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Living Wage Standards Fallacies

By FREDERIC EDWARD LEE
Professor of Economics, University of Illinois

Commenting on the Statements Made at the Hearings on the Full Employment and Minimum Wage Bills That Every Worker Must Have a Sufficient Income to Maintain an American Standard of Living, Professor Lee Points Out That Living Standards Are Dynamic and That Self-Respecting and Ambitious Individuals Generally Seek to Constantly Raise Their Levels of Living. Holds That There Is No Barometer for Determining a Minimum Living Standard and That Such Standard Cannot Successfully Be Arbitrarily Fixed by Legislation. Cautions That Artificially Fixing the Level of Wage Rates Will Lead to Inflation.

One of the popular misconceptions and fallacies which has permeated so-called "labor economics" for the past 10 or 12 years is the idea or notion that in some way a "standard of living" is something which society or the State should provide for many of its citizens. In the current hearings on the Full Employment Bill, the Congressional move to increase minimum wage rates, and in the arguments for a guaranteed annual wage, this fallacy has

Dr. Frederic E. Lee

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A Tax Program

By ROSWELL MAGILL*
Chairman, Committee on Post-War Tax Policy

Former Treasury Official Maintains That Prime Fiscal Problem Is to Facilitate Reconversion and Holds That 1945 Revenue Bill Repealing Excess Profits Taxes and Lowering Income Levies Was Step in That Direction. Says for Later Period, the Key to the Fiscal Problem Lies in Reduction of Government Expenditures and Fixes a Prudent Budget at $15 Billion. Maintains Income Tax Must Continue to Provide Bulk of Revenue but Recommends Elimination of Double Taxation and Further Reductions for Small Corporations. Favors Abandoning Federal Estate and Gift Taxes and Retention of Excise Taxes. Stresses Importance of Early Balancing of Federal Budget.

Roswell Magill

The ordinary layman, Casper Milquetoast or Elmer Twitchell, is aghast these days at the confusion of the times. Only a few months ago, we had one job to do—to defeat our enemies, the German and the Japs. Notwithstanding all our worries about our sons and rationing and high taxes, we had a warm inner satisfaction in the knowledge that all the citizens of the country

*An address by Mr. Magill before the Golden Anniversary Congress of American Industry of the National Association of Manufacturers, New York City, Dec. 7, 1945. Mr. Magill was Under Secretary of the Treasury 1937-8 and is now a member of the firm of Cravath, Swaine & Moore, Attorneys, New York City.

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European Experiences With Price Control

By LUDWIG von MISES*

Noted Austrian Economist Cites German and French Results as Proving the Impossibility of Stopping Inflation Through Price Control. German Experience During First World War and Again Under Nazism, Shows That Effective Price Regulation Must Lead to a Completely Authoritarian System. He Terms Reliance on Such Governmental Controls a "Superstitution" That Diverts the Public's Attention From the Real Source of the Inflation Evil, Namely Increases in the Quantity of the Circulating Medium.

Under socialism production is entirely directed by the orders of the central board of production management. The whole nation is an "industrial army" (a term used by Karl Marx in the Communist Manifesto) and each citizen is bound to obey his superior's orders. Everybody has to contribute his share to the execution of the overall plan adopted by the Government.

Ludwig von Mises

In the free economy no production czar tells a man what he should do. Everybody plans and acts for himself. The coordination of the various individuals' activities, and their integration into a harmonious system for supplying the consumers with the goods and services they demand, is brought about by the market process and the price structure it generates.

The market steers the capitalistic economy. It directs each individual's activities into those channels in which he best serves the wants of his fellow-men. The

*Ludwig von Mises, the well-known head of the so-called "Austrian School", taught economics at the University of Vienna from 1913 to 1934, and at the Graduate Institute of International Studies in Geneva from 1934 to 1940. He acted as economic adviser of the Austrian Chamber of Commerce from 1909 to 1934. At present he is a visiting professor at the Graduate School of Business Administration, New York University.

His *Theory of Money and Credit*, first published in 1912, was translated into many languages. An American edition was published in 1934 by Harcourt Brace & Co. Other works available in English are: *Socialism* (Macmillan), *Omnipotent Government* (Yale), and *Bureaucracy* (Yale).

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Outlook for Federal Taxation

By HOWARD R. BOWEN*
Economist, Irving Trust Company, New York

Dr. Bowen Considers a Normal Post-War Budget of Around $25 Billions as a Conservative Estimate and Holds Budget Can Be Balanced in 1948, Providing Tax Rates Are Held High and Country Is Prosperous. Foresees Further Substantial Cuts in Income Tax Rates With $10 to $12 Billions From Individual Incomes, Relief From Excessive High Bracket Levies, a Partial Elimination of Double Tax on Dividends and a Lengthening of the Carry-Forward Provisions. Sees Special Tax Relief for Small Business, but Concludes That There'll Be No Sweeping or Revolutionary Changes in Our Tax System.

The year 1945 has been outstanding in the annals of Federal tax legislation. For the first time in many years, Federal tax rates have moved downward. Two major revenue acts have been passed by Congress both of which have provided substantial benefits to taxpayers — particularly to corporate taxpayers.

Howard R. Bowen

The Tax Adjustment Act of 1945 provided machinery for speeding up the payment of tax refunds and tax credits. According to official estimates, the provisions of this act will make available to business over $5 billions of cash—money which it would otherwise have collected only in the more or less remote future. The **Revenue Act of 1945** made substantial reductions in actual tax liabilities

*An address made by Mr. Bowen before the Controllers Institute of America in Chicago Nov. 27, 1945.

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Government's Fiscal Policy

By FRANKLIN COLE*
President, Cole, Hoisington & Co., Inc., New York City

Mr. Cole Assails Present Fiscal Policy and Says Tax System Is a Patchwork That Penalizes Venture Capital. Calls Capital Gains Tax a Levy on Capital, and Criticizes Policy of Artificial Low Interest Rates and Financing Through Sale of Short Term Obligations to Banks. Sees Continuation of Treasury Deficits and Predicts Both Higher Wages and Prices. Concludes That With a Secure World Peace and Despite Frictions at Home and Abroad "the Common Sense of the American People Will Manifest Itself."

The management, depositors and borrowers who make possible this Association are primarily interested in the public demand for its commodity and services, the interest rate, and prices. There lie at the foundation of your development the basic forces which spell success, mediocrity, or failure to your cause—depending upon Government and business and the extent to which both accept responsibility for a stable and vigorous economy.

Franklin Cole

A healthy economy can exist only within a framework of sound monetary (including price) policy, a just tax system, steadily increasing consumption, an expectation of reasonable profits, and community activities looking toward the satisfaction of noneconomic wants, such as education. Before examining these requirements at closer range, I should like to emphasize that there will always be a tug-of-war between those who would remake society in short order and those who always appear to believe that we are living in the best possible of worlds. To find a way of reconciling these points of view is the difficult task of statesmanship.

The price mechanism is at the core of the functioning of our economy. Our generation has witnessed the evils of extreme inflation and deflation. We could hardly devise a more certain way than a repetition of either to insure the desertion of the middle class—the stabilizer of our society—from its loyalty to our traditions. Our immediate concern is with the inflationary forces existing as a result of the unparalled accumulation of liquid funds. This requires a slow relinquishment of admittedly irksome controls and confidence in the general monetary and credit policy of government. At the same time those responsible for such policy must be aware that the danger of inflation can be minimized only by increased production of goods; and to discourage production because of doubt over the exact profits that might result may precipitate further maladjustments, for consumers in a buying mood will buy. Indiscriminate purchasers do not increase wealth-creating activity. With the widespread distribution of war bonds, it becomes all the more imperative to use every available means toward maintaining reasonably stable prices. Here again, the middle group will be most affected by violent changes, for to a greater extent than in the case of the very wealthy or the very poor, purchases of war bonds at a sacrifice

*An address made by Mr. Cole at a luncheon meeting of the New York State League of Savings & Loan Associations at the Waldorf-Astoria Hotel, New York City, Dec. 13, 1945.

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Airline Transportation—A Major Industry

By MICHAEL PESCATELLO

Asserting That Aviation Is the Glamour Industry of the Century Mr. Pescatello Reviews Its Rapid Progress During the War, and Predicts a Great Expansion in Both Its Passenger and Freight Business. Despite Its Growth and Bright Prospects, He Points Out That There Will Be Keener Competition With Other Transportation in Future, Accompanied by Progressive Lowering of Rates. Sees No Immediate Prospects of Larger Traffic Being Converted Into Much Higher Net Earnings and Maintains That Prices of Airline Shares Have Already Discounted Increased Revenues, and That Present Prices Are Relatively Higher in Relation to Earnings Than in the Case of Other Securities.

At the present time air transportation is probably the fastest growing industry in the country. The period between the two World Wars may be characterized as one in which air transport struggled to gain a firm foothold. Demand for this class of service was hesitant and uncertain and was confined to a large extent to the luxury class of travelers. Nevertheless, in terms of passenger miles flown the industry grew at a rate of approximately 30% annually. Because of the large outlays for development and experimental costs relative to volume of business, earnings for practically all of the companies in the field were either non-existent or very slim. Subsidized mail contracts were the sustaining source of revenue.

Michael Pescatello

The industry now finds itself in the second and more spectacular phase of rapid development and expansion. It has emerged from the war as the glamour industry of the century. The return flow of planes requisitioned by the military authorities after Pearl Harbor is already being evidenced in the considerable improvement in gross revenues in recent months. There has been a wild scramble for new routes and establishment of feeder lines; fares have been reduced; an impressive number of larger and

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Current Interest Rates Must Be Maintained

Aubrey G. Lanston, Vice-President of The First Boston Corporation, in a Study of Debt Problems, Urges That the Administration Desist From Promoting Further Declines in Money Rates. Warns That Emulation by Us of Britain's Cheap Money Policies Would Tremendously Promote Price Inflation. Contends That an Increase in the Treasury Certificate Rate from 7/8% to 1% Is Necessary for Stabilization of Our Existing Interest Structure at Present Levels.

Unless the Government takes positive steps away from a further decline in interest rates and in the direction of stabilization at current levels, a progression in monetary and banking conditions heading toward inflation and ultimate losses to savings bank depositors and more than 70 million insurance policyholders will ensue, according to Aubrey G. Lanston, Vice-President of The First Boston Corporation.

A. G. Lanston

The warning was contained in an exhaustive 20-page memorandum in which Mr. Lanston cited figures to show that comparatively small savings to taxpayers, resulting from lowered rates on short-term Treasury loans, would be more than offset by the losses to these same taxpayers and millions of others as well.

He pointed out that any further reduction in the Government's short-term loan rates would be reflected later by reductions in the interest rates on long-term Government bonds, and that this in turn would inevitably bring about a general decline in commercial interest rates.

Mr. Lanston stated that, since the Treasury has by "silent acquiescence" encouraged the lower levels of yields which have characterized Treasury security markets during 1945, an increase in the Treasury Certificate coupon rate from 7/8% to 1% is necessary

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Whither the Economic Trend?

By MURRAY SHIELDS*

Vice-President of the Bank of the Manhattan Company

Mr. Shields Maintains That Despite Difficulties and Perplexities Ahead, Restrained Optimism Regarding Future May Be Based on (1) Probability That a Long Period of Peace With Higher Living Standards Lies Ahead; (2) the "Deflation" Complex of the Thirties Has Been Liquidated; (3) There Will Be New and Expanding Markets for American Products at Home and Abroad, and (4) Our Industries Have Acquired a New "Know How" Capacity During the War. Warns These Potentials May Become Inoperative Unless Sound Economic and Fiscal Policies Are Followed and He Urges an Early Balancing of National Budget, End of Credit Expansion and a Reformed Tax System Which Does Not Destroy the Profit Incentive.

Murray Shields

As we move through the transition period from war to peace the world seems to be beset by problems so difficult, perplexing and urgent as to threaten to undermine our confidence that the peace for which the Allies fought

*An address by Mr. Shields before the Eastern Association of College and University Business Officers, Atlantic City, N. J., Dec. 3, 1945.

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Madden Foresees No Rise in Interest Rates

Director of Institute of International Finance Holds Supply of Both Short-Term and Long-Term Capital Continues to Exceed Demand. Does Not Look for Rapid Increase in Long-Term Financing as Growth of Mortgage Loans Will Be Slow and Foreign Financing Limited. Sees Possibility of Renewal of Government Deficit Financing if "Full Employment" Legislation and Other Federal Projects Are Adopted and Hints of Consequent Inflationary Dangers.

An analysis of the various factors affecting the money market in the postwar period leads to the conclusion that no material increase in interest rates will take place in the foreseeable future, according to a bulletin entitled "Money Rates in the Postwar Period" issued on December 17 by Dean John T. Madden, Director of the Institute of International Finance of New York University.

Dean J. T. Madden

The bulletin states:

The end of hostilities, with the consequent decrease in Government expenditures and the possibility that beginning with the fiscal year 1947-1948 the Federal budget may be balanced, have raised the question regarding the trend of money rates in the postwar period. The opinion has often been expressed that during the war interest rates were kept low artificially by the monetary authorities in order to enable the Government to finance the war requirements at low cost. As soon as the artificial measures have been discarded, however, and the demand and supply factors are again permitted to play their traditional role, money rates are bound to increase. It has also been stated that low money rates affect adversely the thrift habits of the people and that a decrease in sav-

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Inflationary Danger in Federal Borrowing From Reserve Banks

By HON. B. B. HICKENLOOPER*
U. S. Senator from Iowa

Republican Senator Opposes Provision in Extension of War Power Bill Which Continues the Power Given Treasury to Sell Directly Government Securities to the Federal Reserve Banks to a Maximum of $5 Billions. Holds This Increases the Danger of Inflation and as Proof, Points to Tragic Inflation in European Countries Which Followed This Policy. Calls Provision a Short-Circuit of Wise Checks on Treasury Operations and Holds It Is No Different From Printing of Greenbacks.

Sometime this week we shall be asked to renew the Second War Powers Act which contains powers affecting the most fundamental rights and interests of the people.

B. B. Hickenlooper

In the last minute press of legislation before the Christmas recess, it will be difficult to give this far-reaching measure the careful attention it should have. I am taking this occasion, therefore, to direct the attention of members of this body to at least one provision in this bill which should be considered even more carefully than other provisions because it concerns practices that threaten the soundness of our monetary system.

I refer to the provision that would continue for another entire year (Dec. 31, 1946) the power of the Federal Reserve to buy up to five billion dollars of Government securities without going into the open market. In the New York "Times" of Dec. 11, 1945, the Treasury and Reserve officials are reported to have asked that this power be made permanent, which is another way of asking that deficit financing and inflation be made permanent.

The bill which will come before us is H. R. 4780. The House thought fit not to continue these loose fiscal practices beyond June 30, 1946, but the Senate Judiciary Committee added another six months to make it Dec. 31, 1946.

With respect to all these powers the question naturally arises whether it is necessary to continue them in time of peace, and what danger there may be to our system of government in so doing. This is particularly true when it comes to practices affecting the soundness of the nation's finances.

The War Time Grant of Direct Borrowing Power

I want to take a moment to sketch the history of this power of the Treasury to force up to five billion dollars into the Federal Reserve System. When the Banking Act of 1935 was passed it was recognized that, along with pre-

(Continued on page 3037)

*An address by Senator Hickenloper in the U. S. Senate on Dec. 18, 1945.

London Reactions to British Loan

By PAUL EINZIG

Writer Sees Favorable Reaction Generally Apparent, With Opponents Knowing There Would Be Parliamentary Approval. General Feeling Is That Temporary Relief Will Be Afforded to Shortages of Supplies in England, Though Socialists Dislike Strongly the Provisions for Removal of Exchange Controls and Fear Flight of British Capital. The Aspect of Agreement That Assures Continued U. S.-British Friendly Relations Universally Welcomed.

LONDON, ENGLAND—The immediate reaction to the announcement of the conclusion of the Washington Agreement was a feeling of immense relief. Both supporters and opponents of the proposed loan were glad that the protracted negotiations were over at last. Most people who took an interest in the matter had become exasperated by the suspense and by the ups and downs of the trend of the talks.

Paul Einzig

The announcement was made by Mr. Attlee at a late hour on Thursday night, after two days of heated debate on the Opposition's motion of censure, during the course of which members of both Parties had spent most of their energies and passions. This accounts, perhaps, to a large degree, for the lack of any extravagant display of enthusiasm on the part of the numerous supporters of the scheme on both sides of the House. Yet there could be no doubt even then that they represented the majority of Members of Parliament. Only one out of ten perhaps was capable of grasping the broader implications of the transaction. But it requires little or no expert knowledge to realize that it means immediate relief. M. P.'s whose mail-bags are full of letters by their constituents complaining about the shortage of supplies cannot help feeling pleased that there will be no need for tightening our belts any further, and that for the next two years at any rate the most urgent needs of the country appear to be secured.

The Opposition

In the circumstances the minority which gave the announcement a hostile reception stood little chance of gaining widespread popular support. They put up a tough fight last week when the agreement was debated. Opposition came not only on the part of the handful of specialists who have acquired a reputation as opponents of the Bretton Woods plan, but also on the part of entirely unsuspected quarters. They may be roughly divided into the following groups:

(1) The opponents of the gold standard, such as Mr. Grenfell, former Secretary of the Department of Mines in the Coalition Government, Richard Stokes, Norman Smith and other radical currency reformers, and Conservative representatives of business interests such as Sir Patrick Hannon, chairman of the National Union of Manufacturers.

(2) The supporters of Imperial Preference and of the Sterling Area, including mostly Conservative M.P.s but also a sprinkling of Socialists.

(3) The supporters of bilateral trading, headed by Mr. Boothby.

(4) The opponents of the relaxation of exchange restrictions, consisting almost exclusively of Socialists who fear that free exchanges would mean a flight of capital abroad.

Price to Britain

Generally speaking, there is a feeling that the American gesture in wiping out claims arising from Lend-Lease was generous, but that the price paid for the loan, in the form of abandoning the monetary and commercial policies that suit Britain's interests in existing circumstances, was excessive. Many people feel that it would have been much better to borrow from the Export-Import Bank at 2⅜% for 30 years without "political" conditions attached to the loans. The reduction of the period of

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"Rye Corner" Hearings Get Started

By HERBERT M. BRATTER

Commodity Exchange Authority of Agricultural Department Acts on Complaint of War Food Administrator That There Was Collusion to Corner Rye Market and Manipulate Prices. General Foods Corporation and Daniel F. Rice and Company Among Those Accused. General Foods Denies It Acted to Corner Market and Maintains That Rye Purchases Were Made to Compensate for Losses in Other Grains. Hearings Expected to Result in Changes in Commodity Exchange Act.

On Dec. 11 the Commodity Exchange Authority of the Department of Agriculture opened in Washington what will certainly prove to be weeks-long, and maybe months-long hearings on activities which the Department alleges constituted the cornering of actual rye and 1944 May rye futures on the Chicago Board of Trade, and manipulation in the prices of rye futures contracts. The respondents in this case include the General Foods Corporation; that Corporation's executive Vice-President, Charles W. Metcalf; Daniel F. Rice and Co., whose partners are members of the Board of Trade; certain customers of that company, and others. The referee in this case is Jack W. Bain, an attorney in the office of the Secretary of Agriculture. Before the hearings are ended it is possible that the scope of the performance may be widened so as to air some of the feuding which has characterized the business relations between two powerful groups in the Board of Trade.

J. M. Mehl

These hearings are the direct outgrowth of a complaint and notice of hearing which was first filed last May by the office of the War Food Administrator. The complaint has since been taken over by the Secretary of Agriculture. Without directly charging conspiracy, the complaint alleges that the various respondents "individually and collectively" cornered the actual rye in Chicago, especially rye of grades declared by the Board of Trade in Chicago as deliverable and stored in those public elevators at Chicago from which delivery could be made against futures contracts on the Board of Trade. It alleges also that the respondents cornered 1944 May rye futures and manipulated prices of rye futures contracts through their operations in Chicago, and also in Winnipeg, one result being that the rye which these respondents held at one time, May 27, 1944, represented "approximately 50% of the public storage facilities available [in Chicago] for all grains and an amount in excess of 40% of the 1943 domestic rye crop."

The Department contends, moreover, that the operations of the respondents which it details all "were speculative, caused the abnormal accumulation of rye in Chicago, which congested the transportation and storage facil-

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Building Industry's Part In Low Cost Housing

By ALFRED SCHINDLER*
Under Secretary of Commerce

Asserting That Four-fifths of People Are Under-Housed, Secretary Schindler Places Responsibility on Builders to Remedy Situation. Cites as Obstacles to Building: (1) Lack of Effective Control of Land Values, Construction and Housing Costs; (2) Seasonal Character of Building Work and Absence of Basic Annual Wage; (3) Restrictive Practices in the Construction Field; and (4) Antiquated and Obstructive Provisions in Municipal Building Codes. Calls Attention to Recently Organized Construction Division in the U. S. Commerce Department and Expresses Belief That Building Conditions Are Improving and That Building Industry Should Take Initiative in Lowering Construction Costs.

I appreciate the opportunity of addressing you this evening. There is an important reason for this. As one of the public administrators of the Department of Commerce I'm deeply concerned with the progress of the building industry in these critical days of reconversion. I also am deeply concerned with what I believe your industry *can* do and *must* do in helping shape the prosperity of the country in the years ahead.

Alfred Schindler

We are all aware of a great nation-wide deferred demand for construction of all kinds. Our farmers are in need of construction; industry is in need of construction; trade and service businesses are in need of construction; all branches of Government, down to the smallest township, are in need of construction. But the most critical part of this deferred demand for construction is in housing. This demand is growing more acute with each passing day. It is being constantly swelled by the number of veterans who are returning to civilian life. These veterans need living quarters. War industry centers are bulging with people who apparently intend to stay put and who therefore need

*An address by Under-Secretary Schindler at the Golden Jubilee Dinner of the Building Industry Employers of New York State, Albany, N. Y., Dec. 12, 1945.

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Lt. Jas. Lalanne Joins McDaniel Lewis Co. Staff

GREENSBORO, N. C. — Lt. James F. Lalanne, just out of the Navy, is now a securities salesman, according to announcement made by McDaniel Lewis & Co., Jefferson Building. The former quarterback and forward passing star of the University of North Carolina has decided to settle in Greensboro and will sell investment securities here and in the surrounding territory.

London's Reactions to British Loan

(Continued from page 3004)

race from 5 years fixed in the Bretton Woods agreement to 12 months is subject to much criticism, for it is widely felt that even five years are not a long enough period. Few people doubt that within another 12 months or less after the relaxation of exchange control the proceeds of the loan will be exhausted, partly as a result of the adoption of multilateral trading enabling the Dominions to spend abroad the proceeds of their exports to Britain, and partly through illicit capital outflow facilitated by the loopholes created in the hitherto watertight restrictions.

Most Socialists received the announcement with mixed feelings. On the one hand, they are pleased that their Government is now able to retain popularity, during the next two years at any rate, by maintaining and increasing supplies for consumers and by making better progress with reconstruction and the reconversion of industries. On the other hand, they dislike the idea of unplanned free trade as a result of which calculations in the planning of production are liable to be upset.

Forecasts U. S.-British Friendly Relations

There is, however, one aspect of the agreement which is universally welcomed; that it makes for friendlier relations with the United States. Although many people feel that the price paid for it is too high, in general it is felt that closer collaboration with the United States is worth some sacrifices. This feeling did not prevent, however, the expression of some acrimonious criticisms of the American attitude during the debates on the part of many opponents of the scheme. Possibly in some instances this criticism was expressed more strongly than is actually felt, in the hope that as a result of the reaction to American opinion, Congress might reject the scheme. This indeed is the last hope of the opponents, who have realized that they had no chance to win over the House of Commons.

Alister Colquhoun Dies

Alister C. Colquhoun, manager of Brown Brothers Harriman & Co., 59 Wall Street, New York City, died on Dec. 10. Mr. Colquhoun became associated with Brown Brothers, Harriman & Co., more than 30 years ago, becoming manager in 1941. An authority on foreign funds control, he was a member of the Bankers Association for Foreign Trade.

Frank Butchart Forms Inv. Firm of Frank Butchart Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — Frank Butchart has formed Frank Butchart & Co. with offices in the American Bank Building, to continue his investment business. He was formerly a partner in Hess & Butchart.

NYSE to Close Dec. 24th

The New York Stock Exchange will close on Monday, Dec. 24th, making a three-day shutdown for Christmas, the Board of Governors decided.

Officials of the New York Curb Exchange made a similar announcement shortly after the action of the big board. The New York Cotton Exchange will close on both Dec. 24th and Dec. 31st.

Governors of the Stock Exchange had turned down the proposal to close on the two Mondays at a meeting on Dec. 6th but reconsidered.

Public Utility Securities

Appraising Utility Common Stocks

There have been several recent offerings of utility common stocks—Florida Power, Central Arizona Light & Power and Sioux City Gas & Electric—and others such as Pennsylvania Power & Light and General Public Utilities have appeared on a "when issued" basis. While the cumbersome prospectuses prepared on new offerings contain a wealth of information, this is not presented in ABC form for the uninitiated investor. As a number of additional stocks may appear in 1946, a brief discussion of some of the principal factors affecting the market values of these issues may be of interest.

In making bids for these common stock issues the underwriting houses work on the basis of comparison with general market averages, and more particularly with other utilities having similar characteristics to the new issues. Probably the most important factor is **income yield.** The issues mentioned above were marketed within a range of 4.50% to 4.70%, which is close to the average for the sixty-odd electric-gas operating company stocks now traded in.

Second in importance appears to be the **price-earnings ratio**, but here there is room for greater variation because of the numerous factors which may change the earnings picture in 1946. Florida Power was retailed at 16.6 times earnings, Central Arizona at 15.6 and Sioux City at 19.4. The average of 17.2 is about the same as the recent average for all operating company stocks. In the case of Florida Power, the earnings figure did not reflect substantial savings anticipated from the reduced cost of fuel oil. With Sioux City, the very high ration may be due to the conservative character of the earnings statement, which omitted the earnings equity in a subsidiary. Estimated tax savings in 1946 also entered into the question in each case.

The question of **rates and percentage earned on investment** may rank next in importance. The average residential revenues per KWH are compared with those of neighboring or similar companies, and with the U. S. average; the annual residential usage is also of interest in this connection. But the rate average alone does not necessarily indicate whether a company is vulnerable to a rate cut. The ratio of net operating revenue to net plant account is also of interest, but must be studied in relation to the local regulatory background. Houston Lighting, for example, has for years earned a high percentage return on its investment, but there is no State regulatory authority in Texas other than the Legislature, which has allowed a return of 8% subject to the action of municipal authorities. In other states regulation may be regarded as stringent or liberal, depending on the political set-up, the history of local regulation, etc. The statistics must therefore be interpreted in the light of these general considerations, as well as the Company's own rate policy and history.

In considering the rate of return, it is also essential to know what **"net plant account"** really means. Have intangibles been written out of the balance sheet? Has plant account been written down to cost of acquisition, or original cost? Is the company subject to the jurisdiction of the FPC (or of some State Commission which has followed the lead of the FPC in enforcing original cost)—and if so, how will this affect plant account when the write-offs are completed? Is the depreciation reserve ample in relation to plant, and is the annual appropriation in line with approved standards? In other words, does the company have a "clean slate" from an accounting and regulatory point of view?

Capital structure may play an important role in valuation. Other things being equal, the larger the common stock equity in relation to the bonds and preferred stock, the higher the investment caliber of the issue is likely to be. Some of the highest price-earnings ratio are found among the New England utility stocks which have traditionally been financed largely on a common stock basis.

However, the capital ratio may not necessarily always work in the same way as a market determinant. In the 1920's, the public sought "leverage" and of course the smaller the common stock equity the higher the leverage. During the 1930's and perhaps until recently, high leverage became unpopular, since it reflected the promotional phase of the 1929 market. The present trend, however, appears to be

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H. W. Metzger With McLaughlin, Baird Co.

McLaughlin, Baird & Reuss, 1 Wall Street, New York City, members of the New York Stock Exchange, announce that Howard W. Metzger has become associated with them.

H. Hentz & Co. to Admit

H. Hentz & Co., 60 Beaver St., New York City, members of the New York Stock Exchange, will admit Stanley Hesse, Exchange member, and John H. Kaplan to partnership on January 1. Mr. Hesse has been active as an individual floor broker. Mr. Kaplan has been associated with the firm for some time.

Chicago Stock Exchange to Close Dec. 24th

CHICAGO, ILL.—By special action taken by the board of governors, the Chicago Stock Exchange will be closed Monday, Dec. 24, 1945, it was announced today.

To Be Newbold Partner

PHILADELPHIA, PA.—Clement B. Newbold will become a limited partner on January 1 in W. H. Newbold's Son & Co., 1517 Locust Street, members of the New York and Philadelphia Stock Exchanges.

Government and the Insurance Business

By HON. JOSEPH C. O'MAHONEY*

U. S. Senator from Wyoming

Senator O'Mahoney, Asserting That the Issue of Our Time Is the Conflict Between Free Enterprise and a Managed Economy, and That We Are Faced With the Great Evil of Arbitrary Central Power, Points Out That Under Act of March 9, 1945 Congress Expressed the Belief That State Regulation and Taxation of Insurance Is in the Public Interest. Holds Act Puts State Regulation on Trial, but Does Not Relieve Insurance Companies From the Full Scope of the Federal Anti-Trust Act. Calls Upon States to Improve Their Insurance Departments if They Are to Retain Powers Granted by the Federal Act. Says Problem Is Now in Laps of the States and the Industry.

