the light of the special factors which have determined the income and excess profits tax liabilities of the railroads since 1940. These tax accruals are shown in table 4, for the Class I roads.

In addition to the growth of Federal income and excess profits tax accruals from $60,000,000 to 1,304 million dollars between 1940 and 1944—from 24% to 66% of income before taxes — there are two points of special interest regarding the year-to-year movement in tax accruals: (1) The dollar increase in income taxes between 1942 and 1943 was more than the actual increase in income

The reductions in taxable income due to carrying forward prior losses were greatly diminished after 1942. This is indicated by the decline in the number of Class I roads reporting net deficits in each year from 47 in 1940 to 28 in 1941 and 13 in 1942. The near exhaustion of loss carryovers in the latter year appears to have been largely responsible for the rise in 1943 taxes shown in the table.

It was not until 1944, however, that the carry-forward of unused excess profits tax credits was generally exhausted. Thus, in that year a larger proportion of taxable income became subject to the excess profits tax, resulting in a related reduction in the portion of income subject to normal tax and surtax. Eighty-six out of a total of 131 Class I roads reported accruals for excess profits taxes in 1944, as compared with 70 roads in 1943. Included in the 1944 group were 15 companies whose properties were in receivership or trusteeship as of the close of the year.

It is evident, therefore, that the

*Table 4.—Federal Income Tax Accruals

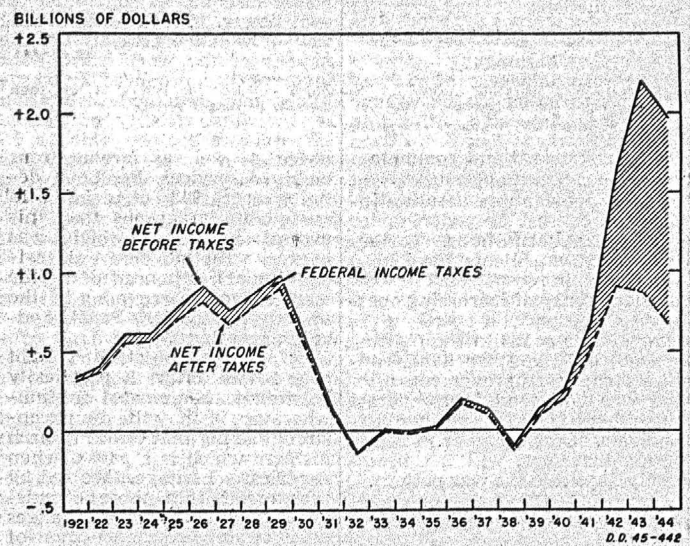
(Millions of dollars)

| | †1940 | †1941 | †1942 | 1943 | 1944 |
|---|---|---|---|---|---|
| Normal tax | ---- | ---- | ---- | 256 | 161 |
| Surtax | ---- | ---- | ---- | 178 | 111 |
| ‡Excess profits tax | ---- | ---- | ---- | 885 | 1,018 |
| Total | 60 | 173 | 755 | §1,335 | §1,304 |
| Total as percent of net income before Federal income tax | 24.4 | 25.6 | 45.5 | 60.4 | 66.1 |

*Class I steam railways, excluding switching and terminal companies.
†Segregation by kind of tax was not required prior to 1943.
‡Includes declared value excess profits tax which amounted to less than 1 million dollars in 1943 and 1944.
§Includes 15 million dollars in 1943 and 13 million dollars in 1944 not distributed by kind of tax.

Source: Interstate Commerce Commission.

**Chart 3.—Net Income Before and After Federal Income Taxes, Class I Railways [1]**




1 Data do not include switching and terminal companies.

Source: Interstate Commerce Commission, except data for "net income before taxes," 1921-32, which were estimated by the Office of Price Administration.

before taxes; (2) excess profits taxes increased between 1943 and 1944, despite a decline in income before taxes.

These annual changes in tax accruals are not explainable on the basis of changes in tax rates, and, at first glance, might appear to be inconsistent with the movement of railway income before taxes. The explanation for the apparent inconsistencies can be found in the special carry-over provisions in the income tax laws, which have permitted the railroads to offset net losses and unused excess profits credits against income earned in two succeeding years. (Offsets against income in two prior years are also possible.)

**Importance of Carry-Overs**

The railroad industry has been one of the chief beneficiaries of the carry-over provisions, since many companies had low earnings or losses in 1940 and 1941. By carrying forward net losses and unused excess profits credits, these companies were able to keep their income tax liabilities far below the current statutory rates for one or two years after they had been restored to a favorable earnings position.

divergences in the movement of railway net income before and after taxes can be ascribed in large part to the carry-over privileges in the income tax law. That the peak in railway net income after taxes was reached in 1942 was largely the result of carrying forward prior net losses and unused excess profits tax credits.

Without the tax savings permitted by the carry-forward provisions, the peak would have come in 1943. Similiarly, the large reduction between 1943 and 1944 in income after taxes reflected in part the exhaustion of unused excess profits tax credit carry-overs and the consequent rise in the effective income tax rates in the latter year.

Attention should also be called to another aspect of the income taxes which have been paid by the railroads. While the refundable portion of the excess profits tax—amounting to 10% of the excess profits tax—is not reported in tax accruals and, therefore, is included in railway income, no allowance can of course be made at this time for the post-war refunds which many roads may receive under the carry-back provisions. Some of the heavy wartime tax

*Table 5.—Railway Costs, Taxes, and Net Income Expressed as Cents per Revenue Dollar

| | 1940 | 1941 | 1942 | 1943 | 1944 | Percent change 1940-44 |
|---|---|---|---|---|---|---|
| Compensation of employees | 44.0 | 42.0 | 38.3 | 38.0 | 39.9 | — 9.3 |
| Fuel | 5.8 | 5.9 | 5.2 | 5.3 | 5.7 | — 1.7 |
| Depreciation | 4.6 | 4.0 | 3.2 | 3.4 | 3.3 | — 28.3 |
| Amortization of defense projects | --- | .2 | 1.2 | 1.6 | 2.0 | ---- |
| Fixed and contingent charges | 14.2 | 11.6 | 9.3 | 7.0 | 6.3 | — 55.6 |
| Federal income taxes | 1.3 | 3.1 | 9.9 | 14.4 | 13.5 | +938.5 |
| All other taxes | 7.5 | 6.8 | 5.8 | 5.6 | 5.6 | — 25.3 |
| All other deductions | 18.4 | 17.2 | 15.2 | 15.2 | 16.7 | — 9.2 |
| Net income | 4.1 | 9.1 | 11.8 | 9.4 | 6.9 | + 68.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | ---- |
| Net income before income taxes | 5.5 | 12.2 | 21.7 | 23.9 | 20.4 | +270.9 |

*Class I steam railways, excluding switching and terminal companies.

Source: Computed from Interstate Commerce Commission data.

load will be wiped out over the next year, should individual roads suffer a sharp setback in earnings as a result of the ending of the war.

**Decreasing Cost Industry**

The behavior of costs and earnings as passenger and freight traffic soared has emphasized the large stake which railroads have in the continuance of high national production and employment in the future. Long a text-book example of an industry operating under decreasing cost conditions, the roads have seen all major elements of cost decline sharply per unit of traffic hauled.

When revenue traffic is measured by an average of ton-miles and passenger-miles (weighted by respective average unit revenues), it is seen that almost 30% fewer man-hours were required per unit of traffic in 1944 than in 1940. The quantity of fuel consumed per unit of traffic showed about the same relative reduction over this period. These gains reflect the various performance achievements of the carriers and, in addition, the larger proportion of gross ton-miles represented by revenue traffic in recent years.

Especially noteworthy is the fact that the economies associated with more intensive utilization of manpower and equipment have more than offset the wartime increases in wage rates and materials prices. As shown in table 5, when various costs are expressed in terms of cents per revenue dollar, they all are lower in 1944 than before the war, with the exception of charges for accelarated amortization. As a consequence, net income before taxes accounted for about 20 cents out of each revenue dollar in 1944, as compared with 5½ cents in 1940.

The trend toward lower costs per revenue dollar continued until 1944, when the reversal in cost trends in that year translated the further rise in revenues into the decline in income before taxes shown in chart 3. In each of the previous years the dollar increase in net income before taxes exceeded the rise in revenues.

The generally inverse relationships which have existed between unit costs and traffic volume should be analyzed in terms of the special factors which have been operative during the war years. Only in this manner is it possible to evaluate the rise in net income and to appraise the bearing of decreasing cost conditions on the post-war financial outlook for the industry.

**Changes in Wages**

Wage rate increases effective December, 1944, and January, 1942, and further increases effective in 1943 have resulted in raising the average straight-time hourly rate of wages paid by railroads from 73 cents in 1940 to 83 cents in 1942 and 92 cents in 1944.

*Table 6.—Indexes of Railway Traffic Per Man-Hour

(1940=100)

| | 1940 | 1941 | 1942 | 1943 | 1944 |
|---|---|---|---|---|---|
| Revenue freight ton-miles per man-hour | 100 | 105 | 111 | 116 | 117 |
| Revenue passenger miles per man-hour | 100 | 119 | 188 | 266 | 270 |
| Combined revenue traffic per man-hour | 100 | 110 | 133 | 143 | 141 |

*Class I steam railways excluding switching and terminal companies. The indexes refer to hourly-basis workers and thus exclude executive, professional and main supervisory employees.

Source: U. S. Department of Labor indexes recomputed to a 1940 base.

Average employee compensation per hour, including overtime pay, rose from 75 to 96 cents during this period.

On the other hand, the Department of Labor index of revenue traffic per man-hour, which is presented in table 6, has increased by more than 40% since 1940—a gain more than sufficient to offset the higher costs due to wage-rate increases. As a result of the partially compensating changes in wage rates and traffic per man-hour, wage and salary permits took 4 cents less out of each dollar of revenue in 1944 than in 1940.

The figures in table 6 show that the relative increases in traffic handled per man-hour have been much greater for passenger than for freight traffic. This development was partly a consequence of the sharper rise in passenger traffic and was reflected in the relatively larger gains in net income from passenger service, which were noted earlier.

**Fuel Costs**

Fuel costs have followed a similar patterns, although the economies in consumption have not been nearly as marked as in the case of labor productivity. Average prices paid for coal, which accounted for almost 70% of fuel costs in 1944, have risen 36% since 1940. For all fuel and power combined, the average price rise was 33%, the bulk of the rise occurring after 1942.

Reflecting heavier train loads, fuel costs per car-mile experienced larger relative increases. Nevertheless, the rise in traffic and operating revenues per car-mile was sufficient to keep fuel costs per dollar of revenue fractionally below the amount in 1940—5.7 cents in 1944, as compared with 5.8 cents in the earlier year.

**Other Materials and Supplies**

The prices of materials and supplies (other than fuel) rose about one-fourth during the 1940-44 period. The figures in table 5 suggest that these cost increases, like the higher wage rates and fuel prices, also were outweighed by the expansion of revenues. It should be noted, however, that the item, "all other deductions," shown in the table, includes vari-

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# New Prospects of War-Strengthened Railroads

(Continued from page 2109)

ous operating expenses and deductions other than the cost of materials and supplies.

### Deferred Maintenance

There is little evidence that the railroads in the aggregate have been forced to defer any sizable amount of maintenance work because of shortages of materials and difficulties in hiring workers during the war years. This does not mean that some special types of work and maintenance in certain individual situations have not been impeded by the tight supply conditions. On the whole, however, these deficiencies appear to have been of minor importance in the over-all picture and, moreover, to have been offset to some extent by over-maintenance in other situations.

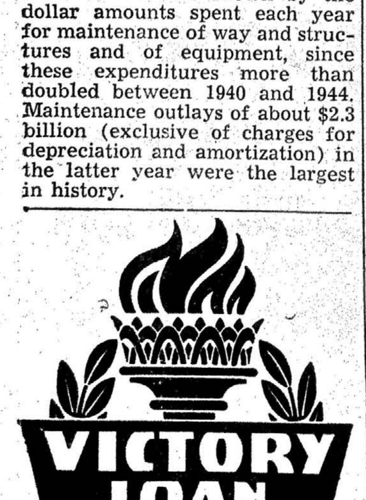
Of prime importance in enabling the railroads to achieve such a good maintenance record was the priorities assistance granted by the War Production Board. The vital role of transportation in the war economy was fully recognized and railway maintenance needs were often given precedence over other demands for scarce materials.

Any overstatement of railway earnings because of forced curtailment of maintenance work is likely to have been very small for other reasons as well. It has been many years since the roads have been financially as able to spend on way and structure and on equipment as they have been during the war period. The availability of ample funds, combined with the high excess profits tax rates to which most roads have been subject, must have exerted powerful influences to overcome whatever materials and labor shortages that have existed and to undertake as much maintenance work as possible.

Measurement of the amount of maintenance actually deferred during the war years is extremely difficult, particularly because there often is no way of defining normal maintenance standards. Moreover, the pressure of war traffic has brought into service much old equipment that was ready or scheduled for retirement and there is always an incentive for the carriers to keep maintenance outlays on such equipment at a minimum. A measure of deferred maintenance has little meaning in such circumstances, since much of the amount estimated to have been deferred may never be made up.

### Record Dollar Outlays for for Maintenance

No evidence of forced curtailment of work is shown by the dollar amounts spent each year for maintenance of way and structures and of equipment, since these expenditures more than doubled between 1940 and 1944. Maintenance outlays of about $2.3 billion (exclusive of charges for depreciation and amortization) in the latter year were the largest in history.




On the other hand, it is known that the effectiveness of current dollar expenditures has been sharply reduced by higher cost of labor and materials. Therefore, the number of man-hours employed on maintenance work provides a better indicator of the real increase in actual maintenance performed. The rise in maintenance man-hours between 1940 and 1944 was 56%, or somewhat more than half the relative increase in maintenance expenditures.

The 56% increase in maintenance man-hours can be compared with a rise of about 65% in total gross ton-miles, including locomotives and tenders, produced in freight and passenger service combined. The latter measure is a generally accepted indicator of the intensity of utilization of railway plant and equipment. The relative increase in gross ton-miles has been larger than the increase in car-miles, but considerably smaller than the gain in revenue traffic.

A rough measure of the adequacy of the maintenance work performed can be obtained by relating maintenance man-hours to gross ton-miles. Such a calculation indicates that maintenance man-hours per million gross ton-miles declined from 836 in 1940 to an estimated 790 in 1944—a decline of 5.5%. The ratios were somewhat below the 1944 figure in the two preceding years.

The decline which has occurred in the ratio of maintenance man-hours to gross ton-miles by no means demonstrates undermaintenance. While certain classes of maintenance expenditures are almost entirely dependent upon the intensity of utilization of railway plant and equipment, other classes are practically unaffected by the volume of traffic, or are affected only to a small extent.

The Interstate Commerce Commission has stated that from 60-70% of road and equipment maintenance is usually estimated as attributable to the intensity of utilization. In view of this fact, a declining ratio of maintenance man-hours to gross ton-miles may be entirely normal as commodity and freight movement shoots up sharply as in the war period.

An attempt to estimate the dollar value of the wartime accumulation of deferred maintenance, including provision for inadequacy and obsolescence, was made by the Commission in its annual report for 1944. The figure there cited is $300,000,000. Studies made by the Commission's Bureau of Valuation indicate that most of this amount can be assigned to roadway and structure, rather than to equipment. In fact, there is some evidence of surplus maintenance for certain classes of rolling stock.

The estimate of $300,000,000 indicates an annual rate of deferred maintenance of about 4% of maintenance expenses in the years 1942-44. It is equal to about 5% of income before taxes in these years and to about 4% of income after taxes (taking into consideration an approximate adjustment of income tax liabilities for the tax savings that would have been realized if the estimated deferred maintenance had been allowed as a deduction for tax purposes).

### Five-Year Amortization

The small overstatement of earnings indicated by the Commission's estimate of deferred maintenance has been counterbalanced by above-normal charges made to operating expenses resulting from the use of the 20% amortization rate for "emergency facilities" in lieu of normal depreciation. The accelerated amortization provision has been in the law since 1940 and applies to all facilities certified as necessary for national defense. The Commission requires the carriers to charge such amortization to maintenance expenses.

The railroads have availed themselves of this privilege to such an extent that practically all purchases of new equipment since 1942 were being amortized on a five-year basis until the emergency period defined in Section 124 of the Internal Revenue Code was terminated at the end of September, 1945. Through the end of last year, facilities costing almost $1 billion had been certified as emergency facilities. Charges to operating expenses for amortization of the cost of these facilities aggregated about $430,000,000 in the years 1941-44. More than 90% of these charges have been for equipment.

### Understatement of Net Income

The accelerated amortization deductions represent legitimate operating expenses only insofar as the facilities concerned will have little or no use after the war; but the bulk of the defense facilities purchased by the carriers consists of equipment which will no doubt have many years of useful life after the amortization period has terminated.