Sen. J. C. O'Mahoney

It is impossible to talk intelligently about the relationship of government and business—particularly about the relationship between Government and the insurance business—without first taking account of the times in which we live. He who cherishes the belief that after this war it will be possible to restore the structure of economic and political organization to the prewar status is simply not using his mind. There is no road back. There is only the road forward. Every person who holds any position of responsibility in Government or in business, indeed every citizen, must begin his contemplation of the problems of reconversion and reconstruction by deciding first of all what sort of a world he wants to live in when the turbulence and the uncertainties of the present hour have passed.

The question is, and it is addressed to everyone:

Do you want to live in a managed economy, an economy managed by the State or by some private group?

Do you want to live in an economy which is designed to serve the public interest and which, in the American tradition, is conducted under rules laid down by the people themselves?

The history of mankind through all the centuries has been the history of a struggle involving power, property and people. Of these three the people are always and finally triumphant. The American Revolution itself, out of which sprang this Government, was a victory of the people over the political power of the king and the property interests of the Tories who did not want their "comfortable" position disturbed by the rag-tag and bobtail which made up George Washington's armies. All through history on every continent and in every area there has been a struggle for power between contending groups which have sought to control and direct the Government in their own interests.

Until this Government of ours was founded there never had been a government based upon the principle that all of the people are the source of both economic and political authority. Every President of the United States for the first quarter century of its history, either in his inaugural address or in a message to Congress, referred to this Government as an experiment in popular sovereignty, and Abraham Lincoln said that the Civil War was fought to determine whether or not popular government could endure.

Totalitarianism Persists

All of this is merely preliminary to the statement that the war from which we have just emerged was one in which our Government and our people engaged to prevent totalitarian power from destroying this traditional American concept of what government ought to be. We have won the war, but the fight to preserve the American ideal of free government has not yet been won because totalitarian ideas and imperialistic ideas, both of which are absolutely contrary to everything for which this nation stands, are still struggling to preserve their power over people.

Great Britain is fighting a little war of aggression in the Dutch East Indies to crush the Indonesian counterparts of Washington's rebels. The British are doing it not to regain their own colonial position of power, but to help the Duthh re-establish their sway over the people of Java. They are not content to lend-lease their own army and navy to sustain the Dutch Empire, but they have gone so far as to organize Japanese mercenaries to carry on a war the object of which is to maintain the system of imperial exploitation in Asia.

While this is going on in the South Pacific, Russia is pursuing a similar policy in the Middle East and in Eastern Europe.

The struggle for power over people is not confined to Europe and Asia. It rages in South America, also.

Surely in the face of this it needs no argument to prove that

(Continued on page 3023)

*An address by Senator O'Mahoney before the Insurance Federation of New York in New York City, Dec. 5, 1945.

Real Estate Securities

News on Various Issues

WE HEAR THAT:

Court Asks Higher Bid On Hampshire House—Supreme Court Justice William C. Hecht Jr. has denied the application of Series C-2 trustees for approval of the sale of Hampshire House, at 150 Central Park South, to Arnold S. Kirkeby for $3,235,000 cash but has given the bidder the right to increase his bid to $3,550,000 before the end of the year to get the property.

Justice Hecht based his decision largely on an appraisal prepared for the court by Frederic D. Sasse, President of George A. Bowman. Inc. He also pointed out that total room revenue for the fiscal year which ended on Sept. 30, 1945, was $863,405. The tax valuation of the property is $3,250,000.

Hampshire House occupies a plot 117 by 120 feet between Avenue of the Americas and Seventh Avenue, and contains 219 apartments.

New York Title & Mortgage Company — Series C-2 will on Dec. 30, 1945 make a principal distribution of 8% and an interest distribution of 2%. The principal distribution on Series F-1 will be 1%, the interest distribution 2¼%. Series B-K will distribute 6% principal and 3% interest.

Broadway Trinity—Will pay interest Jan. 1, 1946 at the rate of 3% per annum and in addition will make available the sum of $25,000 for use as a sinking fund.

Beacon Hotel Corporation—Reports that the Court of Appeals of the State of New York has confirmed the reduction of our real estate assessments for the year 1942/1943 to $2,250,000; and for 1943/1944 to $2,225,000.

The decision of the Court of Appeals results in a reduction of the assessed valuations for the above mentioned years of $3,000,000, in the aggregate and a net recovery after all expenses of approximately $65,000.

Further recoveries may be received from proceedings for the year 1944/1945 and for the year 1945/1946 which will be instituted unless a reduction is voluntarily made in the real estate assessment for these years by the City of New York.

The Board is hopeful of making an interest distribution next April of $30 per $1,000 bond, in addition to setting aside at least $44,000 for the purpose of retiring bonds.

Court & Remsen Building Corporation—Monthly statements for the five-month period ended Sept. 30, 1945 show a net after bond interest at 3¼% per annum of $22,362 in comparison to a net of only $6,352.00 for the annual period ended April 30, 1945.

Lubin Predicts Drastic Employment Drop

Labor Statistics Chief Expects Six to Nine Million Jobless by Spring, With Sharply Reduced Production and National Income. Endorses Fact-Finding Boards in Wage Disputes, With Power to Subpoena Employers' Records.

A further perceptible drop in industrial production, employment, and national income, was forecast by Isador H. Lubin, United States Commissioner of Labor Statistics and Presidential adviser, the New York "Times" reported. In an address before a conference on reconversion sponsored by the Public Administration Clearing House in Chicago, December 17, Mr. Lubin disclosed that government statistics indicate 6,000,000 to 9,000,000 unemployed by Spring, with an ensuing reversal in trend thereafter. Stating that the country's goal for its national income should be $170,000,000,000 he said that this income must be so distributed that individuals would receive $13,000,000,000 of the total. He calculated that this would provide a weekly wage of $45 for the average worker. "The American people are going to have to spend $46,000,000,000 more than they did in 1941 to achieve this national income," Mr. Lubin added. He urged continued price control with a clear cut Government statement of the period during which such control would be retained.

Isador Lubin

Mr. Lubin warmly endorsed President Truman's "fact finding" formula for settling wage disputes, recalling that the Labor Department made a similar recommendation several years before the war. He contended that fact finding boards should have the authority to subpoena pertinent books and records of employers to determine their ability to pay higher wages. He said that there was little doubt that industry can afford to pay higher wages without general price increases, and that Government policy is based on that assumption.

C. P. Walker Jr. With Paul H. Davis & Co.

CHICAGO, ILL. — Clifton P. Walker, Jr. has become associated with Paul H. Davis & Co., 10 South La Salle Street, members Stock Exchanges. Mr. Walker was formerly Executive Vice-President of First Securities Company of Chicago, with which firm and its predecessors he had been associated for many years.

To Be Shields Partner

BOSTON, MASS. — Charles W. Eaton, Manager of the Boston office of Shields & Co., members of the New York Stock Exchange, 24 Federal Street, will be admitted to partnership on Jan. 1st.

Stern & Co. to Admit

Stern & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Maurits E. Edersheim to partnership on Jan. 1st.

Macart, Jones Co. Formed

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, COLO. — Macart, Jones & Co., has been formed to conduct a securities business. Partners are Leon Macart, Samuel T. Jones, Jr., and Dr. Bruno DeRose. Mr. Macart was with R. G. Bulkley & Co., prior to serving in the U. S. Navy.

White, Weld Partners

David Weld and Harold T. White, Jr., will become partners in White, Weld & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1st.

Holcomb in New York

Walter W. Holcomb is engaging in a securities business from offices at 489 Fifth Avenue, New York City.

The International Trade Struggle: Great Britain and Latin America

By DR. RICHARD SCHUELLER*

International Authority Emphasizes Vital Importance to American Trade Interests of Great Britain's Prospective Abolition of Exchange Controls. Hails U. S.-U. K. Loan Agreement as Countering the Surprisingly Strong British Trend Toward Permanent Control of Foreign Trade. He Warns That the Washington Agreement Does Not Solve the Commercial Problems of Latin American Countries, Predicting That Their Postwar Exports to the U. S. Will Decline, and Their European Market Will Be Uncertain. He Cites Various Measures They Are Now Utilizing for Promoting Reciprocal Trade Among Themselves.

In the statement on the American Loan Great Britain agrees that it will immediately abolish exchange controls in respect to products of the United States and that within a year it will abolish these controls in respect to the products of all other countries. If there had been no such agreement, the gap in the British balance of payments would have compelled it to maintain exchange control, and the Latin American republics and many other countries would have been obliged to apply exchange controls in order to maintain or to increase their exports to the United Kingdom and to unfreeze their sterling balances. They would have had to buy more British and less American goods, and the diversion of Latin American imports from the United States to Great Britain might have amounted to about 200 million dollars a year. Such a loss would not be of vital importance to the United States but it would imply that thousands of import licenses would be refused to American businessmen and that Washington would be flooded with their complaints. Such a policy was bound to appear the more obnoxious to American eyes as it would be applied not only in Latin America but also in all the countries of the sterling group. Thus American trade would be discriminated against in a large part of the world, and cooperation between the United States and the United Kingdom and the United States and the Latin Americas would have become impossible.

Richard Schueller

*An Address by Dr. Schueller before The New School for Social Research, N. Y., Dec. 13, 1945.

(Continued on page 3029)

Approves British Loan

Wilbert Ward, National City Bank Vice-President, Says It Is Essential to Restore Multilateral Trade. Must Stabilize Sterling. Dollar Rate to Have Maximum Volume of International Commerce.

Wilbert Ward, President of the Bankers Association for Foreign Trade and Vice-President of the National City Bank of New York, on Dec. 12 and 13 discussed with various groups of Twin Cities businessmen some aspects of our foreign trade. On both occasions Mr. Ward was asked to comment with respect to the proposed loan to Great Britain. Mr. Ward said in part:

"... The chief benefit we will gain from the proposed credit to the United Kingdom will be that the support thus given will enable the United Kingdom to return to its traditional policy of multilateral trading from which it was forced to depart due to the exigencies of war. This seems to me to afford a fair basis for the negotiation of a business bargain premised on the conviction that in peace as in war our interests are complementary and interlocking; our foreign trade rises and falls with theirs. We are mutually each other's best customer. It is in our best interest, as it is in that of Great Britain, that a mutual beneficial business bargain should be concluded between us. I doubt whether anyone can suggest an addition to or modification of the arrangement which has not been patiently considered by the negotiators, and I suggest that the time has come to put our support solidly behind the plan that has been worked out. We must not overlook the alternative to the conclusion of such a deal. What reasonable prospect is there for the reestablishment of an orderly world economy and the achievement of a maximum volume of international trade, until the relationship between the dollar and the pound sterling—the two currencies in which the major part of world trade has been conducted for the past century—has been reestablished on a sound basis?

Wilbert Ward

Newburger & Hano to Admit Four Partners

PHILADELPHIA, PA.—Newburger & Hano, 1419 Walnut St., members of the New York and Philadelphia Stock Exchanges, will admit Herman P. Liberman of the retail sales department, S. Nathan Snellenburg and Robert S. Thanhauser of the investment advisory department, and James W. Wolff, Manager of the syndicate department in the New York office, to partnership on Jan. 1.

L. F. Rothschild & Co. to Admit T. Hockstader

Thomas H. Hockstader will be admitted to partnership in L. F. Rothschild & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on January 1st. Charles A. Sulzbacher, Exchange member, will retire from the firm on Dec. 31st.

Dealer-Broker Investment Recommendations and Literature

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

Canadian Funds in New York—A chart covering the period Jan. 1, 1919 to June 1945, which records monthly high and low averages of the Canadian Dollar in terms of the United States Dollar—Wood, Gundy & Co., Inc., 14 Wall Street, New York 5, N. Y.

I. C. C. Comment—Data on transportation statistics—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Chicago, Rock Island & Pacific.**

Industry Trends—Current developments—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

New England Company—Analysis of company established in 1862 on which there are arrears on the 5% $100 par preferred stock of $67.50 and interesting recent earnings range per share after taxes—ask for analysis M. C. P.—Raymond & Co., 148 State Street, Boston 9, Mass.

News & Views—Current data on the insurance and banking fields—Butler-Huff & Co., of California, 210 West Seventh Street, Los Angeles 14, Calif.

Also a study of **Bank of America N. T. & S. A.**

Preferred Stock Guide—Comparative figures on public utility preferred and common stocks—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Securities Widely Held in Wisconsin—A tabulation—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Shipbuilding Industry—Study of "a completely overlooked investment situation"—Penington, Colket & Co., 70 Pine 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 Service Co.—Circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Arden Farms—Late analysis—also memoranda on **United Light & Railways** and **Queensborough Gas & Electric Co. 6% preferred**—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Chicago Railway Equipment Co.—Analysis of high leverage common stock—Sills, Minton & Co., Inc., 209 South La Salle St., Chicago 4, 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; United Artists Theater Circuit; and Purolator Products.**

A. De Pinna Company—Circular—Herrick, Waddell & Co., Inc., 55 Liberty Street, New York 5, N. Y.

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

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

Farrell-Birmingham Co.—Analysis—W. J. Banigan & Co., 50 Broadway, New York 4, N. Y.

Federal Water & Gas Corporation—Memorandum—J. G. White & Company, 37 Wall Street, New York 5, N. Y.

Forty Wall Street 5s of 1966—Memorandum—G. L. Ohrstrom & Co., 40 Wall Street, New York 5, New York.

Franklin County Coal—Analysis of condition and post-war prospects—F. H. Koller & Co. Inc., 111 Broadway, New York 6 N. Y.

Gro-Cord Rubber—Recent analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

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.**

Johnson Automatics—Descriptive memorandum on low-priced building stock—Du Pont, Homsey Co., Shawmut Bank Building, Boston 9, Mass.

Kendall Company—Descriptive circular—Seligman, Lubetkin & Co., 41 Broad Street, New York 4 New York.

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

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, York Corrugating, American Insulator,** and **Locomotive Firebox.**

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

Midland Realization and Midland Utilities Common—Revised bulletin—Doyle, O'Connor & Co. Inc., 135 South La Salle Street, Chicago 3, 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.

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

New England Lime common—Descriptive circular—Dayton Haigney & Co., 75 Federal Street, Boston 10, Mass.

Northern Engineering Works—Circular—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Reda Pump—Memorandum—Buckley Brothers, 1529 Walnut Street, Philadelphia 2, Pa.

Also memoranda on **Gear Grinding Machine Co.** and **United Printers & Publishers.**

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.

Scranton Spring Brook Water Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

United Light & Railways Company—Study of common stock—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

U. S. Sugar—Circular—J. F. Reilly & Co., 40 Exchange Place, New York 5, N. Y.

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

J. W. Clarke Field Commissioner for FLC

John W. Clarke, Chicago investment banker, has been appointed FLC Field Commissioner for Canada, Newfoundland, Greenland, Iceland, Bermuda and the Bahamas, Thomas B. McCabe, Commissioner, announced today.

Lt. Col. J. W. Clarke

Headquarters of the new Field Commissioner office will be maintained at FLC Headquarters in Washington, McCabe said, and a sub-office will be established at Ottawa, Canada, in the near future. Other sub-offices may be set up in the area as warranted.

"We are fortunate in securing a business executive with the experience and qualifications that Mr. Clarke possesses," Mr. McCabe stated. "Men of high caliber and executive and business leadership are departing Washington in growing numbers, and we are finding it increasingly difficult to secure vitally-needed key personnel. Therefore, Mr. Clarke's acquisition at this time is particularly welcome and his addition to the staff should help in many of our complex surplus problems."

Mr. Clarke, who joined the Washington staff of FLC and is now organizing his own office personnel, recently was released from the Army, after attaining the rank of Lieut. Colonel and serving since 1943 with Allied Military Government in Africa and Italy. He was Controller of Financial Institutions in Rome, Regional Finance Officer for Tuscany, and Senior Finance Officer of AMG 5th Army.

He is President of the investment firm bearing his name and is on leave of absence for duty with the Government. He has been prominent in Chicago and New York investment circles for the past 25 years.

Kebbon, McCormick to Admit W. K. Morris

CHICAGO, ILL.—Kebbon, McCormick & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges, will admit Wyllys K. Morris to partnership on Jan. 1. Mr. Morris has been with the firm for some time in charge of the research department.

Gustave Gooden Joins Robt. Showers Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Gustave E. Gooden has become associated with Robert Showers, 10 South La Salle Street. Mr. Gooden was formerly sales manager of the Northern Trust Company with which he had been connected for twenty years.

NSTA Notes

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis will hold its annual Christmas party on Saturday, Dec. 22, in the Jefferson Hotel Crystal Room. A buffet luncheon will be served, following which a drawing for prizes will be held.

The Entertainment Committee have made preparations for one of the largest attendances in the history of the Club.

Members of the Committee are: F. Howard White, Stifel, Nicolaus & Co., Chairman; Ray Denyven, Fusz-Schmelzle & Co.; Eddie Oldendorph, Reinholdt & Gardner; Mike Sestric, I. M. Simon & Co.; and Jerry Tegeler, Dempsey, Tegeler & Co.

BOND TRADERS CLUB OF CHICAGO

The Nominating Committee of the Bond Traders Club of Chicago has unanimously selected the following members to hold office during the 1946-1947 fiscal year:

Howard Morton

President: Howard Morton, McMaster, Hutchinson & Co.; Vice-President: Glenn Darfler, Kneeland & Company; Secretary: Howard McHugh, Ames, Emerich & Company; Treasurer: Charles Matz, Harriman Ripley & Co.

Any nine members of the organization may make nominations for the four elective offices and must announce same to the Secretary within one week after formal announcement is received of the Nominating Committee's selections. If no suggestions are received within the allotted time, the Nominating Committee's selections shall be considered unanimously elected.

Plans for the Jan. 29 Party are rapidly taking shape, and the Committee is expecting a large out-of-town attendance. It is suggested that all members contact their out-of-town friends who may wish to attend, and urge the necessity for making hotel arrangements at once.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia tendered a reception and dinner to their service members who have already returned. It was held at the Benjamin Franklin Hotel on Dec. 12.

There were in attendance about 90 members and 19 service guests. The service guests were: Len Bailey, Tom Bowers, Bob Brooks, Ed Christian, Connie Dorsey, Jack Fant, Bill Gerstley, Freeman Grant, Phil Hawley, Ben Lowrey, Steve Massey, Al McBride, Newt Parks, Ned Phillips, Les Rodgers, Joe Smith, Jack Swann, Al Warner and Howle Young.

Highlights of the dinner were stories and experiences as told by Len Bailey, Jack Swann and Ned Phillips. George Munger, head football coach of the University of Pennsylvania, gave a short account of the Penn team during the past season and illustrated a few standout plays with movies.

Another such gathering is planned for the spring when most of the other boys in the service will probably have received their releases.

CLEVELAND SECURITY TRADERS ASSOCIATION

The Cleveland Security Traders Association will hold their annual mid-winter party on Friday Jan. 11, 1946 at Hotel Statler. It is expected and planned that Cincinnati, Columbus and Toledo will be well represented, thereby making it an all-Ohio party. All affiliates are being advised of the party and we cordially invite all out-of-state members but request that notice of attendance be reflected as soon as possible and no later than Jan. 8. Certain hotel space is being provided for and definite reservations should be made by writing: Carl H. Doerge, Wm. J. Mericka & Co., Inc., 1116 Union Commerce Building, Cleveland 14, Ohio.

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN

The Securities Traders Association of Detroit and Michigan, Inc. held its annual fall dinner Friday, Dec. 7, in the Champagne Room at the Penobscot Club. Paul I. Moreland, Moreland & Co., is President. The Committee in charge of the party consisted of Claude G. Porter, Baker, Simonds & Co.; H. Terry Snowday, E. H. Rollins & Sons, and Douglas H. Campbell, First of Michigan Corp.

Facing Facts on Consumer Credit

By CARL M. FLORA*

Chairman, Committee on Consumer Credit, American Bankers Ass'n Vice-President, First Wisconsin National Bank, Milwaukee

Consumer Credit Spokesman for ABA Points Out Progress Banks Have Made in This Field, but Warns Against Undertaking Business Without Adequate Study and Precaution and Without Experienced and Efficient Personnel. Foresees Postwar Expansion of Consumer Credit by Banks and, Though Stating That Consumer Credit Is "Not Fool Proof" and That Its Profits Are Exaggerated, He Holds That This Extension of Bank Activity Is Beneficial by Improving Public Relations, Expanding Mass Production Through Larger Markets and Raising Wage Earners' Living Standards. Cautions Against Abuses and Concludes That "Bank Consumer Credit Will Make the Most Democratic Banking System Even More Democratic."

It is a privilege which I greatly appreciate to discuss consumer credit with you today. You gentlemen, as secretaries of the state banking associations, are in a position to influence very materially the activity of banks in consumer credit throughout the United States.

Carl M. Flora

Not many years ago consumer credit was an extremely controversial subject at a meeting of bankers. Today it is very popular. Optimistic predictions have been made on the tremendous market that will exist for this credit when we reach full production. The safety of this type of credit has been stressed. The profit picture has often been painted in rosy hues, and the virtues of consumer credit as a creator of good public relations have been extolled.

You have heard and read innumerable times of the profitable operations of sales finance and personal loan companies. In addition, it has been emphasized, and I might add accurately, that a very low degree of loss has been incurred by these companies through periods of war and depression, as

*An address by Mr. Flora before the State Section of the American Bankers Association in St. Louis, Mo., Dec. 12, 1945.

(Continued on page 3034)

Government and Nation's Budget

By HAROLD D. SMITH*

Director, Federal Bureau of the Budget

Asserting That the Federal Budget "Is the Most Far-Reaching Document Which the Government Formulates," Mr. Smith Describes the Process of Budgeting Under the Budget and Accounting Act. Holds Budget Bureau's Functions Consist of (1) Seeing That the Agencies Render Services Authorized by Congress, and (2) Seeing That the Services Are Rendered in Most Economical and Efficient Manner. Advocates Putting Government Corporations Under Budget Control and a Broadened Approach to Our Federal Budget as Prescribed in Full Employment Act. Estimates Post-War Budget at About $25 Billions, and Concludes That in View of Responsibility of Government to Stabilize Economic Conditions Through Fiscal Policy, There Must Be More Cooperation Between Business and Government.

You know that the Director of the Bureau of the Budget is not a popular man. If you need any evidence of this fact, I can supply plenty of it.

Harold D. Smith

Among businessmen and taxpayers generally he is damned as the bureaucrat who in some way is personally responsible for the multi-billion dollar budget and the taxes which go with such a budget. He is a spendthrift and a visionary. Within Government, on the other hand, he is equally damned as a stubborn realist and a miser. He is the man who blocks brilliant ideas and pet schemes merely because they cost a few million dollars.

Perhaps the worst cases are those of double talk. I refer to the men who publicly shout for economy in Government, then privately come to my office to urge some local project of doubtful value. There have been many such men in my experience and they come from both public and private life. I once knew a member of a state legislature whose

*An address by Mr. Smith before the Golden Anniversary Congress of American Industry of the National Association of Manufacturers, New York City, Dec. 7, 1945.

(Continued on page 3033)

Michigan Brevities

Shareholders of the Manufacturers National Bank of Detroit will vote at their annual meeting Jan. 8 on a resolution to increase the common stock to $4,000,000 from $3,000,000. The increase would involve declaration of a stock dividend of $1,000,000 from undivided profits.

If shareholders approve and a certificate of approval is received from the Comptroller of the Currency, the bank will issue 20,000 new shares, $50 par value, which will be divided among holders of the present 60,000 shares at the ratio of one new share for each three held.

Bank directors have authorized presentation of the resolution, a letter to stockholders states.

* * *

A new record delegation of Detroiters attended the recent 34th annual convention of the Investment Bankers Association of America in Chicago. Included were John Watling and Gordon Hill of Watling, Lerchen and Co.; Ray Murray of the National Bank of Detroit; W. S. Gilbreath, Emmett F. Connely and Douglas Campbell of the First of Michigan Corp.; Philip K. Watson of Campbell, McCarty & Co.; William C. Roney and Clyde Hagerman of William C. Roney & Co.; Ralph Simonds of Baker, Simonds & Co.; Ralph Fordon of Watkins and Fordon, Inc.; James B. Shannon of Miller, Kenower & Co.; McPherson Browning and Oscar Buhr of the Detroit Trust Co.; William Moore and Harold Chapel of McDonald Moore & Co.; Charles B. Crouse of Crouse, Bennett, Smith & Co.; Charles A. Parcells of the Charles A. Parcells Co.; Fred A. Bargmann and William M. Adams of Braun, Bosworth & Co.; Merle Bowyer of Paine, Webber, Jackson & Curtis; Wayne Spade of Merrill Lynch, Pierce, Fenner & Beane; Hale V. Sattley of H. V. Sattley & Co., and S. R. Livingston of S. R. Livingston & Co.

* * *

Shares traded on the Detroit Stock Exchange in the month of November again reached a new high in volume with a total of 867,214. This compares with 649,931 shares in the preceding month and 204,577 shares in November, 1944.

The month's total is the largest since February, 1936, when 949,118 shares was traded.

Activity in November was well distributed throughout the month commencing on Nov. 2, with 68,422 shares, and ending Nov. 30, with 55,650 shares.

It is anticipated that the trading pace in December will be maintained if the results of the first day are any indication. The two-hour Saturday session was one of the busiest in recent years with 41,827 shares changing hands.

* * *

Detroit Stock Exchange announced that trading in the common stock of King Seeley Corporation, manufacturers of automotive items and household appliances, began Dec. 7. The exchange has listed 362,500 shares of $1.00 par value common stock, of which 112,275 shares are unissued and reserved for conversion of the preferred stock.

* * *

Michigan's effort in the Victory Loan drive kept pace with the production line records during the past four years, it was revealed at the farewell report meeting of the Wayne County Banking Division, War Finance Committee at the Penobscot Club, Wednesday, Dec. 12.

While the final total figures for the state will not be ready until after the first of the new year, indications are that the entire state will be in line with Wayne County figures. During the eight bond drives a total of $1,783,559,000 sale of bonds exclusive of "E" were sold in Wayne County. Since Wayne County accounts for approximately one-half of the state's total it would follow that the state's banking division sales will aggregate $3,000,000,000. Wayne County sales totals were 11 times more than those of the Liberty Loans in World War I.

Detroit Personnels

DETROIT, MICH.—**Robert G. Mace** has joined the staff of **Goldman, Sachs & Co.**, after serving in the U. S. Navy.

DETROIT, MICH.—**Charles M. Simmonds** has rejoined the sales department of **M. A. Manley & Co.**, Buhl Building, after his discharge from his Army post at Ft. Riley, Kansas where he had been training as a radio operator in the Field Artillery branch.

DETROIT, MICH.—**Gordon D. Campau** has rejoined the staff of **Paine, Webber, Jackson & Curtis**, Penobscot Building, after serving in the U. S. Army.

Firm Name Changed to Bennett, Smith & Co.

DETROIT, MICH. — Effective January 2, the firm name of Crouse, Bennett, Smith & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges, will be changed to Bennett, Smith & Co.

Detroit Bond Club Luncheon; Xmas Party

DETROIT, MICH.—The Bond Club of Detroit was addressed at a recent luncheon by Col. Cass S. Hough, Eighth Air Force, U. S. A. A. C. Colonel Hough's subject was "Aerial War Over Germany" and was followed by moving pictures of actual combat action and strafing operations. This luncheon was part of the Bond Club's program for the year, to be followed by a pre-Christmas cocktail party, on Dec. 21, which will be in the nature of a "Welcome Home" gathering for club members who have returned from military or other service.

Roy F. Delaney Associated With Smith, Hague & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Roy F. Delaney has become associated with Smith, Hague & Co., Penobscot Building, members of the Detroit Stock Exchange. Mr. Delaney was formerly with the Michigan Corporation and Securities Commission in Detroit.

Connecticut Brevities

The income account of the New York, New Haven and Hartford Railroad for the ten months ended Oct. 31, 1945, as reported to the ICC showed total freight revenue of $71,655,407 and passenger revenue of $62,915,543 compared with freight revenue of $78,545,734 and passenger revenue of $62,801,818 for the corresponding period of 1944. The total available for fixed charges for these same periods was $19,773,442 and $22,083,901 which covered charges 1.97 times and 2.18 times, respectively.

Earnings per share on 490,367 shares of 7% preferred stock were $19.86 against $24.35, while the 1,571,186 common shares showed earnings of $4.38 and $5.78, respectively.

The balance sheet dated Oct. 31, 1945, showed net current assets of $48,487,891 compared to $35,146,439 a year ago.

* * *

For the month of October, 1945, the Southern New England Telephone Company reported gross income of $2,815,964 with a net of $207,481 compared with a gross of $2,562,437 and a net of $239,365 in October, 1944. Net income of $2,121,337 for the first ten months of this year compares with $2,060,242 for the corresponding period last year.

* * *

Among the local companies to declare extra year-end dividends are:

Hartford Fire Insurance Company, 50¢ extra together with the regular quarterly dividend of 50¢ payable Jan. 2, 1946; Torrington Manufacturing Company, 75¢ extra together with the regular quarterly dividend of 37½¢ payable Dec. 20; Phoenix Insurance Company, $1 extra along with the regular dividend of 50¢ payable Jan. 2, 1946; and Arrow-Hart & Hegeman Electric Company, $1 year-end dividend payable Jan. 2, 1946.

The consolidated income account of the Greenwich Water System, Inc., for the 12 months ended Sept. 30, 1945, showed net income of $186,272 against $209,081 for the preceding 12 months. Earnings per share on the 6% preferred stock were $7.28 and $8.17, respectively.

* * *

For the month of November, Connecticut Light & Power Company reported sales of 77,019,000 kwh. compared with 82,684,000 kwh. for November, 1944.

* * *

The Litchfield Electric Light & Power Company has petitioned the Connecticut Public Utility Commission for permission to consolidate with the Connecticut Light & Power Company. The hearing will be on Dec. 21.

* * *

On Dec. 14, the City of Stamford awarded $820,000 "1945 Public Improvement Highway Bonds, Series A," due $41,000 annually Dec. 1, 1946 to 1965, inclusive, and $235,000 "1945 Public Improvement Highway Bonds, Series B," due $28,000 annually Dec. 1, 1947 to 1955, inclusive, to a syndicate headed by Harriman Ripley & Co., Inc., at 100.6499 for a 1% interest rate. The next highest bid of 100.54 for bonds carrying a 1% coupon was submitted by Phelps, Fenn & Co. and syndicate. The bonds were reoffered to the public on a scale ranging from a .40% basis to 100½.

The Town of Stamford recently sold $600,000 notes due June 18, 1946, to the Bessemer Trust Company of Jersey City, N. J., at a .46% rate.

* * *

Allerton C. Hickmott has been elected a director of the Aetna Insurance Company and its five subsidiaries, to fill the vacancy caused by the death of W. R. C. Corson, late President of the Hartford Steam Boiler Inspection and Insurance Company. Mr. Hickmott is Financial Secretary of the Connecticut General Life Insurance Company, a trustee of the State Savings Bank, a trustee of the Guardian Investment Trust, director and treasurer of the New London Northern Railroad, and the Central Vermont Transportation Company.

* * *

The Gray Manufacturing Company is currently offering 42,180 shares of its common stock for subscription and purchase by the stockholders at $10.25 per share on the basis of one new share for each four shares now held. If all shares are taken up, the company will net some $422,000 which will provide additional working capital. Any unsubscribed stock may be sold by the Board of Directors within one year at prices not less than $10.25 a share.

3,364 shares are being issued in exchange for the outstanding stock of B. A. Proctor Co., Inc. This acquisition will give Gray ownership of the basic patents covering the Gray Audograph for which Gray now holds exclusive license.

* * *

For the period ended Nov. 4, 1945, Veeder-Root, Inc., after Federal income and excess profits taxes, showed net income of $424,830, or $2.12 a share against $711,325, or $3.55 for the same period a year ago. During these same periods, earnings before Federal income and excess profits taxes and contingencies were $708,211 compared to $2,184,046.

Provision for Federal income taxes and excess profits taxes for the current year total $283,381 which compares with $1,472,721 for 1944. Provision for contingencies in the amount of the Federal excess profits taxes post-war credit of $125,084 was made in the period ended Nov. 5, 1944. No provision has been made during the comparable period this year.

Chas. W. Scranton Co. to Admit Two Partners

NEW HAVEN, CONN.—Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange, will admit William J. Falsey and Paul Lybrand Sampsell to partnership on January 2nd. Mr. Sampsell is Manager of the New London office.

Sweden and World Trade

By HERMAN ERIKSSON*
Minister of Sweden to the United States

Swedish Diplomat, in Stressing His Country's Interest in World Trade and International Peace, Points Out Sweden's Dependence on Both Imports and Exports. Reviews Commercial Relations With Germany Before and During War and Contends That Although Transactions With Axis Country Increased, Sweden Received Payment in Full for All Goods Sold. Denies Sweden Profited by War, and Gives Information Regarding Sweden's Aid in Relief and Rehabilitation. Says Sweden Is Opposed to Bilateral Agreements and Advocates Most Favored Nation Reciprocal Trade Compacts and Freedom of World Trade. Calls for Widest Possible Freedom in International Commercial Intercourse.

When addressing a chamber of commerce and its guests in a world-center of trade such as New York, it is natural that I should discuss the trade situation and policies of my own country. As a starting point, we all agree, I am sure, that a free world trade is one of the most pressing problems of the day, ranking next to that of world peace, being, almost without a doubt, the most fundamental prerequisite for it. In this matter Sweden, a small country with a relatively important world trade, is vitally interested.

Herman Eriksson

Obviously, the opportunity to trade abroad is more important to a small nation with a limited home market and few natural resources, than it is to continental empires like the United States or Russia. Whereas your exports to foreign countries before the war represented some 5% of your national income, ours amounted to 20%. In the five years' period 1936-40, the average annual value of Sweden's exports was 1,715,000,000 kronor and the same figure for the imports was 2,068,000,000 kronor. From this you will notice that Sweden bought more than she sold, the difference on the balance of payments being made up for by incomes from other sources, such as shipping, tourist trade, Swedish investments abroad, remittances of former emigrants and the like.

Sweden's Interest in Foreign Trade

In other words, not only our foreign customers but our sources of supplies are of truly vital importance. To keep up our standard of living and achieve full employment, we must import not only consumers' goods such as coffee, fruit, textiles, etc., but also a great variety of raw materials, and semi-finished and finished goods such as cotton, rubber, gasoline, coal, chemicals, hides, airplanes, motor cars, machinery of many types and a large

*An address by Mr. Eriksson before the Swedish Chamber of Commerce of the United States, New York City, Dec. 12, 1945.

(Continued on page 3036)

House Extends Green Silver Act

Bill Will Continue Sale of Silver Bullion to Industrial Users for Two Years. Senate Now Considering Measure.

WASHINGTON, Dec. 19—The House of Representatives late this afternoon passed the Green-Martin Silver Bill. This Bill would insure industrial users of silver access to that metal idle in the Treasury during 1946 and 1947 at approximately 71¢ an ounce.

On Dec. 18, the Senate Banking and Currency Committee at its first public hearing on the pending Green bill heard testimony from Secretary of the Treasury, Fred M. Vinson, in support of the measure. Tomorrow the Senate Banking and Currency Committee will have another hearing, at which Senator Patrick McCarran of Nevada, leader of the Senate Silver Bloc is expected to testify.

The House action revives the possibility of renewal of the Green Act in some form this month. However, there is still the possibility of compromise in some minor respects. Compromises under discussion include a one year extension of the Green Act, instead of the two years provided in the Green-Martin Bill; also a Treasury commitment to monetize more of its idle seigniorage silver. Of the 300 million ounces of such silver which the Treasury last Summer undertook to monetize as needed, only about 125 million ounces thus far have been monetized. Beyond that program, the Treasury now holds about 275 million ounces of additional silver which is valuable at the moment, either for monetization or for sale to industry. Senator Abe Murdock of Utah has been the prime mover in seeking the monetization of idle silver in the Treasury.

Missouri Brevities

A special meeting of the stockholders of National Candy Company has been called for Dec. 27, 1945 to ratify a proposed change from a New Jersey to a Delaware corporation. This would be a preliminary step in a program to consolidate National Candy Company with the Clinton Company, corn products subsidiary in which it has an 89.9% stock ownership. It is also contemplated that the new company would change its name to the Clinton Company or Clinton Industries.

National Candy Common has featured trading on the St. Louis Stock Exchange for the past two years, reflecting management changes and greatly improved operations.

Illinois Terminal Railroad Securities Publicly Offered

Recent public offering of $13,500,000 First Mortgage 4% bonds due July 1, 1970 and 500,000 shares of Common Stock of the Illinois Terminal Railroad Company met with immediate success, being particularly well received by Missouri investors. The Company operates as a terminal switching railroad, a belt line, and as a carrier, serving St. Louis, Mo., and central and southern Illinois. It owns 476 miles of railroad and operates an additional 3 miles under lease. Approximately 386 miles of line is electrified and the balance is steam. In addition, the Company owns the McKinley Bridge, a railroad and vehicular bridge, which crosses the Mississippi River between St. Louis, Mo., and Venice, Ill.

The offering made possible the first public participation in the enterprise as the property has been owned by the Illinois Power Company which was required to sell under an SEC divestment order. Quarterly dividends of 17½c per share are planned and listing on the New York Stock Exchange will be requested, according to the prospectus.

Offering of the bonds was headed jointly by Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane of New York, and included G. H. Walker & Co. and Stix & Co. of St. Louis. The stock offering was headed jointly by Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co., of New York and G. H. Walker & Co. of St. Louis, and included the following Missouri dealers:

Newhard, Cook & Co., Reinholdt & Gardner, A. G. Edwards & Sons, Edward D. Jones & Co., Stix & Co., Metropolitan St. Louis Company, I. M. Simon & Co., Stifel, Nicolaus & Company, Incorporated, and Smith, Moore & Co., all of St. Louis, and Stern Brothers & Co. of Kansas City.

A. G. Edwards & Sons to Admit McElroy

ST. LOUIS, MO.—A. G. Edwards & Sons, 409 North Eighth Street, members of the New York, Chicago, and St. Louis Stock Exchanges, will admit Warren McElroy, Jr. to partnership on January 1. Mr. McElroy has been with the firm for some years.

St. Louis Dealers Exceed 8th War Loan Quota

ST. LOUIS, MO.—St. Louis Investment dealers in the final report showed total sales of $27,025,926 in the Eighth War Loan compared with an assigned quota of $11,356,250. Bert H. Horning, Stifel, Nicolaus & Co., was Chairman of the Investment Banking Division and the "Syndicate Managers" were Joseph A. Glynn, Jr., Blewer, Heitner & Glynn; Roy W. Jordan, G. H. Walker & Co.; Max S. Muench, Stix & Co.; Joseph G. Petersen, Eckhardt-Petersen & Co.; Mel M. Taylor, Semple-Jacobs & Co., and Robert A. Walsh, Dempsey-Tegeler & Co.

Bauer in East Orange

EAST ORANGE, N. J.—Kenneth Leo Bauer has opened offices at 470 Park Avenue to engage in an investment business.

Canadian Securities

By BRUCE WILLIAMS

In the world of tomorrow Canada's vast neglected northern frontier assumes a new vital importance. With the great land masses concentrated in the northern hemisphere, Canada in the age of air transport, is situated at the center of the world air-map. The shortest great circle routes between this country and Europe, Russia and Asia, pass over "the top of the world"—Canada's little known arctic boundaries.

It is logical to assume that **any future act of aggression will be by air. Therefore the vast uncharted spaces of Canada's northern empire constitute this country's Achilles heel.**

Thus it is interesting to note that Canada is about to send an Army and Air Force expedition through the Arctic early next year to explore the possibilities of military operations in this area. This northward penetration will be assisted by the current studies which are taking place at McGill University on the problems of existence in the Arctic. These steps have been taken in full cooperation with this country as part of the program of the American-Canadian Board of Defense, which is now meeting more frequently than during the war.

In addition to its military implications the opening up of the Canadian North will have far reaching economic repercussions. The Northern reaches of the fabulously mineral-rich Laurentian Shield, are virtually unexplored. Where geologists and prospectors have penetrated there have been fruitful results—the gold of the Youkon and Yellowknife, the uranium deposits of Great Bear Lake, the Norman Wells oil fields of the Mackenzie Basin, and the great outcrops of native copper in the Coppermine area of the Bathurst Inlet on the Arctic Ocean.

It has become increasingly clear that the Canadian Laurentian Shield will become the world's principal source of minerals of every description, both known, and as yet undiscovered. The airplane and the Alaska Military Highway placed the Canadian North on the map. The tremendous advance of air transport and the increasing strategical importance of this region can not fail to lead to spectacular developments in the near future, to the economic advantage of Canada and the world in general.

Turning to the market for the past week, further substantial gains were registered as anticipated in high grade externals and in Nationals in particular, which pushed through their all-time highs. Albertas and Montreals continued to forge ahead but Saskatchewans were inclined to lose their recent momentum.

Internals were less active and free funds eased slightly to 9¼%, although market opinion still does not rule out an imminent restoration of the Canadian dollar to parity with the U. S. dollar. Impetus was given to the parity movement when the spread between the buying and selling rates for the U. S. dollar in Canada was narrowed from 1% to ½%. It should be pointed out, however, that the 1% margin was unduly wide in comparison, for example, with the ¼% difference between the official buying and selling rates of sterling. Recent comments from London official sources have also tended to pour cold water on any parity enthusiasm.

With regard to future prospects, as in all investment markets the predominant influence is the demand for yield in the outstanding high grade issues. Canadian issues still have an advantage in this respect over comparable domestic securities and the existing differential should narrow in consequence.

Capital Investments in Canada Seen Large

Capital investments in Canada during the next four to five years in production and trade, exclusive of public works, may exceed $3,000,000,000, A. E. Arscott C.B.E., President of the Canadian Bank of Commerce, told shareholders of the bank at their annual meeting in Toronto on Dec. 11. Although money and credit are available for these large investments, Mr. Arscott told the meeting that certain obstacles which retard capital from being put to work must be removed. He listed, as a positive step in this direction, a further substantial modification of the excess profits tax. Two other vital requirements were stability in labor conditions and stability in prices.

"Domestic trade as a whole is still ahead of last year," Mr. Arscott said, "and while there may be smaller demands by those who have suffered through crop failures and by those seeking re-employment where war work has ended, the requirements of close to 300,000 men and women who already have returned to civilian life from the armed forces should have a conterbalancing effect." Discussing foreign trade, Mr. Arscott said that both exports and imports of "commercial" products remain at a high level, with a value about 50% above the prewar average.

Stock Market Reaction Prospects

Analyst, Basing His Conclusion on a Statistical Study of 50-Year Period, Holds That Chances of a Reaction of Sizable Proportions in the Stock Market Is Not Likely to Exceed 10% From the Present Level.

Aside from the basic underlying market factors and looking at the market in a technical light, the chances of a reaction of sizable proportions (say, exceeding 10%) developing from present levels are exceedingly slim — and non-existent if historical precedent is any guide.

Gordon Y. Billard

Considering reactions exceeding 10% in all bull markets for the past 50 years (there have been ten bull markets including the present one) the conclusion simply is, based on purely statistical data, that the prospects of a reaction exceeding this figure are more or less negligible until substantially higher levels are reached. This conclusion is based upon the demonstrated consistency between time and percentage in all market swings. The longer an upswing lasts the further it goes percentagewise. The present upswing, for instance, has lasted longer than any other previous upswing on record without encountering a reaction of as much as 10%, but the advance percentagewise has also been considerably less than for any other upswing of similar duration.

The last low point since a decline of 10% or more for the present bull market was 129.6 on Nov. 30, 1943. Since then there have been declines but none equaling 10% or more. There were, for instance, declines of about 5% in July-September 1944, about 3% in January 1945, about 6% in March 1945 and 5% in May-July 1945. As previously pointed out, we are not talking about these reactions—what we are talking about are those exceeding 10% (such as the break in July-November 1943 when the Dow Jones industrial average slumped from 145.8 to 129.6, or about 24%).

Summarizing, the conclusion based upon a 50-year statistical study of technical market data is that this market has a considerably further distance to travel before eventually experiencing a decline of as much as 10%. Specifically, the correlation of time and percentage factors in the movements of the Dow Jones industrial average indicates that based purely on historical precedent this index would have to hit 245 before Dec. 31, 1945 and if not that then about 265 by March 31, 1946. This is not to say that corrective reactions of less than 10% could not be experienced in the meantime. Nor is this a prediction that a correction of greater than 10% won't occur—anything can happen in any market anytime. We merely call attention to what the chances are based on a purely statistical study.—G. Y. Billard, Investment Research Department, J. R. Williston & Co., New York City.

Conquer Fear and Have Industrial Peace

By HON. L. B. SCHWELLENBACH*

Secretary of Labor

Pointing Out That Courage and Faith That Won the War Is Now Replaced by a Sense of Fear Pervading All Elements, Secretary Schwellenbach Ascribes the Labor Unrest to a Fear on Part of Both Labor and Management That the Conditions Prevailing During War Will Not Be Maintained. Holds Elimination of These Fears Will Cause Disappearance of Industrial Strife. Maintains That Authority Must Be Used to Establish a Quiet Zone in a Nerve-Wracked World and Upholds Collective Bargaining, but Says the Public Good Is Paramount and That Full Employment and Full Production Are Essential. Recommends a "Family Spirit" in Industry.

I wish in the beginning to talk with you for a few moments about a former resident of Detroit. His name was Thomas W. Wigle. He was a second lieutenant in the United States Infantry. He died on Sept. 14, 1944. After his death he was awarded the Congressional Medal of Honor for courage, gallantry and intrepidity, at risk of life, above and beyond the call duty. On that September day he found himself and his detachment at the foot of a hill near Monte Frassino, Italy. Atop the hill were three houses, protected by a triple wall, and commanded by 36 German paratroopers.

L. B. Schwellenbach

Twice a platoon of riflemen ad-

*An address by Secretary Schwellenbach before the Detroit Chapter of the Lawyers' Guild in Detroit, Dec. 10, 1945.

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Toronto Bond Traders Elect New Officers

TORONTO, ONT., CANADA—At its recent election, L. L. Bell of James Richardson & Sons was elected President of the Bond Traders Club of Toronto.

Other officers chosen were: C. W. McBride, Midland Securities Limited, Vice-President; R. M. W. Hitchcock, McLeod, Young, Weir & Company, Ltd., Secretary; F. J. Van Duzer, Mills, Spence & Co., Limited, Treasurer; Robert A. Webster, Royal Bank of Canada; H. P. Bell, W. C. Harris & Co., Ltd.; D. S. Beatty, Burns Bros. & Denton, Ltd.; Jay D. Sargent, Hart, Smith & Co., Ltd.; Joseph C. Mitchell, The Dominion Securities Corporation, Ltd., committee.

T. H. Baker, A. M. Ramsey & Co., is a member of the committee, ex-officio.

J. H. Gundy, Wood, Gundy & Co., is Honorary President, and W. E. Young, McLeod, Young, Weir & Co., Ltd., and H. E. Cochran, Cochran, Murray & Co., are Honorary Vice-Presidents.

Chairman of General Electric Co. Advocates Loan to Britain

Philip D. Reed, Speaking in Chicago and New York, Says Failure to Aid Britain Will Mean Creation of Economic Blocs and Drastically Reduce Volume of Foreign Commerce. Sees Loan as a Basis for Elimination of Trade Barriers and Preferences. Advocates U. S. Assuming Position of Leadership in World Cooperation and Calls for Greater Unity and Harmony Among Business Organizations, Congress and the State Department in Matters Relating to Foreign Trade.

In an address on Dec. 11 before the Illinois Manufacturers' Association, Philip D. Reed, Chairman of the United States Associates of the International Chamber of Commerce and Chairman of the General Electric Company, vigorously advocated extension of the proposed loan to Great Britain as the soundest business policy for this country and as the means of preserving the private enterprise system in foreign trade.

Philip D. Reed

Mr. Reed spoke at the 52nd annual dinner of the association, held in the Stevens Hotel in Chicago. In introducing his discussion of the loan proposal, he emphasized that the United States can no longer avoid the responsibilities of world leadership.

"We emerge from World War II as the greatest productive and military power on earth," he asserted, "and we simply cannot escape the consequences of that greatness. After World War I we let George do it, literally as well as figuratively, with tragic results. This time our very power gives us no alternative but to lead."

Failure to extend the loan, he pointed out, will mean the creation of economic blocs throughout the world that will exchange goods largely within themselves, under government domination. This will drastically reduce the volume of world trade, he said, and will become the source of irritation, ill feeling, and ultimately another war. He described as two of the worst things that could happen, an armaments race and the subdivision of the world into three or four blocs battling for economic dominance.

"An armaments race would be a direct threat to the peace we so greatly desire," he continued. "It would, to be sure, contribute to high employment, but it would reduce—not raise—our standards of living. . . .

"So also the partition of the world into economic blocs—a sterling bloc, a dollar bloc and a Russian bloc, for example—would not only inject the germs of World War III, but would seriously limit our opportunity for making more jobs and raising our standard of living here at home. The fact is that America and the rest of the world are economic Siamese Twins. Although they are free to

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Holds British Loan Unbusinesslike

In Houston "Chronicle" Editorial, Jesse Jones Points Out That Interest Rate Is Lower Than Long-Term Cost of Money to Treasury. Says There Is Nothing in the Agreement to Indicate That U. S. Will Receive Any Concessions Such as Foreign Bases, Raw Materials, Communications, Etc. Advocates, in Lieu of Loan, Sale of Food and Raw Materials on Credit.

In an editorial in the Houston "Chronicle," Jesse H. Jones, formerly Secretary of Commerce and Federal Loan Administrator, severely attacks the terms of the loan proposals to Great Britain, as recently announced, in the following language:

Jesse H. Jones

"United States negotiators have proposed that we make a loan to the United Kingdom of $3-750,000,000, to be repaid in 50 annual installments from 5 to 55 years, largely at the convenience of the British. No interest is to be charged on the loan for five years, and thereafter the rate will be 2% per annum. Allowing five year interest free, the average interest rate on the loan will be 1.62%, assuming that the interest will be paid continuously after five years. There is, however, a provision in the agreement that no interest will be charged in any year where the United Kingdom has an unfavorable international exchange position. If this should happen every year, we would get no interest whatsoever. If it happened in one-half of the years our average interest rate would amount to 0.81%.

"During the past few years the United States Treasury has been borrowing money from its citizens at an average interest of 1.92%, so that on the interest alone, assuming that we make the loan and that the British will pay it, we will have a very substantial loss in the difference between the interest we collect from the British and the interest we pay for the borrowed money.

"In addition to the loan of $3,-750,000,000, the terms and conditions of which bear little if any relationship to business principles, our negotiators have agreed to accept Britain's notes for $650,000,-000 in full settlement of our unpaid $25,000,000,000 lend-lease account and all our investments, materials and surpluses in England. Obviously, this is tantamount to a gift.

"In consideration of our making this very large loan at a great sacrifice to our own taxpayers, the only substantial concession that the British make is that within one year after the loan has been ratified by our Congress and approved by the British Parliament they agree to eliminate the dollar pool which Britain now controls, thereby enabling countries of the British Empire to use

(Continued on page 3040)

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The bank eligible obligations came into their own again as the market broadened, following the Victory Loan and the period of initial trading in the drive issues. . . . Money conditions improved and the commercial banks were again in a position to resume their buying of the eligible securities. . . . The Victory Loan did not result in any increase in the amount of the outstanding unrestricted bonds so that the deposit institutions, in their quest for income, had to pay higher prices for the available obligations. . . .

Accordingly, many new alltime highs were again made in the bank eligible taxable list, with the old favorites, the 2½s due Sept. 15, 1967/72, and the June and December 2s due 1952/54, leading the unrestricted bonds to new tops. . . . The 2½s due 1956/58, and 2½s due 1952/54, the 2¼s due 1952/55, the 2s due 1951/53, and the 2s due 1951/55, were also in the parade into new high ground. . . .

The taxable eligible issues have now advanced to levels where appreciation from here is limited, unless the money managers decide to reduce the rate on certificates. . . .

PARTIAL EXEMPTS MOVE

The partially exempt bonds followed the trend of the eligible taxables, with the 2¾s of 1960/65, 1958/63, 1956/59, the 2⅞s due 1955/60, and the 2¼s due 1954/56, moving up to new alltime highs. . . .

RESTRICTEDS ACTIVE

The restricted obligations were active with trading centering largely around the new issues, which advanced to prices equivalent to those of the securities that were brought out during the Seventh War Loan. . . . The Victory Loan bonds will probably not advance much from these levels, unless the rest of the restricted issues show improvement, which is expected in trading circles. . . .

TIME FACTOR

One of the factors being considered in the purchase of the ineligible bonds is the time when these securities can be bought by the commercial banks. . . .

It was pointed out that the 2½s due June 15, 1967/72, at the same price as the new issue, the 2½s due Dec. 15, 1967/72, can be bought by the deposit banks six months sooner than the drive bond. . . .

Also the 2½s due March 15, 1965/70, and the 2½s due March 15, 1966/71, with only a slightly lower return than the new 2½s due Sept. 15, 1967/72, will be available for purchase by the commercial banks, in 1954, compared with 1962 for the recent issue. . . .

The 2¼s due June 15, 1959/62, the Seventh War Loan bond and the Victory Loan 2¼s due Dec. 15, 1959/62, are selling at the same price, although the former issue will be bank eligible six months ahead of the new obligation. . . . Likewise the 2½s due June 15, 1962/67, and the 2½s due Dec. 15, 1963/68, selling at prices that give a larger yield than the new 2¼s due Dec. 15, 1959/62, both become available for purchase by the deposit institutions ahead of the Victory Loan 2¼s. . . .

CALL DATE SIGNIFICANT

Although the call date of the 2½s is three and four years longer than that of the new 2¼s, the bank eligible date is in their favor. . . . the 2¼s due Sept. 15, 1956/59, are well liked at these levels and still embody appreciation possibilities. . . . This bond will be a bank eligible obligation the 15th of next September, and many shrewd non-bank investors believe that this issue will be above the 106 mark by the time they can be bought by the deposit institutions. . . .

EYES ON WASHINGTON

Meetings will be getting under way and important decisions will probably be coming out of Washington shortly after the turn of the year, which will no doubt have an important bearing on the money market. . . . One of the points likely to be considered will be the future rate on certificates of indebtedness which presently carry a ⅞% coupon. . . . There is considerable concern and discussion in financial circles over the likelihood of a change in the coupon rate of the certificates and the effects it would have on the Government bond market. . . . It has been rumored that the money managers are in favor of changing the rate on this obligation from ⅞% to ¾% or ⅝% or even as low as ½%. . . .

The cutting of the rate for certificates would result only in an infinitesimal saving in debt charges, while the damage that could result from a new financing policy could be very great. . . . Some money market students believe that the policy to follow at this time would be to stabilize interest rates at present levels. . . . They point out that this could be done by increasing the rate of return on certificates to 1%. . . .

EFFECT ON COMMERCIAL BANKS

There seems to be considerable logic to the opinions that the rate on certificates of indebtedness should not be lowered. . . . If this rate should be decreased it will mean that the commercial banks will force up further the prices of the eligible 2s and 2½s, and with these yields continuing to decline they will be driven deeper into the corporate bond market. . . . The AAA corporates will be bought first, as is being done today, but the yield on these obligations will go down, so that eventually the deposit institutions and more particularly the smaller banks, will be forced to buy AAs, As, and even lower-rated issues in order to get income. . . .

Thus we will have the old cycle repeating itself, and the banks will end up again with a mass of poor quality investments. . . . Mortgage competition will be increased, with resulting lower rates, which with a real estate crisis, will leave the banks in a poor position. . . .

Under a policy of further reducing the rate on certificates it is indicated that the quality of bank assets will deteriorate substantially. . . . All of this could result from the desire on the part of the Treasury to save a few million dollars in debt service, by reducing the rate on certificates from ⅞% to ⅝% or ½%. . . . It seems as though the Government's approach to the public debt problem should not be guided by a further minor cut in the debt service but by the consequences that will follow in the future. . . .

Edw. Milholland Joins Glore, Forgan & Co.

Edward V. Milholland, Jr., who recently completed three years of sea duty as a Lieut. Commander, U. S. N. R., is now a member of the sales department of the New York Stock Exchange firm of Glore, Forgan & Co. in their New York office, 40 Wall Street. Prior to the war Mr. Milholland was a Vice-President of Sternberg, Milholland & Griffin, Inc., investment counsellors.

Railroad Securities

Speculative activity in Northern Pacific eased off considerably when the directors failed to take action on a dividend at their November meeting. Actually there had been no reason for expecting any such action as ever since the road instituted its post-depression dividends the declaration has come after the December meeting. In each of the past three years $1 a share has been paid and there have been hopes expressed in some quarters that the distribution to be authorized at this month's meeting will be more liberal.

Considering the amount of money used by the company to retire bonds in connection with its recent refunding operation and the uncertainty as to general business activity over the next six months or so, it appears dangerous to put too much faith in the possibility of liberalization of the dividend policy at this time. Rather, it would appear more logical to declare the $1.00 in December and then another $1.00 at the mid-year if it is considered feasible to increase the rate. However, regardless of whether or not the dividend is increased now, many rail analysts look with favor on the intermediate term prospects for the shares.

The road did not get so early a start as most of the other roads formerly characterized as "marginal" in reducing its debt and fixed charges. There were no maturity problems to be worked out and no bank or RFC accommodations to be taken care of, so the company was under no great compulsion to retire debt. Instead, finances were strengthened and large sums were spent on property rehabilitation and improvements. After these aims had been reached a debt program got under way and progressed rapidly.

At the present time annual fixed charges are indicated about 29% below the level of ten years ago, a reduction which compares favorably with the accomplishments of such roads as Southern Railway and Southern Pacific and is considerably better than New York Central's record although these other roads got off to an earlier start. Present indicated fixed charges of $10,500,000 should put the company in a sound position to operate at substantial profits consistently during normal business cycles. In addition to which the company should be in a position to do some further lower coupon refunding next year.

Earnings this year are naturally being adversely affected by acceleration of amortization of defense projects although the same factor will have a favorable influence on finances by reducing the tax liability. Amortization will probably reduce reported earnings for the current year by approximately $3.00 a share despite which the company should be able to show at least $4.00 a share on the stock. Even with the general business uncertainties facing the country as a result of work stoppages the 1946 results of this particular road should be considerably higher than those for 1945.