Thus, the net effect of the amortization provision is an understatement of railway earnings during the war emergency, which will be balanced by an overstatement in subsequent years when the facilities will be adding to revenues without making a corresponding addition to operating expenses for depreciation that otherwise would have been applicable. Moreover, with lower tax rates in prospect for the postwar period, the railroads will realize permanent tax savings in addition to several years' postponement of actual tax payments.

In the case of the small amount of road property emergency facilities, it is impracticable to estimate the excess of the amortization charges over the normally applicable depreciation, since accrual depreciation accounting is applicable only to roadway property other than the tracks and its appurtenances (retirement accounting is generally used for the latter classes of property). Such an estimate, however, is possible for the emergency facilities comprising equipment, which accounts for the bulk of such facilities.

According to the Commission, if the composite equipment depreciation rate during the years 1941-44 were substituted for the 20% rate, depreciation charges would have amounted to about one-sixth of the charges for equipment amortization—or $67,000,000 instead of $393,000,000. It will be noted that the difference of $326,-000,000 dollars is somewhat higher than the previously mentioned estimate of deferred maintenance. The excess of amortization over normal depreciation was largest in 1944 when it amounted to $142,000,000, or more than 7% of net income before Federal income taxes.

### Basis for Large Tax Refunds

Not only do the accelerated amortization provisions depress earnings during the war period, but they also provide the basis for substantial tax refunds. As previously mentioned, the emergency period defined in the Internal Revenue Code was recently terminated by Presidential proclamation. In consequence, railroads may elect to speed up their amortization charges to cover the shortened emergency period. Refund claims may then be filed for the tax savings which are indicated by the recomputation of prior taxes on the basis of the increased charges.

For example, if a railroad purchased some freight cars at the beginning of 1943 which were duly certified as emergency facilities, the company can now elect to recompute its taxable income for 1943 and 1944 on the basis of amortization charges for the facilities in question distributed over 33 months (January, 1943, through September, 1945), instead of over 60 months.

Using September, 1945, as the cut-off date for purposes of recomputation of amortization charges, it is estimated that the increased amortization now permitted the railroads for the emergency period amounts to approximately $400,000,000—without allowing for new emergency facilities certified since the end of 1944. Uncertainty as to the marginal tax rates that would be applicable prevents making an accurate estimate of the amount of tax refunds that may result, but it is not at all unlikely that the refunds would amount to two-thirds or more of the additional amortization deductions.

### Conclusion as to Wartime Earnings

The responsiveness of railway earnings to larger traffic volume and more intensive utilization during the war is significant from the standpoint of potential postwar earnings, although it does not in itself provide any accurate indication of cost behavior under more normal conditions. Various temporary expedients have been resorted to in recent years in view of the urgency of increasing operating efficiency and speeding the flow of war goods to the fighting fronts. On the other hand, continued capital improvements after the war will tend to counteract the effect of eliminating these expedients. Cost behavior in future years, therefore, will not necessarily duplicate the war pattern.

All factors considered, there does not appear to be any convincing evidence that the railway financial barometers tend to present an inflated picture of wartime earnings for railroads in the aggregate. It seems that the accelerated amortization provisions have understated net income at least to the full extent of the small apparent overstatement that might be attributed to forced curtailment of maintenance work. In view of the important cushions in the Federal income tax laws, tax refunds are likely to be received which will place wartime earnings in an even more favorable light.

Because of war tax rates, the carriers have not reaped the major part of the gains associated with decreasing costs under heavy traffic movement. Nevertheless, their net earnings after taxes have been sufficient to permit the accumulation of sizable reserves and a reduction of the long-term debt of Class I roads from $11.3 billion to $9.8 billion between 1940 and 1944. A part of the debt reduction of $1.5 billion reflects the notable progress which has been made in reorganizing roads in receivership.

For these reasons, the railroads appear to be in a considerably improved financial position as peacetime transportation once again becomes their major task.

# Should Banks Furnish Venture Capital?

(Continued from page 2077)

science, after brooding in her laboratories for a decade, has suddenly emerged with a handful of real and tangible results, capped by the release of atomic energy in the form of the most destructive instrument the world has ever known. What she has to offer both amazes and appalls us. It is a fascinating, bewildering and hazardous time.

Now all of this has to do with us as citizens but in a narrower sense it is also our concern as bankers. It is the background for any discussion of the banking situation of today. If we look at the balance sheets, statements of condition and of earnings and dividends, yes, the examination reports in my own office, we have some reason for satisfaction which can easily lull us into complacency. The figures look pretty good. But underlying this technical situation are the grave difficulties of the times.

### What Can Bankers Do?

Two questions pose themselves: What can we as bankers do to assist in the restoration of a free economy in a world which has been regimented for war; and second, what can we as bankers do to maintain our traditional financial leadership in that economy?

Paraphrasing the first question, what can bankers do to maintain the individual as the important factor of society, and his initiative as the driving force which turns the wheels? For the last few years the important thing which we could do has been to devote all our energies to the winning of the war. This we have done. If the dictators had prevailed, the struggle for the rights of the individual would have been lost for a long time to come. Now the war has been won and the dictators crushed, but there remains the difficult task of gradually releasing the controls and once again permitting the economic machine to run under its own power. This so-called total war in which practically all the nations of the world have been involved has produced an absolutely unprecedented dislocation in individual liberty of action. The delicate balance which is so essential to a free economy has been completely disrupted, and the world will not automatically settle back into the general prewar pattern. If we really want back a world of free enterprise and initiative, instead of a regimented one, we are going to have to struggle for it. Possibly one answer is that in the daily conduct of our affairs we can keep ever before us the importance of bolstering up personal initiative wherever it may be found and strengthening that desire to be on his own which is a part of every American's heritage. We can direct credit into those channels where it will best serve the purposes of a vigorous free economy. We can become a part of the great drama to preserve the rights of the individual against the encroachments of the socialized or authoritarian State.

I realize that many of the factors, and probably the determining ones, which will ultimately make for the success or failure of the reconversion effort, lie outside the banking field. Yet bankers must be giving thought and exercising leadership in those broader fields which lie outside the confines of their own immediate affairs. To fail to do so in this crisis is to lack vision indeed.

### Equity Financing Faces a Test

As to the second question, it is possible to be somewhat more explicit. At the present time, it seems likely that the classic pattern of equity financing with risk capital is about to face a severe test, perhaps because the rewards (even before the impact of taxes) do not seem to justify the hazards, or perhaps for other reasons.

It is not the job of banking to furnish means for launching every scheme that occurs to the minds of the would-be entrepreneurs. But it is the job of banking to supply needed credit to ably-managed enterprises—new as well as established—which have reasonable prospects of success and show promise of making a contribution to our national well-being.

One valuable device for the discharge of this function is the so-called term loan, which has been used increasingly for over a decade. Another technique — still largely in the potential rather than the kinetic state—is the organization of credit groups. Whether it is entirely fortuitous, or whether there is some casual nexus, these two developments serve to supplement each other to permit fuller utilization of each than otherwise would be possible.

It is unnecessary to describe the basic differences between term loans and the traditional short-term commercial loans. The 60 or 90-day seasonal loan to an old customer is almost fool-proof, provided certain well known checks are made and precautions taken. A five or 10-year term loan presents very different problems, and requires the banker to possess and exercise judgment—almost prophecy — regarding the business cycle, as well as the future of the industry and the particular organization, over that substantial period of time.

Obviously, an application for a term loan calls for much more thorough study of management, performance and earnings than a seasonal loan to bridge the period between shipment by a manufacturer and receipt of payment. Special methods of analysis are required involving factors quite different from those which are important to the short-term lender, bondholder, or equity investor; for example, a bank considering a term loan sometimes can safely disregard the borrower's net profits from the correct accounting standpoint, with its necessary provision for depreciation and depletion, and can base its conclusions on the "cash throw-off" to be expected over the life of the loan.

To a degree, of course, some of what are today designated as "term loans" are old wine in new bottles—merely a recognition of short-term loans for what they actually are—a term loan in disguise. As we all know, many short-term loans have been made with full realization that they could not be discharged at the ostensible maturity, but would have to be renewed again and again, with payment several years off. To this extent, the development of the term loan is simply a frank recognition of the facts and is all to the good.

But most term lending is relatively new in substance as well as in name. The term loan is a flexible instrument which can be adapted to numerous situations where neither short-term loans nor bond, preferred stock, or common stock financing could fit the need precisely. To some extent it constitutes the answer of banking to the challenge of Government lending and Government guaranties.

### Caution Needed in Long-Term Loans

Of necessity, such term lending is a step in a direction which could lead American banking toward permanent financing of industry, a conceivable development which in my opinion, should be approached thoughtfully and with the utmost caution, despite its successful use in European banking for many decades. Up to the present, no noticeable trend in this direction has been observed. But by their very nature some potential term loans involve unavoidable hazards, and are of a size which makes them unsuitable for handling by a single institution.

For these two reasons, may I invite your attention to a possible advantage in coordinating term lending with the formal or informal credit group procedure in order to utilize the full potentialities of both. The correspondent banking groups, or "credit pools" or "credit groups," launched during the past two years, can perform important functions in many ways, but particularly in combination with certain types of term loans. The possibilities of these groups are not limited to serving as a semi-permanent, large-scale aggregation of participating banks organized for the stimulation of activity by their members.

It seems to me that the credit group can be of special value in connection with loans—generally term loans—which cannot be handled in the traditional manner by reason of their nature, rather than their magnitude. To speak plainly, there are numerous situations in which the element of risk is such that no one bank would care to hazard a substantial percentage of its capital, but which nevertheless are within the scope of a reasonable definition of "bankable loans." Loans of this type in fact often are the very ones which provide the means for a small business to start on the way to becoming a major enterprise; in other words, these borrowers are the expanding element in our economy. For this very reason, any one of such loans may result in considerable loss, but a hundred of them, prudently made and supervised, represent en masse very profitable business, even after writing off the two, three or five loans which do not pan out. Not only that, but some of the concerns thus helped along the way probably will be among the bank's biggest and more profitable customers in ten or 20 years. Finally, and most important, through such advances banks can supply the means which are needed to make possible the continued expansion of our economy —full employment and constantly higher standard of living—which constitutes one of our primary national aims.

### Banks and Venture Capital

Let there be no misunderstanding here. I am not advocating that banks should furnish venture capital in order to preserve our society of free enterprise or to maintain their own position in it. The supplying of venture capital is the proper function of the entrepreneur and of the investment banker. Commercial bank deposits should never be used for that purpose. What is presently under discussion must be understood as restricted to the field of properly "bankable" loans, which of course in the term category will always present, even within bankable limits, varying degrees of risk.

I need hardly describe in any more detail the relationship which I envision between term loans and credit groups. It is often quite justifiable for a bank (as one of a group of 20 or 30) to advance, let us say, $20,000 in connection with each of some 50 loans, whereas it might not be safe and sound banking, in the eyes of either the directors or the supervisory authorities, for each bank to make a single one of such loans in an amount of $500,000, or to retain $200,000 and grant $100,000 participations to each of three correspondent banks. In a word, broad diversification can make this field both safe and profitable, and in this way credit groups can make possible much-needed and sound advances to small but growing organizations.

By performing this function, through group handling of properly planned and devised term loans, American banking can prove once more its adaptability and capacity for growth, create for itself a new and promising field for credit extension, and diminish the necessity either for Government lending or use of the crutch of Government guaranties, with its constant threat of atrophy to banking judgment. Above all, by rendering such service in this and other areas within their competence, bankers can assist in meeting one of the important obligations of our generation. This obligation is the task of holding fast to certain fundamentals, the tried and proven in our present social and economic organization. It is important to hold fast to the sure things against those alluring but dangerous vistas which come to us from the heated imaginings of war and which are always present in the years of ferment which follow the cessation of hostilities.

## Montana-Dakota Issue Of Common on Market

Public offering of 223,351 4/6 shares of common stock (par $5) of Dakota Utilities Co. was made Oct. 26 by an underwriting group headed by Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane at $11.50 per share.

Proceeds from the sale of the stock will be indirectly applied toward payment of the purchase price of the outstanding securities of Dakota Public Service Co. which was financed by a $6,500,000 bank loan. This step, which also involves the use of other funds of the company, will reduce the balance of the bank loan to $500,000.

Montana-Dakota is a public utility operating company, serving natural gas at retail in 25 communities in Montana, 17 in North Dakota, 11 in South Dakota and three in Wyoming and supplying the product to a non-affiliated company at wholesale. Electricity is served at retail in 33 communities in Montana, 120 in North Dakota, 33 in South Dakota and two in Canada. A total of 219 communities are served with natural gas, electricity, manufactured gas, steam heat or two or more of these services.

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This young and very imperfect civilization of ours is rich—rich because it has time in its purse. May we spend this time wisely. In all eras of great unrest and change there are certain outposts of the past which must be held lest hard-won truths be lost. Holding these outposts is oftentimes a lonely and unrewarded task but it is an assignment of great honor.

# A Survey of Business Conditions

(Continued from page 2088)

are being relaxed, resulting in the easier procurement of materials.

### Commodity Prices

No lower commodity prices are reported. Generally, prices are unchanged, but with a tendency to rise.

Escalator clauses are appearing regularly, and buyers cannot protect themselves without passing these on. The upward price pressure continues, and seems uncheckable.

Where OPA has relinquished controls, prices have advanced. Optical and surgical instruments are a good example, registering a 25% price increase.

The general impression is that WHEN and IF price ceilings are removed, prices generally will go up.

There is little prospect of any radical change in Canada, where prices are held firm by the WPTB. However, the pressure is upward.

### Inventories

There is an increase in the reports of lower inventories. War production inventories are moving out, and are being replaced slowly by new materials for civilian production. Strikes are having their effect in reducing inventories where replacement is slowed or stopped.

Many buyers are reluctant to restock until better quality materials appear.

There has been some concern over minimum inventories becoming embarrassingly large when high production schedules are cut suddenly. We are assured that inventory limitations will be interpreted fairly in such situations, when caused by unforeseeable interruptions.

Generally buyers are attempting to provide a more balanced inventory in proportion to production schedules. This is unusually difficult at present because of strikes in various industries.

West Coast inventories are reported generally unchanged, but higher inventories would be secured if materials were more available.

Raw materials inventories in Canada are reported higher, but there is no increase in finished or processed stocks. Heavy deliveries of the new season's pack have increased canned goods inventories. The liquidation of war industry inventories is continuing.

### Buying Policy

The 90-day buying policy continues.

New production schedules are, however, the yardstick, and buyers are attempting to get back to a normal policy based on these schedules and the availability of materials. Government controls still determine the policy in certain instances.

Many buyers feel that a very liberal policy of buying is needed—a long period on tight and doubtful items. Inflation threats and strikes have generated a "nervous" situation.

The necessity for placing advance orders to secure a place in the vendor's schedule is not considered good buying, but buyers are helpless when confronted with such requirements.

### Specific Commodity Changes

The supply situation continues easier, but drastic shortages exist in many cases. Lumber and waste paper continue to be nation-wide shortages, and many months may pass before a change for the better is seen.

Advances in wirebound boxes are noted. Trade journals are increasing their advertising rates. An increase is anticipated for paper and cartons due to advanced kraft prices.

Prices of selected items of cotton goods have been increased, with OPA approval.

Construction machinery has advanced 5%; gray iron castings, 10%; steel forgings, 8%. There have been miscellaneous increases in copper castings from 2¢ to 4¢ per pound.

Rosin, synthetic resins and carbon black prices have increased. Refractory prices increased 8.6%, retroactive to June 23.

OPA approval of 5% advances on electrical controller prices and 9% on fractional HP motors has been given. Die castings are up 5% to 7%.

The prices in the lumber industry are extremely sensitive. Producers of pine lumber in the South are expected to appeal for a 30% increase.

Alcohol is up 2¢, as announced on Oct. 19, 1945.

It is expected that many prices will edge higher as labor's present demands are met and OPA continues to lose support. More inflation seems inevitable.

Deliveries remain uncertain on lead, electric motors, cold rolled steel and hand tools. At present, wire rope, castings, gas meters, cast iron and brass valves are also exceptionally bad.

Buyers look for higher prices resulting from labor demands, **if** and **when** granted.

Further notices of price withdrawals are being received from manufacturers of valves, fittings and cast iron pipe, indicating higher prices are on the way.

It appears that if any pulp can be imported from Sweden, it will be $6 per ton higher than domestic mills are receiving, as OPA has granted Swedish importers the eastern ceiling price. Some pulp may come in late this year.

In Canada, the 10% war exchange tax on all non-Empire imports, has been removed. This should ease the pressure on price ceilings and result in some lowering of prices. However, this is equivalent to a subsidy and will not change the underlying strength in commodities. Buyers in Canada are expecting higher prices.

Shortages exist in practically all operating and manufacturing materials and supplies, particularly shipping cases, heavy hardware, construction and building and plumbing supplies.

### Employment

The decline in employment continues with an increasing number of buyers reporting lower figures.