For one thing there will not be the acceleration of amortization to cut reported net. Fixed charges should be at least $3,000,000 below the 1945 accruals, equivalent, before tax adjustments, to $1.20 a share. Finally, there are considerations in the Northern Pacific picture that lead to the belief that its traffic will hold up better than that for the industry as a whole during a reconversion period.

Wheat is a very important traffic item, normally accounting for slightly more than 10% of freight revenues. Certainly there will be a ready demand for all the wheat that will be produced as the war ravaged countries will have to be fed. This is a cumulative consideration inasmuch the prosperity of the farm areas served has a strong influence on the volume of inbound miscellaneous freight. With farm prosperity and with the backlog of demand built up in the years of war shortages there should be a heavy movement of farm machinery. Finally, lumber traffic should be high in reflection of construction activity which is a "must" for the country. Forest products normally supply Northern Pacific with some 20% of its freight revenue. Aside from these direct considerations Northern Pacific's position has been strengthened materially by the vast improvement in the status of the jointly owned Burlington and the wholly owned Northwestern Improvement Company.

Modern Railroad Communication

By H. H. HASSELBACKER*

Superintendent of Telegraphs, Chicago, Burlington & Quincy Railroad

Railroad Operating Official Describes Progress Made in Extending Communication Facilities for Mobile Units on Railroads to Promote Safe, Adequate and Economical Transportation Service. Illustrates the Actual Operation of Modern Equipment on the Chicago, Burlington and Quincy, Which Comprises Use of Radio Telephone as Well as Other New Devices. Shows How Delays and Mishaps Are Avoided and Economy and Efficiency Promoted by Devices for Instant and Effective Communication Between Trains or Between Moving Trains and Station Employees. Says Radio-Telephone Is "An Additional Tool" and Does Not Displace Existing Signal Equipment.

At the present time railroad fixed properties as distinguished from mobile units are generally interconnected by the most modern forms of communication, including such items as the use of the telephone for train dispatching, telephone and teletype for long distance service as well as for local use and public address systems in passenger stations, yards and terminals. The application of these facilities has been made a little at a time and only after many years of experience, enabling those responsible for railroad operations definitely to appraise the value of existing services, and with that information, to calculate the value of further similar installations.

H. H. Hasselbacker

Now that it has become possible to extend these facilities for communication to mobile units, an entire new field of service is available. As analysts, you will, no doubt, want to know how this will be beneficial in promoting a safe, adequate and economical transportation service.

Information from Experimental Runs

The 12,000 miles of experimental runs made on the Burlington

*An address by Mr. Hasselbacker before the New York Society of Security Analysts, Railroad Division, in New York City, December 7, 1945.

(Continued on page 3039)

Insuring Against Labor Troubles

By ROGER W. BABSON

Mr. Babson Holds That Labor Unions Have Become So Powerful That, Like Bankers a Half Century Back, They Will Have to Be Dethroned by Governmental Power. Lists a Number of "Foolproof Labor Stocks" and Concludes if Congress Does Not Act, There May Be a General Labor Strike.

People may disagree as to the seriousness of the present labor situation. The fact, nevertheless, remains that labor unions hold the same position of power today as bankers held a generation or two ago.

Roger W. Babson

Will Labor Abuse Its Power?

When I first started my statistical work forty years ago, the bankers—both of the large cities and of the small communities—had tremendous power to make or break manufacturers, merchants, and businessmen in general. This could be done by granting or withholding credit and advising others to follow their example. This power was what ultimately resulted in the Government's practically taking over the management of the nation's banking. Now, the bankers' wings have been clipped and a banker is only a businessman like the rest of us.

In those days, labor had very little power and labor leaders were looked upon as "irresponsible bolshevists." As the power of the bankers waned, the power of labor leaders has increased. Today, many labor unions are powerful enough to make or break any manufacturer, merchant or other businessman. Let us hope that labor will consider its power a sacred trust in the interest of the people as a whole. If not, our labor leaders will be dethroned the same as were the bankers. In a democracy, no one group can, for long, abuse its power.

Labor Unions Increase Unemployment

Apart from the abuse of power, labor is fast reaching a point where it will kill itself by overweight as did the big mastodons of old. Every group throughout history has been subject to Sir Isaac Newton's Law of Action and Reaction, commonly known as the

(Continued on page 3034)

Solving the Transportation Problem

By HON. OREN HARRIS*
U. S. Representative from Arkansas
Member, House Committee on Interstate and Foreign Commerce

Congressman Harris, Maintaining That It Is the Purpose of Congress to Uphold Private Operation of Transportation in the Public Interest and to Preserve Inherent Advantages of Each Type of Service, Asserts There Is No Intention to Re-write the Interstate Commerce Act. Says Our Far Flung Conglomeration of Transportation Agencies Is the Result of Free Competitive Enterprise and That the Problem Is to Prevent Unbridled Competition Between Common Carriers and Private Owners as Well as Between the Various Carriers Themselves. Holds if Private Operation Cannot Be Maintained, Socialism Will Result, and that a Way Must Be Found to Make Private Capital Available to Carriers Subject to Tax-Assisted Competition.

I am pleased with the opportunity you have afforded me to lay before such a representative body of users of transportation some of the considerations that have influenced the Interstate and Foreign Commerce Committee to undertake an investigation of transportation problems, for we in Congress know that shippers and transportation agencies must face these problems in the long and difficult period of readjustment to an economy of peace. And we have already found that, in more ways than one, settling down to peace is a harder job than setting up for war.


Oren Harris

I am not, in any sense, representing the Committee. Any opinions that I may express are my own and are not, necessarily, the opinions of any other member of our Committee.

Our Committee is composed of some of the ablest men in Congress. They think for themselves. They differ widely on many questions but there is unanimity of opinion among them on one point. We believe that transportation, from the overall viewpoint, rail, highways, water, air, has only one mission and that is service to the public. It is not an end in itself. It is an instrument. If it becomes inefficient through its own errors or through mistakes of regulatory bodies, or fails through neglect in Congress, the whole public suffers.

And we should never forget who the real owners of transportation are. Among those who suffer through financial default due to breakdown in our transportation machinery are the policy-holders in hundreds of life insurance companies, depositors in thousands of savings banks and other holders of transportation securities.

The approach then of our Committee to the solution of these perplexing problems stems from solicitude for the users and the real owners of transportation facilities. And when we have said that, we have said practically the whole American public.

Declared Policy of Congress

These considerations influenced Congress when it wrote the following declaration of policy as the preamble to the Transportation Act of 1940, as we sought to pass an act that would, and I quote: "provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices; to cooperate with the several States and the duly authorized officials thereof; and to encourage fair wages and equitable working conditions."

Iti s perhaps a little presumptuous for an Arkansawyer to come up here into the great Empire State and talk to you about transportation. But I see from the nature of this organization that I am not entirely out of my element. As a boy I started out as an Arkansas farmer. I was a real farmer and did not become one when I sought to run for office. I remember well, in the spring of 1923, when I helped to plant a melon patch in which I was to have an important financial interest. The first two carloads of those sun-kissed Arkansas melons that went to market from that patch were mine. They were, of course, the finest melons that ever grew. They netted me $833.67 and with that profit I was off that fall to the Arkansas State Teachers College.

Some of my political adversaries have been mean enough to say that a melon patch was responsible for the loss to agriculture of a darn good farmer and for the creation of a mediocre politician. But enough of my good friends and neighbors, I am glad to say, think otherwise and have sent me three times to Washington as their representative. It is apparent then that I slid into this meeting by way of Washington on a couple of carloads of melon rinds.

Another circumstance gives me a certain right to talk to your group. You are engaged in the shipping and marketing of the farm products that your hillsides and valleys yield so bountifully. Our hills and valleys in Arkansas also yield a bountiful produce. If the sun of your beautiful Finger Lake section enhances the sweetness, glamor and potency of your grapes, we can also claim for our corn a certain enhancement of desirability due to our moonlight. What our moonshine does to our corn in Arkansas produces a result which can be compared favorably with what the sunshine does for your grapes. I have heard it said that our Arkansas white mule, which feeds upon our corn, packs a healthy kick!

Transportation Is a Tool

It is not about the products that the members of your Association convey and market to the people but about the mechanism through which that conveyance is made that I would speak to you today. That mechanism is in many forms.

(Continued on page 3024)

*An address by Congressman Harris before the New York State Fruit and Vegetable Shippers and Receivers Association, Schenectady, N. Y., Dec. 12, 1945.

NYSE Borrowing Higher in November

The New York Stock Exchange announced on Dec. 4, that the total of money borrowed as reported by Stock Exchange member firms as of the close of business on Nov. 30 was $963,175,307, as compared with $911,115,092 on Oct. 31.

The following is the Stock Exchange's announcement:

The total of money borrowed from banks, trust companies and other lenders in the United States, excluding borrowings from other members of national securities exchanges, (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government was $422,277,481; (2) on all other collateral $540,897,826; reported by New York Stock Exchange Member Firms as of the close of business Nov. 30, 1945 aggregated $963,175,307.

The total of money borrowed, compiled on the same basis, as of the close of business Oct. 31, 1945, was (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government $323,057,245; (2) on all other collateral $588,057,847; total $911,115,092.

"Make it Yourself" Exhibit at Bank

One solution of the apparel shortage is offered by the new "Make It Yourself" exhibit at The Bank for Savings, 4th Ave. at 22nd St. Rowland R. McElvare, Senior Vice-President of the Bank believes thrift is a vital force in every day living, of which putting money aside in a bank is only one of many forms. Through this new exhibit, the Bank is encouraging people in the effective use of materials in their costumes and home furnishings. Acquisition for future Bank expansion of an adjoining old brownstone residence, one time residence of Bishop Potter, has made available adequate space for a display carrying out this idea. With this in mind a new exhibit, featuring sewing, opened at the Bank on Dec. 3. Supported by leading manufacturers in the home-sewing field, this exhibit will appeal to all who are interested in their homes and in clothing for themselves and their families. The exhibit will be open for several months, during which time changes will be made in individual exhibits. Varied aspects of home sewing are stressed, from glamour, through technical points, to re-make ideas.

H. Hentz & Co. Opens New Fla. Offices

H. Hentz & Co., 60 Broad Street, New York City, members of the New York Stock Exchange, announces the opening on Dec. 20th of new offices in Florida. The Hollywood office will be under the management of John H. Kaplan and will be located at the Hollywood Beach Hotel. The Palm Beach offices will be under the managership of Arthur J. Henry and Burnett W. Straus and will be located at the Whitehall and Sun and Surf Club. A direct private wire will connect these offices with the main New York office.

Rejoins Bonner & Bonner

Bonner & Bonner Incorporated, 120 Broadway, New York City, announces that Captain Gerald A. Bonner, U.S.A., has been released from active duty and has rejoined their organization.

Davis & Davis to Admit

PROVIDENCE, R. I.—E. Russell Davis, Jr. and Foster B. Davis, Jr. on January 1 will become partners in Davis & Davis, Grosvenor Building, members of the New York and Boston Stock Exchanges.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Underwriting profits (or losses) of fire insurance companies are characteristically erratic; on the other hand, net investment income is relatively steady. Furthermore, many companies exhibit a favorable trend in investmet income, partly the result of a conservative dividend policy which permits a year by year plough-back of undistributed earnings, thus building up the volume of funds available for investment. In view of this, it is of interest to review the trend of net investment income since 1939 for a group of 33 representative fire insurance companies, as follows:—

FIRE INSURANCE COMPANIES
Net Investment Income per Share

	1939 $	1940 $	1941 $	1942 $	1943 $	1944 $	Avge. $	Current Div. Rate $
Aetna	1.95	1.95	1.92	1.91	1.75	2.14	1.94	1.80
Agricultural	3.98	[illegible]	4.58	4.30	4.13	[illegible]	4.29	3.50
American Alliance	1.34	1.33	1.37	1.40	1.38	1.41	1.37	1.20
American Equitable	0.98	1.27	1.49	1.36	1.62	[illegible]	1.45	1.00
American Insurance	0.64	0.64	0.63	0.69	0.67	0.83	0.68	0.60
Baltimore American	0.42	0.46	0.49	0.44	0.42	0.43	0.44	0.30
Bankers & Shippers	5.51	5.88	6.35	5.90	4.73	5.19	5.59	4.00
Boston Insurance	30.16	30.01	30.82	31.22	31.74	31.32	30.88	21.00
City of New York	1.56	1.75	1.91	1.74	1.43	1.38	1.63	1.00
Continental	2.14	2.23	2.36	2.34	2.33	2.41	2.30	2.00
Fidelity Phenix	2.27	2.41	2.61	2.62	2.63	2.70	2.54	2.20
Fire Association	3.79	3.69	4.05	4.08	3.95	3.93	3.92	2.50
Franklin	1.39	1.58	1.84	1.58	1.33	1.35	1.51	1.00
Glens Falls	1.14	0.87	1.03	1.53	1.48	1.49	1.26	1.80
Great American	1.22	1.19	1.26	1.26	1.25	1.29	1.25	1.20
Hartford Fire	2.68	2.88	3.00	3.03	3.24	3.54	3.06	2.50
Hanover	1.37	1.39	1.42	1.45	1.54	1.59	1.46	1.20
Home Insurance	1.52	1.64	1.75	1.62	1.45	1.44	1.57	1.20
Ins. Co. of N. A.	3.17	3.55	3.69	3.84	4.00	4.32	3.76	3.00
Merchants & Mfrs.	0.44	0.44	0.56	0.49	0.51	0.64	0.51	0.40
National Fire	2.67	2.75	2.62	2.54	2.36	2.33	2.55	2.00
National Liberty	0.38	0.43	0.46	0.41	0.36	0.38	0.41	0.30
New Brunswick	2.00	2.24	2.24	2.15	1.96	1.98	2.10	1.50
New Hampshire	1.96	1.96	2.14	2.21	2.26	2.22	2.13	1.80
New York Fire	1.02	1.13	1.28	1.13	1.18	1.33	1.18	0.80
North River	1.06	1.06	1.17	1.12	1.12	1.19	1.12	1.00
Paul Revere	1.59	1.79	2.00	1.79	1.59	1.56	1.72	1.20
Phoenix	3.14	3.22	3.34	3.52	3.43	3.35	3.33	3.00
Prov. Washington	1.65	1.72	1.80	1.71	1.78	1.87	1.76	1.40
Security Insurance	1.79	1.67	1.84	1.96	1.52	1.68	1.75	1.40
Springfield F. & M.	5.27	5.21	5.44	5.51	5.57	5.72	5.45	4.75
U. S. Fire	2.38	2.49	2.57	2.52	2.63	2.68	2.55	2.00
Westchester	1.62	1.60	1.69	1.70	1.73	1.82	1.69	1.60

In examining this table, it will be observed that the net investment income of most companies in 1944 exceeded the six-year average. There are 10 exceptions, however, viz.: Baltimore American, Bankers & Shippers, City of New York, Franklin, Home, National Fire, National Liberty, New Brunswick, Paul Revere and Security. Seven of these 10 belong to the "Home Fleet," and the decline in their net investment income since 1941 is probably attributable to the fact that during the war years they invested more heavily than usual in Government bonds, rather than in equities. Each of these "Home" companies, except City of New York, found it necessary in 1944 to reduce its dividend rate.

In the case of the casualty and surety business, figures for 10 representative companies are shown in the following table:

CASUALTY AND SURETY COMPANIES
Net Investment Income per Share

	1939 $	1940 $	1941 $	1942 $	1943 $	1944 $	Avge. $	Current Div. Rate $
American Casualty	0.71	0.81	0.68	0.76	0.68	0.64	0.71	0.60
American Surety	2.34	2.51	2.86	3.14	3.25	3.66	2.96	2.50
Continental Casualty	2.07	2.16	1.72	1.73	1.98	2.41	2.01	2.00
Excess Insurance	0.56	0.61	0.44	0.30	0.30	0.23	0.41	---
Fidelity & Deposit	4.95	5.07	4.69	5.03	5.30	5.68	5.12	6.00
Massachusetts Bonding	4.69	4.99	4.85	5.31	5.21	5.24	5.05	3.50
New American Casualty	1.49	1.52	1.74	1.91	1.81	1.81	1.71	1.00
Pref. Accident	1.23	1.02	0.96	1.27	1.25	1.06	1.13	0.80
Seaboard Surety	1.32	1.55	1.66	1.76	1.69	1.78	1.63	1.80
U. S. Fid. & Gty.	1.41	1.58	1.61	1.80	1.63	1.92	1.66	1.50

Twenty-three of the companies in the table reported net investment income in 1944 above the six-year average. Only four companies, however, viz.: Fidelity-Phenix, Hartford, Hanover and Insurance of North America, show a consistent and unbroken upward trend since 1939. On the other hand, 19 out of the 33 companies show an irregular upward trend, with 1944 income well above the 1939 figure. It will be noted that, with the exception of Glens Falls, the current dividend rate is well within 1944 net investment income and also within the six-year average.

It will be noted that three companies report lower net investment income in 1944 than for the six-year average, viz.: American Casualty, Excess Insurance and Preferred Accident. In the case of Excess, the 23c. in 1944 is on 200,000 shares, compared with 151,000 shares in previous years. No adjustment for this has been made in the figures. American Surety is the only one to show a consistent and unbroken trend; the other six companies show an irregular uptrend. The current dividend rate is covered by both 1944 net investment income and the six-year average in all cases but Fidelity & Deposit and Seaboard Surety. Fidelity & Deposit, however, has also reported consistently good underwriting profits over the period, varying between approximately $16 and $22 per share. Seaboard Surety also has reported consistently favorable underwriting results for many years.

Beyond the Call of Duty

I

The bells once more are ringing;
The lights are bright again;
And children carols singing
For Peace restored to men!

II

The hero home returning,
A medal on his breast
A heart that's full of yearning
For Love and Peace and Rest!

III

"Beyond the Call of Duty"
The medal bravely reads;
His soul for simple beauty
Of Christlike Love still pleads!

IV

What shall we do to give it?
Let war again enthrall?
God, No! Resolve to live it!
For Love o'ercometh all!

V

A hero needs no fighting;
In peace his role is great;
His brain and brawn both plighting
To rid mankind of hate!

VI

"Beyond the Call of Duty"
The Christ died on the tree
That men should know the beauty
Of Love that makes them FREE!

CHARLES T. GREENE,
Amott, Baker & Co., Inc.
New York City
Christmas 1945

1946 Price Guarantee to Farmers

By HOWARD B. BOYD*

Director of Price, Production and Marketing Administration
U. S. Department of Agriculture

Agricultural Price Administrator States That in 1946 There Will Be Less Use of Guarantees Above Levels Provided by Law Than During War and That Guarantees Used Will Be Materially Lower for Many Commodities. Says Study Is Being Made for Renewing Whole System of Supporting Prices.

Here are a few general statements about support prices for 1946. There has been no change during the past year in the legislative basis for the price-support operations of the Department of Agriculture. the operations have been discussed in detail with this group on more than one occasion, so there is no need to do that again, unless there should be specific questions later regarding them.

Howard B. Boyd

The principal change which we anticipate in support of prices for 1946 as compared with those we have had during the war will be less use of supports at levels above the minimum provided by the applicable legislation. We anticipate that there will be very few cases in which there will be justification or need for maintaining support prices above this minimum level. Some of those exceptions have already been announced: sugar beets, sugar cane, and flaxseed. Other possibilities, where we are considering support above the minimum level, are dry beans and soybeans, although even here some reduction below the current support is quite possible.

This means that support prices will be materially lower for many commodities than they have been in the last couple of years. For example, the support prices for hogs for the year beginning next September 1 has been announced and the level of that support, as an average for the season, is $1 per hundred pounds less than the current support. This new support price is approximately at the minimum level which the legislation authorizes.

In the process of reviewing past support programs and adjusting them, where they are not already so adjusted, to this minimum level, the specific price schedules are being reviewed for the purpose of making a more accurate determination of the meaning of the minimum support level. For example, price schedules usually are at some point other than the farm; hence they involve an estimate of a farm-to-market differential, a differential between farm price and the price at some storage place or central market. These differentials are being scrutinized very closely and grade differentials are likewise. Also we are reviewing experience of past years which throws light on the relation between the support-price schedule and the actual average returns that producers have been obtaining for the commodity.

Completion of the schedules of support prices for 1946 for some commodities is still some distance away. In a few cases the specific information is not available along with the goal recommendation at this time, but for the most part we anticipate that the important elements of proposed support programs for 1946 will be available for consideration in connection with the goal planning at some stage during that process.

*A transcript of statement made by Mr. Boyd at the 23rd Annual Agricultural Outlook Conference, Washington, D. C., Dec. 4, 1945.

Kohlmeyer, Newburger to Admit James Fox

NEW ORLEANS, LA.—Kohlmeyer, Newburger & Co., Carondelet Building, will admit James M. Fox, member of the New York Stock Exchange, to partnership on January 1, the firm thereby becoming Exchange members. Mr. Fox was formerly a partner in Robertson & Co., New York City. Other partners in Kohlmeyer, Newburger & Co. are Charles Kohlmeyer, Herman S. Kohlmeyer, E. Kirby Newburger, and Leon E. Newman, all of New Orleans.

James Baker V.-P. of Harriman Ripley & Co.

Harriman Ripley & Co., Incorporated, 63 Wall Street, New York City, announces the election of James S. Baker as Vice-President of the company, effective Jan. 1, 1946. Mr. Baker, who has been Manager of the United States Government Bond Department at Harriman Ripley & Co., Incorporated since 1940, was Chairman of the New York Government Security Dealers Group in 1943 and 1944. He served as an officer in the Coast Artillery in World War I and graduated from Harvard College in 1919. He entered the investment banking business with the Guaranty Company in 1927.

James S. Baker

Neff to Head Phila. Securities Association

PHILADELPHIA, PA.—Clifton Neff of Schmidt, Poole & Co., has been nominated for President of the Philadelphia Securities Association in 1945, by the association's nominating committee, to succeed William V. McKenzie, of Paine, Webber, Jackson & Curtis, the 1944 President. Election will be held at the annual meeting and dinner of the association on January 15 at the University Club. According to custom nomination is equivalent to election.

Other nominations announced by the committee are: Vice-President, William B. Ingersoll, Stroud & Company; Treasurer, Francis Goodhue, 3rd, Calvin Bullock; and Secretary, Harry C. Rippard, Buckley Brothers. For membership on the board of governors to serve three years: Harry C. Rippard; Francis Goodhue, 3rd; G. Ellwood Williams, Pennsylvania Company; and Theodore M. Hughes, Standard & Poor's Corporation. For membership on the board of governors to serve for two years: Harold F. Carter, Hornblower & Weeks.

Thomson & McKinnon to Admit New Partners

On January 1 Thomson & McKinnon, 11 Wall Street, New York City, members of the New York Stock Exchange and other principal exchanges, on January 1 will admit the following to partnership: Thomas Hislop of Toronto; Robert L. Turpin; Walter T. O'Hara; Cecil B. Pepper of Miami, general partners; and Marth C. Bruns, Hedwig G. Reis Bernadine T. Cullen, Ivy H. Halev, Katherine Halev Fuller and Denis M. Hynes, limited partners.

C. E. Fuller, Jr., of Duluth, a general partner, will become a limited partner on the same date

Jewett & Shean to Admit

Jewett & Shean, 14 Wa... New York City, members of the New York Stock Exchange, will admit Robert P. MacCulloch to partnership on January 1. He was a partner in the firm in the past

Luke, Banks, Weeks Admit

Luke, Banks & Weeks, 61 Wall Street, New York City, members of the New York Stock Exchange will admit John K. Weeks to partnership on January 1.

Current Interest Rates Must Be Maintained

(Continued from page 3003)

if interest rates are to be effectively stabilized at prevailing levels.

Mr. Lanston warned against accepting as a precedent the action of the British Government in reducing the rates paid to the British and Scottish banks. "The policies of the British Government on interest rates, banking, and credit are adapted to an economy less virile than ours," he said, "one which is basically different in its social concepts, and one which has failed (at least relatively) to measure up to our standards. Consequently, the policies of the British Government on interest rates (and its moves to further nationalize the British banking system) need to be fully understood before they are offered as an acceptable 'precedent' for a further lowering of interest rates by our Treasury."

It was pointed out in Mr. Lanston's report that any further lowering of interest rates would promote inflation by accelerating the transfer of non-bank-held debt to the commercial banks. Any "savings," he explained, would accrue in a minor degree to only 36,000,000 taxpayers, yet the effects of inflation would turn even these small savings into an insignificant offset to the rising costs of living that would follow.

"Policies designed to bring about **cheaper** money would not be sound policies," he said, "because they would be inimical to the public welfare. The only gain from such debt and interest rate policies would be the relatively small 'savings' in the over-all costs of Government that would come from a presumed reduction of corresponding amount in Treasury interest payments. Savings in expenditures are expected ultimately to benefit taxpayers. For 1946 the Treasury has estimated the number of these to be 36,000,000. It seems reasonable to believe that in subsequent years the number **may** be less.

"To achieve these 'savings,' however, **all** interest rates are reduced by virtue of their own interlocking character. In the end, therefore, some portion, perhaps all, of the savings turn up as costs to all of those who have net or gross assets of one kind or another. Moreover, all holders of life insurance policies, or those who expect to be holders, will pay some portion of these 'savings' in the interest burden, either through decreased dividends or higher costs for future insurance.

"Yet these payments by the great majority of our people are only a small part of the probable total. As the detailed analyses clearly show—such policies would constitute a tremendous tangible and intangible force operating to produce a price inflation. This would be particularly true if they were attempted at this time. Measured in such terms the envisioned 'savings' obviously would have been only an illusion."

In exploring the possibility of an upward revision in the short-term certificate rate, particularly as to whether this would constitute an effective and sound public measure, and whether the over-all benefits would be commensurate with the cost to the Treasury, the report said that the costs to the Treasury on the basis of a 275 billion debt would be about 75 millions—a small sum today. Such a move would constitute an eminently sound policy in exactly the same respects that its alternative is unsound. Such a small upward revision may appear insignificant but its importance arises from the fact that (1) the resulting cost is small, and (2) the basic change in policy is great.

By such a step the Government would move from a prolonged stand in favor of **cheaper** money to one in which its primary aim would be to achieve stabilization of the existing structure of interest rates. The psychological advantages of this major policy change would be virtually incalculable in waging an anti-inflationary fight.

Discussing the incidence of Government trust fund investment, the analysis continued:

"Finally, we resurrected an old worry—the Government trust funds and the provisions for their investment. The survey of these funds and the effect of their investment requirements illustrates how truly futile it is to endeavor to obtain any further reductions in future Treasury annual interest payments. It also underscores with decided emphasis the degree by which debt management will have a profound effect on our financial economy."

Kidder, Peabody and Hayden, Stone Lead In V-Loan Drive

Kidder, Peabody & Co., 17 Wall Street, New York City, has won first place in the Victory Loan Drive in the Wall Street broker-dealer syndicate, in number of individual subscriptions, it was announced, with a total of 3,045 subscriptions, topping the next nearest competitor by a margin of 931 subscriptions. This is the Fourth Drive led by Kidder, Peabody & Co. in number of individual sales in New York. In the Fourth, Fifth and Sixth War Loan Drives, Kidder, Peabody & Co. won top place, and was second in the Seventh War Loan Drive.

The Boston office of Kidder, Peabody & Co. also led the field in Boston in the number of individual sales in the banking and investment division, in the Victory Loan Drive, and in the Fifth, Sixth and Seventh War Loans.

In the dollar volume of sales Hayden, Stone & Co. took first place with sales of $40,788,000.

Business—After Listening to Prof. Laski

I.

Who is the cause of every war?
It's business!
Who makes so many nations sore?
It's business!
Who turns the inside inside-out?
Who wrecks this world without a doubt?
Who brings the atom bomb about?
It's business!

II.

Who keeps the world NOT up to snuff?
The pants maker!
Who makes men get a little rough?
The tooth paste kings!
Who is the cause of every scrap?
Who starts wars with a finger snap?
Who gives me food for all this pap?
The breakfast food magnate!

III.

Who spoiled the Eve and Adam team?
The shirt trust!
Who ruins every lovely dream?
The cigarette corporations!
Who makes some people quarrelsome,
While others live as chum to chum?
Who takes away my bubble gum?
The Ladies Garment Trades!

IV.

Who parts the Russians and the Yanks?
United States Steel!
Who turns out all those awful tanks?
General Motors!
Who splits the little atom up?
Who makes the kitten scratch the pup?
Who is to blame for Mr. Krupp?
Hart, Schaffner & Marx!

V.

Who made J. Caesar what he was?
The Manufacturers Association!
Who made Attila tick and buzz?
The Chamber of Commerce!
Who makes me sometimes hard to please?
Who puts that green stuff in green peas?
Who puts the sting in bumblebees?
The Rotary Clubs!

VI.

Who'd make this world a kindly place?
Yours truly!
Who would all earthly jars efface?
(Don't ask!)
Who to all problems has the pass-key?
Who boldly tackles every task-y?
Who else but good old Dr. Laski?
(Phone on request. Day or night service.)

(Reprinted from the Sun Dial of the New York "Sun," by H. I. Phillips)

Spencer Wright Heads Phila. Bond Club

PHILADELPHIA, PA.—Spencer D. Wright, Jr., partner of Wright, Wood & Co., was elected President of the Bond Club of Philadelphia at the club's annual meeting and dinner held at the Racquet Club. William K. Barclay, Jr., of Stein Bros. & Boyce, was elected Vice-President; John C. Bogan, Jr., of Sheridan, Bogan Co., was elected Secretary; and Edgar J. Loftus, of Elkins, Morris & Co., was elected Treasurer.

Chauncey P. Colwell, of Merrill Lynch, Pierce, Fenner & Beane, retiring President, was elected to the board of governors for term expiring in 1946, and Willard S. Boothby, E. H. Rollins & Sons and Philip L. Lee, Wurtz, Dulles & Co. were elected for terms expiring in 1948.

Wm. McGovern Joins Staff of Baker & Co.

Baker & Co., 40 Wall Street, New York City, announces that William J. McGovern has joined the unlisted trading department of their firm.

Rotan, Mosle and Moreland to Be Formed

HOUSTON, TEX.—Rotan, Mosle & Moreland, a new New York Stock Exchange firm, will be formed on December 27th, with offices at 806 Rusk Avenue, Houston, and in the American National Insurance Building, Galveston. Partners will be Edward Rotan, who will acquire the Exchange membership of William G. Curran; J. Marvin Moreland; Earl W. Godbold, Jr.; Everett E. Mellinger and Arthur C. Cooper. Mr. Rotan was formerly principal of George V. Rotan Co., with which Mr. Mellinger and Mr. Cooper were associated. Other partners in the new firm were all formerly partners in Mosle and Moreland.

Merrill Lynch Changes

Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange and other leading Exchanges, will admit Kathleen M. Hargrave, Harold F. Johnson, William R. Lovett, and Robert C. Rooke to limited partnership as of January 5. Albert G. Boesel, general partner in the firm, will become a limited partner effective December 31.

Building Industry's Part in Low Cost Housing

(Continued from page 3005)
decent living quarters—not trailers and makeshift barracks.

Now all of this construction demand, especially the demand for housing, is geared into almost every industry in the country. These "feeder" industries are the whole run of consumer durable goods. Together, they add up to employment for some four and a half million workers. Next to agriculture, construction is the largest industry in the country. In a 40-hour week the construction industry, together with its "feeder" industries, can produce better than 10% of our total national production.

Thus, the health and well-being of your industry is of the greatest concern to the nation as a whole. Should your industry be afflicted by a fatal disease—and I make no bones about it when I tell you that the disease I have in mind is inflation—and I am talking to you as one business man to another—should your industry become bedridden with inflation through blind greed for only fat or swollen profits, then it will have succeeded in sickening our entire economy. If people cannot buy what you build because of high or inflated costs, then the boom now before the building industry will collapse after a brief period just as sure as fate.

Four-Fifths of the People Underhoused

The building industry historically has always been able to market houses to that one-fifth of our population which can afford to pay high prices. But it has not served adequately or wisely the other four-fifths of our population. Three-fifths could pay just reasonable prices for dwellings. The remaining one-fifth are in dire need of subsidized housing. But together, these four-fifths of our population represent a tremendous, untapped and continuing market.

It is to this market that the building industry must turn. Not only to meet the urgent housing needs of this overwhelming portion of our population; but because if their demands for housing are not met—if they are neglected—then the prosperity which should so richly grace our land will evaporate. The four and a half million jobs which the building industry could supply toward our national goal of "maximum gainful" employment will not materialize. And the building industry, every phase and facet of it, will be in a terrible mess.

As a business man I know that you builders want to build houses that people can afford to buy. It makes good business sense, because you sell more houses that way. But the reason you haven't been able to make houses cheaper and sell them cheaper is because you have tangled with and become surrounded by a lot of obstacles—some of them of your own choosing. These obstacles can correctly be labelled "cost obstacles." And while they stand high in the path of your industry's progress—high in the path of full profitable production and full gainful employment for the American people—they are *not* immovable. They *must* not be immovable. They are obstacles that can be cleared away only by the most honest thinking, the clearest understanding, and the boldest action that can be *collectively* given to the task. I say "collectively" because they involve realtors, the building industry, labor, and Government down to the smallest Town Council.

Obstacles to Building

These obstacles, as we in the Department of Commerce see them after careful study, can be enumerated as follows:

(1) The lack of effective price control on land values, on construction, and on finished houses.

(2) The lack of year round work and an assured basic annual wage for the workers in the industry.

(3) The oppressive and restrictive practices now being carried on by *some* construction industry suppliers, and the restrictive agreements between management and labor in the construction field.

(4) The continuance by most of our municipalities of antiquated building codes, which restrict the use of new and cheaper materials and in many other ways add to the cost of construction.

The removal of these obstacles is the Number One job facing the industry today. For we are going to have houses built that more of our people can afford to buy, despite the selfish interests of those who have chained their present mental attitudes to unrealistic past performances. The public will not wait impatiently forever.

Price Control

I want to discuss one by one the points I've enumerated. The first is price control. You gentlemen know what happens when inflation hits the housing industry. You saw it happen after the First World War, and again in the late 1920's. You know what symptoms identify this disease. The prices of land and of new and old structures rise rapidly. This encourages the fly-by-night speculator to dabble in the building game. He jumps in, puts up a few cheap structures, and takes out a fancy profit. In so doing he further bids up land values and the cost of materials. This makes it just so much tougher for the legitimate builder to operate. Banks and other credit sources see the bubble grow, and knowing that it has to burst, they withdraw from the building field—and the industry is soon in a serious and costly depression.

The responsible and legitimate business men in the building industry should champion and support needed price control legislation—legislation which should remain in effect until the dangers necessitating it have safely passed.

They should likewise support such additional legislation as has already been introduced and as may be contemplated, designed to avoid serious immediate pitfalls—to establish stability in the industry and to assure its continued growth and progress and needed contribution to the general welfare and soundness of the economy as a whole.

Legislation such as has been suggested in the bill introduced by Congressman Wright Patman of Texas, which authorizes the President to appoint a housing coordinator who would be in a position to mobilize the whole economy behind the housing industry. He could expedite the production of building materials and he could channel them into that type of construction and housing where the need and the market is greatest. He could set ceilings on new houses. These ceilings would take into consideration present material costs, labor costs and an ample margin of profit.

He would also have the authority to apply ceilings to future sales of existing houses. He could take strong action to see that speculative excesses in land did not hinder construction activity.

He could put his weight behind the drive for new homes in the areas where the situation was most urgent. He would have the overall power necessary to cut red tape and get things done.

This is a direct and forthright approach to help lick the housing shortage—to make the volume of production of houses possible and to help assure the production of houses that more of our people can afford to buy.

Quite obviously such a co-ordinator would have to work most closely with all elements involved and secure their best help and cooperation in developing a proper plan of procedure and support in its full and successful implementation. Thus a most serious "cost obstacle" to the wholesome progress of the industry can be removed.

All-Year-Round Work

Now I come to the second point I previously made—the lack of year round work and an assured basic annual wage for the workers in the industry. This "cost obstacle" is not an artificial one. Unlike booming land values and speculative profits, this problem cannot be solved by legislation. But it can be solved by wisely appreciating the demand for housing as well as by the application of some good hard thinking—ingenuity and sound, common business sense. In an industry which must now strive to give more consumers housing they can afford to buy, the present high hourly wages paid to the mechanics and laborers of the building trades are helping "hamstring" this goal.

Labor is not at fault in demanding this high hourly rate of pay. The fault lies with the industry itself. When you consider that the building trades workers are employed on an average of only thirty-two weeks out of the year, then whatever they demand for hourly pay must include remuneration for the twenty other weeks the industry cannot give them work.

I want to take this occasion to correct a mistaken impression that many people have about the wages of building trades workers. There is widespread belief that these workers make big money because of the high hourly rate of pay they receive. On the contrary, a building trades worker's income is less than that which his fellow-workers make in a manufacturing plant. The average annual income received by the building trades worker prior to the war was less than $1400. During the war it crept up to over $2000. But this increase was largely the result of overtime paid during the rush to get munitions plants built and other needed construction built in the speediest possible time.

Now nobody can argue against the fact that "a laborer is worthy of his hire." Building trades workers are skilled mechanics and should be paid well for their work. I believe they would be willing to take less pay per hour if they had better assurance of year round work and an annual basic wage permitting the decent standard of living to which they are entitled.

A true measure of income is not a man's hourly wage but his annual income and it's this annual income that determines his standard of living.

An assured basic annual wage would go far toward bringing down building costs and helping stabilize the industry. There are many ways this objective can be reached. One method is by combining as cooperatives, so that facilities can be exchanged and sheds built where prefabrication of some parts of a structure can be carried on at all times. Another method is by making year-round work possible by "tenting" the job, when weather necessitates. In this age of tremendous scientific advancement there should be no reason why construction of all kinds, especially that of houses, cannot be carried on in all kinds of weather. During cold weather these tents can be heated. In this manner, shoring and concrete work could be carried on. The original carpenter or brick laying work can be carried on under this kind of tenting. And when the roof is completed the tent can be taken down. Windows can then be boarded up and in cold weather the interior of the house can be heated so that the plaster work, the plumbing, the electrical work or the rest of the carpenter work can be carried on without stoppage.

Paradoxically, an assured annual wage in the building industry not only would mean lower construction costs, and thus more sales of houses, but at the same time it would mean more jobs and higher annual wages for the workers. Thus, the "cost obstacle" of seasonal high hourly wages is a challenge to the growth and prosperity of the building industry. It is a challenge to the industry's ingenuity and engineering ability. It is a challenge that can and must be met. It is a "cost obstacle" that can and must be removed if we are to build houses whose costs are within the means of more of our people.

Yes, there are many who say this cannot be done. There are many who say some time in the future we may find a way to do it. Leaders, aggressive and wise, however, will find a way to do it now and thus reap for themselves the fruits of their leadership.

Restrictive Practices

The third "cost obstacle" I made reference to earlier is the oppressive and restrictive practices now being carried on by industry, management and labor in the construction field. These practices are illegal in many respects, and are harmful to the industry in the over-all. They are also militating against the years of full profitable production and full gainful employment that can lie ahead for us.

One of the worst practices—a practice that has been under the scrutiny of the Department of Justice and the Federal Trade Commission — is the retailer-enforced agreement against building manufacturers. In this type of agreement, some building supplies retailers boycott a building materials manufacturer if he should sell supplies to a volume builder or contractor direct. Thus, where a volume builder or contractor could lower the cost of construction by a considerable amount of money, he is blocked in his efforts. Although the Federal Trade Commission has leveled several "cease-and-desist" orders on such retailer groups, reports indicate that this practice is still being carried on sub-rosa. Plumbers also make agreements whereby they refuse to install the plumbing unless the plumber is permitted to furnish his own material. The same is true of electricians and other contractors or sub-contractors. All these practices are in restraint of trade. Restraint of trade means restraint of employment —not free enterprise.

Freedom of individual enterprise means freedom of competition—not license to destroy competition or to establish monopoly. All these practices are helping to keep the cost of housing beyond the reach of the average American family. They can be stopped at once through the cooperation of builders' associations like yours with the Federal Government.

With regard to the restrictive agreements between management and labor, and suppliers in the construction industry—these restrictive agreements exist in most large cities. They usually exist between building associations and local labor unions. Sometimes they exist between local unions themselves. These agreements cause more hours of labor to be spent upon a particular installation than are necessary by the farthest stretch of the imagination. Since these agreements are city-wide, every builder has relatively the same additional costs that his competitor has—costs that are usually passed on to the purchase price of a house, or to the building owner.

These "make-work" affairs, these outgrowths of the depression years when construction labor was in large part walking the streets and very understandably sought to protect itself by limitation of work agreements, have no right to existence in these days. They are no more productive of full employment than are the restrictive provisions of cartels and other monopolistic understandings. During the war these agreements were waived because there was plenty of work. There is more than plenty of work in the years of full production that lie ahead. If these agreements are not abrogated at once they will do more harm to building labor than good. If they are not discarded it will be because of unfortunate shortsightedness.

Let me cite some examples of these agreements. In some cities, glass put in a window sash by a manufacturer must be taken out by a builder and the window reglazed by a member of a local glazing union. The same treatment is usually accorded factory-wired electrical fixtures. The wires must be taken out and then put back by a member of the local electrical union. Paint spray guns and similar labor saving devices are a favorite taboo with unions. In some instances, where a five or six-inch paint brush is practical, no wider than a four-inch brush is permitted. Jurisdictional disputes are all too frequently settled by dividing the work. A member of one union sets the beam while the rival attends the setting. There is no end to a list of this kind.

Now, no single restrictive agreement such as I have drawn your attention to, exists on a nation-wide scale, and no single employer-union agreement amounts to much in a specific instance. But when these restrictions are all added up, the aggregate is very costly. Both industry and labor must take immediate steps to cancel out these agreements, these "cost obstacles" to lower cost housing. The solution should be found in the assurance of plenty of work, in full production and full employment.

Building Code Restrictions

The last "cost obstacle" I want to expound on is building codes —codes which restrict the use of new and less costly materials, new methods of construction, and which deny the development of technological progress in the building field. It must be recognized that building codes by their very nature are restrictive, and that their purpose is to protect the public from dangerous practices. But it must also be recognized that many codes, through long usage, have acquired a kind of sanctity although they are out-of-date, and, in a good many instances, just plain ridiculous. Take the example, of the code of one of our large midwest cities. In this instance the code is so worded as to prohibit the use of a certain type of fireproof wallboard. Yet this product, manufactured in about 30 plants throughout the United States, is of standard quality, and has wide acceptance. It has been tested and approved by our National Bureau of Standards. The quantity used per million dollars worth of construction has more than trebled in the last decade. Hundreds of million feet were used by our armed forces. But the home owners and builders of this large city are deprived of its use and of the economy of its use.

In another city the code requires the thickness of brick walls to be 12 inches for dwellings, when 8-inch walls are generally accepted in most other cities. Thus, an unnecessary cost is added to the purchase price of new homes in that city.

In still another city the code is written so that there is a dependence on minimum dimensions, rather than on safe working stresses. For example, this code requires 2x4 studs without permitting construction of equivalent strength but of different dimensions, such as glued panels.

Then there is the code in another large city which requires that the first floor of a dwelling be constructed to withstand a live load of 50 pounds per square foot, when most other cities have found 40 pounds per square foot to be more than reasonably safe.

These are not isolated examples. But they all add up to the reason why the skeletal structure of a house is so unduly costly. What is needed is a national building code which every city and community can adopt, perhaps with minor local variations. Starting with the wartime experience with a national building code for defense housing, the Department of Commerce is exploring the possibilities of further action in this direction.

The mechanics of change in codes are unduly cumbersome. But the area of technical dispute in most codes is relatively small. There is no need for codes of certain cities to go beyond the safe standards established by the National Bureau of Standards, or beyond the limits established in the codes of comparable cities. This does not imply the building of "Jerry" structures. The standards established by the National Bureau of Standards is a guarantee against that. The correction and modernization of codes is a "must"! Horse-and-buggy day codes represent an entirely unnecessary and burdensome "cost obstacle" in the path of low-cost housing.

Construction Division of Commerce Department

The building industry will not find itself alone in fighting for the removal of any "cost obstacle." The Department of Commerce now has a new construction division which was organized for the sole purpose of assisting any and every phase of your business. This division will concern itself with the promotion of year-round construction, the removal of restrictive clauses in the building codes, and the removal of costly management-labor restrictive agreements. In short, it will concern itself with helping the building industry to achieve the fullest production possible.

Our construction division will also furnish you with statistical and research information, as well as information on material production. The free enterprise system can work best when business has knowledge of the facts and is able to make its plans on the basis of facts.

Incidentally, our figures show that the production of materials is on the upswing, and even taking into account a normal amount of work stoppages due to strikes and bad weather, we should just about skim through the early spring. We think that by summer the present scarce materials such as lumber, brick, gypsum lath, sheet steel, and soil pipe will be in reasonably fair supply although inventories and a completely rounded line of these materials may not be available until fall. We must recognize that this coming spring will be for the building industry a rather trying period. But no builder should be gloomy or discouraged. By early fall materials should be available to meet all building demands.

Building Prospects

When the materials picture is normal again the building industry should be all set to go. Beginning now, every day should be used to prepare for what is coming. Never before has the building industry had so great and challenging an opportunity of fitting our mass production skill and techniques toward the problem of satisfying the housing needs of all our people. As business men you must consider the full extent of your market. The vast majority of our citizens have low annual incomes. They are the backbone of our country. They are the greatest potential mass market in this country for housing, and their housing need is the most pressing problem facing the country today.

There is neither magic nor mystery in the production of low-cost housing. No builder can afford to sit back and wait for some startling new mechanical invention to reduce the cost of construction. You cannot cure a chronic disease with a headache powder. The problem must be tackled at its source. Fight to get rid of the obstacles in the way of lower construction costs. That must be the first objective, to which everything else is secondary.

The building industry should take the initiative in lowering construction costs. As businessmen, any other role would be a costly error. Now is the time for the industry to take a page out of the history of other industries— and build in the interest of the consumer at a price the consumer can afford to pay. This not only makes good business sense, but it is the only method by which our country will achieve full profitable production and full gainful employment. This is a challenge the building industry must face with boldness and vision—with considered action and with concerted action. In this direction lies the progress that can be ours if we will it so.

Public Utility Securities

(Continued from page 3006)

back to 1929 ideas, and leverage may again come into fashion, in which case the high common stock capital ratio may lose market appeal.

A factor closely related to leverage is the company's record of **growth.** Where growth has been rapid in the past, and appears likely to continue above-average over the next year or so, investors are willing to pay a little more for the common stock. In the case of Florida Power, the populartiy of the offering may have been due in part to expectations of rapid growth in this territory as forecast by the management. In the case of Central Arizona attention was also called to the consistent growth record.

Another factor is the possible **loss of war business,** especially where the company may have important transit interests or an unusually heavy proportion of industrial sales of electricity.

Public relations with consumers and with state and federal regulatory authorities also enter into the picture. Dates of renewals of important **franchises** are significant since municipalities may exact rate concessions as the price of renewals. Questions of possible **sale to public power agencies** are important, as with Puget Sound P. & L. Many other factors enter into the picture, but the ones mentioned above are perhaps the most significant in appraising market value.

Hourwich & Co. Opens in New York City

Hourwich & Co. has been formed with offices at 27 William Street, New York City. Partners are Iskander Hourwich and Arthur Vare. Mr. Hourwich has been in business for himself from 1934 to date. Mr. Vare, who has just received his discharge from the Army, was formerly with Jesse Spier & Co. for 15 years. The firm will transact a general business in corporate and municipal securities.

Mitchell, Hutchins & Co. to Admit New Partners

Mitchell, Hutchins & Co., members of the New York Stock Exchange, will admit Wilfrid Wood and Weatherly Reinmund to partnership on January 1. They will make their headquarters at the firm's New York office, 1 Wall Street. Mr. Wood in the past was a partner in Coggeshall & Hicks.

Mutual Funds

The $64 Question

The Trustees of **The George Putnam Fund of Boston** in the current Portfolio Review comment on a question raised by the Investment Company Committee at the recent annual meeting of the National Association of Securities Commissioners. They report that the question, What protection does the investor have against a drastic general market decline? was treated somewhat facetiously by some of the representatives at the meeting.

The Putnam Fund Trustees believe that these present prosperous times present a real challenge to all in the industry. Bull markets invariably lay the foundations for later crippling losses. This is especially true of investment companies, where such a large proportion of the new money always comes in near the top of the cycle when optimism is strongest.

The review concludes: "The dangers inherent in this situation can be minimized, however, by a clear recognition on the part of the dealer and salesman of the functions and characteristics of different trusts. It is an important part of each dealer's job to fit the fund to the purpose and to the times."

Superior Performance

In a current memorandum on **Commonwealth Investment Company,** the sponsor, **North American Securities Co.,** compares the performance of the Barron's prize-winning programs with that of Commonwealth. Figures show the standing of the winning programs at each anniversary date and Commonwealth's management record during the same period.

The winning list with the best over-all record had a six-year gain of $20,189 in value and total income of $32,562, or a total gain of 52.7%. Commonwealth had a six-year gain of $90,443 in value and total income of $32,238, making a total gain or 122.7%.

Reconversion Nearing Completion

National Securities & Research Corp. devotes the current Investment Timing to a discussion of reconversion and its effect on industries. The report states that President Truman recently reported that this country's industrial manufacturing plants and facilities are about 93% reconverted.

A brief resume of the present position of 10 industries with respect to reconversion is given and the following conclusion is reached:

"American business has performed a remarkably efficient job in the last four months. The manufacturing plant of this country in the physical sense is already practically reconverted from war to peace production and the process should be virtually completed by the end of this year. Some industries had no problem at all; others had it to a moderate degree and a few faced a serious problem. After the temporary handicaps of the present wave of strikes and the OPA price ceiling policy are removed, the industrial production of the nation should be in high gear for several years."

Just as if You Had a Million Dollars

In a current Investment Bulletin on **American Business Shares, Lord, Abbett** comments on the advantages available to small investors through investment company shares. Large investors, points out Lord, Abbett, have recognized the importance of and been able to obtain diversification, continuous supervision, value, thorough study and planning. Small investors have either not realized the importance of this degree of management, or it has not been available to their means. As a result, loss and hardship have all too frequently been suffered by those who could least afford it.

By the purchase of investment company shares, smaller investors may enjoy all the advantages available to larger investors. In essence, investment companies represent a banding together of thousands of investors of all degrees of net worth to secure the advantages previously enjoyed only by the wealthy. In other words, states this sponsor, whether the amount available for investment is a few hundred or a few thousand, "It's just as if you had a million dollars."

Diversification Pays Again

Selected Investments Co. uses the recent history of Bendix Aviation Corporation common stock as an example to show the advantage of diversification. Before the war, Bendix was primarily an automobile equipment company. During the war, the company expanded its lines, turned out a volume of war products at many times the rate of its peacetime experience. But it was, and is, believed by many that Bendix will do a very much bigger business in the coming years than it did before 1940.

However, on Nov. 21 the directors of Bendix met and declared a quarterly dividend of 50¢ instead of the 75¢ that had been expected. The stock broke sharply in price.

But Bendix was only one out of more than one hundred investments owned by **Selected.** During the same period many of the other stocks held by Selected maintained their dividend rates and in a few cases raised them. And many other stocks were rising in price while Bendix was falling.

The conclusion is reached that: "This is just one more excellent illustration of the value of wide diversification. A poor experience in one holding is frequently more than offset by good results in others."

Diversified Investment Fund

An attractive "anniversary" folder is at hand from **Hugh W. Long & Co.** on **Diversified Investment Fund of New York Stocks.** In a covering letter the sponsor comments that this fund was formed in response to a country-wide demand for an investment fund designed to produce liberal income from securities carefully selected for that purpose.

At the completion of its first year the Fund has $6,880,114 of assets, 492,826 shares outstanding and nearly 3,000 shareholders.

Railroad Equipment Orders

In a recent **Railroad Equipment News, Distributors Group** reprints two news items from the Dec. 13 issue of the "Wall Street Journal." The first item deals with the recent order from the New York Central System for 420 passenger cars to cost $34 million. This order constitutes the largest single order for passenger cars in the history of American railroading and represents 22 streamlined sleeping car trains.

The second item announces the inquiries from France for $85 million of railroad rolling stock.

Mutual Fund Literature

Distributors Group—Current issue of Steel News; revised folders **on Steel Shares** and **Railroad Equipment Shares of Group Securities. . . . Selected Investments Co.**—Memorandum showing diversification of a $10,000 investment in **Selected American Shares;** current issue of "These Things Seemed Important." . . . **Lord, Abbett**—Investment Bulletin on **Union Bond Fund B;** current issues of Abstracts. . . . **National Securities & Research Corp.**—Current issue of National Notes; memorandum showing portfolio changes; Current Information folder on all **National** sponsored funds. . . . **Hugh W. Long & Co.**—Up-to-date folder on **Steel Industry Series of New York Stocks;** memorandum showing complete 1945 dividend information on the various Series of New York Stocks.

Dividend

Institutional Securities, Ltd.—A semi-annual distribution of $.0375 per share on **Insurance Group Shares** payable Jan. 31, 1946, to stock of record Dec. 31, 1945.

First of Texas Corp. in San Antonio, Tex.

SAN ANTONIO, TEX. — The First of Texas Corporation has been formed with offices in the Transit Tower, to engage in the securities business, specializing in Texas municipal bonds.

Officers are: Major William W. Payne, now on terminal leave after serving three and one-half years with the Southern Defense Command and Eastern Defense Command, President. Major Allan K. Shackleton, who served with the 30th Division in the European Theater and with the 52nd Troop Carrier Wing, Secretary, and Lieut. Robert G. Day, now on terminal leave after seven years with the Second Division, Assistant Secretary.

Major Payne began his career in the investment business in 1925 with the Central Trust Company of Topeka, Kans. He was Manager of the Bond Department until 1933 when he became a partner in Estes, Payne & Company. In 1940 he organized the Columbian Securities Corporation of Texas in San Antonio and was Vice-President and Manager of this organization at the time he entered the service in 1942.

Kaiser & Co. to Admit Five to Partnership

SAN FRANCISCO, CALIF.—Kaiser & Co., Russ Building, members of the New York and San Francisco Stock Exchanges, will admit Charles Quine, Leslie E. Rowell, Charles P. Burgess, Charles C. Horton to general partnership, and Edward L. Turkington to limited partnership on January 1. Mr. Quine, Mr. Rowell and Mr. Burgess have been with the firm in San Francisco for some time. Mr. Horton is Manager of the New York office, 20 Pine St.

Standish Rejoins Staff of Townsend, Graff Co.

Townsend, Graff & Co., 120 Broadway, New York City, members of New York Stock Exchange, announces that John W. Standish has been released from active military service and has resumed his association with them.

Government and the Insurance Business

(Continued from page 3007)

if the principles of free government and free enterprise are to survive in this world, they must be defended and preserved by the people of the United States who have inherited them from the patriots and the statesmen who wrote the Declaration of Independence and the Constitution of the United States.

Government organization and business organization are the instruments by which the American ideals of political and economic freedom can be maintained. They must both be democratic, that is to say, they must proceed from the people, from all of the people. They must both be designed to serve the public interest. Whenever either political organization or business organization falls under the domination of group or class or special interest, it ceases to be the sort of organization the founders of this nation sought to establish.

This brings me to insurance and to the specific problem with which you, as persons engaged in the insurance history, are most intimately concerned at the moment. Let me say that the reports which have come to me from the various industry committees, from State insurance commisioners' committees and all others interested in insurance, indicates that an honest effort is being made to adjust the insurance business and its regulation to the decision of the Supreme Court that insurance is commerce and to the law of Congress approved by President Roosevelt on March 9, 1945. I congratulate the industry on its efforts because if it succeeds—and I think it will succeed—it will have done much to show all industry how the delicate balance between government and business may be preserved in a manner that will protect the interests of all.

Expansion of Central Power

The great evil of our time is the expansion of central power, arbitrary central power, sometimes exercised by private groups, sometimes exercised by Government. In either form it is the foe of freedom. When any private group undertakes to establish such controls over any branch of the economic system as to deny opportunity and freedom to others, it launches itself upon the road to authoritarian government.

The Act of Mar. 9, 1945, was an invitation to the insurance industry and to the states by the Congress to set up a formula of state regulation which will preserve a free economy in insurance by preserving competition and banishing the evils of monopolistic central control. It was a declaration by the legislative authority of the United States of a desire to strengthen state regulation by closing the door to private regulation. Surely it must be clear to business leadership that such an invitation, proceeding from the government in Washington, should be promptly accepted, because it affords not only an opportunity to avoid all the dangers of central government control, but an opportunity also to make secure real freedom of opportunity in the industry itself. Yours is the chance to establish the "grass roots" rule for business whereby alone we can escape the worldwide trend to central power.

It is not an easy task. It is not one that can be performed by smart legalistic construction of the language of the Act of Mar. 9, 1945. It is not a problem that can be solved by narrow construction of the letter of the law or by seeking to make it a cloak to hide some private purpose. It is a problem that can be solved only by adherence to the spirit of the law. That spirit is the desire of Congress to preserve a free economy governed in the public interest by the authority of all of the people and not by any small group even though they may be regarded as well qualified to manage, but whose authority does not proceed from the people.

Federal Regulation of Insurance

It takes no lawyer to read Public Law No. 15 of the 79th Congress and construe it in the spirit of American institutions. You need no lawyer's brief to expound this statute. In the plainest of plain words it expresses the belief of Congress "that the continued regulation and taxation by the several states of the business of insurance is in the public interest." "Regulation" is the longest word in that sentence and it contains only four syllables. It is sometimes pretended that regulation is a hard word to understand, particularly when it is applied to business, although it is a word which has been in the Constitution of the United States from the very beginning. There never was any doubt in the constitutional convention that Congress should have the power to "regulate commerce." Congress has always exercised that authority in one degree or another and the states have always exercised it. Business has prospered and expanded under it, because regulation in the public interest is good for business as well as for the public. Unregulated business tends to develop abuses, and the greater the distance between the people and managerial authority, the greater the tendency.

To "regulate" means only to provide rules and the American ideal of business regulation is to regulate in the public interest. It does not mean to control in the sense of taking over or absorbing. Therefore, when Congress declared in the first sentence of Public Law No. 15 that "the continued regulation and taxation by the several states of the business of insurance is in the public interest," Congress made it clear that it was not trying to take over the business of insurance or to establish rigid regulation from Washington. Congress wanted to stimulate and revive state authority and a free competitive economy.

I say it sought to establish a free competitive economy under state regulation and I say that this is the clear purport of the law because it is so stated in the act in two separate clauses which are not difficult to understand.