Shortages of labor, however, still exist in many plants. Labor remains uninterested, and many plants are operating on reduced personnel. Applications for employment continue low.

Large scale labor shifts continue, with the job situation not expected to settle until late Winter or early Spring, when new plans and civilian production are fully under way.

Returning veterans appear to provide scant relief; the speed up of returns would be helpful in the present situation.

Foundry workers and machine shop men are very short.

In general, there seem to be plenty of jobs available but no takers, although there is plenty of unemployed labor.

Southern California reports better labor conditions. There is not much change in the Central States or in the Northwest.

Strikers in the Oregon lumber industry are working at harvesting and in canneries, where a labor shortage exists.

In Canada the preponderance of jobs available over workers wanting them, is diminishing rapidly.

### General

While business generally remains good, the situation temporarily is bad: not because the volume of business is lacking, but due to the refusal of labor to work.

This is an extremely critical period, with the possibility that strikes and labor unrest may interfere seriously with reconversion and cause a period of deflation. On the other hand, acceptance of labors' wage demands (if accomplished with permission to raise prices), may bring about a difficult inflation situation.

Many companies are completely closed down and will not be able to go forward on their reconversion programs until the strikes are settled.

There appears no question but that there will be a substantial volume of business when these difficulties have been ironed out.

The problems of peace are rivaling those of war!

Generally buyers are optimistic, but are aware of the many problems confronting industry today.

Both Canadian and United States industrial purchasing agents are unanimous in stating that the labor situation is the key to the future of good business.

# A Realistic Plan to Aid Britain

(Continued from page 2075)

formal meetings of members of the British delegation with members of the Congress have been held on Capitol Hill by special arrangement.

### Congressman Crawford Speaks

Congressman Fred L. Crawford of Michigan, who has attended two of the meetings, informs the "Chronicle" that the negotiators are discussing a $5 billion loan, certain features of which give it the character of a gift. According to Mr. Crawford, who is one of the senior Republican members of the House Committee on Banking and Currency, Lord Keynes was quite frank in stating that, whatever the terms of the prospective financial agreement with Britain and however long the maturity of any loan that may be involved in the Plan, Britain must insist on an escape clause, so that in effect Britain will not be undertaking a long-term commitment. Lord Keynes made it clear that the British will not agree to any long-term commitment which they cannot see their way clear to living up to, and which may result in default, as happened with the intergovernmental debts of World War I. Britain will accept a dollar credit from us only on a we'll-pay-you-if-we-can basis. Specifically, if in a given year Britain's balance of payments is such as to make interest or amortization payment on the loan unduly burdensome and to a degree that will greatly dislocate British economy in that year the British will not pay.

All accounts of the negotiations indicate that the experts will recommend that for the first five years of the loan no payment will be made by the British, Congressman Crawford points out. What this amounts to is a reduction in the apparent rate of interest. In other words, a loan which calls far, say 2% interest each year for fifty years commencing in 1950 but no interest before 1950, is really a loan at a smaller rate of interest for 55 years, Mr. Crawford observes.

"I think that rather than deceive the American people by concealing a gift to the British in the form of novel loan conditions, with hidden or expressed escape clauses, we should come right out in the open and let the lenders know what kind of security they are buying. Then, if they want to help Britain on terms such as are being contemplated, they will know just what they are doing," Mr. Crawford told the writer. "Otherwise, no one can know just how much of the new Victory Loan bonds which the Treasury is going to sell will be devoted to British purposes, rather than to taking care of our wounded GI's and the other stated purposes. For this reason, I suggested to one of the British negotiators that our Treasury offer the American public a special British bond, with a prospectus telling the buyer in plain language the nature and character of the obligation Britain is assuming thereunder, just as is required of domestic borrowers under the SEC regulations. But my suggestion did not appeal to him.

"Still, I feel that my plan is only fair play, keeping all the people concerned in the transaction fully informed on the situation," Mr. Crawford added. "If Britain is not in a position to meet the interest and principal charges, our people should be so informed before our Treasury makes a grant to Britain.

"The British spokesman did not take kindly to my suggestion. He felt that would be a 'stigmatization' of the British. Therefore, I assume that he would prefer that our Federal Treasury continue to sell the bonds to our people, without fully divulging to bond purchasers the exact purpose of the financing.

"Furthermore, the members of the British Empire enjoy trade preferences on goods moving between their respective countries. If we are to liberate the British by making a grant or non-interest bearing loan of $5 billion, more or less, so that they may cooperate with us in such trade liberation as our government desires, then let Britain remove the trade preferences which protect her family of nations.

"In answer to my blunt question—'What does Britain propose to do about removing these trade preferences, which operate against the people of the United States?'—the reply I received was to the effect that 'Britain does not propose to remove those trade preferences until the United States Government removes its tariff walls and changes the nature of the present reciprocal trade agreements so as to correct what England claims to be an injustice to her—the most favored nation clause.' Here is the first direct claim I have heard from England to the effect that Cordell Hull's Reciprocal Trade Agreements Program, in behalf of which such fantastic claims have been made, ran directly contrary to the interests of the British Empire. Mr. Hull has always proclaimed that his reciprocal trade agreement program was one of the greatest 'world peace movements' of all time. England takes the position that if countries A and B make mutual concessions to each other and refuse to admit country **X on the same terms**, that would be discrimination against X. Mr. Hull's reciprocal trade agreement program has been operated in such a way as to extend the most favored nation clause generally to all countries not parties to the agreement between, for instance, countries A and B.

### Full Employment in Britain and the United States

"To have full employment is as necessary for one country as for another. It is as necessary for the United States as for Great Britain. It is as necessary (and I contend much more so) for a sound economic policy to be carried out in the United States, and for us to have full employment, and maintain our national income, and meet our Federal debt obligations with respect to interest and principal promptly, and all in support of bearable conditions throughout the world, as it is for England to maintain her economy along these lines. This fact must be kept in mind by the American people. It is possible for an individual or a country to so plead its misery and poverty and problems to another individual or another country as to cause the latter to forget its own problems. At the moment I think there is danger of such a situation prevailing with respect to the United States, as related to the other countries of the earth, and particularly Britain.

"An interest free loan with an escape clause in Britain's favor—financed by the people of the United States through their purchasing bonds from the Federal Treasury, which are absolute obligations and the interest and principal of which must be paid regardless of whatever escape clause may be exercised by Britain—if made, should in my humble opinion carry some very strict conditions which England must meet.

### Big-scale Horse Trading Going On

"International 'horse-trading' on a gigantic scale is in progress here in Washington. During war years Britain's family of nations pooled their dollar credits booked in their favor of each respective country. With the close of the war Britain now claims inability to meet her pound sterling and dollar obligations to empire members. These aggregate (measured in dollars) about $12 billion, with $2 billion additional owing to other countries such as Argentina, etc. In discussing these claims against Britain, I pointedly interrogated her spokesmen—'How can you liquidate $14 billion of obligations with only $5 billion?' The reply in substance was —'We hope to effectuate a compromise or a scaling down of our members claims against Britain; and in addition after having obtained the prospective $5 billion grant or loan from U. S. A. to Britain, then make available to member countries on a fair basis a fraction of those dollars.'

"You can appreciate the maneuverings necessary in bringing about a complicated agreement between all of the countries involved mutually refinancing such vast obligations. Britain insists that she cannot and will not obligate herself on an ordinary commercial loan carrying current interest rates and promise to service the debt, including interest charges and amortization of the principal. She insists that worldwide economic conditions are so presently chaotic that whatever agreement may be made must be of a short term nature, and with an 'escape clause' permitting England to practically repudiate the agreement if general conditions run greatly contrary to her momentary calculations. England insists she must increase her **post-war** exports 50% over her **pre-war** exports. During the war England disposed of many of her investments in the United States. This proposed gift or loan from us, plus a step-up in her exports of 50%, would considerably alleviate Britain's present financial position.

### Other Nations Also Want Loans

"It is my opinion that if a $4 or $5 billion grant or loan is made to Britain at this time and fundamentally and primarily on the proposition that Britain cannot carry her end of the stick, which the Allied nations propose in the way of world reconstruction and maintenance of peace, Russia, China and other countries can and will likewise come in and justify similar dollar extensions to them for similar purposes. I predict that just as fast as time will permit the unravelling of this whole fabric, there will be a procession coming to Washington from all the major powers of the world, demanding that the people of the United States finance their plans.

"This was demonstrated through our Lend Lease operations. We must recall that theoretically Lend Lease was designed to furnish aid to the countries actually fighting the enemy. But review the list of countries which re-

# Tax Reduction With a Balanced Budget

**Guaranty Trust Company of New York Advocates Tax Reduction to Remove Burdens From Business, and at Same Time Urges a Balanced Budget, With Provisions for Debt Retirement. Calls for Drastic Reduction in Government Expenditures.**

The proposed revenue legislation now under consideration by Congress brings to the vast majority of Federal taxpayers the first definite prospect of relief from the staggering financial burden of the war. At the same time, the beginning of the Victory Loan drive serves as a reminder that, although the war is over, the period of war spending is not. The conflicting demands reflected in tax reduction on the one hand and further large-scale borrowing on the other are in some respects typical of the opposing fiscal pressures that are likely to be encountered by the Government for years to come, states the Guaranty Trust Company of New York in the current issue of "The Guaranty Survey," its monthly review of business and financial conditions in this country and abroad, published on Oct. 30.

"The need for tax relief is, and will continue to be, evident; but no less evident will be the fact that the Government has undertaken, as it always does in wartime, commitments that will raise the scale of the national budget for an indefinite period in the future. To meet these needs in such a way as to promote prosperity, maintain stability and preserve the essential liberties of the people will require a high grade of economic as well as political statesmanship.

### Importance of a Balanced Budget

"As a matter of fiscal policy, the wisdom of general tax reduction at present is debatable," "The Survey" continues. "The latest official estimate places the Federal deficit for the current fiscal year at more than $30 billion. While this is considerably below the July estimate of $46 billion and the actual deficits for the last three fiscal years, which ranged from $51 billion to $58 billion, it is very large when judged by any other standard. It is, for example, about $7 billion in excess of the combined deficits for the three fiscal years that included the period of our participation in World War I; and it is approximately equal to the combined deficits for the decade preceding the inauguration of our expanded national defense program at the middle of 1940.

"The legislation now under consideration is described as an interim measure, and it is generally assumed that it will be followed by further and more thorough-going tax revision in the near future. Such subsequent legislation will be of more enduring significance than the present hastily drawn revision, since it will provide a more accurate indication of the broad lines of post-war tax policy. With a public debt on June 30, 1946, estimated at $273 billion, more than ten times the peak figure after World War I, and with a permanent post-war level of Federal expenditures of probably at least $18 billion annually, or more than three times the amount of annual receipts for several years preceding World War II, it is clear that the Government's fiscal policy will exert a much stronger influence on economic trends in the future than it has in the past. The salient features of that policy will, in fact, be a matter of vital concern to all segments of the population.

"No requirement in connection with fiscal policy is more fundamental than that the budget should be brought into balance as soon as it is reasonably possible to do so and that provision should be made for regular and systematic debt retirement over the long term. Some citizens' groups have recently suggested that the principal of the public debt should be retired, as a matter of deliberate and permanent post-war policy, only when production, employment or national income exceeds some specified level, and that budgetary operations be used as an instrument for maintaining demand.

"If policies of that kind prevail, it is to be feared that the result will be a period of economic stagnation similar to that witnessed during the decade that preceded the war. The theory of compensatory spending has been tried, and the results certainly were not such as to encourage the belief that the cure for depression is to be found in Government deficits. The most severe and most prolonged economic depression in our history was the only one from which we tried to spend our way out.

### Essential Aims of Fiscal Policy

"It is to be hoped that Secretary Vinson's warning against unduly rapid reduction in tax rates will be heeded. The principal need at the moment is prompt repeal of the war excess profits tax and the capital stock and declared value excess profits tax. Subsequent revenue legislation should be directed primarily at simplification and stabilization of the tax structure and at the removal of inequities and deterrents to maximum production and employment, and should contain only such reductions in tax rates as are consistent with the major objectives of a balanced budget and systematic debt retirement.

"As and when tax reduction becomes possible, it should be designed first of all to lighten the direct burdens on business enterprise and business transactions. Lowering of income taxes on corporations should be among the foremost aims. The double taxation of dividends should be eliminated, probably by allowing the recipient a credit equal to the tax paid by the corporation. The tax on capital gains should be reduced, particularly with respect to long-term gains. The almost confiscatory rates on individual incomes in the higher brackets should be sharply lowered. In the interests of simplicity, normal taxes and surtaxes both on individuals and corporations should be consolidated into single rate schedules.

"Objectives of this kind will have little practical meaning unless they are implemented by a consistent and effective policy of economy in Federal expenditure. The necessary and permanent tax burden in the United States has reached a level at which it threatens to exert a strong depressing influence on production and employment. Even under the most favorable conditions, that burden will remain heavy for an indefinite future period. A number of recent studies of fiscal affairs are in substantial agreement that $18 billion is approximately the lowest level of annual Federal expenditure that can reasonably be hoped for in the post-war period. The somewhat optimistic assumption that State and local costs can be held at the 1940 figure of $9 billion gives a total of $27 billion, which is equal to more than one-fifth of the national income of $130 billion as estimated by the Secretary of the Treasury. National economic welfare and the maintenance of fiscal stability require that the cost of government be reduced as quickly as possible from the present abnormal scale and that it be not further increased by the assumption of new avoidable financial responsibilities."

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ceived benefits under Lend Lease and which either had no men on the war fronts or else only token forces. Or look at the Bretton Woods Bank, designed to heal the wounds of a war-torn world. At Bretton Woods the delegations of countries which had no part in the fighting at all insisted that the Bank devote itself 'fifty-fifty' to reconstruction and development," Mr. Crawford said.

It seems to be agreed in Washington that the Administration possesses the power to make a loan to Britain without coming to Congress, although it may not have enough money to make the size of loan the British would like. However, there is no intention on the part of the Administration to by-pass Congress. What it may do, however, is to by-pass one or more Congressional committees which would like to pass on the proposition. In the House the matter might be sent to Banking and Currency, Foreign Affairs, Appropriations, Ways and Means, or even the Committee on Expenditures in the Executive Departments, it is said.

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# Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

**Last Wednesday's lows now are critical levels. Real support considerable distance under present market. Strikes play major part in news but real effect unimportant.**

The news that gets the biggest play these days concerns itself with strikes. It began in the movie industry. It now threatens the automobile, steel, electrical equipment and communications. This column isn't the place to discuss the merits or demerits of either management or labor. But from a cold-blooded viewpoint the present threat of strikes became inevitable when Congress refused or ignored certain legislation which would at least help alleviate some of the troubles that V-J Day was certain to bring.

* * *

But while all this strike news is disturbing, the stock market, with which this column is primarily interested, isn't worried half as much as holders of stocks seem to be. A labor difficulty is basically a production problem and such problems are most disturbing in the formative stage. When they reach the breakdown point, i.e., the strike, it can be assumed that management has already weighed the future difficulties and has decided on its course of action. The market which reflects these decisions can therefore be expected to be nervous and jump when the strike is threatened, but once the die is cast, usually settles down.

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The length of a work stoppage is something else. From a monetary point of view a cessation of manufacturing at this stage is paradoxically bullish. Anybody familiar with the new tax program will understand it. Any profits made up to Jan. 1 are still subject to the 85½% tax. Profits made after the turn of the year will be taxed only 38%. What is potentially dangerous to industry is the possibility of new companies assuming a competitive position which may hurt the old line organizations. For example, a shutdown in the auto industry wouldn't hurt. The present demand for new cars would merely be dammed up so much longer. But the big "if" is the position of the independents. From present signs it looks as if Ford will not shut down. Then there is Henry Kaiser to consider. It is no secret that the ship-builder intends to enter the low-priced car field. If he can manage to get into production while Chrysler and General Motors are strike-bound, the competitive position of the industry can change radically. Naturally he has to have a dealer organization. But it must be assumed that Kaiser knows what he has to do.

* * *

Disregarding the headlines, we see that stocks have topped last week; a top that became more clearly marked after Wednesday's (Oct. 24) break. Following this reaction prices snapped back. But with the exception of a handful of specialties which made new highs, the rest of the market was clearly in trouble. In our list of four issues, two broke their stops. Jones & Laughlin bought at 35 was stopped at 39. Its low point was 38½. White Motors bought at 29½ had a stop at 33. It got to 32¾. This leaves you with A. M. Byers at 19 which had a stop at 20½. This one acts nicely but supply at 23-24 is probably too much for it right now. So suggest stop be raised to 21. On reaction it indicates support at 17-18. The last one is Paramount, bought at 30½, stop 37. Last week's low was 41. Paramount's general action is good with advance to 44-46 a potential. But on the down-side the 40 figure seems dangrous with 35 a possibility. So stop should now be raised to 40.