The first of these is the proviso that after Jan. 1, 1948, the anti-trust laws shall be applicable to insurance "to the extent that such business is not regulated by state law." The second is the famous moratorium clause which states that until Jan. 1, 1948, the anti-trust laws and the Robinson-Patman Act "shall not apply to the business of insurance or to acts in conduct thereof."

There you have, first, a positive declaration that the federal anti-trust laws shall apply after Jan. 1, 1948, if "insurance is not regulated by state law," and, second, an exemption from the anti-trust laws for a limited period, an exemption that was granted solely for the purpose of affording time for adjustment.

Then there follows another very simple statement that nothing contained in the Act of Mar. 9, 1945, "shall render the said Sherman Act inapplicable to any agreement to boycott, coerce, or intimidate, or act of boycott, coercion, or intimidation." Thus Congress made it clear, first, that the Federal prohibition against coercion stands unimpaired throughout the moratorium period; second, that there is only a limited moratorium from the anti-trust laws, and, third, that the anti-trust laws, after the expiration of that period, are revived in all their vigor if state regulation fails.

Why was Congress so concerned about the anti-trust laws? That answer, too, is simple. It was because Congress knows that private monopoly is the direct road to totalitarian power. The private group which attempts to set up a fence around its own privileges and power and to exclude all others from engaging in business, or to make it difficult for others to engage in business by penalizing competition, is working against the public interest. It promotes the concentration of economic power and by bringing about that concentration it makes the expansion of government power inevitable. That is why there never has been a time under our system when combinations and conspiracies to restrain trade have not been illegal. To restrain trade is to deny opportunity. To deny opportunity is to defeat the basic objective of free government.

So Congress has invited the insurance industry and the states to regulate this business in such a manner as to keep it free. There is to be no unregulated area so far as restraints of trade are concerned. Nobody in Congress who had any part in the preparation of this law had the slightest notion that this law was a grant of power to the states to permit combinations or conspiracies in restraint of trade. Over and over again it was asserted that the states will regulate the industry or the federal government will.

Does Not Prohibit Insurance Agreements in Public Interest

This is not to say that agreements among companies are prohibited. They are not. It is not to say that the states must prohibit all such agreements. Certainly not. Agreements which are plainly designed to serve the public interest or to strengthen the companies by preserving their solvency are not forbidden. The aim is not to make it difficult for the insurance industry to do business, but only to prevent abuses through agreements or combinations among private groups to fix prices or control the industry or to make it difficult for any private group to engage in the insurance business at all except on the terms of another private group.

What we have, therefore, is an invitation to the states to become the umpires of a free economy and the saviours of private enterprise by regulation that will keep it free. Never was it more necessary than it is now that business leadership and government leadership should cooperate to achieve this end.

It will not be sufficient, however, merely to announce the principle or to pass laws in the several states which merely formally assert state authority. If there is to be state regulation, the states must have insurance departments which are competent to regulate, that is to say, which are competent to examine, audit and understand the complexities of the insurance business.

As long ago as March, 1941, the Temporary National Economic Committee, which, as you may remember, made an investigation of life insurance, pointed out that state appropriations usually are insufficient to do more than provide for perfunctory examination of insurance companies. It pointed out that most commissioners of insurance serve only two to four year terms and that the changes are so rapid that frequently commissioners are replaced before they have really become acquainted with their tasks. The TNEC recommended the strengthening of state insurance departments by laws which will make them better able to deal with the competent executives of the highly organized insurance industry.

Better State Regulation Called For

The National Association of Insurance Commissioners has proposed better state supervision. Informed people in the industry know that it is essential as, for example, the editor of Best's Insurance News who, in the issue of July 2 of this year, asserted that "most people in the business know that there are some very weak links in state supervision." That does not apply, I am happy to say, to the State of New York or to the State of Massachusetts or to other states that could be mentioned. It is a most encouraging fact that at a recent meeting of the American Life Convention in Chicago, Commissioner Jas. M. McCormack of Tennessee, who is also President of the National Association of Insurance Commissioners, declared that "It is high time that we explore the advisability of recommending a uniform statute setting up high standards of state supervision — a uniform statute governing the organization and qualifications of the various insurance departments."

If this is done in the state laws which are passed before Jan. 1, 1948, and the competence of the states to regulate is thus firmly established; if the states by the new laws also assume the responsibility of affirmative regulation and if the insurance industry, through its leaders, gives first consideration to the protection of the public interest in its recommendations to the state legislatures, the invitation of Congress will have been accepted and the industry will have avoided the danger of either private or public control.

Let me repeat, the issue of our time is the conflict between free enterprise and the state managed economy. Wherever we look across the seas, there we behold the authoritarian state arising. Great Britain and France are experimenting with the nationalization of industry. The Communist believes that a free economy cannot survive because, he says, capitalism cannot protect itself from abuses. Free enterprise, he says, inevitably develops monopoly and particularly so in our time because so much business is conducted by small managerial groups who are beyond regulation in the public interest by local communities or by the people. The advocate of stateism welcomes monopoly because he knows that it is only a way station on the road to totalitarianism.

This is the challenge which has been presented to the insurance industry and to the states. Leadership in business and in government can keep enterprise free if leadership is unselfish enough, is courageous enough and vigilant enough to do it. By the Act of Mar. 9, 1945, the government at Washington has laid the problem in the laps of the states and of the industry. It is yours to make or to break. You can keep the insurance industry free and when you do so you will be setting an example for all business and all government in every other branch of our economy.

H. F. Boynton & Co. to Open in New York

H. F. Boynton & Co., Inc. is being formed with offices at 2 Wall Street, New York City, to engage in the investment business. Herbert F. Boynton principal of the firm will retire from F. S. Moseley & Co. on January 1.

Mallory Adee to Admit

Berkeley W. Jackson will be admitted to partnership in Mallory, Adee & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1.

Solving the Transportation Problem

(Continued from page 3017)

Grouping it all together we call it transportation. From the standpoint of the user transportation is a single implement. It is a tool. It is created not for itself but for the use of others. It must, of course, under our system of free enterprise, not only pay for its keep but pay a profit to those who supply the capital to create it and keep it running.

But transportation must serve the public first and its own interests second. It is that public service and not the self-interest of the agencies of transport that influences Congress in its approach to transportation. It is from the standpoint of predominant public interest that we must expect the agencies of transport and the users of transport to approach their problems. Unless we jointly, the Congress and the people, seek every possible means of adjusting self-interest to public needs, and succeed in doing so, we will get nowhere. Legislation enacted in the vacuum created by selfish pressure groups without strict regard to the needs of the people is merely empty phrases and meaningless words.

When the Hon. Clarence F. Lea, Chairman of our Committee, introduced last July a resolution calling for a thoroughgoing survey of postwar transportation, he made a comment before the House that so brilliantly pictures the situation that I can do no better than to quote him here.

"This problem," said Mr. Lea, "is vital because transportation is the connecting link between our producing machine and the consuming public. Without adequate, economical transportation our whole economy can bog down, no matter how much energy, wisdom, and capital industrial executives may put into the other phases of reconversion from a war economy to an economy of peace."

He pointed out further that failure to provide a legislative remedy to meet the needs of our transportation system, or failure to focus the thought of leaders in the transportation field upon their own responsibility, apart from legislation, can prolong for many years this nation's period of reconversion. And he truly said that it might even throw our whole economy into chaos.

As one member of the Subcommittee that will conduct this inquiry, I can assure you that we will devote all the time and all the energy that is necessary to the prosecution of our study. We hope and expect to find the answers to some of the problems that are perplexing to you as users and providers of transportation. These same problems have likewise perplexed the users and providers of transportation throughout the nation but we do not know what all of those problems are. We do not know how they measure up in your job of meeting the demands of the public you serve. We can only find out what those problems are from you and we want to know how you look upon them and from what angles you approach them.

Not to Rewrite Interstate Commerce Act

Let it be understood, however, that we do not expect to rewrite the whole Interstate Commerce Act. We believe that we can do a pretty thorough job within the statutory framework that has been created over the many years that law has been on our statute books. You will agree, I am sure, that the expansion of the services of the newer forms of transportation and the vast changes that have taken place recently in our economy have made much of this framework obsolete. Indeed, obsolescence set in many years before the war but just as that catastrophe has opened up new vistas in manufacturing, it has also opened new vistas in transportation and has multiplied and magnified its problems.

The Congress, in view of the significance of transportation to all of our people, will endeavor to apply itself in a statesmanlike, objective fashion to finding the right answers.

In dealing with a matter of this kind we should be statesmen and forget local and regional interests and hope the people who appear before us with their recommendations will do likewise.

If we are to be representatives of all of the people we must expect the people whom we serve to forget self-interest when they approach common problems. We grow the finest melons and corn and cotton in the world in Arkansas but if you here in New York can't get them, due to a breakdown in transportation, we both suffer. What we need from you, I wouldn't know but there are other states that are less independent than we are and I am sure my pepole will wish me as their representative to act also as your representative in my approach to this inquiry.

I hope and believe that I have an open mind. Personally I am prepared to find that some of the views I held a few years ago, on transportation, may be quite erroneous when I have examined all of the facts inherent in the new conditions that surround our present transportation problems.

We frequently hear our transportation facilities in this country described as a "transportation system." Magnificent as these facilities are, however, and tremendous as may be their achievements, it is not true to describe them as a "system."

What we have, in fact, is a far-flung conglomeration of transportation systems and independent agencies. This is due largely to the enormous variety of needs, geographically and economically, which these systems have been created to meet. It is also due in part to the fact that each system and each mode of transportation has grown up under our system of free, competitive enterprise largely through the inspiration of competition. This competition has been not alone that of the enterprisers who have created our transport agencies. In many cases a mushrooming and sporadic growth has been stimulated by intense competition among geographic and economic areas.

The Problem

Let me devote a few moments to the task of laying before you some of the factors that give this transportation problem of ours such compelling interest to both the people and the Congress.

The history of the economic progress of the world is in a very large sense, the history of the development of transportation—cheap and efficient. You men know that the thing which determines your ability to do business profitably is the extent of your market. To all business enterprise the business of transportation has an importance exceeded by no other. It is transportation and only transportation that determines the extent of the market of any business.

Now what have we at this time in the way of facilities? We have 30,500 miles of navigable inland waterways served in peacetime by more than 11,000 vessels. At the beginning of the war there were more than 8,000 miles of coastal and intercoastal water routes competing with rail and highway users.

There are 1,302 railroad companies of which 136 are Class I roads operating 230,000 miles of privately-owned tracks and thousands of terminals, freight depots, repair shops, and other supplementary and maintenance facilities.

While in 1919 this country had less than 10,000 miles of hard surface highways, we now have nearly one and one-half million miles of such roads, 230,000 miles of which have been built with federal aid. Operating over these highways, at the beginning of the war, were 26,200 trucking companies and more than 1,500 motor bus companies, together operating five million vehicles.

Also there are 3,000 airports in the United States and the Civil Aeronautics Authority has plans for 3,000 more. There are nearly 35,000 miles of lighted airways.

Then, too, there is an extensive network of pipe lines, expanded greatly during the war. It, too, is a factor to be reckoned with.

Going back to the highways, we have to consider, as a most important competitive force, millions of motor vehicles, privately owned and operated, trucks and passenger cars.

All of these facilities have demonstrated beyond question their ability to serve our people. They must continue to do this and perform even more satisfactorily than in the past. Our only hope is that our regulatory system and our statutory framework may be perfected to aid them in this effort. Our aim shall be to prevent unbridled competition between private carriers and common carriers and among common carriers themselves from destroying the value of this fine instrument.

People's Huge Bill for Transportation

The people have a huge investment in their transportation instrument and they pay a huge bill for its use and maintenance. They are paying not only through direct charges but also through taxation. They have paid this bill in the past without serious complaint because they know they must have the service. From farm and from factory a stream of produce flows through the channels provided by transport and this stream must never stop or we would starve and freeze and disappear as a nation.

The size of the transportation bill that the people of this country are paying is suggested by our appropriations for roads. Since the passage of the Federal Highway Act of 1916, approximately three and three-quarters billions of dollars have been authorized by Congress for expenditure on federal highways. This includes one and one-half billions authorized last fall for expenditure during the first postwar years. The overall cost of our highway system has never been ascertained but the figure is very large. Add to the three and three-quarters billions authorized for federal aid, the state, county and city funds that have been expended on streets and highways and the figure will run up into almost astronomical proportions. But whatever it costs I am certain that highway users consider the investment well worth while for they are still asking for more.

I will not burden you with further statistics. I have dwelt on the road situation because I assume that is your predominant interest but I will ask you to think of the billions of private capital that have gone into the construction of the roadbeds, terminals and other basic facilities of our rail lines and the other billions that have gone into the rolling stock of these lines. I will also ask you to think of the millions that have been spent by federal and local governments for airline development and the billions of expenditure that are in immediate prospect.

You will see, if you think clearly through these staggering figures, what our greatest problem is. We must make the services provided by private capital continue to be available to the users of transportation when they must compete with the billions of tax-free, interest-free, government capital in other facilities. If we cannot solve this problem, we must face the alternative. That alternative is not pleasant.

Transportation must and will continue as a service to the people. You will never see a sign plastered on the door of a railroad station on any of our truck lines, "This road has been closed down by its owners." A warehouse can go out of business whenever it finds it unprofitable to continue. A factory making hoe handles can close up any time it wishes. The stream of commerce through our transportation system cannot stop. It must continue as private enterprise or become a government activity.

The Road to Socialism

I can hear some who do not think through this problem say "and so what?" This view is very narrow. It holds that so long as trucks and railroads, bus lines and airlines roll and fly, we don't care what happens to other elements of our business fabric. But there is much more to this picture than meets the eye blinded by self-interest.

If you examine the history of countries that have gone over to socialism, you will see what I mean. The first step is the socialization of transportation and communication. We see in England today that almost first on the program of the new socialistic government is the nationalization of transport. A few days after the government took over the banks, it took over domestic airlines. I warn you that what is happening in England can happen and will happen here if privately-financed transportation goes bankrupt in its unequal competitive race with government-aided transport.

Let's assume that the government can operate the business of transportation as efficiently as private enterprise. Let's assume that your trucks will roll as effectively for you if directed by a bureau in Washington as when directed from your office. I doubt this but it is possible.

But what are you going to say about turning over to politicians the largest single unit of purchasing power to be distributed by men who hold their jobs at the pleasure of a political party? This obviously could lead to totalitarianism.

What are you going to say about adding 3,000,000 transport employees to the Federal payroll? They will vote. They will want new pension schemes. They will be in the driver's cab. They will run your business because they will run the government!

How long can industry and agriculture exist as free enterprises with such a set-up? There is the answer to those who brush off this problem with a "so what."

After World War I

Some 25 years ago we came out of World War I with a transportation problem quite different from that facing us today. Then, we merely had to consider the railroads. Airlines did not exist. Motor vehicles were not serious competitors. All that we had to do was to rehabilitate our rail facilities after 26 months of government operation which had been characterized by the worst service in transportation that this country has ever seen, either before or since. I seriously doubt if anyone who had any experience during those dreary 26 months would ever contemplate the prospect of government operation with anything but a shiver of horror and disgust.

Fortunately our repair job at this time is much simpler. Except for a brief period of threatened labor trouble there has never been any suggestion of government operation during the war which has just ended.

Everyone will agree that in meeting the demands of war, transportation did a magnificent job. When we approach the problems of peace, however, we cannot reasonably expect it to work miracles and continue to exist as a part of our free enterprise system if we permit it to starve itself by unreasoning competition or impose upon it, through regulation, impossible restraints. The performance of highway, rail, water, air and pipeline transportation was beyond anything that the American people had any right to expect. This should be the best answer that can possibly be made to those who would force transportation into government ownership and operation.

But this fine record will amount to nothing as an argument against government operation if we do not compose the potentially destructive elements of transportation into a serviceable tool. The job will not be an easy one for part of this implement will be supported by private capital which must earn a return. Part of it will be supported by government capital that does not have to earn a return to investors; the taxpayers provide this capital. It is a problem similar to that which faced this nation when half of it was slave and half of it free. I am optimistic enough to believe that we can find the answer without going through the throes of a socialistic revolution. Search for this answer we will. Searching for it we are.

Progress of Inquiry

Our Subcommittee on Transportation has made much progress in its inquiry. This has been due in large measure to the fine cooperation that we have received from many hundreds of users of transportation facilities, the operators of transportation agencies, investors in transportation securities and economists—students of and experts in transportation. We have received a great volume of statements, opinions and comments in response to the request which Chairman Lea sent out. This request went to thousands of individuals and companies throughout the country. Much of the material which we have received is highly significant and practical. It all shows how alive our people are to the importance of this problem. It indicates to me that Congress is on the right track.

These statements are now being digested and analyzed. We expect to publish them for the use of the Committee, the Congress and the public generally. This publication, however, will not supply the only basis for action by our Committee. Hearings will be held on any proposed legislation before it is reported to the Congress for enactment.

I want you to know that we are making this study in your behalf. If you have received the list of Suggested Topics and have not replied, it is important to us, as your servants, that you do so at the earliest possible date. We want to have before us all the pertinent comment in time for it to appear in our preliminary publication. If any of you wish to have copies of the topics sent to you, a request to the Committee addressed to the House Office Building will bring an immediate reply.

Inquiry Topics Summarized

A brief summarization of these topics will serve to indicate to you the thorough nature of our inquiry. They are grouped under nine main headings. The first heading is "National Transportation Policy." Under this we seek to find what criticism can reasonably be directed against the statement of policy in the Transportation Act of 1940.

The second heading is "Regulation." Under this we seek comment on:

(a) Advantages and disadvantages of separate regulatory agencies for each mode of transportation.

(b) Advantages and disadvantages of a single regulatory body for all forms of common carriers, reporting directly to Congress.

(c) Should the Interstate Commerce Commission be reorganized in the light of present-day conditions and post-war transportation problems?

(1) If so, how? By changing its powers, its procedures, or the mechanics of its setup?

(2) What would be the objects to be sought by such reorganization?

(d) The extent, if at all, to which any or all forms of common carriers should be exempt from the application of the anti-trust statutes where the activities in question are under the supervision of the regulatory agency.

(e) To what extent should Federal Government agencies be given powers to promote activities of common carriers?

(f) To what extent and under what circumstances are differentials in rates as between different types of carriers warranted or desirable; or necessary in fairness to the carrier; or necessary to give the public the inherent advantage of each?

(g) What do you suggest to coordinate further our transportation agencies, both within the same types and as between different types?

Time does not permit me to go into further detail. I think you will see that we have overlooked very little. We have dealt with the subjects of finance, common ownership, taxation, Federal aid, interstate barriers to commerce, and the submarginal carrier.

These Suggested Topics are not to be construed as just another questionnaire. We are quite sure that you and every other businessman in the country has seen quite enough of these. We have offered topics for discussion. They are subjects for comment. If anyone has anything to say on any subject not covered in our document, he may let himself go in any direction that he chooses and be sure that his opinions, if they are germane to the inquiry, will receive our careful consideration.

Competition a Matter of Great Concern

From what I have said you can rightly judge that the matter of competition gives us the greatest concern. Our Committee will give much thought to this. We have the job of regulating competition not only between agencies of the same type but also between different types. We realize that each mode of transportation performs a special and valuable service. Each has its advantages and disadvantages. Furthermore, each excels to some extent all of its competitors.

These considerations make regulation in the field of transportation an absolutely necessary government function. The job of the government, however, is not that of either punitive control or encroachment on the field of management. Its job is to try to assign to each mode of transport the type of service for which it is most useful. We must endeavor to set up a legal structure which will preserve the inherent values of each.

Regulation, of course, must impose restraints on carriers. Sincerely carried out, with recognition on the part of government agencies of their power for evil as well as good, regulation has in it substantial benefits for the regulated agencies.

A brief consideration of one of the important aspects of competition will serve to illustrate the nature of the whole problem.

From 1900 to 1920, except for the tonnage carried on the Great Lakes and by inland and coastwise water services, the railroads handled substantially all commercial freight and passenger traffic. Today, however, both the older and newer forms of transport provide far more efficient facilities and promise to be of added competitive importance. Especially is this the case with waterways, highways and pipelines in the handling of freight and buses and airplanes in the handling of passenger traffic.

Just before the last war began the railroads handled only 63% of the total freight tonnage, contrasted with practically all of it during the early 1900's.

Beginning with the advent of steam, transportation was almost entirely the function of the common carrier. Today vast tonnage is transported by farmers and manufacturers for their own account.

Obligation of Highway Users

Those who use the vast facilities that have been provided by the taxpayers through our system of roads, which is the finest in the world, owe to the public the best possible service that can be given. The same responsibility rests with all other forms of transportation. I did not come here to lecture you on the conduct of your business. I think it might be useful, however, to point out that some 85 to 90% of the highway haulage of freight is by private and contract carriers and that only 10 to 15% is carried by the common-carrier trucker. The private carrier is immune from all regulation by the Interstate Commerce Commission. The contract carrier has almost none. This is as it should be.

I personally do not wish to see further regulation of either the private or contract carrier and the situation is entirely in the hands of such carriers. So long as they operate strictly within the meaning of the law they should be treated exactly the same as any other private business. They should be free from snooping by government agencies and free from bureaucratic meddling in their management.

But when either the private or contract carrier steps out of character and seeks or accepts, for instance, those innocent-appearing return loads, he must realize that he has become, under the law, a common carrier. There is no more place in our economy for a black-market carrier than there is for any other black-market dealing.

Abuse of privilege by a few can lead to the imposition of unwanted and undesirable restraints upon the many.

The members of your Association are performing a fine service to this nation. You are delivering food to our great cities. I want you to know that we of the Interstate and Foreign Commerce Committee of the House of Representatives are your servants in aiding you in the performance of your job. We do not seek to become your masters. Furthermore, we will do everything in our power to prevent those who seek to become your masters from accomplishing their purpose. We shall endeavor to reduce regulation to a minimum and to maintain it as a benign service rather than as a force for the regimentation of your business.

We ask you on the other hand to realize that you are a part of what can be a great transportation system. If you and the other parts of that system realize this fact, we may see a real transportation system in this country and not a mere conglomeration of transport facilities.

The serving of self-interest, failure to recognize that interest as merely a part and not the whole of any problem, cannot be tolerated in this complicated economy of ours. The alternative is just around the corner — government ownership, government operation, State socialism. In England there was no legitimate fault to be found with the service that transportation has rendered to the nation. It did a job under terrible conditions that compares favorably with what transportation did for us. Yet, we find the government taking over transportation in a program for industrial socialization which reaches down even to the land itself.

That is a thing which we do not want to happen here. That is a thing which you as the operators and users of transport can help us prevent. The means are primarily in your hands, not in ours as your lawmakers. We can go just so far. You have the major task. You must make the law work.

Charles S. Hirsch, Jr., to Form Own Inv. Firm

Charles S. Hirsch, Jr., & Co. will be formed with offices at 25 Broad Street, New York City, effective December 28. Partners in the firm, which will hold membership in the New York Stock Exchange, will be Charles S. Hirsch, Jr., the exchange member, and Mildred P. Arnold, general partners; Carmen deM. Hirsch, limited partner. Mr. Hirsch was formerly a partner in Hirsch & Co

Battin & Oberholtzer Join Staff of Yarnall & Co.

PHILADELPHIA, PA.—Yarnall & Co. announce the association with them of A. William Battin in their municipal department and Charles H. Oberholtzer in their sales department.

Mr. Battin was formerly with Edward Lowber Stokes & Co.

Commons and House of Lords Approve U. S. Loan

The British House of Commons on Dec. 13, by a vote of 345 to 98, approved the terms of the $4,400,000,000 loan to Great Britain by the United States. After voting for the loan, which must win approval by the U. S. Congress before it is granted, Commons voted 314 to 50 to ratify the Bretton Woods Monetary Stabilization Agreement, approval of which was one of the conditions laid down by the United States for the loan.

The House of Lords on Dec. 18 passed both the Bretton Woods agreement and the $4.4 billion U. S. loan bill after a perfunctory challenge of both measures by the Conservative opposition, it was noted in United Press advices from London, which, as given in the "Wall Street Journal" of Dec. 19 also said:

Only 98 of the 600-odd peers voted on the loan agreement at the close of a two-day debate in which the opposition, led by Lord Beaverbrook, virtually washed its hands of responsibility for the American deal.

The final vote was 90 for the loan and eight against it.

The Bretton Woods agreement was approved unanimously.

Lord Beaverbrook wound up the Conservative argument with a cautiously worded address urging rejection of the loan on the grounds that it was "entirely unnecessary" at this time. The quick action on Bretton Woods by the upper house assured final British ratification of the agreement by Dec. 31, the deadline fixed by all signatories to that accord. The measure already had been approved by the House of Commons and will go to the King for signature.

The loan arrangement, also previously approved by the Commons, was not presented to Parliament in the form of a bill and hence does not require royal signature.

Stating that both votes in the House of Commons were recorded on second reading, a cablegram to the New York "Times" from London, Dec. 13, by Charles E. Egan, said in part:

In voting approval of the loan the House committed Britain to the world trade policies advanced by the United States and agreed to work for a general reduction in world trade barriers, including Empire preference.

The objections centered on concessions on Empire preference, Britain's commitment to become a member of the Bretton Woods Agreement on International Monetary Policy, and upon the interest rate of 2% charged by the United States on the $4,400,000,000 credit that has been extended.

When the matter came to a division in the House more than 60 members of Mr. Churchill's party disregarded his plea against voting. More than 50 cast negative votes and 10 voted in approval of the loan proposals.

Foreign Secretary Ernest Bevin, who replied on behalf of the Government, maintained that although the Brtish Government had not got into its present financial difficulties through any fault of its own, nevertheless "when you get into difficulties you have got to get out of them."

The loan, he said, was not one to pay a war debt but an advance for food and machinery.

"We have not been dealing with New York bankers," he continued. "We have been dealing with the elected representatives of America and I will not believe—neither will I have it said about them without challenge—that the American Government conduct their foreign policy in the light of a change made by the free, elected people of Great Britain."

Mr. Bevin's remarks followed those of Mr. Churchill, in which the former Prime Minister voiced objections to the requirements attached to the American credit.

"If the United States had seen fit to say 'We shall give a grant in aid or a loan without interest' it would have been very natural to share their benevolent act and understanding on other matters," Mr. Churchill said. "As it is, we seem to have the worst of it both ways. Everyone has drawn attention to the proposal that sterling be convertible into dollars within so short a time as 15 months, whereas at Bretton Woods it was contemplated that there should be a delay of as much as five years before we accepted convertibility as a definite legal obligation.

"This convertibility proposal within 15 months appears to be a proposition so doubtful and perilous that in practice we can only hope it will defeat itself. It is—in fact we hope—too bad to be true."

Mr. Churchill contended that Anglo-American relations "have definitely become more distant and difficult since the establishment of a Socialist Government" —a statement that was greeted by shouts of "No! No!" from the Labor benches.

"Whatever may be said to the contrary," Mr. Churchill persisted, "our relations have deteriorated."

Paying high tribute to the unselfishness of the American people, Mr. Churchill agreed that under lend-lease—"the most unsordid act in the history of nations"—the United States paid more than $5,000,000,000 in aiding the war effort and the common cause.

Outlook for Federal Taxation

(Continued from page 3002)
effective beginning with the taxable year 1946. These changes are expected to reduce the 1946 tax liabilities of corporations by about $3.1 billions and of individuals by $2.8 billions, making a total reduction of $5.9 billions.

During the consideration of these two 1945 tax bills, it was made abundantly clear, both by Congressional leaders and by spokesmen for the Administration, that the bills were regarded as interim relief measures, and that additional tax legislation is planned, such legislation to include both tax reduction and tax reform. In fact, experts of the Treasury and Congress are now studying further tax revision, and Congress is expected to begin hearings on a new tax bill within a few months.

This is an appropriate time, therefore, to look ahead in order to examine future potentialities in the field of taxation.

The Postwar Revenue Goal

In weighing the possibility of further tax reductions in the future, the first step is to estimate the probable size of the Federal postwar budget. The magnitude of the budget will tend to determine the dimensions of the revenue goal.

The Administration and Congress are budget-conscious. They sincerely want to bring revenue and expenditures into reasonable proximity. In the coming deliberations on tax policy, therefore, budgetary requirements will be a paramount factor. From this, I do not necessarily imply that the budget will in fact be balanced, but only that the size of the prospective budget will have an overwhelming influence upon tax policy.

The Postwar Budget

It is, of course, not possible at this time to predict exactly what the Federal Government will spend in a normal peacetime year. It is possible, however, to make fairly reliable estimates of the amounts that would likely be spent to carry out existing policy as provided by present law. Rough guesses can also be made as to the amount of possible additional costs which may be assumed by the Federal Government in financing new programs now under consideration. Then, by combining the two groups of expenditures, a rough but usable budget estimate for a post-war year can be derived.

Chart I shows actual Federal expenditures during fiscal years 1939 and 1945. It also shows estimates for 1948 assuming the continuation of present law and policy.

War-Related Expenditures

The most significant feature of the 1948 figures is the large amount required for war-related expenditures.

The amount to be spent for national defense is estimated at $5 to $8 billions. The exact requirement will depend, of course, upon the size and equipment of the armed forces, the extent and character of citizen military training, and the magnitude of the military research program. More basically, it will depend upon the status of international relations. Clearly, present policy calls for defense expenditures far in excess of prewar amounts. We may hope for a new era in international understanding that will make possible important reductions in defense costs below $5 to $8 billions. At the moment, we cannot rely on such a favorable development.

The cost of veterans' services and benefits as provided under present law is estimated at $3 or $4 billions, and the interest on the debt at $5.5 or $6 billions. Both of these items are primarily legacies from World Wars I and II.

Combining the estimates for the three items of war-related expenditures gives a total ranging from $13.5 to $18 billions—representing perhaps 70% of the total budget.

Other Expenditures

The group of budgetary items classed as **Other Expenditures** may be regarded as the costs of ordinary peacetime government. Altogether, these items are estimated at $5.6 to $6.8 billions, a total amount not unlike the expenditures for these purposes in 1939. It is noteworthy that among these items the cost of **General Government**, i. e., of operating the governmental departments and bureaus, the Congress, and the judiciary, is estimated at about $1.5 billions—a relatively minor part of the total.

Estimated Total Expenditures

Combining the war-related expenditures and other expenditures gives an estimated total budget (exclusive of transfers to social security funds) of $19.1 to $24.8 billions. The midpoint of this range is about $22 billions which may perhaps be regarded as a reasonable estimate of the total.

It will be remembered that this estimate refers only to the cost of government assuming the continuation of present law and policy. Actually, there are numerous additional programs now under consideration by Congress or likely to be considered later. Some of these possible programs, as listed in the lower portion of Chart I, are: nonliquidating loans or grants to foreign countries; programs for promoting education, nutrition, health and housing; projects like the TVA for the development of river valleys; additions to the social security program to be financed out of general revenues; additional benefits to veterans for which there may be demand, and perhaps some form of relief to indigent persons.

At this time, it is impossible to estimate accurately the cost of such of these additional programs as may be adopted. In my judgment, a conservative figure would be $3 billion.

Adding this $3 billion to the estimated $22 billion for activities provided by present law and policy gives an estimated total Federal Budget for say 1948, of $25 billion. My own feeling is that this is a conservative estimate. Indeed, I shall not be surprised if actual expenditures prove to be more than $25 billion. For exmaple, if there should be a serious slump in national income, the budget would probably exceed this figure.

Course of Expenditures and Receipts, 1945-48

Given actual expenditures in 1945, the official budget estimate for 1946 and the assumed postwar Federal budget of $25 billion, it is possible to indicate the probable course of Federal expenditures during the next several years (see Chart 2).

During fiscal year 1945 (ending June 30, 1945), Federal expenditures were over $100 billion. During the present fiscal year 1946, they are estimated officially at $66 billion. By 1947, they may be set roughly at $35 billion and in 1948 the "normal" peacetime level of $25 billion may be reached (see Chart 2). At least two years will probably be required from the end of hostilities to liquidate unusual war expenditures and to shake the budget down to a peacetime basis. This conforms roughly to experience after World War I when fiscal 1922 was the first normal year for Federal expenditures.

Judging by the recent actions and the announced intentions of Congress, Federal tax receipts may also be expected to approach peacetime levels by 1948 (see Chart 2). The tax reductions provided in the Revenue Act of 1945 will be partially effective in fiscal 1946 and completely effective by fiscal 1947. Any additional reductions enacted in 1946 will reduce receipts in 1947 and subsequent years. Net receipts in 1946 may be reasonably estimated at about $35 billion and in 1947 at about $30 billion. Receipts may reach the assumed normal level of $25 billion by 1948.

Thus, it is possible that the budget might be balanced, or nearly balanced, in fiscal year 1948, **provided** (1) that tax rates are held high enough and (2) that the country remains prosperous so that high revenue yields can be maintained and expenditures can be held to the $25 billion level.

In his recent testimony before the Senate Finance Committee, Secretary Vinson expressed the opinion that a budget of about $25 billion could be balanced in 1948 if present tax rates (as revised by the Revenue Act of 1945) were held and if national income remained above $130 billion.

Alternative Sources of Revenue

Once the total revenue goal for the post-war tax system has been estimated, we can then explore the various possible methods by which this goal might be attained.

The Federal revenue system may be divided into three major segments: (1) the individual income tax, (2) corporation income taxes and (3) miscellaneous receipts, including commodity taxes, customs, estate and gift taxes, administrative revenues, etc.

As shown by the black bars in Chart 3, the relative importance of these three segments has changed during recent years. In 1939, out of total receipts of $4.9 billion, about $1.0 billion was derived from the individual income tax, $1.3 billion from corporations and $2.6 billion from miscellaneous receipts—the latter being the most important. In fiscal year 1945, which was a peak year for Federal receipts, a total of $46 billion was obtained. In that year, the individual income tax was the most important revenue source, producing $19.0 billion. Corporation taxes yielded $16.4 billion and miscellaneous receipts $10.6 billion. The latter group had become relatively the least important of the three sources, despite the fact that it included over $3 billion of extraordinary receipts from the renegotiation of war contracts and from the sale of surplus property.

The basic question of post-war tax policy is this: What proportion of the $25 billion revenue goal will be derived from each of the three sources?

Among many possible alternative combinations of the three sources, several are shown by the cross-hatched bars in the right-hand portion of Chart 3. Each combination adds to $25 billion, but each involves a somewhat different proportioning of the three sources. To determine which of the four might be most probable, we may first look into the question of post-war rates for the individual income tax.

The Individual Income Tax

The individual income tax is a direct tax affecting many people. In levying the tax, therefore, Congress is highly sensitive to public opinion and to political pressures. In connection with recent discussions on tax policy, Congressional leaders have clearly indicated that substantial reductions in individual income tax rates, over and above those granted in the Revenue Act of 1945, are to be enacted later. Moreover, the public fully expects such reductions. Thus, further substantial cuts in individual income tax rates seem fairly certain.

However, if the individual income tax is to yield as much as $14 billion, as suggested by Alternative I (Chart 3), little in the way of additional cuts can be made. This is indicated in Chart 4, which compares several possible rate structures under the individual income tax (normal and surtax combined). In this chart, net income is shown along the horizontal axis and bracket income tax rates along the vertical axis. The top solid curve shows the actual rate schedule applicable in 1945 and the next solid curve below shows the rate schedule for 1946 as provided by the recent Revenue Act of 1945. The next (dotted) curve shows a hypothetical schedule which would produce about $14 billion of revenue in a prosperous post-war year. As can be readily seen, only very small additional reductions would be possible if $14 billion were to be raised. For example, the rates applicable to the income bracket from $2,000 to $6,000 could be reduced by only about one or two percentage points.

It may be stated parenthetically that the great bulk of taxable income is in the lower brackets. For example, 84% of the total is received by persons having income of less than $5,000 and 95% by persons having incomes of less than $25,000. Thus, the rates at the lower end of the income scale largely determine revenue yield.

It seems clear that Congress intends to grant, and that the public expects, rate cuts of more
(Continued on page 3028)

Chart I

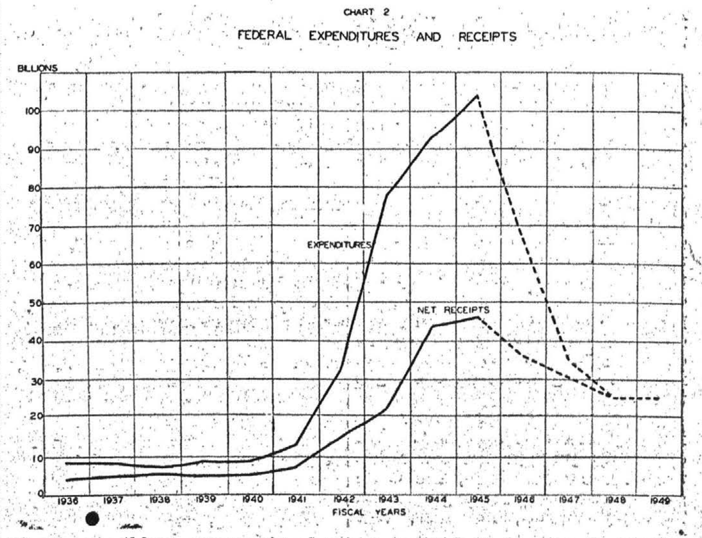
Federal Expenditures

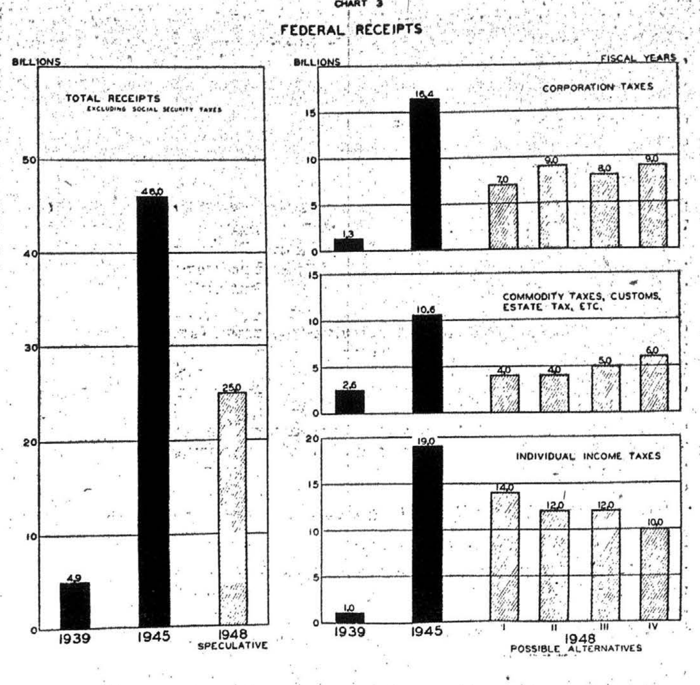
(in billions)

War-Related Expenditures	1939	1945	1948 Speculative (Assuming Continuation of Present Law & Policy)
War or National Defense	1.2	90.0	5.0-8.0
Veterans Services and Benefits	0.6	2.0	3.0-4.0
Interest on the Debt	0.9	3.6	5.5-6.0
Sub-total	2.7	95.6	13.5-18.0
Other Expenditures			
Social Security (exclusive of transfers to Trust Accounts)	0.4	0.5	0.6-0.6
Relief	2.5	---	------
Public Works	1.0	0.3	1.0-1.5
Aids to Agriculture	1.2	0.8	1.5-2.0
General Government	0.6	0.9	1.5-1.5
Transfers to Trust Accounts	0.2	0.5	0.5-0.5
Tax refunds	0.1	1.7	0.5-0.7
Sub-total	6.0	4.8	5.6-6.8
Grand Total, All Expenditures	8.7	100.4	19.1-24.8

Possible Additional Items, 1948

Loans or Grants to Foreign Countries	Housing
	River Valley Development
Education	Expanded Social Security
Nutrition	Additional Veterans' Benefits
Health	Relief





Madden Foresees No Rise in Interest Rates

(Continued from page 3003)

ings will by itself tend to bring about an increase in interest rates. Furthermore, owing to the huge backlog of demand for all types of consumer goods and housing, the volume of business and the price level are bound to be high. Such a situation, it is asserted, has always caused an increase in money rates, and there are no reasons to believe that the same factors will not exert in the future the same influence they had in the past.

Adequate Capital Supply

So far as demand and supply of short-term funds and long-term capital are concerned, indications are that the supply in the immediate future may exceed the demand. The supply of capital will be very large, and once the budget of the Federal Government is balanced and the Treasury ceases to offer in the open-market securities, exclusive of funding and refunding issues, it may even exceed the demand. During recent years American business has become acutely cognizant of the depreciation factor and consequently most obligations that are being offered to the public or to institutional investors contain provisions for repaying the debt within a reasonably short period of time. Term loans as a rule stipulate serial amortization payments. Nearly all mortgages that have been sold since the middle thirties and those placed currently carry provisions requiring gradual repayment of principal. Practically all new bonds and preferred stocks offered in the market stipulate a sinking fund for the repayment of a part of the issue. Repayment of principal constitutes a steady flow of funds for reinvestment in the capital market.

Of perhaps greater importance is the fact that business as a whole has recognized the depreciation factor in the human element, as evidenced by the widespread adoption of pension funds. Payments into pension funds are made by the employer and employees jointly (contributory plans) or by the employer alone. In either form the pension funds represent systematic savings which seek investment in high-grade securities.

No Heavy Demand for Long-Term Loans

The demand for long-term loans, once the Federal budget has been balanced or the deficit drastically reduced, is not likely to be very great. Corporations will rely to a considerable extent on their accumulated surpluses in financing improvements and expansion. While the demand for mortgage money will be substantial, the growth will be slow and the amount of mortgage loans will be determined by the cost of home construction. Unless building costs decrease from the current high level there is a serious danger that the expected building boom may not materialize. The volume of foreign-bond issues of necessity will be very small. The International Bank for Reconstruction and Development, if established, may contract some long-term loans in the market and member countries may offer publicly their bonds guaranteed by the Bank. The volume of obligations issued by political subdivisions will increase, but the amount will be insignificant when compared with the volume of securities offered by the Federal Government during the rearmament and war years.

In discussing possible future Federal deficits the bulletin states: Should "full employment" legislation be enacted the Government may be compelled sometime in the future to unbalance its budget and appear again as a large borrower. Such a development would increase the demand for capital which in turn may cause a rise in money rates. Experience has shown that the commercial banks are in a position to furnish not only short-term credit to industry and trade but also long-term capital. During the three and one-half years of war from Jan. 1, 1942 through June 30, 1945 the commercial banks of the country acquired 62.3 billion dollars of government securities. On the latter date the insured commercial banks held 82.4 billion dollars of Government obligations of which 36.5 billion dollars were of relatively short maturity consisting of Treasury bills, certificates of indebtedness, and notes. A considerable portion of the funds obtained from the banks was used by the Government for capital purposes. Hence if in the postwar period the Federal Government because of declining business activity, should again be forced to increase the public debt the new obligations could be absorbed by the commercial banks, particularly if the credit base of the country were broadened through measures adopted by the monetary authorities.

Deficits and Inflationary Tendencies

While a Government aided by a modern central and commercial banking system is in a position to obtain practically unlimited amounts of credit for any desired purposes, it does not contravene the fact that such policy inevitably leads to a decline in the purchasing power of the currency. But even where the public debt has increased beyond the carrying ability of the country and where inflation is rampant, as is the case in many countries on the Continent of Europe, governments through their respective central banks and the commercial banking systems are still able to maintain interest rates at desired levels. This was borne out recently in France where despite widespread inflation and the huge public debt, the discount rate of the Bank of France was reduced on Jan. 20, 1945 from 1¾% to 1⅝%, the lowest in the history of the bank. This rate compares with the average annual rate of 6.54% in 1926 and 4% in 1913.

Government Now Can Control Interest Rates

In discussing the ability of the monetary authorities to control the money market, the bulletin states: The powers of the monetary authorities to influence the money market were limited so long as a country was on the gold standard, under which the credit expansion power of the banking system was determined by the amount of gold held by the central bank. At the present time, however, there is in most countries no legal relationship between the volume of gold held by the central bank and the amount of currency and credit outstanding. In Great Britain, for example, the entire monetary stock of gold as reported by the Bank of England amounted on Oct. 24, 1945, to £247,833 or 0.0188% of the total currency in circulation. In Canada an Order in Council of April 30, 1940 freed the central bank from the obligation of maintaining gold as a reserve against its notes and deposit liabilities. In the United States an Act of June 12, 1945, reduced the required gold (certificate) reserve of the Federal Reserve banks from 40% to 25% against Federal Reserve notes in circulation and from 35% of gold certificates or lawful money to 25% of gold certificates against deposits. This means that at present $25 of gold certificates owned by a Federal Reserve bank supports $100 of member bank reserve balances, which in turn can support roughly between $500 and $1,000 of bank credit depending upon the legal reserve requirements. The 20 billion dollars of monetary gold at present in the vaults of the Treasury could support 80 billion dollars of Federal Reserve notes and member bank reserves. Assuming that Federal Reserve notes in circulation increase to 30 billion dollars (on Dec. 5, 1945 they were outstanding in the amount of $24,429,335,000), member bank reserves could be increased to 50 billion dollars. If the reserve requirements were to be reduced to the lower legal limit, i.e., 13, 10, and 7%, respectively, against demand deposits, which would average approximately 10% for the country, the 50 billion dollars in reserves could support 500 billion dollars of demand deposits. There is, therefore, no question that under modern central and commercial banking systems the governments can control the money market for an indefinite period.

Conclusion

In conclusion the bulletin points out that the real problem is not so much whether money rates will increase from the present level but rather whether a further decline may not take place in the near future. This question will arise as soon as currency begins to return from circulation in considerable amounts and the commencement of large-scale exports of United States products reverses the flow of gold. The attitude of the Treasury has been repeatedly stated by the present Secretary of the Treasury and his predecessor; namely, that a rise in money rates is not to the interest of the country because it would increase the cost of carrying the debt and also have an adverse effect on building activity and construction of public utility and industrial plants.

In Great Britain, too, the trend has been toward lower interest rates. On Oct. 18, 1945, the Chancellor of the Exchequer reduced the interest rate on Treasury Deposit Receipts from 1⅛% to ⅝ of 1%. This was followed by an announcement on Nov. 27, 1945 that the tap sales by the Exchequer of the 2½% National War Bonds of 1954-1956 and of the 3% Savings bonds of 1965-1975 will be discontinued on Dec. 15, 1945. The Chancellor also stated that for the present the Government does not propose to replace these by other issues. The 2½% Conversion Loan of 1944-1949 and the 2½% National War bonds of 1945-1947 will be repaid on April 1 and July 1, 1946, respectively. Holders of either of these loans will receive the option of converting their bonds in April, 1946 into 1¾% bonds maturing in 1950.

The often presented argument that low money rates will destroy the savings habits of the people does not seem to be substantiated on careful investigation. The prevailing interest rate certainly has no effect whatsoever on the savings of corporations as well as on the collective savings of individuals through insurance and pension funds. Deevlopments during the last few years, when money rates were exceedingly low, have definitely proven that the small saver is more interested in the safety and availability of his savings than in the rate of interest. While eleemosynary institutions and individuals living on fixed income-yielding investments have been adversely affected by the decline in interest rates, the most important economic groups in the country have benefited therefrom. The sharp increase in the volume of deposits and of liquid assets in the hands of the people in conjunction with the tremendous floating debt of the Treasury have removed quantitative credit control as an instrument of influencing business activity or the movement of commodity prices. The only type of quantitative credit control that can be effectively exercised at present, and particularly in the immediate future, will be through the proper handling of the public debt. Debt management has assumed an importance by far greater than the discount policy of the central banks ever had in the past.

Tilney & Co. Resumes Activity in New York

Tilney & Company, dealers in State, municipal and Government bonds whose activities were suspended during the war, has resumed operations at 138 Pearl Street, New York City. Frederick Tilney Jr., general partner who recently returned from military service, has been in the financial business since 1932, specializing in New York State and municipal underwritings. He started the firm of Tilney & Company in 1935 and now plans to expand the firm's activities.

F. S. Moseley & Co. Will Admit Three

Arthur A. Browne, Karl P. Herzer, and Harold G. Laun will be admitted to partnership in F. S. Moseley & Co., members of the New York Stock Exchange and other Exchanges, on January 1. Mr. Browne has been with the firm for some time in charge of the Indianapolis office, in the Circle Tower. Mr. Herzer is Manager of the bond department in the New York office, 14 Wall Street. Mr. Laun will make his headquarters in Chicago.

Graham, Parsons & Co. to Admit New Partners

Graham, Parsons & Co., members of the New York Stock Exchange, will admit Lawrence M. Stevens to general partnership, and Anabel C. Parsons and Perry MacKay Sturges to limited partnership on January 1. Mr. Stevens will make his headquarters in the firm's Boston office, 50 Congress Street; he has been with the firm for some time in charge of the Corporation Trading Department in Boston.

Blumenthal to Be Morris Partner

A. Pam Blumenthal, member of the New York Stock Exchange, as of January 1 will become a partner in A. W. Morris & Co., 325 West 8th Street, Los Angeles, members of the New York and Los Angeles Stock Exchanges. Mr. Blumenthal has been a partner in H. Hentz & Co.

Morgan & Tomes to Be Formed: NYSE Firm

Robert W. Morgan and Alexander H. Tomes, both members of the New York Stock Exchange, will form Morgan & Tomes with offices at 50 Broadway, New York City, effective January 1. Mr. Morgan was a partner in Stillman, Maynard & Co. Mr. Tomes was a partner in Buchanan & Tomes.

West & Nammack to Be Formed in New York

West & Nammack, members of the New York Stock Exchange, will open offices at 115 Broadway, New York City, on January 1st. Partners will be Jerome W. Nammack, member of the Exchange; Samuel W. West, also an Exchange member, previously a partner in Filor, Bullard & Smyth; and Howard J. Nammack, partner in Struther & Dean.

Outlook for Federal Taxation

(Continued from page 3026)

than one or two percentage points for the populous lower brackets. Thus, it may be concluded that $14 billion is more than can reasonably be expected from the individual income tax.

Referring again to Chart 4, the lower of the two dotted curves shows a rate schedule that might produce $10 billion in a prosperous post-war year. This schedule would permit a reduction in the lower bracket rates of perhaps five or six percentage points. The first bracket rate, for example, might be as low as 13%.

This type of schedule would seem to conform, much more closely than the $14 billion schedule, to the intentions of Congress and to the expectations of the public. An intermediate $12 billion schedule, however, calling for a first bracket rate of perhaps 15 or 16% is a possibility.

The sum up, $10 to $12 billion appears to be a reasonable estimate of the revenue which will be derived from the individual income tax in a prosperous post-war year.

Miscellaneous Receipts

Returning to Chart 3, the amount of miscellaneous receipts, consisting of commodity taxes, customs, estate and gift taxes, etc., has been set at from $4 to $6 billion. If these taxes were held at present wartime rates, they might produce $6 billion in a prosperous year. However, if certain special wartime excises are allowed to lapse six months from the termination of hostilities, as now provided, miscellaneous receipts would decline to perhaps $5 billion. It now appears to be the intent of Congress to allow these special wartime excises to lapse; therefore, $5 billion is the most that can be expected from miscellaneous receipts. Moreover, there is considerable pressure for reduction or elimination of various ordinary excises which, if enacted, might well reduce the yield to $4 billion or less. On the other hand, there is some possibility that the yield from the estate and gift taxes may be increased—as a result of a revision of these taxes and as a result of the great increase in taxable wealth associated with the growth of the national debt. Thus, it may be possible to hold the amount of the miscellaneous receipts up to $4 billion or more.

The Corporation Income Tax

In Chart 3, the yield of the corporation income tax has been set at $7 to $9 billion. The corporation income tax if levied at the standard rate of 38%, as provided in the Revenue Act of 1945, might yield about $9 billion in a prosperous post-war year. At 34 or 35%, it might yield $8 billion, and at 30% about $7 billion.

The Most Probable Combination

Having considered each of the three ingredients of the tax system, it remains to determine which combination of ingredients seems most plausible.

Alternative I, shown in the right-hand portion of Chart 3, calls for $14 billion from the individual income tax. Since this would permit little in the way of further individual income tax reduction, this combination must, therefore, be rejected as unlikely—though this is the combination that would be preferred by many students of taxation.

Alternative IV calls for a substantial reduction in the individual income tax to rates yielding $10 billion, but allows no reduction in the corporate rate or in miscellaneous receipts. Since Congress has already tacitly provided for reduction in miscellaneous receipts down to about $5 billion, this alternative must also be rejected.

This leaves Alternative II and III, which call for $12 billion from the individual income tax, which is at least within the realm of possibility, and either (a) reduced excises with a continuation of the present corporation rate (Alternative II), or (b) excises maintained at $5 billion with a reduction in the corporate rate to perhaps 34% (Alternative III).

One can take his choice between these two.

The net conclusions from this conjectural analysis are (1) that taxes of all kinds are likely to be high, and (2) that the prospects for a material reduction in the corporation income tax are not good. With the repeal of the excess profits tax, the capital stock tax and the declared value excess profits tax, business probably has already received the bulk of its post-war tax relief.

These conclusions rest, of course, on two assumptions; namely, (1) that Federal expenditures will total as much as $25 billion, and (2) that a sincere effort will be made to balance the budget—at least in years of prosperity. If either of these two assumptions should prove to be false, then the conclusions would not be borne out in fact.

Proposals for Reform

So much for the broad question of how much revenue shall be derived from each of the three major revenue sources. Congress will undoubtedly also consider next year many proposals for the reform of various aspects of the tax system.

Secretary Vinson has stated that in his opinion the tax system needs a comprehensive reorganization. And Congress has clearly indicated its willingness to hear and consider during 1946 the tax recommendations of various individuals and groups. Secretary Vinson incidentally remarked, "Any reorganization of the tax system will be greatly facilitated if it can be made in an atmosphere of tax reduction rather than of tax increase."

Among the reform proposals which will doubtless receive consideration, the most important are: Moderation of individual income tax rates in the upper brackets, partial or complete elimination of the double tax on dividends, lengthening of the carry-forward of losses, accelerated depreciation and special treatment of small business.

Other reform proposals which will probably receive consideration, but which I shall not discuss here, are: Revision of capital gains taxation, taxation of now tax-exempt corporations and organizations, tightening of the estate and gift taxes, taxation of now tax-exempt interest and elimination of special advantage to persons residing in the community-property States.

Individual Income Tax Rates

Apparently the opinion is widely accepted that the higher bracket rates under the individual income tax are relatively ineffective and uneconomic. It is frequently argued that these rates are not highly effective so long as the capital gains rate is held at 25% and so long as tax-exempt securities are available. Moreover, it is argued that such rates tend to discourage investment and risk-taking. As a result considerable sentiment has developed in favor of a top rate of perhaps 60 to 70%. A marked scaling down of top bracket rates would, therefore, not be surprising. The post-war rate pattern in the upper brackets might resemble either of the two dotted curves shown in Chart 4 and marked "10 billion" or "14 billion." Since a relatively small proportion of the nation's total taxable income is in the higher brackets, this scaling down of top bracket rates would not seriously affect revenue.

The Double Taxation of Dividends

One of the most widely advocated tax proposals is that the so-called double taxation of dividends should be partially or wholly eliminated. Under present law, income represented by dividends is taxed once to the corporation (under the corporation income tax) and again to the individual recipient (under the individual income tax). It is held that this duplicate taxation is discriminatory and economically unsound. Some form of dividend credit is, therefore, often proposed, the credit to be granted either to the corporation paying the dividend or to the individual receiving it.

There are two problems here: (1) should there be a dividend credit, and if so, (2) should it be granted at the corporate or at the individual level?

On the first issue, revenue considerations will be very important. Any material dividend credit will cost perhaps a billion dollars in revenue. As I see the revenue problem, therefore, the prospects for the dividend credit are not bright.

If, in spite of revenue needs, a dividend credit should be approved, there would undoubtedly be a serious controversy as to the form it should take. One school of thought would argue that the credit should be at the corporate level—in which case its net result would be similar to that of a tax on undistributed profits. The other school would argue that a tax on undistributed profits is unsound, and that the credit should should be granted to the individual dividend recipient so that the effect of taxation on corporate distributions would be minimized.

In general, those who are opposed to the dividend credit would, if confronted with the choice of taking the credit at the individual or corporate level, choose the corporate level. And those who want the credit very much would, in general, prefer that it be applied at the individual level. Thus, there are two possible outcomes based on a resolution of opposing forces.

First, as a result of the oppositions between those wanting the credit at the individual level and those wanting the credit at the corporate level, and in view of the revenue problem, the whole proposal might be defeated. This, I think is highly probable.

Second, as a result of a compromise between those who want the credit and want it at the individual level and those who do not want it but prefer the corporate level if they have to have it, a compromise on a credit at the corporate level might be reached.

However, it is extremely difficult to predict how such matters will ultimately materialize, so I do not rule out the possibility of a dividend credit applying at the individual level.

The Carry-forward of Losses

There is fairly general agreement that the carry-back of loss should be discontinued and that, in place of it, the period of carry-forward should be lengthened to five years or more. It is probable that this lengthening of the carry-forward will be enacted.

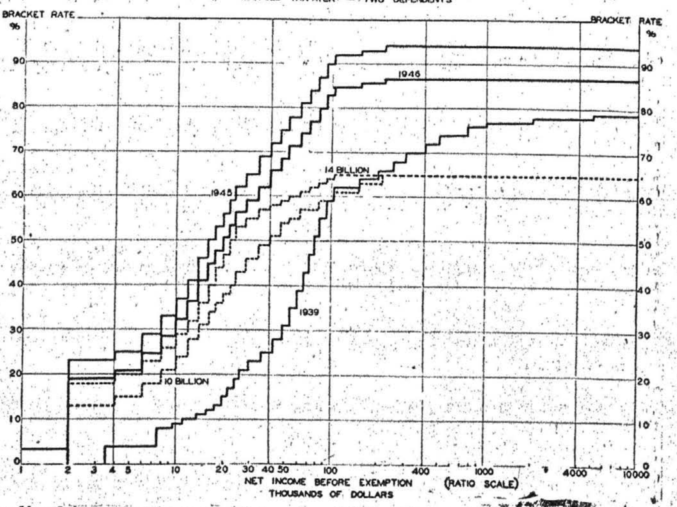
Accelerated Depreciation

One of the more controversial tax proposals relates to the treatment of depreciation in the computation of income for tax purposes. In general, there are two somewhat different proposals: (1) that the regulations should be liberalized in order to permit greater latitude in the determination of depreciation rates, and (2) that depreciation should be allowed at rates frankly in excess of those which would be regarded as correct in terms of conventional accounting theory. Both Canada and Great Britain have adopted accelerated depreciation, and the demand for it in this country appears to be growing—though it is not overwhelming and may actually diminish now that the excess profits tax has been repealed.