* * *

Technical signs in other stocks point to following: Atchison breaking 95 can bring a rapid additional decline. Bethlehem Steel has some support under 90 but solid stuff doesn't appear until around 80. Chrysler is in trouble from 125 to 128. Some support just under 120 but nothing substantial until about 105 to 110. Douglas is selling at 91-95. The 85 figure represents some buying but 80 is a potential. General Motors meets selling at 73-75. A drop to 65 would not be surprising. U. S. Steel meets selling 81-83. Some support at 75 but the 65-70 range seems to be more solid. U. S. Rubber meets offerings 70-74. Some support at 65 but the heavier buying seems spotted just under 60. Distillers Seagram is dynamite. Run-up from 65 to 78 on little volume can work other way too. First support at 65 but break to 50-55 possible. Following stocks bear watching. In case of break American Steel Founders, Consolidated Vultee and Lockheed will probably be recommended. But not at these prices.

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More next Thursday.

—Walter Whyte

*[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]*

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## R. J. Wotring & Co.

BETHLEHEM, PA. — Roland J. Wotring is forming R. J. Wotring & Co., with offices in the Odd Fellows Bldg., to engage in a securities business. Mr. Wotring was formerly associated with E. H. Rollins & Sons, Inc., for several years.

# The International Situation

(Continued from page 2079)
an immediate and basic reorientation of our foreign policy.

Last January — before it was certain that the impossible Morgenthau plan would be followed—I suggested in some private letters a subsidy for Great Britain. But now that appears to be throwing good money after bad.

It is unquestionably our great responsibility—and to our great interest — to help restore stable world finances, maximum production, broader markets, and thereby higher standards of living.

But we completely block all that in our German policies. To strip Germany of her industries and reduce her to 18th Century agriculture, so violently disrupts the economic life of Europe that all the money we can scrape together to advance to other nations is of no avail in restoring stable economic conditions in the world. Therefore, stable political conditions are absent.

It's not too late to build for lasting peace if we recognize that we have been sucked farther and farther into the destructive whirlpool of balance of power politics and race hatreds, and calling that cooperative security. Despite our ideological war banners, we have participated in the ancient blood evil of shifting territories to satisfy the conflicting claims of a victorious coalition.

### Democracy Not Taught by Bayonet

The political and religious philosophy of a country has never yet been uprooted by a foreign army. No country has ever been taught democracy with a bayonet.

Our national honor is tarnished by our participation in the partition of our staunch ally, Poland.

Every news report from Europe conveys a warning that we will be principally blamed for the appalling suffering ahead.

We had the friendship of all Asians — outside of Japan — because of our treatment of the Filipinoes. We are losing it as fast as we use our forces to restore British, French, and until last week, the Dutch as masters. And yet it is being proposed that we form a western bloc compared principally of those same powers. If we join them "as is," and stick to the Morgenthau plan, then we will need a permanent draft act and large permanent armies of occupation with higher taxes, because we will pull the heavy car both financially and militarily. Perhaps that will be the only course in the end. But let's face what it means and other possible alternatives.

The "abysmal fiasco, as things now stand," as the New York "Times" called the London Conference, may open our eyes to the fact that the methods we have been pursuing will never mean lasting peace.

### San Francisco Charter Only One Step

We have got to have a better, a different and more fundamentally sound organization than the United Nations. The San Francisco Charter was barely a step in the right direction toward collective security. The only hope in the UNO was that the assembly would develop into a real force with time. But the UNO didn't have a chance to get started. Its fate, entangled in the wreckage of the breakdown of the London Council of Ministers seems to be similar to the European Advisory Commission, which was announced with much fanfare from Moscow in October, 1943. After which each power continued its own way. The weakness of the unanimous consent procedure of the United Nations Council is now clearly evident.

Secretary of State Byrnes says that Generalissimo Stalin, Prime Minister Attlee and President Truman were called upon by the London Council of Ministers, but were also unable to agree. That makes the disagreement unanimous.

Out of the shock and confusion caused by the complete failure of the London Conference everything is being considered except the possibility that the base foundation is faulty and unsound.

Why discuss the policy of the appeasement or non-appeasement of Russia? Either, on the course we have been pursuing, simply means more friction.

In addition to the piddling policy of making loans, we are to have the greatest navy, the greatest army, the newest, greatest weapon, for awhile. All history proves the futility of that policy.

We are seizing strategic bases in a "speak easy" sort of way and then wonder why the world should look at us with cynicism and suspicion. The race between Russia and the United States to obtain strategic bases is fooling no one but the American people, who are still being doped with soothing syrup that differences between ourselves and Russia is one of language and inexperience in foreign affairs.

We are still talking about implementing the crippled United Nations Charter or about blueprints for other international organizations based on law. But law must always be based on firmly established conceptions of reason and justice. You cannot have international law and order when there is no stability or prospect of achieving stability in the world by our present policies, and when Russia and Great Britain are still carrying on the undeclared war that has been the cardinal point of the foreign policies of both countries for over a 100 years.

You can't build an international organization for collective security on the quicksilver of vindictive and ruinous and imperialistic peace settlements that lack any constructive ideas.

### Must Have a New Foundation

Therefore, we must start a new foundation on solid rock if we are to have real collective security and if civilization is to escape destruction.

What are the specifications of that solid rock? That's a large order for any man to give. I don't believe we can depend on time to find the necessary accord. Mass starvation, chaos approaching anarchy, wait on neither time nor man.

Therefore, concretely in part, I believe:

First, make the United States a sound financial mooring post for the rest of the world to tie to by reversing our present unsound fiscal policies of borrowing and spending unlimited.

Second, reverse the German policies for which we largely are responsible. In the interest of a stable world, Germany must be permitted an economic, self-sustaining life. Under the Morgenthau plan, Uncle Sam either follows in the footsteps of Genghis Khan, or must supply the German people with millions of American dollars worth of food and clothing.

Third, all nations abandon their extra territorial practices. We should stand in the Far East as advocating in substance what we did in the Philippines, where we set the model for colonial treatment and development of self-governing communities.

Fourth, we must insist on the honest and intelligent reasonable application of the principles of the Atlantic Charter before we make any gifts. In other words, let's follow, for the most part, Woodrow Wilson's 14 principles for peace. They never yet have been tried by any nation or combination of nations, except our great and glorious Republic. As I have said elsewhere, America must stand firmly on the principle that the inalienable rights to life, liberty and the pursuit of happiness apply to nations as well as individuals. But "according to their own racial genius and heritage, not according to ours."

Fifth, 400 scientists who helped develop the atomic bomb say that to try to keep it from the rest of the world "will lead to an unending war more savage than the last. . . . The actualities of the situation require a drastic solution. . . . Lack of the decision within even a few months will be preparing the world for unprecedented destruction, not only of other countries, but our own as well."

The solution offered by the 400 experts is to internationalize the atomic weapon.

I believe we must seriously and thoroughly consider that solution. Of course, in all matters concerning the atomic weapon, the opinion and judgment of our respected army and navy leaders must have great weight.

The decision regarding the disposition of the secret of the atomic weapon is not ours alone. I believe Congress should invite the legislative bodies of England and Canada, who participated with us in its development, to form a joint committee with ours and meet to consider this most vital problem of the age. However, the internationalizing of the atomic weapon only does a half job.

Along with the internationalizing of the atomic weapon, nations must seriously consider internationalizing the few hitherto key spots of the world.

If that is not done, they must be entirely rebuilt as their defenses are obsolete with the air teeming with accurately directed huge rockets, jet planes, gigantic bombers and atomic bombs.

Don't forget that the next war will pick up where the last one left off, just as this war picked up from the mechanism and technology of World War I.

By internationalizing, I mean having these key spots as well as the atomic bomb administered by a real collective security international organization. That would, of course, demand that the nations of the world genuinely and sincerely abandon their imperialistic-sphere-of-influence policy of aggression.

Sixth, if the other nations do offer everything that equity in world affairs could reasonably demand, and Russia refuses the proffered hand of the peace-seeking nations, we must not shrink from the tragic facts that a new aggressor is on the prowl. And that aggressor is old militaristic-imperialistic-totalitarian Adam Zad—the bear that walks like a man. But let us hope that Russia will be willing to accept these principles—at least as a basis for discussion—when she sees they do not apply to her alone.

The maxim, he who seeks equity must do equity, applies to nations as well as individuals. Tragically, so far since the close of the war, nations are following the power-politics pattern of the centuries which has always meant more war, not peace.

### Byrnes' Report Not Satisfying

Secretary of State Byrnes' report to the American people on the failure of the London Council of Ministers lacked a lot of satisfying to the observant citizen.

There is a general feeling that we are not getting anywhere on the course we are pursuing and that there have been too many secret covenants secretly arrived at.

Italy surrendered over two years ago. Yet the peace terms have not been announced and our soldiers are still tied up as an occupational army in that unfortunate country.

The program I have outlined is a step toward what at least is a definite constructve plan as a basis for discussion.

Some of these proposals are not within our control. But let me remind you that requests for financing by the United States, and our great resources, give us the opportunity, late though it may be, to use our great influence to guide international political evolutions in the interest of equity and justice on which a durable peace must ultimately be based.

Understanding other nations' side to a problem, clear thinking, patience, skill and a definite plan are essential to prevening the international situation from developing in a way that can only mean another war.

If Russia and Great Britain and France and Holland really and truly are ready to apply the principles of the Atlantic Charter, then, by the financial aid of the greatest capitalistic country in the world and the reversal of our German policies, there is a fair chance of establishing a sound base essential to any practical world organization; and our victories and sacrifices will not have been in vain.

Our course of action must depend on whether America, Great Britain, Holland, France and Russia are genuinely willing to join in a genuinely-equitable world program instead of the present grab-bag policies.

On the decisions made now—in the next few months—depend future peace or destruction for humanity.

# National Labor-Management Conference Convenes Nov. 5

**Officials Stress Absence of Government Domination Over Proceedings. Wage-Hour-Price Controversy Excluded From Main Agenda, Which Will Concentrate on Long-Term Mechanics for Settlement of Disputes, and Elimination of Coercion.**

Although the Labor-Management Conference convening in Washington, Nov. 5, has been called by President Truman, and is being officially "coordinated and expedited" by Secretaries Wallace and Schwellenbach, government officials are stressing that it is to be a "private party" of distinguished citizens, arranged by the heads of the National Association of Manufacturers, U. S. Chamber of Commerce, American Federation of Labor, and Congress of Industrial Organizations.

The underlying objective of the Conference is to extend the area of agreement between labor and industry on long-term problems, on which meeting of the minds Government officials feel that there has already been far greater progress than the public realizes.

The committee determining the Conference agenda concluded that the discussions should be concerned with basic problems involving permanent machinery and modus operandi for the settlement of disputes, and for the elimination of coercion; and hence relegated inquiry into the current wage-hour-price controversy from the principal agenda to possible consideration in special committee. Committee officials stress the unfortunate conclusion that might be foisted on the Conference from injection of such a "hot potato" into the main discussions. They feel that wage and price policy is already in Government hands, such as the President and the OPA.

Nevertheless, although it is to be played down, it is doubtful whether the turbulent current controversy will be kept from the Conference proceedings. For the agenda also adds that "there is no thought of limiting the subjects or discussions at the Conference. It is recommended that the Conference itself determine by what means it wishes to deal with these subjects."

The official agenda, as finally determined, lists for discussion as the basic and minimum requirement of the Conference, the following seven points:

1. The extent to which industrial disputes can be minimized by full and genuine acceptance by management of collective bargaining in every instance where workers choose to organize to bargain collectively on questions of wages, hours and working conditions.

2. The extent to which industrial disputes can be minimized by full and genuine acceptance by organized labor of the inherent right and responsibilities of management to direct the operation of an enterprise.

3. The extent to which industrial disputes can be minimized by the willingness of management and workers to utilize the machinery of the National Labor Relations Act and any existing State Labor Relations Acts for prompt determinatioin of the collective bargaining agencies.

4. The extent to which industrial disputes can be minimized by recognized and orderly procedures to negotiate first contracts between a union and an employer, and the extent to which provision should be made for the use of conciliation, if negotiations seem to be breaking down.

5. The extent to which industrial disputes can be minimized by provisions incorporated in collective bargaining agreements, such as:

(a) The procedure to be followed in (1) the adjustment of disputes and grievances during the life of a contract, and (2) the negotiation of a succeeding contract.

(b) The policy that once an agreement has been signed, no strikes or lockouts shall take place while it is in force, but that disputes shall be settled between the parties by other means provided in the contract.

(c) When negotiations between the parties concerning the terms of renewal of a contract have failed, provision should be made for the early use of conciliation, mediation, and where necessary, voluntary arbitration.

(d) Provision by management and labor of facilities and personnel to enable grievances to be settled quickly at the level where they occur.

(e) Adherence by both parties to a policy of responsibility for living up to the letter and spirit of all collective agreements and effective measures to carry it out.

(f) Consideration of action needed by unions to control their members for conduct in violation of an agreement, and action needed by management to control their officials and supervisory force who engage in violation of an agreement.

6. To prevent industrial disputes from taking place, should provision be made for improving and strengthening the Conciliation Service of the U. S. Department of Labor, and should there be additional support for the operation of this Service?

7. What provision should be made for lessening or preventing strikes which come from jurisdictional or other inter-union disputes?

# The Anglo-American Money Parley—London Views

(Continued from page 2080)

announced, or at any rate the public is told not to expect any substantial progress for some time. In the circumstances nothing short of an official statement would inspire sufficient confidence to arouse active popular interest in the subject.

Nevertheless, political circles are taking much more interest in the discussions than they care to show. Bankers and industrialists, too, are very much concerned, even though most of them refrain from expressing any opinion. While leading American business men and bankers have declared their attitude towards the Bretton Woods plan and related issues on many occasions, both individually and collectively, their British opposite numbers have been remarkably reticent. The Birmingham Chamber of Commerce and the National Union of Manufacturers —both under the influence of Sir Patrick Hannon, one of the most determined opponents of Bretton Woods—provided the exceptions. Others who feel equally strongly about it prefer to remain silent. The Midland Bank is known to be still inspired by the traditional policy of its late Chairman, Mr. Reginald McKenna, a consistent opponent of the gold standard; till his death last year, both its present Chairman, Lord Linlithgow, and its Managing Director, Mr. Clarence Sadd, are in the anti-Bretton Woods camp. But they are silent. So is Sir Charles Lidbury, Managing Director of the Westminster Bank and Chairman of the Institute of Bankers, who opposes the money plan for a different reason: He is believed to be more in sympathy with the view taken by the majority of leading American bankers, that a straightforward, honest-to-God gold standard would be preferable to the tortuous and over-sophisticated product of Bretton Woods.

A senior executive of one of the "Big Five" expressed his feelings in the following verse, reproduced anonymously in the "Financial News" of Sept. 28:

"Think not in terms of paper cash
In dollars, pounds, or be so rash
To fix the rate of their exchange
To fluctuate within a range
Of cents or pence, without regard
To Acts of God, or the reward
To those who fought and toiled so hard
To keep our heritage."

Needless to say, this attitude is not shared by a very large section of the British banking community, though in the absence of public declarations of faith it would be difficult to say on which side is the majority.

Business men feel equally strongly against the abandonment of Imperial preference and the liquidation of the Sterling Area. Indeed, if the choice were between stabilizing the pound or giving up preferential Imperial trade, most opponents of Bretton Woods would unhesitatingly choose the former as the lesser of the two evils. This is partly because political as well as commercial issues are involved in weakening the links of the Dominions to Britain, and partly because, if the worse came to the worse, sterling could be once more unpegged, but it would be most difficult, if not impossible, to reconstruct Empire trade links once they are destroyed.

In political circles, too, more importance is attached to reserving Britain's right of commercial and monetary discrimination within the Empire than to reserving her right to devalue the pound as suits her interests. Apart from other reasons, this is because British opinion is now not nearly as keen on using the devaluation weapon as it was in the '30s. A devaluation in the immediate future would be a distinctly unpopular move, and while many politicians, economists and business men would like to reserve the right to devalue in the more distant future in case of major difficulties, most of them would be utterly reluctant to use the weapon. The belief that seems to be widely held in the United States that Britain would cheerfully devalue on the slightest excuse is entirely false.

There are indications that the Labor Government has been putting up a strong fight to safeguard Ottawa and the Sterling Area. To those who have followed the Labor Party's fight against Imperial Preference ever since 1932 this comes as a surprise, but not more so than the change of front of a section of the Conservative Party, headed by Mr. Lyttelton, in favor of the acceptance of Bretton Woods and the implementation of Article 7 of the Lend-Lease Master Agreement. The majority of the Conservative Party remains, however, traditionally opposed to weakening Britain's trade association with the Empire. Their argument runs roughly as follows: "To the United States the abandonment of discrimination within the Empire would merely mean a little additional export trade. To Britain it would mean a decline to the rank of a second-rate power. For, since Britain is no longer the leading naval power, close economic association is practically the only remaining link that keeps the Empire together. Once that link is destroyed, all that would remain would be Little England, ranking more or less with France and Italy, and losing interest in world politics. Against this, the compensating gain of increased aspects to the United States would disappear in significance.

On the other hand, free-trade traditions are still very deeply rooted in a large section of both Conservatives and Socialists, and for this reason the termination of Ottawa, if coupled with a really substantial reduction of the American tariff wall, might stand a chance of being passed by Parliament. But generally speaking it would be accepted as a necessary evil, for the sake of collaboration with the United States, and not as a step in the right direction. The number of those who would welcome such arrangements for its own sake and not merely for its political implications is probably relatively small.

## Kling Elected V.-P. Of Merrill, Turben

CLEVELAND, OHIO — Merrill, Turben & Co., investment dealers in the Union Commerce Building, announce that Charles F. Kling is joining the company as Vice-President, effective Nov. 1.

Mr. Kling has just completed nearly five years of army ordnance service as a civilian attache, first with the Cleveland Ordnance District, working principally on renegotiation of contracts, and later with the staff of General Brehon B. Somervell in Washington under the director of requirements and stock control. He is Treasurer of the Kling Realty Co. and President of the Mid-Lakes Sales Co., and is also a director of the Cuyahoga Spring Co. and the Western Reserve Investing Co.

Mr. Kling is a graduate of University School and Yale University, class of 1936. He is a member of Zeta Psi Fraternity, and of the Board of Incorporators of Hathaway-Brown School.

# Broker-Dealer Personnel Items

*If you contemplate making additions to your personnel please send in particulars to the Editor of The Financial Chronicle for publication in this column.*

NEW YORK, N. Y.—**Norman B. Johnson** has been added to the staff of **W. C. Langley & Co.**, 115 Broadway.

(Special to The Financial Chronicle)

CLEVELAND, O. — **Harlan H. Newell** has become connected with **Finley & Co.**, Union Commerce Building.

(Special to The Financial Chronicle)

DETROIT, MICH. — **Earle W. McDonald** has become associated with **Hornblower & Weeks**, Penobscot Building. Mr. McDonald was formerly with Meeker & Co. and J. S. Bache & Co.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Louis G. Olson** is with **Smith, Hague & Co.**, Penobscot Building.

(Special to The Financial Chronicle)

INDIANAPOLIS, IND. — **Tyree P. Burke** has become affiliated with **Slayton & Co., Inc.** He was previously with Paul H. Davis & Co.

(Special to The Financial Chronicle)

INDIANAPOLIS, IND. — **Raymond N. Parker** has become affiliated with **N. Leonard Cohen & Co.**, 8 East Market Street. Mr. Parker was previously with F. S. Moseley & Co. and E. L. Kline & Co.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Matthew A. Smith** is with **Herrick, Waddell & Co., Inc.**, 1012 Baltimore Ave.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Joseph W. Kitchell** has been added to the staff of **Bateman, Eichler & Co.**, 453 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**John W. Propes** is now connected with **G. Brashears & Co.**, 510 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**William A. Johnson** has joined the staff of **Cruttenden & Co.**, 634 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF. — **Michael C. Niccoli** has become associated with **Edgerton, Wyckoff & Co.**, 621 South Spring Street. He was previously with G. Brashears & Co., Samuel B. Franklin & Co. and Sutro & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Carl E. Swift** has become associated with **Livingstone & Companys**, 639 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**William H. Thomas** is with **Los Angeles Corporation**, 650 South Spring Street. He was previously with Fewel, Marache & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Arthus J. Wilson**, in the past with Bankamerica Company, is connected with **Pacific Company of California**, 623 South Hope Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Jesse R. Bowman** and **Joseph J. Donovan** have been added to the staff of **Slayton & Company, Inc.**

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**John H. Ashum**, and **Clarence E. Larimer** have been added to the staff of **Carter H. Corbrey & Co.**, 650 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Lester L. Frame, W. B. McGranahan, Robert L. McLaughlin, Tim McLaughlin,** and **Rex A. Rosenberger** are with **Nelson Douglass & Co.**, 510 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Henry G. Winans** and **Ellington S. Bunch** are connected with **Fairman & Co.**, 650 South Spring Street. Mr. Winans was previously with Walston, Hoffman & Goodwin.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Atherton F. Messmore** has been added to the staff of **Fewel & Co.**, 453 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Laurence LeBaron, Richard E. Love,** and **Francis I. Scane** are now associated with **First California Co.**, 650 South Spring Street. Mr. LeBaron was formerly with Buckley Brothers and Cruttenden & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Robert A. Wilson** has been added to the staff of **E. F. Hutton & Co.**, 623 South Spring Strret.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF. — **Stevens Manning**, previously with Blyth & Co., Inc., has become affiliated with **Thomas Kemp & Co.**, 210 West Seventh Street.

(Special to The Financial Chronicle)

OMAHA, NEB.—**Ray P. Hiffernan** has rejoined the staff of **Harris, Upham & Co.**, Omaha National Bank Building, after serving in the armed forces.

(Special to The Financial Chronicle)

PORTLAND, MAINE—**Harry I. Rollins** has become affiliated with **F. L. Putnam & Co., Inc.**, 97 Exchange Street.

(Special to The Financial Chronicle)

PORTLAND, MAINE — **Carl F. Anderson** is with **J. Arthur Warner & Co.**, Chapman Building.

(Special to The Financial Chronicle)

ST. PETERSBURG, FLA.—**Oscar L. DeLano** has been added to the staff of **Cohu & Torrey**, Florida National Bank Building.

(Special to The Financial Chronicle)

SALINAS, CALIF. — **Arthur John Wilson** has become associated with **Herman, Hampton & Company**, Salinas National Bank Building. He was formerly with the Pacific Company of California.

(Special to The Financial Chronicle)

SAN DIEGO, CALIF. — **J. J. Fink** is with **First California Company**, 625 Broadway.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **John J. Quinn** is with **Brush, Slocumb & Co.**, 1 Montgomery Street.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **Joseph S. Erickson**, formerly with H. R. Baker & Co., is now with **Conrad, Bruce & Co.**, Russ Building.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **Bruce McKennan** has become affiliated with **First California Company**, 300 Montgomery Street. He was previously with Wood, Struthers & Company for a number of years.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **William A. Bell, George A. Parker** and **John J. Collins** are with **North American Securities Company**, Russ Building. Mr. Collins was previously with Supple, Griswold & Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — **Albert A. de Martini** has joined the staff of **Shuman, Agnew & Company**, 300 Montgomery Street.

## Col. John Haskell Rejoins N. Y. Exchange

Emil Schram, President of the New York Stock Exchange, has announced that Colonel John Haskell, who has been on leave of absence in the U. S. Army since 1940, has resumed his duties as a Vice-President of the Exchange.

Mr. Schram said that, as one of his first assignments, Colonel Haskell would leave New York shortly to confer with Stock Exchange and other financial interests in London and on the Continent. The purpose of Colonel Haskell's visit will be to explore and report upon the status and plans of the European stock exchanges and representatives of the New York Stock Exchange firms in regard to reciprocal business in securities between the New York Stock Exchange and European financial centers.

In addition to looking into matters of current importance in the administration of rules and policies of the Exchange with respect to foreign business, Colonel Haskell will explore other broad questions such as the possibility of the listing of foreign securities on the New York Stock Exchange and other means by which the Exchange may contribute to international reconstruction.

## Nat'l Supply Stock Issued In Exchange—No Shares Available to Underwriters

The National Supply Co., through its President, A. E. Walker, on Oct. 31 announced that the company's recent exchange offer of 170,000 shares of new 4½% cumulative preferred stock made to the holders of its 5½% and 6% prior preferred stock was oversubscribed. The new preferred stock will be allotted to exchanging stockholders on a pro rata basis of approximately 98%, and no shares of new stock will be purchased by the underwriters.

It is expected that delivery of the new preferred stock, together with the cash adjustment for the difference in the dividend rates, will be made to exchanging stockholders on or about Nov. 7, 1945. The company plans to call on Nov. 8, 1945, the unexchanged prior preferred stock for redemption on Dec. 8, 1945, at $105 per share plus dividends. On Nov. 8 funds sufficient for this purpose will be deposited with Bankers Trust Co. of New York, and it is expected that arrangements for prepayment will be made.

Lehman Brothers and Goldman, Sachs & Co. were among the principal underwriters of the new 4½% preferred stock.

## M. F. Schlater With Charles Clark & Co.

Charles Clark & Co., 72 Wall Street, New York City, members New York Stock Exchange, announce that Lt. Commander Myron F. Schlater, USNR, will become associated with them upon his release from active duty on Nov. 15, as manager of their municipal bond department. In the past he was head of Schlater, Gardner & Co., and M. F. Schlater & Co.

## Maj. Stringfellow Resumes at G. Graves

Gordon Graves & Co., 30 Broad Street, New York City, investment bankers of New York City and Miami Beach, announce that Major Robert B. Stringfellow has retired from active service with the Army Air Corps to resume his activities as a partner of that firm.

# Arguments for Full Employment Bill

(Continued from page 2077)

stand for another great depression—not after seeing with their own eyes the production and employment they can achieve if they get together and decide what they want to do.

In addition to this general realization that unemployment on any considerable scale would be a deadly threat to our institutions and especially to our free enterprise system, I think there is also a healthy and correct appreciation of the fact that world peace depends in large part on our success in maintaining full employment here.

So there we are and the problem is how to go about the job of maintaining the conditions of full employment opportunity. I have approaches this legislation, H. R. 2202, in this spirit. As you know, I have been thinking about the problem for a good many years and especially since about 1938. Then, last winter, this Bill came along and it matched my ideas of how to attack the job very well. I therefore wholeheartedly endorsed it.

### A First Step in Long-Range Program

The end of the war came sooner than most of us expected. It brought the need for immediate consideration and adoption of a program for governmental and private action to get us out of the war economy—a program to get us through the difficult transition period and into peacetime condition, where a man who is able and willing to work will have a real opportunity to earn a living.

I feel strongly that this Bill is the necessary first step and that it is needed as the first step toward working out the kind of a long-range program we want and is also urgently needed for a successful transition.

I hope it will be passed as promptly as orderly procedure will permit, especially since some of the factors that are operating toward recovery are strictly temporary and it will take some time to get our longer-range machinery functioning.

As I look around and read the papers and the reports and contemplate the management-labor conference that is coming up in a few weeks, I am more and more impressed with the urgency of the situation. The difficulties that are so prominent in the headlines have their roots, I believe, in fear of the future—in lack of confidence in our ability to create and maintain a condition where workers and employers alike will have enough opportunities to earn their livings whether in the form of wages or in profits.

I hope I can share with you some of this feeling of urgency. The Director of Mobilization and Reconversion has estimated that unemployment may reach eight millions in the first quarter of 1946, even allowing for several million withdrawals from the labor force. It will reach some such numbers because our economic machinery simply can't operate quite fast enough to build up peacetime employment as rapidly as demobilization of war industry and of the armed forces will proceed.

### The Turning Point

There will be a turning point, perhaps in March or April, from which we can move in one of two directions. We can recover, perhaps rather rapidly, if we have industrial and economic peace and confidence in the future. The recovery might even be too fast or too hectic; prices might get out of hand before production comes up to meet the demand and then we would have an inflationary boom that surely would end in another collapse. So I think we must have a unified, coordinated economic program to keep us on the highway even if we do get into a boom late next year.

On the other hand, it is by no means certain that we shall snap out of this critical period. It depends upon a whole set of economic and social factors, including among other things industrial peace, social tolerance and general confidence. Confidence is essential to the other conditions. I am not now talking about vague, unreal or visionary things at all; I am talking straight bankers' language, based on economic realities, when I use the term confidence.

If, when the turning point comes, a wave of fear should sweep the country, then it is quite possible that conditions would not improve but would get worse and we would sink into stagnation and depression.

It is by no means certain that the accumulated backlog of demand and the presence of accumulated purchasing power will actually pull us out of the critical period if there should be widespread lack of confidence in the ability of management and labor to get together and in the ability of the Government to do its part. Here again confidence in the future is the key.

Now this turning point is coming along very soon and I urge as strongly as I can that we take appropriate action in time. By appropriate action, I mean such legislation and administrative measures as will demonstrate that we take our responsibilities seriously, that we are working as hard as we can on the job and that we intend to succeed. For such action, H. R. 2202 is the necessary first step. I want to explain why I think this in more detail.

### Three Elements in the Problem

There are three elements in the problem as I see it. First, we must have confidence in the future and that confidence must be justified—not mere unthinking optimism.

Second, in order to create such confidence we must have better coordination in Government—better administration and better legislation in matters that affect the economic activity of the country. This economy is now so large and so complex, it is so closely tied to the economic and political development of the rest of the world, and the Federal Government necessarily will occupy and affect such a large part of our total economy—that we simply cannot afford to muddle along and take a chance on another collapse.

We must modernize our administrative and legislative procedures. We must coordinate our handling of expenditures for public investment and for public services, our regulatory activities, and our necessary revenue-raising measures. We must coordinate our fiscal activities, the control of credit and the handling of the tremendous debt structure. We simply cannot any longer work at cross-purposes in these various fields—all of them fields where the Federal Government of necessity will have a major impact for good or ill on the workings of our private economy.

So I note that a general understanding that we are going to coordinate our governmental job better than we have done in the past is a positive requirement for general confidence in where the country is going.

In the third place, confidence will not be justified and coordination will not be effective unless we move promptly to the development of a program for legislative and administrative action. Everybody has ideas about what the Government should or should not do. It is amazing how some people can say in one breath. "keep the Government out of business—let business alone" and in the next breath propose a series of actions that they want the Government to take. But it will be necessary for us to take various forms of action and my point is that we have no assurance of success except by bringing together the various measures that affect the economy in the various ways I have suggested, unless we construct a reasonably unified and coordinated and complete program.

So there we have three elements or stages in our attack on the central problem—confidence, coordination and a program. If this Bill had not been proposed and if we were sitting here analyzing the situation, we might well write up such a set of specifications.

As I examine H. R. 2202 it fits these specifications very well.

First, it states the central objective—full employment opportunity in a free competitive economy—in terms that are generally understood and widely agreed upon. This objective is unquestionably first in the hearts of almost all our people—all, I think, except a few who have special axes to grind. The mere recognition of this great national objective in plain and simple terms is a step in the right direction toward the necessary confidence.

Next, the Bill recognizes clearly and simply the responsibility of the Federal Government toward this objective. There can be no possible question but that the people of the United States will hold their Federal Government responsible for the attainment of their great central objective. They will hold their elected representatives and their duly designated administrative officials responsible and they will form their own judgment as to how well we have discharged our obligation. If we fail, or in the degree to which we fail, they will be the judge of how well we have provided the necessary leadership and how wisely we have directed the resources of the Federal Government toward our declared objective.

The actual language of the Bill is properly clear and definite on this recognition and responsibility. It says in plain English that the responsibility is to *assure* the existence at all times of sufficient opportunities.

Finally, the Bill sets up a procedure in the Executive Branch and in Congress that seems to me very well adapted to the formulation and constant improvement of a program for economic action to move toward and maintain the objective of full employment opportunity in a free competitive economy. The procedure set forth is very simple and very businesslike. It is closely parallel to the well-established procedures that have been found necessary in the successful conduct of a private corporation with its President and its Board of Directors. The Bill calls upon the President to submit annually a statement of the situation and of where the country seems to be headed as respects employment and production; and a program for administrative action that he proposes to take in the circumstances thus described; and a program of recommended legislative action.

The making of such an annual statement and preparation of such a program and its revision as situations develop and conditions change would be a powerful influence toward better administration in the Executive Branch. It would compel the various agencies to consider their own requirements and intentions in the light of the total. It would compel an accounting at periodic intervals of the success of their work. It would be a powerful device in the direction of efficiency as well as effectiveness throughout the whole Federal Executive establishment.

The Bill finally sets up improved machinery in Congress for the same purposes of coordination and unification of effort. This is a natural development in our legislative history and there can be no question but what it is badly needed to cope with the tremendous problems that will confront the Senate and the House in the future and that I think will be simply unmanageable under current procedures. The machinery set up in the Bill is very simple—the Joint Committee of the Senate and the House large enough to include the heads of the major committees concerned but not large enough to be unwieldy. This Committee is directed to receive the President's national budget message and program and to consider it, calling witnesses or utilizing its own staff as may be found necessary or convenient; and then to report a joint resolution to the Senate and the House for public debate, revision and adoption as the agreed upon governmental needs and intentions.

I can think of nothing more healthy and more conducive to a rational and prudent approach to these complex problems of the future by the members of the Senate and the House and by the various committees. It is not another complication—it is a simplification. It would strengthen the hand of every standing committee. It is not too much to say that such a procedure would enable these committees to do their jobs in the face of legislative requirements of the future.

So it seems to me that the H. R. 2202 matches the specifications for the kind of basic legislation we need as the first step toward a program for full employment opportunity in a free competitive economy. It sets up the objective; it states the responsibility of the Federal Government; and it establishes a procedure that is well adapted for the purpose.

It is the minimum that we must have to start within order to provide the confidence which is the essential basis of a healthy private enterprise and to make possible the coordination of effort toward the unified objective and to equip us with the procedure under which the Administration and the Congress can develop step by step an economic program for unified action toward the agreed upon objective.

Whatever the Congress finds it wise to adopt in the way of basic legislation for this purpose, I will do my best to help make that legislation work. But I hope you will give us in the Adminstration a clear and definite authorization to do our job, such as HR 2202.

### Amendments Will Weaken Confidence

I don't know what modifications or amendments you are considering, if any, but I definitely hope you do not weaken the bill. Let me emphasize again the underlying importance of confidence throughout the business world, both to employers and to labor. It is confidence alone that will give us the healthy flow of purchasing power which is the life blood of the private enterprise system. It is confidence alone that will activate the accumulated savings and get them used to satisfy accumulated needs and wants.

The way to build this general confidence is to state in clear and simple legislation written in plain English that we are going to do the job—that we do recognize the responsibility, and that our responsibility is to *assure* opportunities for our workers and our business men and our farmers and our professional people to earn a decent living. Any weakening of this commitment would tend to defeat the purpose.

Let us tell the people that we really mean it. Let us also tell them that we recognize the difficulty of the task—that we recognize that in order to discharge this responsibility we must set up new and improved procedures in the Executive Branch and in the legislature, and that we must go on from there to work out a practical program of unified action.

Let me describe a little more specifically what sort of a program of positive action we can work out under HR 2202.

I want to say to begin with that I firmly believe a program can be worked out that will provide sufficient employment opportunity in a free competitive economy, without departing from our traditional concepts of individual liberties, including private enterprise; and this can definitely be done without imposing tax burdens or other fiscal practices that would defeat the purpose. Specifically, I believe it can be done without jeopardizing the integrity of our fiscal system.

### Does Not Mean Federal Deficits

It can be done without continuing deficits in the Federal Treasury if we want to do it that way. The money we need to balance expenditures can be obtained by taxation rather than by borrowing if that is the policy that seems wise to Congress in the future. Such tax revenues, of course, would have to be obtained from sources where it would not reduce private expenditures so much as to be self-defeating. If we take a dollar of taxes out of the active flow of purchasing demand we reduce somebody's expenditure and somebody's sale at the cash register by the same dollar. So if we decide to raise enough revenue to balance the Government's expenses, it is perfectly clear that we will have to hunt around and find sources of revenue that will not cripple or strangle the active flow of purchasing demand at the cash register.

The bill you are considering does not specify any single policy in this respect, and I think this is wise. We have yet to solve the problem of finding and taxing idle dollars without reducing unduly the profit incentive. We do know that when a dollar is saved it is withdrawn from the flow of active purchasing power and nobody can make any money out of it until it is spent or invested or until somebody else spends or invests a dollar that had previously been saved. We do *not* know exactly how much private enterprise will want to borrow and invest nor exactly how much it *should* and can borrow and invest year by year without getting ahead of its market. We do not know whether the amount that business will want to borrow and invest will be equal to the amount that individuals want to save and lend.

If private business doesn't care to invest year by year as much as individuals want to save, then it is simple arithmetic to figure out that somebody else will have to provide the outlet for the people's savings. Otherwise the total flow of active purchasing power at the cash register will not stay up where it ought to be and full employment and full production will not be maintained.

If this should turn out to be the case—if business doesn't provide the opportunities for useful investment of the people's savings—then I expect the people will see no reason why they should not provide their own outlet. I expect they will provide such outlet for themselves through their Government by investing the money in useful public projects.

This would add up to what we are accustomed to term a deficit in the Government budget, although in private business strictly comparable operations are not termed deficits when they are balanced by additions to the capital account. A manufacturer does not write off a new factory during the year in which it is built. There is no more reason why the Government should write off a dam or a highway in a single year.

**Budgetary Policy is for Future Congress**

In all these matters it is clear that the future holds many uncertainties, and therefore I think the Government's budgetary policy should be left for future Congresses to determine under the conditions they face in the future. We have just come out of a long period of fiscal disturbance, and perhaps we still face several years of extraordinary fiscal requirements. The bill specifies that taxation and revenue raising shall be considered as a part of the program, as, of course, they should be. That is as far as I think we should go at this time.

President Truman on Sept. 6 submitted an extensive list of items on which he felt that governmental action is needed in order to steer a steady course through the reconversion period and into a satisfactory post-war economy. He said "The major objective, of course, is to reestablish an expanded peace-time industry, trade and agriculture, and to do it as quickly as possible." Then he listed the major fields of action for the consideration of Congress in line with his Constitutional duty—and, as you know, legislation for full employment was among the items.

As I look down the President's list of far-reaching, needed measures, many of which are not yet even in draft form as far as I know, and as I contemplate these extensive areas of needed action, many of which are not covered at all or are very inadequately covered, I am impressed again and again with the sheer impossibility of handling these complex problems unless we first equip ourselves with the machinery set up in HR 2202. In addition, at the risk of unnecessary repetition, I say again that the whole success of this or any other program for the critical time that lies immediately ahead as well as for the long range—I say that the whole success of such a program depends on creating and justifying a feeling of confidence throughout the land.

The President's list in his message of Sept. 6 contained 21 main headings, and I hope you have noted how each item relates to and affects the others, and how therefore we should consider them each in relation to the whole of our activity—and therefore how urgently we need the bill which you have before you.

**How Program Will Be Worked Out**

Now what is the difference between such a listing of items and a program for action under the Full Employment Bill?

The difference is that in constructing the program specific measures for action on each item would be proposed or described, and their effects would be estimated and their relations to other parts of the program would be set forth. Then the joint committee would consider the report and the recommended measures and the estimates. They would change such parts as they found needed change, and then report the joint resolution for debate on the floor of each House. The joint resolution would be debated, fully and freely, and publicly, and adopted by a record vote. Finally, the specific measures contained in the final program would be drafted and considered by the various standing committees.

In this manner we would work out a program, the parts of which would fit together. As conditions changed and the success of each measure was proved out or disproved in practice, revisions would be made from time to time to improve the result.

It is very closely parallel to the well-established techniques of management in business. A scientific management approach to a business problem usually contains three steps: (1) setting the objectives, (2) allocating the responsibility, and (3) setting up procedures to discharge the responsibility. The procedures begin by setting tasks and quotas; then a coordinated set of processes or machines or operations would be designed and placed in action. Finally—just as a corporation publishes a quarterly report on its operations—there would be a periodic check of the results whereby the performance could be measured and the efficiency of the whole program could be gauged. That is what, as I read it, is done by HR 2202.

**Summary**

Summarizing briefly, I am in favor of HR 2202 because I believe it is an essential step in creating and justifying the confidence that is essential to the successful operation of our private enterprise system.

I favor the bill because it would set up a procedure for better coordination in the executive branch and in the Congress, and I feel that such better coordination is absolutely necessary in dealing with the huge and complex problems of the post-war world.

I favor the bill because it is the only practical way I see whereby we can construct and operate a unified program of governmental action on the scale that clearly will be necessary in the future.

For these very reasons I would be strongly against any attempts at weakening or watering down this legislation. Such weakening would strike at the very foundation of our work—it would tend to weaken the confidence which is its essential objective. I think we must say clearly and plainly and flatly that we are going to do this job.

Likewise, I would view with strong disfavor attempts to limit or restrict the action programs and measures which future Congresses may find desirable under the circumstances that then exist. I think we should leave the future Congresses entirely unfettered to use whatever means they find necessary or desirable under the Constitution.

I would also view as very weakening or restricting any attempt to divide the joint committee, or to limit its scope of consideration, or to relieve it of the necessary duty of reporting its findings back in the form of a joint resolution for open debate in each House and before the people of the country.

Finally, I have said, and would emphasize again, that a positive program of action is necessary, and that it can be constructed without doing violence to our traditions and our institutions, and without ruining the financial soundness of the country—*provided*, that we agree on the objective of the program, and that we face the responsibility squarely, and that we adopt procedures that will make it possible for us to discharge that responsibility.

All these things add up to my strong support of HR 2202. I believe firmly that we can accomplish this task—I see that we must accomplish this task—and I urge that our time is limited, and that the need is great.

Give us a good, strong legislative authorization and let us get to work.

## Welles H. Newlands With Hannaford Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Welles H. Newlands has become associated with Hannaford & Talbot, 519 California Street. Mr. Newlands in the past was a partner in Eastland, Douglass & Co.

## William T. Childs Dies

William T. Childs, senior partner of the New York Stock Exchange firm of Stein Bros. & Boyce, 6 So. Calvert Street, Baltimore, Md., died suddenly on Oct. 30th. Mr. Childs had been a partner in Stein Bros. & Boyce since 1926.

William T. Childs

Born in Baltimore County, Maryland, in 1878, he was graduated from the McDonough School in 1895 and from the University of Baltimore in 1910. He was later admitted to the Bar. Mr. Childs was associated with the Baltimore & Ohio RR. Co. from 1896 to 1910; served as deputy comptroller of the City of Baltimore from 1910 to 1916. He was associated with Baker, Watts & Co. as municipal bond buyer from 1916 to 1920. He acted as district supervisor of the nursing survey of the Potomac Division during World War I. From 1921 to 1926 he was headmaster of the McDonough School.

Mr. Childs was active in the Investment Bankers Association of America for many years.

## J. M. French is Blyth Syndicate Manager

Blyth & Co., Inc., 14 Wall Street, New York City, announce that Jo M. French, recently retired from the AAF with the rank of Lieutenant Colonel, has become associated with the firm as syndicate manager.

Mr. French was in the investment banking business from 1926 until March, 1942, when he resigned as manager of the New York office of Alex. Brown & Sons, of Baltimore, which he had opened three years before, to enter the service. Previously he had been associated successively with the National City Company, Brown Bros. Harriman & Co., Inc., and Harriman Ripley & Co., Incorporated.

Receiving a commission as Captain in the AAF, Mr. French served at Wright Field, Ohio, and Richmond Army Base until the fall of 1943, when he sailed for overseas duty in the ETO as executive officer with the 362nd Fighter-Bomber Group. He was promoted to Major in September, 1942, and to Lieutenant Colonel in January, 1945.

Mr. French saw service in England, France and Germany, was awarded the Bronze Star for meritorious service during the Ardennes offensive and a Presidential Unit Citation with Oak Leaf Cluster. He is entitled to the ETO ribbon with six bronze star battle participation credits.

Mr. French is a member of the Bond Club of New York, the Lunch Club and the Apawamis Club in Rye.

## V. Nelson Barrington Forms Own Firm in N. Y.

Announcement is made by V. Nelson Barrington of the formation of Barrington & Co., investment dealers specializing in U. S. Government securities and bonds of the City of New York.

A graduate of Colgate University, Mr. Barrington has been in the U. S. Government securities business for 18 years, during which time he has been associated with C. F. Childs & Co., and Equitable Securities Corp., where he was manager of the U. S. Government bond and New York City bond department for the past five years. He resigned this position to form Barrington & Co.

# Rules Regarding Margin Accounts

**Federal Reserve Board Holds Withdrawal of a Registered Security From an Account With a Debit Balance Exceeding Maximum Loan Value May Be Made if Cash Equal to Market Value Is Deposited.**

The New York Stock Exchange on Oct. 26, notified member firms that it has received from the Board of Governors of the Federal Reserve System through the Federal Reserve Bank of New York the following ruling in regard to Regulation T covering margin requirements and withdrawals from margined accounts of registered securities:

**Withdrawal of Securities From a General Account Against Payment**

"The Board of Governors of the Federal Reserve System has been asked whether under Regulation T a customer having a general account in which the adjusted debit balance exceeds the maximum loan value of the securities in the account may have delivered to him from the account a registered security (other than an exempted security) if he pays the broker an amount of cash equal to the current market value of the security delivered.

"We are now advised that the Board has ruled that such a transaction would be equivalent to a sale of the security and the receipt by the broker of the proceeds and that consequently the transaction is permitted by the regulation."

## W. J. Banigan & Co. Adds Three to Staff

W. J. Banigan & Co., 50 Broadway, New York City, announce that D. Kingsley Waldron has become associated with them in their trading department, and that Charles M. Daull and William M. Doherty are now in their sales department.



## Blaine Scott Mgr. for Union Sec. in Phila.

PHILADELPHIA, PA.—Union Securities Corp. has announced the appointment of Blaine W. Scott, Jr., as manager of its Philadelphia office, 123 South Broad Street. Mr. Scott is a native of Philadelphia and graduated from Episcopal Academy in that city, and from the University of Pennsylvania. A great-grandson of the founder of Scott-Powell Dairies, he was formerly associated with that enterprise, and more recently with Halsey, Stuart & Co., Inc.

## John J. Cronin With Tucker, Anthony Co.

Tucker, Anthony & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Lt. Commander John J. Cronin Jr., USNR, has become associated with the firm as assistant manager of the bond department.

Lt. Comdr. Cronin was recently released to inactive duty after 3½ years of service. Prior to his enlistment in the Navy in 1942 Lt. Comdr. Cronin had been with L. F. Rothschild & Co.

# The Labor Situation

(Continued from page 2075)

words — collective bargaining. They are important words today. They are American words. To the extent that we understand them and to the extent that we properly use them, just to that extent may we hope to preserve our free democratic economy. I know that many people believe we should abandon them. There is widespread belief that the Government should use force in the settlement of labor disputes. Many believe that the collective bargaining process is obsolete and no longer effectual. The facts do not bear this out. Actually, during the first four weeks in October the Conciliation Service of the Department of Labor assisted in collective bargaining which resulted in settlement of 1,360 labor disputes. Of these, 295 had reached the stage where strikes were in progress. These quiet, orderly settlements of disputes and strikes involved no sensations which rendered them newsworthy. Therefore, you heard little about them.

It is true that American industry and labor during the war got out of the habit of using the bargaining process. It was necessary during war to resort to compulsion. When the war ended an important decision had to be made. That was whether or not compulsory methods would be continued in peacetime, or whether to revert to the democratic system of bargaining. It was a hard decision to make. Your Government knew that during this period there would be many disputes and many strikes. It knew of the unpopularity of strikes because of the inconvenience and hardships they cause the public. It would have been easy to have attempted to force compulsion during peacetime. To have done so, however, would have been utterly inconsistent with the principles for which the war was fought. Therefore, your Government chose the hard answer. It now calls upon both industry and labor to join with it in making this process work.

If the collective bargaining process is to work it must be understood. Management must know that if labor is to bargain collectively, labor's right to organize collectively cannot be questioned. Labor must know that if management's bargain with it is to be worth anything to it, management must be permitted a fair opportunity to run its business with the incentive of sufficient profits to enable it to carry out the bargain.

Collective bargaining means the sitting around a table and discussing fairly, frankly and dispassionately the facts which should be the basis upon which the bargain is to be made. Collective bargaining does not mean collective bludgeoning. A conference over a labor contract or a labor dispute is not advanced by name-calling or insinuations as to improper motives. Fair bargains are not arrived at as a result of threats injected by either side to the bargaining. The right of an individual to refuse to work is not denied. The right of a group of individuals to refuse to work is not denied. The possession of the strike weapon, however, does not justify its use until every process of bargaining, mediation, conciliation have been exhausted, and the possibilities of voluntary arbitration have been fully explored. If both management and labor conscientiously will exhaust these processes, there seldom will be need for the use of a strike. Labor and management both must practice self-restraint and realize that in a democracy only those deserve power who are willing to use it sparingly. Probably no American more fervently cherished the right of free speech than Mr. Justice Holmes. Yet it was he who pointed out that that right did not permit one to yell fire in a crowded theatre.

When a bargain is made it should be kept. Too often in the past and at present both management and labor make bargains with no intention of keeping them. When labor breaks its bargain and strikes in the face of the contract everyone knows about that. Management is not slow to point out to the public that the bargain has not been kept. When management fails to keep its bargain, its failure is less spectacular and more difficult to publicize. Many of our industrial disputes are the result of management's failure to keep its bargains. The failure comes about when management fails to provide proper implementation of the contract and to adjust grievances as provided by the contract. As a result, resentment, misgiving, ill-will is developed, which finally foments and leads to strike action.

What we in America need—what we must have—is a full acceptance of these simple truths. Stubbornness, greed, ambition and malice must be eliminated if we are to solve our labor-management problems. These two groups which during war combined in unity to produce weapons which armed freedom-loving peoples everywhere must carry that unity into the peace if we are to win the peace at home. It must be done in the framework of the American democratic process. I know how easy it is to demand the passage of a law. I know how impatient the people are when the Government fails to suppress strikes. I cannot forget, however, that it was this same impatience with strikes which in 1923 caused the Italian people to take their first step along the totalitarian road which led them to destruction and despair. Both management and labor should not forget this fact. If they fail us now, they will be the first to pay the price. America must have free industry and free labor.

In order to present this problem directly to management and labor, the President has called for next Monday in Washington a conference of the leaders of both industry and labor. The work of preparation for that conference has been carefully done. It is an important conference—just as important as any international conference which recently has been held. Out of it can come the foundation for years of healthy relations in the industrial field. The delegates to the conference have been carefully selected. What they agree upon there may mean not only prosperity to our people, but the safeguarding and protection of our Government and of our economy.

Frankly, the public, and to some extent the press, is uncertain about the probable outcome of this conference. In view of our present turbulent industrial situation they question whether the conference will serve any practical purpose. It seems inconceivable that the very people who are now demonstrating their inability to get along could somehow arrive at a basis of permanent understanding as to the means of avoiding the very same extreme measures of which we have seen so much in the past few months.

Yet all of the facts indicate that these apparently hostile forces can come to substantial agreement when they set out to do it. One of the most hopeful signs that we have in connection with this conference is the somewhat startling fact that the four principal groups of labor and management —the National Association of Manufacturers, Congress of Industrial Organizations, American Federation of Labor, and the Chamber of Commerce—through their leaders and authorized representatives, have reached not only agreement, but absolutely unanimous agreement on an agenda for the conference, and on a Chairman for the conference.

The seven points on this agenda cover a wide field. They cover many controversial matters as jurisdictional strikes, responsibility of both management and labor to carry out their contracts and to control the officials of management and the members of labor unions who violate the agreements, the extent to which management is entitled to direct the operation of business, and methods for the strengthening of collective bargaining activities.

Certainly no single conference, however effectively it might be run, can wipe the slate clean of all sources of industrial friction. We can't expect a millennium to emerge from this or any other conference. However, it seems reasonable that if nothing more were done than the reaching of some degree of mutual understanding on these seven points we could say truthfully that great progress had been made. A firm foundation would be built for progressive development of industrial peace and harmony.

The potential of this conference, of course, is practically limitless. If the American public is sufficiently interested in industrial peace, and in the progress and prosperity that industrial peace will bring, to back up and support the representatives to this conference, if the American people will demand that these delegates recognize their own personal responsibility, then I think we can expect the conference to be a significant milestone in the history of America.

I do not believe that it is impossible to reconcile labor and management on virtually every point of its disagreement—but it will take time, a great deal of hard work, and concentration. I believe that virtually complete agreement is possible, and that some day we will have it, simply because every indication points to the fact that both labor and management want the same things. They want security, and a measure of independence, and they want to be recognized for the very considerable and important job they are doing. These desires on the part of the individuals who make up labor and management are not conflicting. We discovered that in the war, when we had to close ranks for self-preservation.

Our goal now should be the closing of ranks again, but this time for full employment, for prosperity, and for the maintenance of our position as the most potent nation in the world.

# Foreign Influences on Price Level

(Continued from page 2080)

is that forecasting is in its infancy; no one can tell with any degree of confidence what the situation will be. Whether we shall have inflationary pressure or deflationary contraction depends among other things on political events, on labor policies, psychological reactions which make the outcome very uncertain, especially in troubled and abnormal times as ours. Moreover, while the weather is independent of what the weather man says it is going to be and independent of what the householder prepares in the matter of heating, economic weather can be influenced by forecasts and the public's reactions to them. Suppose we prophesy an inflation and suppose people believe in our prophecy—this may bring about a buying spree, a rise in prices and inflation which may not have occurred if we had not forecast it.

The upshot is this: Economists should make alternative plans, prepare one set of measures in the event that inflationary pressures become apparent, another set of measures in the event that deflation becomes acute. Forecasts, or as they are now called, projections of national income, gross national product, consumers' expenditure, etc., even for no longer than a year, are of very doubtful value and cannot be taken as a solid basis for action.

I do not have time to discuss the nature of the alternative sets of policies, but I venture to say that you would find a surprisingly large measure of agreement among economic experts if you ask them, what shall we do in case of inflation? and what in case of deflation?—certainly a much greater measure of agreement than when you ask them whether inflation or deflation is around the corner!

### Inflationary and Deflationary Influences From Abroad

Any one country is constantly subjected to inflationary and deflationary influences from abroad. But even small countries can ward off such influences and stay on an even keep, if (a great "if" of course) they follow sensible policies and maintain monetary and financial order at home. It is easier to resist the importation of the inflation bacillus than to avoid infection with deflation. To give but one striking example: Little Switzerland after the last war was surrounded by four countries which developed high inflation; France, Italy, Austria, Germany. She had the most intimate economic relations with all four neighbors and still she remained practically immune to the inflation around her—a solid rock in the churning sea.

The United States is in a much stronger position than little Switzerland. In the foreseeable future foreign influences on us will be inflationary rather than deflationary. But we need not be afraid of being forced into something we do not want. For all practical purposes, inflation as well as deflation is made at home. If we get either we shall not be in a position to put the blame on someone else.

Let me explain that in some detail. Suppose there is a lot of inflation going on abroad. Assume, for example, the British embark on foolish experiments, overdo social security, etc., and develop high inflation. (I, personally, do not believe that they will. I am convinced that they will keep their financial house in order. But suppose they won't.) Under the gold standard, if country A inflates its currency, its exports will fall and its imports rise, gold will flow from country A to country B, and thus inflation will tend to spread. But even under the gold standard country B, the United States could halt the flood at its gate: It could offset the price-raising influence of the gold by "sterilizing" the incoming gold.

Today we no longer have an automatic gold standard, but despite that the situation is not so different from what it was under the gold standard. We could conceivably get a considerable amount of gold, that is to say, foreign countries may try to use gold at their disposal for purchases in the United States. In addition, foreign countries, especially in Latin America, have accumulated dollar balances which they could not use during the war. The total amounts available abroad are not insignificant and will probably be augmented by American loans to foreign countries, either directly or indirectly through international instrumentalities such as the Bretton Woods International Monetary Fund and International Investment Bank. The difference from the gold standard is that the inflow of gold and the expenditure of foreign-owned dollars is not necessarily the consequence of inflation going on abroad and spilling over our border; even if the foreign countries keep their price levels in check, i.e., prevent inflation at home, they may still want to use all or a part of the gold and dollars they can lay their hands on to buy raw materials, food, and equipment which they need for reconstruction, and, it would be foolish to overlook the possibility, for preparing for the next war.

### What Must Be Watched

What we have to watch, therefore, is first, the gold and dollar resources at the disposal of foreign countries; second, their willingness and eagerness to use them for purchases in the United States; and third, the extent to which we augment these resources by loans to foreign countries.

Gold and dollar resources at the disposal of foreign countries are larger than they ever were before. They have been estimated at about 20 billion dollars. Naturally we could not permit foreigners to spend that much within a short period of time.

Under normal conditions one could say that it is unlikely that more than a fraction of that sum will be used for purchases in the United States, because foreign countries need a large part of their gold and dollar stock as monetary reserve, held indefinitely against unforeseen emergencies. But these are not normal times. The world is not peaceful yet. We cannot be sure whether foreign countries will not think it advisable to stock up on anything that can be stockpiled, quite apart from their urgent needs for replenishing their depleted stocks of fixed and working capital. We shall have to be very careful during the next two or three years when inflationary pressure at home is likely to be strong, not to add unnecessarily to the demand for goods, by letting foreign countries have a free hand in disposing of their dollars and gold by purchases in the United States.

The same holds true of American loans to foreign countries. Such loans are unavoidable for humanitarian and political reasons. But it must not be forgotten that the dollars made available to foreigners will add to the pressure of demand from domestic sources. Whether this is desirable or not depends on the state of our economy at home. If the optimists —or should I say pessimists?—are right and we are soon faced with a deflationary situation, additional foreign demand will be a relief. If the contrary is true, the foreign purchasing power will add to our headaches. I personally expect that the latter situation is more likely to develop. But let me repeat what I said at the beginning: The economist should not bank too heavily on his prophetic powers. The unexpected may happen. Therefore, policies should be flexible. They should be so conceived that they can be changed and adjusted at short notice.

# Brailsford Co. Adds Gilroy & Wernecke

CHICAGO, ILL. — Commander Edwin L. Gilroy, a veteran of the first World War and one of the early volunteers in 1941, has been released from active duty with the Navy and again become associated with Brailsford & Co., 208 South La Salle Street, members of the Chicago Stock Exchange. A substantial portion of his service was spent as a member of the staff at Abbott Hall, and during the last 18 months he was head of the Navigation Department.

The firm also announces the affiliation of Lieut. Richard Wernecke with their organization. He is a graduate of Northwestern University and was in the Navy for four and one-half years, the last two years of which he was Executive Officer on a destroyer escort in the South Pacific area.

# Calendar of New Security Flotations

**NEW FILINGS**

**List of issues whose registration statements were filed less than twenty days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.**

## SATURDAY, NOV. 3

**AIR CARGO TRANSPORT CORP.** on Oct. 15 filed a registration statement for 420,000 shares of common stock ($1 par) and 120,000 stock purchase warrants, of which 300,000 shares are being presently offered for sale and 120,000 shares are reserved for exercise of the warrants.

**Details**—See issue of Oct. 18.

**Price**—The price to the public is $3 per share. Company is also selling 120,000 warrants at one cent per warrant share entitling the holders to purchase 120,000 shares at $3 per share for a period beginning 180 days after the effective date of the registration statement and ending five years thereafter.

**Underwriters**—Bond & Goodwin, Inc., heads the underwriting group.

## MONDAY, NOV. 5

**TENNESSEE GAS & TRANSMISSION CO.** on Oct. 17 filed a registration statement for an undetermined number of common shares, par $5.

**Details**—See issue of Oct. 25.

**Offering**—The company, subject to the approval of its common stockholders at a meeting to be held next month, will offer the new common to its common stockholders pro rata. The basis of allotment and price will be filed by amendment. No public offering of the common stock purchased by the underwriters will be made on the basis of the prospectus.

**Underwriters** — The underwriters are Stone & Webster, Inc., Blyth & Co., Inc., First Boston Corp., Kidder, Peabody & Co., Lehman Brothers, Mellon Securities Corp., Union Securities Corp., White, Weld & Co., W. C. Langley & Co., Paine, Webber, Jackson & Curtis, Central Republic Co., Inc., Bosworth, Chanute, Loughridge & Co., George H. Clifford, H. Gardiner Symonds and Robert K. Hanger. The new issue will be underwritten without compensation.

## TUESDAY, NOV. 6

**LAKE SUPERIOR DISTRICT POWER CO.** on Oct. 18 filed a registration statement for $5,600,000 first mortgage bonds, series A, 3%, due Oct. 1, 1975.

**Details**—See issue of Oct. 25.

**Offering**—The price to the public is 102.

**Underwriters**—Kidder, Peabody & Co., Central Republic Co., Inc., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co.

**IRONRITE IRONER CO.** on Oct. 18 filed a registration statement for 60,000 shares ($8 par) 55-cent cumulative convertible preferred stock.

**Details**—See issue of Oct. 25.

**Offering**—The price to the public is $10 per share.

**Underwriters**—Newburger & Hano and Kobbe, Gearhart & Co., Inc.

**AMERICAN BANTAM CAR CO.** on Oct. 18 filed a registration statement for 83,547 shares of prior preferred stock, par $10, and 375,971 shares of common, par $1.

**Details**—See issue of Oct. 25.

**Offering**—Under an exchange offer the holders of convertible preference stock will be offered the privilege of exchanging convertible preference for common on the basis of 4½ shares of common for each share of convertible preference under Option A. Under Option B they may exchange convertible preference for prior preferred and common stock on the basis of one share of prior preferred and two shares of common for each share of convertible preference.

**Underwriters**—None mentioned.

## SATURDAY, NOV. 10

**ARTKRAFT MANUFACTURING CORP.** on Oct. 22 filed a registration statement for 100,000 shares of 6% cumulative convertible preferred stock, par $5, and 100,000 shares of common, 10 cents par.

**Details**—See issue of Oct. 25.

**Offering**—The offering price per unit consisting of one share of preferred and one share of common is $5 per unit.

**Underwriters** — The underwriters are Kobbe, Gearhart & Co., Inc., and Newburger & Hano.

**CROSLEY MOTORS, INC.,** on Oct. 22 filed a registration statement for 235,099 shares of common stock (no par).

**Details**—See issue of Oct. 25.

**Offering**—Shareholders of the Crosley Corporation as of a record date to be disclosed, will receive rights to subscribe for shares of Crosley Motors for the same number of shares as those held in Crosley Corporation at $6 per share. The subscription rights are exclusive of a certain group who have already subscribed for the stock. Any stock not subscribed pursuant to rights may be disposed of by the board of directors.

**Underwriters**—No underwriting agreement has been entered into.

## MONDAY, NOV. 12

**INDIANA ASSOCIATED TELEPHONE CORP.** has filed a registration statement for $3,400,000 first mortgage bonds, 3% series due 1975, and 47,104 shares of $2 preferred stock, no par.

**Address**—661 Main Street, Lafayette, Ind.

**Business**—Telephone company.

**Offering**—The prices to the public of both the bonds and preferred stock will be filed by amendment.

**Proceeds**—The proceeds from the sale of the bonds, with other funds of the company, will be used to redeem on Dec. 14, 1945, at 107½ plus accrued interest, the company's first mortgage bonds, series A, 3½% outstanding in the amount of $3,400,000. The proceeds from the sale of the preferred stock will be used to redeem on Dec. 14, 1945, at $110 per share plus accrued dividends, all of the company's outstanding $5 cumulative preferred stock.

**Underwriters**—Group headed by Paine, Webber, Jackson & Curtis; Stone & Webster and Blodget, Inc., and Mitchum, Tully & Co.

**Registration Statement No. 2-5990. Form S-1. (10-24-45).**

## TUESDAY, NOV. 13

**GENERAL INSTRUMENT CORP.** has filed a registration statement for 60,000 shares cumulative convertible preferred, $20 par, and 260,000 shares of common, par $1. The dividend rate on the preferred will be filed by amendment. The common registered includes 100,000 shares reserved for issuance upon conversion of the preferred. The 160,000 shares of common stock is issued and outstanding and being sold by certain stockholders.

**Address**—829 Newark Avenue, Elizabeth, N. J.

**Business**—Radio receiving and transmitting variable condensers, etc.

**Offering**—The price to the public will be filed by amendment.

**Proceeds**—Use of proceeds to be received by the company will be filed by amendment. In addition to 150,000 shares of common being sold by certain stockholders to the underwriters, Abraham Blumenkrantz, President, will sell 10,000 shares to certain employees of the company and its subsidiaries.

**Underwriters**—Burr & Co. heads the underwriting group.

**Registration Statement No. 2-5991. Form A-2. (10-25-45).**

## SATURDAY, NOV. 17

**CAMDEN FORGE CO.** has filed a registration statement for 177,318 shares of common stock, par $1. The shares registered are outstanding shares owned by Union Securities Corp., and constitute all of the outstanding common shares except 12 owned by directors.

**Address**—Camden, N. J.

**Business**—Broad range of heavy forgings.

**Offering**—The price to the public will be filed by amendment. Union Securities also proposes to sell 15,420 shares of 5½% cumulative convertible preferred stock of Camden Forge owned by it, par $25, being all of the preferred stock outstanding, in equal proportions to its two parent companies, Tri-Continental Corp. and Selected Industries Inc., each of which will purchase shares for its investment portfolio. The registration statement showed that on Sept. 6, 1945, Union Securities purchased all of the 771 shares of outstanding common stock out of the 5,000 shares authorized at $3,729 per share, or a total of $2,875,059, the transaction being completed on Sept. 18. The company was subsequently recapitalized.

**Proceeds**—The proceeds will go to Union Securities Corp. as the selling stockholder.

**Underwriters**—Names will be filed by amendment, to be selected by Union Securities Corp.

**Registration Statement No. 2-5992. Form S-2. (10-29-45).**

**DATES OF OFFERING UNDETERMINED**

**We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.**

**AMERICAN CENTRAL MANUFACTURING CORP.** on Aug. 24 filed a registration statement for 145,088 shares of common stock, par $1.

**Details**—See issue of Aug. 24.

**Offering**—The company is offering the new stock for subscription to its common stockholders of record Oct. 16 on the basis of one additional share for each 2½ shares held at $14.50 per share. Rights expire Oct. 30. Of the total, 85,304 shares will be offered to Aviation Corp., as stockholder, and 59,784 shares will be offered to other stockholders. Any shares not subscribed by other stockholders will be purchased by Aviation Corp.

**Underwriters**—None named.

**AMPAL-AMERICAN PALESTINE TRADING CORP.** on Oct. 3 filed a registration statement for 400,000 shares of 4% cumulative preferred non-voting shares.

**Details**—See issue of Oct. 11.

**Offering**—The price to the public is $5.50 per share.

**Underwriters**—The shares will be sold through the efforts of the directors and employees of the corporation.

**ANCHORAGE HOMES, INC.** on July 17 filed a registration statement for 505,000 shares of Class A capital stock, par $1, and 250,000 shares of Class B stock, par 10 cents.

**Details**—See issue of July 26.

**Offering**—There is to be presently offered to the public 250,000 shares of Class A and 50,000 shares Class B to be offered in units of 10 shares of Class A and 2 shares of Class B at a price of $60.20 per unit.

**Underwriters**—Andre de Saint-Phalle & Co., heads the underwriting group.

**ANGERMAN CO., INC.,** on Oct. 3 filed a registration statement for 90,000 shares of common stock, par $1. The total includes 40,000 shares being sold by David F. Engel, President, who presently owns 125,000 shares of common stock.

**Details**—See issue of Oct. 11.

**Offering**—The price to the public is $8 per share.

**Underwriters**—Van Alstyne, Noel & Co. heads the underwriting group.

**ARDEN FARMS CO.** on Aug. 31 filed a registration statement for 50,000 shares of $3 cumulative and participating preferred stock, without par value.

**Details**—See issue of Sept. 6.

**Offering**—The company has granted holders of its preferred stock rights to subscribe to the new preferred at the rate of one share for each 2½ shares held at $52 per share. Unsubscribed shares shall be sold at such price as fixed by the board of directors.

**Underwriters**—To be filed by amendment.

**AVIATION CORP.** on Sept. 28 filed a registration statement for 300,000 shares of $2.25 cumulative convertible preferred stock (no par).

**Details**—See issue of Oct. 4.

**Offering**—Of the 300,000 shares the company is offering 289,675 shares to its common stockholders of record Oct. 26 at $50 per share to extent of one share for each 20 common shares held. Rights expire Nov. 7. Any unsubscribed shares and the 10,325 additional shares will be purchased by the underwriters and offered to the public.

**Underwriters**—The group is headed by Lehman Brothers and Emanuel & Co.

**BARIUM STEEL CORP.** on Sept. 28 filed a registration statement for 166,063 shares of common stock, par $1.

**Details**—See issue of Oct. 4.

**Offering**—Company is offering to the holders of its common stock the right to subscribe to the new common shares at $3 per share, at the rate of one new share for each five shares held. There are no underwriters, but the corporation reserves the right to sell any unsubscribed shares at a price which will net the corporation at least $3 per share.

**BENSON HOTEL CORP.** on Aug. 22 filed a registration statement for $440,000 first refunding mortgage serial and sinking fund bonds series A dated July 2, 1945, due serially Jan. 1, 1946 to July 1, 1957.

**Details**—See issue of Aug. 30.

**Offering** — The offering price to the public will be as follows: $82,000 of 3s at 100, $85,000 of 3¼s at 100 and $273,000 of 3½s at 100.

**Underwriters**—B. C. Ziegler & Co., West Bend, Wis., is named underwriter.

**BURRILLVILLE RACING ASSOCIATION** on Aug. 28 filed a registration statement for $1,000,000 6% 20-year debentures due Sept. 1, 1965, and 10,000 shares class A stock (no par).

**Details**—See issue of Sept. 6.

**Offering**—The public offering price for a unit consisting of $500 of debentures and five shares of stock is $500 with the underwriter receiving a commission of $25

**Underwriters**—Barrett & Co., Providence, R. I., underwriters.

**CENTRAL ARIZONA LIGHT & POWER CO.** on Sept. 21 registered 840,000 shares of common stock, no par.

**Details**—See issue of Sept. 27.

**Offering**—Price to be filed by amendment.

**Underwriters**—To be sold by competitive bidding.

**CHASE CANDY CO.** on Sept. 17 registered 50,000 shares ($1 par) common stock.

**Details**—See issue of Sept. 20.

**Offering**—Stock to be offered to public at $8 per share.

**Underwriters**—Herrick, Waddell & Co., Inc. named principal underwriter.

**CONTAINER ENGINEERING CO.** on June 15 filed a registration statement for 25,000 shares common stock (par $10).

**Details**—See issue of June 21.

**Offering**—Price to the public is given as $35 per share.

**Underwriters**—William L. Ullrich, St. Louis, will manage the sale of the entire issue.

**COVENTRY GOLD MINES, LTD.** on April 21 filed a registration statement for 333,333 shares of common stock.

**Details**—See issue of April 26.

**Offering**—Price to the public is 30 cents per share.

**Underwriters**—None named. The company proposes to market its own securities.

**CROSS CO.** on Sept. 28 filed a registration statement covering 60,000 shares of 5½% cumulative convertible preferred stock, par $10; 60,000 warrants to purchase common stock; 100,000 shares of common, par $1, issuable upon conversion of preferred and 60,000 shares of common issuable upon exercise of common stock purchase warrants.

**Details**—See issue of Oct. 4.

**Offering**—The preferred stock is to be offered to the public at $10 per share. The warrants which entitle the holder to purchase common stock at $5 per share for a period of three years are to be sold to the underwriters for 5 cents per warrant.

**Underwriters**—F. H. Koller & Co., Inc., is named underwriter.

**EUREKA CORP., LTD.,** on Sept. 28 filed a registration statement for 2,595,000 shares of common, par $1.

**Details**—See issue of Oct. 4.

**Offering**—Toronto Mines Finance, Ltd., has entered into a firm commitment to purchase 480,000 shares at $1.23 per share, and has an option on 1,920,000 shares at the same price. The offering is to be made among the shareholders of Ventures, Ltd., Frobisher, Ltd., and La Luz Mines, Ltd. (Canadian companies) at $1.25 per share, and to Eureka stockholders. Price is expressed in terms of Canadian money. Shares not so acquired will be offered generally to the public. Should the option not be exercised by Toronto Mines Finance, Ltd., the company itself will make the offering, as aforesaid. The remaining 195,000 shares are to be purchased by the company geologist, officials and employees.

**GENERAL SECURITIES CORP.** on Sept. 28 filed a registration statement for 200,000 shares of common stock, par $5.

**Details**—See issue of Oct. 4.

**Offering**—The price to the public is $7.50 per share.

**Underwriters**—General Finance Co., Atlanta, Ga., is fiscal agent.

**GRAY MANUFACTURING CO.** on Sept. 28 filed a registration statement for 95,544 shares of capital stock, par $5.

**Details**—See issue of Oct. 4.

**Underwriters**—None named.

**HOUSTON OIL FIELD MATERIAL CO., INC.** on Sept. 24 registered 12,500 shares of 5½% cumulative ($100 par) preferred stock.

**Details**—See issue of Sept. 27.

**Offering**—Company will offer holders of outstanding $1.50 dividend cumulative preferred stock the right to exchange their shares for new stock on the basis of 1 1-10th shares of 5½% preferred with a cash adjustment for fractional shares for each four shares of old preferred. Unsubscribed shares will be offered the public through underwriters at $102 per share.

**Underwriters**—Include Dallas Rupe & Son, Dallas Union Trust Co., Rauscher Pierce & Co., Inc. and Pitman & Co., Inc.

**NASHUA MANUFACTURING CO.** on Sept. 17 registered 31,085 common shares without par value.

**Details**—See issue of Sept. 20.

**Offering**—Company will offer present common holders right to subscribe to new common on basis of ½ share of common for each share held at $60 per share, the unsubscribed shares will be sold to underwriters at $58.30 per share. Company would have to utilize 31,001½ shares of common to make this offer.

**Underwriters**—J. Arthur Warner & Co. named principal underwriter.

**NATIONAL MANUFACTURE & STORES CORP.** on Sept. 20 registered 40,756 shares of $2 cumulative preferred stock (no par).

**Details**—See issue of Sept. 27.

**Offering**—Company will sell 12,000 shares to public at offering price of $41.25 and remainder of stock will be offered to holders of company's presently outstanding $5.50 prior convertible preferred stock on the basis of two shares of $2 cumulative preferred for each share of $5.50 preferred.

**Underwriters**—Norris & Hirshberg, Inc., Clement A. Evans & Co., Inc., J. H. Hilsman & Co., Inc., The Robinson-Humphrey Co., Wyatt, Neal & Waggoner, and Brooke, Tindall & Co. are named underwriters.

**NATIONAL VULCANIZED FIBRE CO.** on Sept. 26 registered $3,500,000 15-year 4¼% sinking fund debentures due Oct. 1, 1960 and 400,220 shares ($1 par) common stock.

**Details**—See issue of Oct. 4.

**Underwriters** — Union Securities Corp. and E. H. Rollins & Sons named principal underwriters.

**NOMA ELECTRIC CORP.** on Oct. 8 filed a registration statement for $2,000,000 15-year 4¾% sinking fund convertible debentures, $1,200,000 three-year 2% subordinated convertible notes and 163,120 shares of common which are reserved for conversion of the debentures, notes and common stock purchase warrants entitling the holders to purchase an aggregate of 20,000 shares.

**Details**—See issue of Oct. 11.

**Offering**—The offering price of the debentures will be filed by amendment.

**Underwriters**—Reynolds & Co. heads the underwriting group.

**PENNSYLVANIA POWER & LIGHT CO.** on Sept. 24 registered 1,818,719 shares of common stock, no par and 1,818,700 subscription warrants entitling holders to purchase such stock at $10 a share.

**Details**—See issue of Sept. 27.

**Offering**—National Power & Light Co. as holder of all of the outstanding common stock of Pennsylvania Power & Light Co. will be entitled to subscribe to 1,818,700 shares of the new common. National will in turn offer its stockholders the right to subscribe to the new stock on the basis of ⅓ share of new Pennsylvania Power & Light common for each one share of National Power & Light Co. common stock held. Electric Bond & Share Co. has agreed to take the number of shares proportionate to its common holdings in National (46.56%) and National has agreed to take the shares not taken by its remaining stockholders.

**Underwriters**—None.

**POTOMAC EDISON CO.** on April 19 filed a registration statement for 63,784 shares of 4½% preferred stock (par $100).

**Details**—See issue of April 26.

**Offering**—The company is offering the 63,784 shares of preferred stock in exchange for the 29,182 shares of 7% and 34,602 shares of 6% preferred stock now outstanding on a share for share basis with a dividend adjustment in each case and $5 in cash for each share of 7% preferred stock exchanged.

**Underwriters** — The company has retained Alex. Brown & Sons as dealer-manager to aid it in obtaining acceptances of the exchange offer.

**RED BANK OIL CO.** on May 31 filed a registration statement for 990,793 shares of common stock (par $1).

**Details**—See issue of June 7.

**Offering**—Of the shares registered Bennett & Co., Inc., parent of Red Bank, will receive 209,970 shares in return for a like number of shares loaned to the registrant in connection with the acquisition of 54% of the outstanding stock of Seatex Oil Co., Inc. In addition, 150,000 of the shares registered will be issued to stockholders of Federal Steel Products Corp. in exchange for all of Federal's stock. Bennett & Co., Inc., is the sole underwriter as to an additional 100,000 shares of common registered. The balance of 530,823 shares of stock being registered have heretofore been issued to Bennett & Co., Inc., in exchange for various obligations of the registrant.

**Underwriters** — Principal underwriter Bennett & Co., Inc., Dallas, Texas.

**Stop Order Hearings**—Stop order hearings to determine whether the effectiveness of registration statement should be suspended now pending before the SEC.

**ROBERTS TOWING COMPANY** on July 11 filed a registration statement for $500,000 serial 4½% equipment trust certificates.

**Details**—See issue of July 19.

**Offering**—The price to the public of the different series ranges from 99 to 102. The average price to the public is given as 100.47.

**Underwriters**—S. K. Cunningham, Inc., Pittsburgh, and John Nordman Co., St. Louis, Mo.

**UNITED TRANSIT CO.** on Oct. 3 filed a registration statement for $10,000,000 convertible 4% sinking fund debentures due Aug. 1, 1965. By amendment filed Oct. 30 company proposes to sell $6,000,000 debentures and 80,000 shares of 5% cumulative preferred stock (par $50).

**Offering**—The price to the public will be filed by amendment.

**Underwriters**—The group is headed by Harriman Ripley & Co., Inc.

**VALLEY OSAGE OIL CO.** on Aug. 13 filed a registration statement for 143,659 shares of class A stock. Of the shares registered 113,468 are being sold by the registrant and 30,191 shares are issued and outstanding and are being sold on behalf of the Thomas Gilcrease Foundation.

**Details**—See issue of Aug. 16.

**Offering**—The price to the public is $12.50 per share.

**Underwriters**—The underwriter is Gilcrease Oil Co. of Texas, 165 Broadway, New York, N. Y.

**VIRGINIA RED LAKE MINES, LTD.** on June 24 filed a registration statement for 220,000 shares of capital stock, par $1 (Canadian).

**Details**—See issue of Aug. 2.

**Offering**—The offering price to the public is 60½ cents Canadian or 55 cents United States funds.

**Underwriters**—Willis E. Burnside & Co., New York.

**WILSON & CO., INC.,** on Sept. 10 filed a registration statement for 250,000 shares of cumulative preferred stock and an unspecified number of common shares.

**Details**—See issue of Sept. 13.

**Underwriters**—Smith, Barney & Co. and Glore, Forgan & Co. named principal underwriters.

**Financing Temporarily Postponed**—It was announced Sept. 28 that the proposed financing was temporarily postponed.

**WISCONSIN POWER & LIGHT CO.** on Oct. 1 filed a registration statement for 120,000 shares of 4½% preferred stock, cumulative, par $100, to be offered in exchange to holders of 6% and 7% preferred stocks on a share for share basis plus $5 in cash for one share of old.

**Details**—See issue of Oct. 4.

**Underwriters**—The Wisconsin Co. is dealer-manager to aid in the exchange.

## Glore Forgan Group Markets New Pfd. of Public Service of Okla.

A banking group headed by Glore, Forgan & Co. made formal public offering Oct. 31 of shares of a new issue of 4% preferred stock of the Public Service Co. of Oklahoma at $102.75 per share and accrued dividends, recently awarded to the group at competitive bidding. Of the 98,500 shares of 4% preferred stock, 69,641 shares are to be issued in exchange to holders of the company's presently outstanding 5% preferred stock, pursuant to the company's offer of exchange. The remaining 28,859 shares are to be purchased by the several underwriters.

Net proceeds of the preferred stock financing, together with such additional funds of the company as may be required, are to be used for the redemption at $110 per share and accrued dividends, of such of the outstanding shares of 5% preferred stock as are not surrendered pursuant to the exchange offer.

## With McMaster Hutchinson

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Julius Szygowski has become associated with McMaster, Hutchinson & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Szygowski was formerly Consul General of Poland in Chicago.

# Tolerated Lawlessness

"The instances of clear and specific law violations carried on with impunity in labor disputes could be multiplied indefinitely. We read about them every day in our newspapers, but our consciences have become so numbed that we don't take in the full import of what is happening to our concept of freedom under law every day in these United States.

Senator Jos. H. Ball

"Yet what is the difference, except in degree, between a mob, often armed with sticks and stones, blockading the entrance to a plant and beating up any individual who tries to enter, and the storm troopers charging down the street of a German ghetto and beating up every Jew they find? What is the difference, except in degree, between the Gestapo pounding on the door at midnight and dragging the husband and father off to a concentration camp, and the union goon squad pounding on the door at midnight and beating up the husband and father? In both cases individual rights are trampled under and the law, which should apply equally to all, is violated with impunity by a particular group.

"Most of us slept complacently through the early years of Nazi lawlessness, convinced that the stories were exaggerated, bored with their monotonous repetition, sure that in any event it could never affect us. Yet it finally exploded into a world war that cost the United States alone 250,000 lives. Our toleration of lawlessness during the days of prohibition led to the era of gangster and hoodlum rule in our great cities. Our toleration of lawlessness today in labor disputes can lead to disasters as bad or worse for our democratic system, which is built on the foundation of freedom under law, law applying equally to all and enforced impartially on all."—Senator Joseph H. Ball, in the New York "Times."

It would serve no good purpose to gild the lily.

## Howard Calkins Joins Albert Frank Agency

Howard W. Calkins, for ten years a reporter on the staff of the New York "Times," specializing in the news of finance and industry, is today (Nov. 1) becoming associated with Albert Frank-Guenther Law advertising agency, in the New York office, 131 Cedar Street, Emmett Corrigan, Chairman of the board, announced.

Mr. Calkins recently resumed his work on the New York "Times" after a three-year period of service in the Navy. At the time he was detached from active service on Aug. 30 he was a Lieut. Commander, USNR. For eleven years prior to his association with the "Times" in 1935, he was a member of the staff of the New York News Bureau Association. Mr. Calkins is a graduate of the University of Pennsylvania, Wharton School of Finance and Commerce.

## Samuel Duncan Has Rejoined G. A. Saxton

Lt. Commander Samuel A. Duncan, USNR, has rejoined the staff of G. A. Saxton & Co., Inc., investment securities, 70 Pine Street, New York City, after more than three years' service in the U. S. Navy.

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