CHART 4

COMBINED NORMAL AND SURTAX RATES INDIVIDUAL INCOME TAX

MARRIED TAXPAYER — TWO DEPENDENTS



The arguments for greater latitude are: (1) that controversy between the Bureau of Internal Revenue and the taxpayers would be reduced if the Bureau regulations were less rigid, and (2) that management is more qualified to assign correct depreciation rates than Internal Revenue Agents. Against permitting greater latitude, the argument is advanced that taxpayers would be able to juggle depreciation accounts to minimize their taxes.

The principal argument for accelerated depreciation is that it would hasten the recovery of new capital outlays by producers thereby reducing risk in the purchase of new assets and thus encouraging investment. Against acceleration is the argument that it violates sound accounting since rapid write-offs would distort income.

Either proposal would no doubt involve serious administrative problems. Moreover, as a result of the adoption of either, total depreciation charges would tend to be increased (during the early years of the plan), and Federal revenues would therefore be reduced. It has been estimated that some of the more liberal plans for accelerated depreciation would involve revenue losses of as much as $1 billion per year for several years.

Altogether, it would appear that the demand for revision of present depreciation practices is not so insistant, nor the arguments for it so compelling, as to force early and drastic action. It would not be surprising if some liberalization of depreciation were provided through revision of either statutes or regulations, but it seems improbable that a drastic form of accelerated depreciation will be adopted.

Taxation of Small Business

There are two leading proposals for the differential treatment of small business. One is further graduation of the corporation income tax rate, possibly including a complete exemption of the first few thousand of income. The other is permitting small, closely-held corporations to be taxed as partnerships.

It is not unlikely that special tax relief will be granted to small business. By successively increasing the specific exemption under the excess profits tax, Congress has indicated interest in doing something for small business. Similarly, in the Revenue Act of 1945, the rates for corporations with low incomes were reduced more sharply than those for companies with large incomes. Moreover, from recent debates, one gains the impression that Congress would like to reduce further the impact of taxation upon smaller concerns.

Conclusions

When one adds up the various proposals for tax reform, and appraises the possibilities of their adoption, in terms of revenue requirements and Congressional attitudes, one is impressed by the fact that few far-reaching changes are in prospect. The future tax system will probably be not too different from the present tax system as revised by the recent Revenue Act of 1945. Rates may be a little lower, one or more of the reform proposals may be adopted, but no revolutionary or sweeping change appears likely. Of course, if Federal expenditures should be considerably less than I have estimated or if no attempt is made to balance the budget, important reductions and reforms might be adopted. Otherwise they should not be too confidently expected.

Major Provisions of 1945 Tax Legislation

The Tax Adjustment Act of 1945 provided:

(1) That the post-war credit of 10% of the excess profits tax shall be taken currently with respect to tax liabilities of 1944 and subsequent years.

(2) That the maturity date of outstanding post-war refund bonds shall be advanced to Jan. 1, 1946.

(3) That refunds resulting from the carry-back of losses, carry-back of unused excess profits credits and recomputation of five-year amortization shall be expedited.

(4) That refunds expected to result from carry-backs arising during a current year may be claimed, optionally, as offsets against current tax payments.

The Revenue Act of 1946 contains the following major provisions:

For Corporations—

(1) Repeal of the excess profits tax.

(2) Repeal of the carry-back of unused excess profits credits (as of Dec. 31, 1946).

(3) Repeal of the capital stock tax and the related declared value excess profits tax.

(4) Reduction of corporation income tax rates.

(a) For corporations with net income of $50,000 or more, a flat reduction from 40% to 38%.

(b) For corporations with net income of less than $50,000, a reduction in

The International Trade Struggle: Great Britain and Latin America

(Continued from page 3009)

The loan agreement avoids this danger, implies the ratification of the Bretton Woods plan by Great Britain and opens the way for the activities of the United Nations Organization. The credit of 4 billion 400 million dollars and one additional billion which Great Britain can use under the Bretton Woods pact, in connection with a settlement of Britain's 3½ billion pound debts by installments and adjustments, will allow for the restoring of the British balance of payments during the dangerous transition period which otherwise would have been a decisive argument in favor of the surprisingly strong British trend toward permanent control of foreign trade.

The Washington agreement provides the time necessary for the restoration of the balance by adopting the relative price levels, the change of which shifts the balances rapidly. That is indeed the principal objection to the calculation of the future British balance of trade which is based on the trade statistics of prewar years.

The repercussions of the Washington agreement will be advantageous to Latin-American countries but do not solve their trade problems. During the war they lost the markets of continental Europe to which more than one-third of their exports had been consigned. The United States stepped in by increasing their imports from Latin America from 30 to 56%. Therefore Latin-American exports could rise from 1800 million dollars in 1938 to 2400 million in 1943 while their imports remained on the 1500 million level. Their reserves in gold and foreign exchange increased from 900 million dollars in 1939 to 3500 in the middle of 1944; moreover they repatriated a great part of their securities from Britain and the United States.

The Latin American republics start with a number of advantages, but they have good reasons to assume that this country will buy much less from them after the war and that the recovery of their market in continental Europe will be slow and only partial. And the southern republics were not at all satisfied with their prewar trade conditions. They are determined to go ahead with industrialization. But in most cases the market of a single Latin-American republic is too small and offers no adequate basis for the development of modern industries.

The exports of the Latin-American countries are hindered by the tariff walls of their neighbors and by the competition of the industrial countries. The small output of such new industries will be produced at extremely high costs, and real national income cannot be expanded in this way.

They are aware of these facts and have made many attempts at enlarging their markets. In 1941 the La Plata States proposed to create a customs union, in 1942 Argentina and Chile agreed to prepare a customs union. These plans are not likely to succeed because a customs union can only be achieved in connection with political unity.

But Latin-American countries have begun to apply other more practical methods. They grant each other preferential tariffs, based on exceptions admitted in their trade agreements. And they go further, trying to arrive at the progressive establishment of reciprocal free trade. The treaty concluded between Brazil and Argentina in 1941, provides free trade for industries not yet in existence in either of the two countries or existing in only one of them. Guatamala, El Salvador, Honduras and Nicaragua have established reciprocal free trade with the exception of only a few commodities.

The system of reciprocal free trade without a customs union represents a new and important method of trade policy. It eliminates the political difficulties and the administrative complications inherent in custom unions and yet creates larger free trade areas. To question whether the United States could, within certain limits, establish reciprocal free trade with Latin-American republics involves evidently greater difficulties but might be worth analyzing.

the bracket rates as follows:

$ 0—$5,000	from 25%	to	21%
5,000—20,000	from 27%	to	23%
20,000—25,000	from 29%	to	26%
25,000—50,000	from 53%	to	53%
	(no change)		

For Individuals

(1) Liberalization of personal exemptions applicable to the normal tax: the former normal tax exemption of $500 for each taxpayer is replaced by exemptions of $500 each for the taxpayer, his spouse, and each of his dependents.

(2) Reduction in individual income tax rates: the rate for each income bracket is reduced by 3 percentage points, and the tax thus computed is further reduced by 5%.

(3) Repeal of the Automobile Use Tax.

NYSE Cases of Disciplinary Action

Department of Member Firms of New York Stock Exchange Informs Members and Member Firms of Discipline Involving Conduct of Registered Employees.

The Department of Member Firms of the New York Stock Exchange issued the following circular (M. F. Circular No. 30), dated Dec. 11:

To Members and Member Firms:

The following instances of disciplinary action taken by the Exchange in cases involving the conduct of Registered Employees are cited for the attention of members and their employees:

Participation in "Kick-back" Arrangement

An investigation by the Exchange into the activities of a number of registered representatives, one of whom was also an order clerk, disclosed evidence from which the Exchange concluded that such employees had received "kick-backs" on over-the-counter business introduced to a non-member firm.

It was the practice of the registered representatives involved to transmit to an over-the-counter firm orders in unlisted securities which they obtained from customers whose accounts they serviced. In certain instances the over-the-counter firm acted as agent and charged a commission to the member firm while in other instances the non-member acted as principal and included an undisclosed profit in its net price to the member firm.

The Exchange suspended the registration of each of the registered representatives involved.

Participating in Customers' Profits

Circumstances involving a former manager of a branch office resulted in discussions with certain of his customers. Evidence was produced that several of the customers had had an arrangement with the branch office manager whereby they agreed to pay him a percentage of the profits realized on transactions which he recommended to them. Such conduct on the part of a registered representative is contrary to the provisions under which he is approved by the Exchange.

The Exchange suspended registration of the branch office manager involved.

Acceptances of Gratuities by Registered Employees

In a case recently before the Exchange a margin clerk who was also a registered employee admitted that he had received periodic payments from a non-member brokerage firm whose account was cleared by the member with whom he was employed.

The Exchange suspended the registration of the employee.

Conduct Inconsistent with Just and Equitable Principles of Trade

It was brought to the attention of the Exchange that a registered representative of a member firm was making a practice of acting as "go between" in arranging for short term loans at unusually high rates of interest on behalf of a non-member broker dealer. In most cases the registered representative secured the borrowed funds from persons who made a practice of lending money for short periods of time at abnormally high interest rates, but in at least one instance he effected a borrowing also at an unusually high rate from a woman customer whose account he serviced.

The registration of the employee was suspended.

Unwarranted Statements

Investigation by the Exchange disclosed that a registered representative made a practice of interpreting tape action of a security by telling his customers, "They are moving it up" or "They are moving it down" and thus inducing a customer to buy or sell the particular security that the mysterious "they" were allegedly moving up or down. The Exchange was satisfied that the registered representative did not mean to imply that any manipulation was present, but was merely using loose and irresponsible language in interpreting transactions appearing on the tape.

The Exchange felt that such loose talk cannot be condoned; that if the registered representative had knowledge that the stock was being moved up or down by any one such fact should be reported to his employer and the Exchange; that if he in fact had no such knowledge, his intimation may have misled the customer.

For conduct detrimental to the interest and welfare of the Exychange and in violation of good business principles the Exchange suspended the registered representative.

In none of the cases cited above was any partner of the employing firm aware of the facts until the investigation was instituted

Edward C. Gray, Director.

Thos. Price Bond Mgr. for Nat'l Bronx Bank

The National Bronx Bank of New York, 150th Street and Melrose Avenue, New York City, has announced that Thomas E. Price has become associated with that institution as Manager of the Municipal Bond Department. He was formerly with Campbell, Phelps & Co., and was an officer of Arrowsmith & Co.

Securities Salesman's Corner

By JOHN DUTTON

Time To Watch Our Step?

There are some, no doubt, who hold to the opinion that it is not the duty, nor the prerogative of the security dealer to educate. In their opinion, stocks and bonds were made to sell—and why preach to the public. With this opinion we do not wholly disagree, but we think such a viewpoint is too one sided and prejudiced.

The path of enlightened self interest lies along the lines which are directed **toward keeping a clientele.** The altruistic motives themselves, such as protecting the public from its own excesses (if that can be done) can be secondary if you feel that way about it. The important point that every dealer and salesman must consider is; WHAT IS GOING TO HAPPEN TO HIS BUSINESS, IF HIS CUSTOMERS INSIST UPON BUYING THE WRONG SECURITIES IN THIS BULL MARKET WE ARE NOW HAVING?

As a recent advertisement for some financial service phrased it "The market has been too easy." As we hear the stories from dealers, and brokers, the public is beginning to buy tips again, instead of securities. All one has to do is to look at the price advances in some low priced stocks that only a few months ago were selling at bankruptcy levels, and today are way up in the so-called respectable class. One such common stock that comes to our mind, represents what is left of an equity in a defunct and bankrupt concern, that a few years ago had to sell its machinery and equipment in order to keep its office doors open. All this company owns today is some almost inexhaustible debts and obligations, a few minor equities which are of dubious value, and a name on the door. Yet this stock is being recommended as an attractive speculation, and is being retailed to unsuspecting security buyers, at levels which in our opinion are ridiculously out of line with any substance of reality. This company may come back—a miracle may happen—but the odds against it must be overpowering. Why sell such dogs? Are there not enough securities still around at current levels that represent equities in solvent, aggressive companies? Of course, such cases are rare. The majority of dealers are looking high and low for sound values today, just as they have done in the past—but some are allowing their customers to lead them astray. The low priced dogs that have that "quick run," are luring the public along unsound lines, and some dealers are naturally going to follow the trend. They feel that one or two such pups won't hurt anybody, and besides most of them are making good. This is true. For a while almost everything will make good; but the point to remember is WHERE WILL YOUR CUSTOMERS BE AFTER THIS SPREE IS OVER.

The other day, an experienced professional in the securities business said to us, "Anyone that tries to look farther than one or two years ahead in times like these is only kidding himself." With this too we agree. But the point to remember is that even though your customers may make some temporary profits out of chasing overpriced stocks which are touted, and which follow the ever changing trends of this whirling and surging 1945 bull market—the securities that represent VALUE will still give them something more than some empty dreams upon which they can relie—IF, AND WHEN, THIS MARKET "TOPS OFF." And this will be true whether it happens next spring, next fall or in a year or two.

The point to make clear with investor clients today is that YOU ARE STICKING TO YOUR FUNDAMENTAL PRINCIPLES. That its your responsibility to them to offer them securities that represent greater than average opportunity for price appreciation, or income, but that you won't sacrifice intrinsic value for the passing opportunities for making quick turns, or playing tips and hunches. This is not your business, and you don't believe that in the long run it will work; even though for the time being some people who are following this trend may temporarily look like market wizards. This is the kind of straight talk some people who are buying tips instead of securities need today. The only way to keep customers is to control them. Otherwise you will eventually lose their business anyway. This is the kind of education that pays—and you don't have to preach to do it. Just stick to fundamentals and show your customers WHY its the best policy in the end.

MERRY CHRISTMAS

Living Wage Standards Fallacies

(Continued from first page)

been repeatedly evident. Instead of being something which can be handed out on a platter, so to speak, a standard of living—"standard of life" as the British call it—is something which must be sacrificed for, saved for, and worked for throughout the lifetime of most individuals.

Secretary of Labor, Lewis B. Schwellenbach, in arguing for a 65¢ minimum wage, as a starting point is reported to have said before the House Labor Committee that this "is necessary at this time in justice to that group of low-paid wage earners who have never received sufficient income to maintain an **American standard of living.**" (Bold added.) Some of the implications of this statement will be taken up later, but at this point certain questions need to be raised and answered.

What is a National "Standard of Living"?

Before we can see the nature of an American or of a national standard of living, perhaps it is best to see if possible what, in the light of the principles of social science or of the science of society, is meant by the concept "standard of living." Is it something static or stagnant that when once attained should never be given up? Or is it something dynamic, something moving, always a little beyond what has been already achieved? What is this customary level or quality of existence deemed fit for human beings, which to lower it "would be to live a dog's life," a life not fit for "the men"? Well, fortunately for us, two of the greatest thinkers turned out by Yale University during the past two or three generations — William Graham Sumner and his adept successor, Albert Galloway Keller,[1] in the field of the Science of Society—have answered some of the questions for us. To them the standard is both static and dynamic. When viewed in the light of the standard set by the customs of the group, "it is a static, stagnant, unprogressive affair; . . . with the self-satisfied the present is the standard and stagnation is the result. . . . There comes to be more to it than this, for it takes on the nature of an aim, goal, or ideal toward which men strain; not merely to live on as at present, but better."[2] Nothing will lower it more quickly than failure to practice thrift and the reckless propagation of numbers, for in the relentless law of population growth, the growth of numbers in an area is circumscribed by three factors—the supporting power of the environment, the development of the arts, and the standard of living.

Under these conditions the Law of Population reads, "Population (or numbers) tends to increase up to the limit of the supporting power of the land (environment), on a given stage of the arts, and for a given standard of living."[3] Thus population, varying inversely with the standard of living, and directly with the arts, increases until the limits of the land are reached. If the standard of living of a group is low, "there is not much chance to halt or retreat before reaching nature's near and stern limit."

1 For the most complete presentation of the views of these Yale scholars, see "The Science of Society," four volumes, Yale University Press, 1927, written between 1899 and 1927; or the popular, abridged edition in one volume by Keller, "Man's Rough Road," 1932, (Frederick W. Stokes Co., and Yale University Press). But Sumner's "Essays" and Keller's "Societal Evolution" are equally stimulating.

2 Keller, A. G., "Man's Rough Road," pp. 73-74.

3 Keller, *op. cit.*, p. 64. Hereafter where quotations are given without specific reference, or where principles of social science are given or paraphrased which are not of common knowledge,, they will be, for the most part, from the writings of the two men referred to, or from lecture notes taken from one or both.

"American Standard" Described

But a "national standard of living" or an "American standard of living," of which we have been hearing so much in current discussion, is not describable in simple and unqualified terms. Probably the one the late President Roosevelt and Secretary Schwellenbach had in mind was that of the lowest income groups, those who are the least thrifty and practice the least foresight. But within the bounds of a so-called national standard there are a number of class standards, each with its own goals and aims. The "American Standard," therefore, is a sort of generalization of all of the class standards prevailing in our group, which resumes their common elements. "The lowest classes have the least effective standard; that is partly the cause, as it is certainly the barometer, of their position. The standard begins to tell upon those who care for decency and order. In the middle classes it is sometimes sordid," . . . taking the form of social ambition, a "keeping up with the Joneses." But within the class "the standard of living seems to be individualistic. . . . It resembles honor. It is a sense of what a man owes to himself, his wife, and his children." The customs of the surrounding society or the class to which he belongs sets its norm and are the things which awaken and sustain it. Men are born into it, but in time they may work out their own variations. But a period of war-engendered "prosperity" such as that through which we went after the end of World War I and have been repeating today, may elevate the standard "to a balloon of senseless heights. Once raised, its lowering encounters stiff resistance. Thrift, once jilted for extravagance, becomes cynical of renewed wooing."

How applicable this statement is to what is happening today! The desire and the demand of labor unions to get the same "take-home pay" in peace time for 40 hours work as they got in wartime for 52 hours is an example of their resistance to any change in nominal wages, unless they go continually upward. All the agitation of Henry Wallace and the Administration generally for the same volume of employment, at the same or higher pay, which prevailed in wartime, when goods had to be produced regardless of costs or prices if the war was to be successfully carried on, is another example of the same thing.

The Fallacy of "Providing" a Standard of Living

Implied in the statements of Secretary Schwellenbach, and in those of President Roosevelt and President Truman as well, there seems to lurk the notion that the State or someone must step in to perpetuate the high wages of wartime and to maintain the artifically high standard of living which the war has made possible. Take Mr. Schwellenbach's argument in favor of a minimum wage of 65¢ per hour, more widely applied than at present under the Fair Labor Standards Act, as an example. He states that with a 40-hour week, as provided under the FLSA, a minimum wage of 65¢ would give the worker, i. e., the lowest paid worker, a weekly wage on $26 per week, and with an assumed 50 weeks of labor per year, an income of $1,300 per year. This figure, he maintains, is the lowest that any worker ought to be paid, to "assure," as President Truman said in his message to Congress on Sept. 6. 1945 (see the "Chronicle" Sept. 13, p. 1262), "the maintenance of the health, efficiency and general well-being of the workers." The late President Roosevelt in his Executive Order No. 9250, of Oct. 3, 1942, in extending the powers of the War Labor Board, gave the Board power "to correct substandards of living." This power was used widely by the regional offices of the WLB to establish 50¢, and later, a 55¢ minimum wage even in intra-state industries, which were not supposed to come under the wages and hours provisions of the FLSA.

The answer to these statements about $1,300 being the minimum nominal wage which would provide for the health, decency, and general welfare and well-being of workers, may be found in the thousands, yes, even hundreds of thousands of teachers, preachers, and other unorganized white collar workers who have never in their lives had a yearly income of as much as $1,300! Studies of income distribution by families in 1935-36, show that almost 42% of all families in the United States had incomes of less $1,000, almost 65% had incomes of less than $1,500, and about 79% had incomes of less than $2,000.[4] Hence, a wartime minimum wage of $1,300 per year to be maintained in perpetuity, would at a single stroke, so to speak, bring about a redistribution of income for all families and directly affect the incomes of some 65% of all families of the country. But here again "Sumnerology," or the writings of "Old Bill," as he is affectionately remembered by his fellow workers and former students, has a better and more timley answer.

Writing in "The Science of Society," Sumner and Keller say:[5] "To give anybody things that he wants, without exacting any return from him, raises his appetite and his sense of the right to demand, not his standard of living. . . . Benevolence has often lowered and pauperized its beneficiary by degrading his self-respect, which is the flower of his standard. For that is a demand which a man addresses to himself, and is to be answered only by toil and self-denial. If he sets his standard high, he will have to make a long preparation to be able to reach it. It is a most mischievous error to suppose that the standard of living is at the disposal of the social philosopher and projector. It is rather the fine bloom of character and morality. . . . It is like honor in this respect also; for honor, while inestimable as a regulator of life, is most effective and real when least is said about it, and when least outright use is sought to be made of it."

Look at the **right to demand** of the CIO Auto Workers at the present time, where the demands of a 30% wage increase without any increase in prices are the order of the day. Similarly, in a letter to Mr. Philip Murray, on Oct. 23, 1945, Mr. John A. Stephens, Vice-President of the U. S. Steel Company, says:

"Your wage demand is a staggering one. In substance, you ask for nearly the same pay for 40 hours of work as is now paid for 48 hours, including eight hours of overtime at time and a half pay. That would amount to an increase of 22.1% in average weekly straight-time wages, with a 16⅔% reduction of productive hours per week and a consequent reduction in the weekly steel output per worker."

Shades of Sumner! Give a man or a labor union things which he or it wants, without exacting any return from him and this only **"raises his appetite and sense of the right to demand, not his standard of living."**

The Fallacy of a "Noble Sentiment"

But this idea of a social philosopher or social reformer having "at his disposal" a standard of living which he can give away, or of having the state or someone "provide" a minimum standard for any class in a society, is well covered in one of Sumner's essays which he calls "An Examination of a Noble Sentiment."[6] He says that a noble sentiment is a very noble thing when it is genuine, but he concludes that such a sentiment that includes a provision that an estate or "an existence worthy of a human being," —i. e., something of our concept of a standard of living—is to be procured for an individual by the state or by some social reformer, then such a noble sentiment is simply "bathos." He points out that this noble sentiment he proposes to examine is stated in German, and that to try to translate it causes it to lose something of its "poetry and transcendental solemnity"!

4 Cf. Blodgett, Ralph H., "Principles of Economics," Chapter 22, pp. 398-401.

5 pp. 74-75.

The sentiment is that we ought to see to it that everyone has an existence worthy of a human being, or to keep it in the form in which it was offered, **a menschenwurdiges Dasein.**

"The first question is: what is an existence worthy of a human being? The hod-carrier, who is earning a dollar a day, will say that is what he could get for a dollar and a half; the mechanic at two dollars will say that it would cost three; a man whose income is a thousand dollars will say that it costs fifteen hundred. I once heard a man whose salary was twelve thousand a year, speak of five thousand a year as misery. (Remember one of Mrs. Eleanor Roosevelt's columns in which she deplored the fact that so many American homes had only one maid, and that many, many did not have any maids at all.[7]) A **menschenwurdiges Dasein** therefore, at the first touch gives us the first evidence that something is wrong. It sounds like a concrete and definite thing, but it is not such; a **menschenwurdiges Dasein** is the most shifting and slippery notion which the human mind can try to conceive. In general it is about 50% more than each of us is getting now, which would, for a time, mean happiness, prosperity, and welfare to us all," i. e., a dynamic standard of living to be striven for, a sort of inkling of what might be.

"The next question is: for how many people must a **menschenwurdiges Dasein** be provided? The provision of such an existence is the first necessity which meets one of us when he comes to understand the world in which he lives—that is, he has to earn a living. . . . The task of earning a living is found generally, to be a somewhat heavy one, chiefly for the reason, as shown in the former paragraph, that a man's definition of a decent living will not stay fixed long enough for him to realize it. As soon as he thinks he sees his way to it he wants to marry; then he becomes responsible for the **menschenwurdiges Dasein** for a number of other persons. His whole energy, his whole life long, rarely does more than meet this obligation . . . to guarantee a **menschenwurdiges Dasein** to himself, his wife, and his children. But the man who is to be provided with such an existence . . . will not have any such difficulty to contend with; he is to have his living secured to him by the state, or the social reformers, or somebody else. His wife and children will have as good a claim 'to such an existence,' as he; their support will therefore cause him no anxiety or burden. Therefore this class of persons will increase with great rapidity. They are, of course, all those who have neglected or refused to win a **menschenwurdiges Dasein** for themselves; and whenever it is determined that somebody else shall give it to them. it is provided that their number shall multiply indefinitely and forever."

Although written over forty years ago, how aptly this fits into today's picture, with those whose aim is to "correct substandards of living" or to provide for that "large group of low-paid wage earners who have never had sufficient income to maintain an American standard of living." One might ask, "what American standard of living?" And if it is to be a standard based upon a minimum wage of $1,300 per year, who is going to provide it, and how will it be provided, unless back of all of these noble schemes there is to be a wholesale redistribution of wealth and/or income in this country?

6 Keller, A. G., and Davie, M. R., "Selected Essays of William Graham Sumner," 1924 pp. 90-93.

7 Parenthetical statement added by writer.

High Nominal Wages and "Real Wages"

Even the tyro in Economics—the high school student in his "social studies" or in "elementary economics" at the high school level—is familiar with the fact that it is not money wages or even take-home pay that really counts; it is instead "real wages," the purchasing power of the money wage. Yet here, especially among labor union leaders, there is much spurious and fallacious reasoning about wages. Offer a man or a union a three-dollar a day wage, with rent, clothing, and a market basket of supplies of a given quantity and quality, available at $2.75; or offer him a daily wage of $9.00 a day, with rent, clothing, and the market basket costing $10.00, and see which he takes!

I recall a community forty, fifty years ago in Southeastern Kansas. None were rich in this community yet none were in poverty. There were families whom the churches or Ladies Aid Societies remembered with baskets at Thanksgiving and Christmas and to whom partially worn-out articles of clothing were welcome, but none lived on unemployment benefits or direct relief from the state or community. They had their honor and their self-respect, fighting their own fight to maintain their standard and to push it to higher levels. They were all "ill-housed, ill-fed, and ill-clothed" by today's standards. In this connection, the statement in "Time" Magazine recently that cartoonist H. T. Webster once drew a political cartoon on Lincoln's Birthday, 1940, will be of interest. In it Webster drew a "forlorn, storm-whipped, benighted, wilderness cabin, a light in its window like the fever of birth," and below the cartoon appeared the caption: Ill-Fed—Ill-Clothed — Ill-Housed! If the absence of modern plumbing were a case of being ill-housed, then all were in such condition, for the modern bathroom with its porcelain tub and flush toilet did not make its appearance until about the turn of the century, along with the first telephone and the first electric light in this community. All were ill-fed, if to eat fried pork chops or fried rabbit, with fried potatoes, and "skillet cornbread," and honey or sorghum "out of the pail," instead of the choice citrous fruits, the prepared breakfast foods, and electric toaster toast, may be considered a case of "ill-feeding." And wages for adult male laborers, including some of the skilled and semi-skilled trades, were $2.00 a day for a 10-hour day—20c an hour. Upper grade school and lower high school boys worked in the late spring and early summer for 5¢ an hour, "dropping" sweet potato, tomato, cabbage and other plants, or pulling weeds out of gardens or corn rows. And they were not, in my opinion, in any sense exploited.

Round steak could be bought for ten cents a pound; eggs, three dozen for a quarter; butter, 20¢ a pound, and bread, 4¢ a loaf. Calves' and pig livers were given away if you bought other meat or could stop the butcher on his return from the "slaughter house." A young man's suit of all-wool or at least of good [illegible] with long pants, vest and [illegible] cost $6.00.

But today's question would be "What of the poor farmers who had to grow the meat, and produce the butter and eggs at such prices?" Well, they didn't do so badly, as I recall it. They lived well, sent their children to the local high schools and to the state university and the state agricultural college, and without AAA payments for what they **did not produce**, every few years they added an eighty or another quarter section of land to their farm. Nominal wages in this area were extremely low, yet real wages—the wages that count—were high and provided for a better standard of living than is possible today in many areas under much higher nominal wage levels. And because that community did not have a standard of living **provided** for them, by what a British industrialist has called in mixed metaphor, the "misguided paternalism of a grandmotherly State," but made and maintained a standard for themselves with honor and self-respect, many of its sons who were "exploited" at five cents an hour in learning to do an honest day's work, came out as lawyers, doctors, civil and electrical engineers, university and college teachers, members of the state legislature and Supreme Court of the State.

As Roger Babson has recently pointed out in one of his syndicated articles, labor union leaders today are consciously or unconsciously forcing this country into more inflation by their insistence on higher rates of pay and higher take-home pay. They have set in motion and have added impetus to the spiral of rising wages and rising prices, which will not stop until some 75 billion dollars of extra purchasing power are used up, with the inevitable eventual collapse, with wholesale unemployment, no wages in many lines, and a lowering of the standard of living for all as a result. Good real wages are possible at much lower wage rates and lower prices than now prevail. Why not give more attention to some of the real facts of wages and standards of living today, and ferret out some of the fallacies and erroneous reasoning in this field? The results might be worth the effort.

Finland Pays U. S. on World War I Debt

On Dec. 15 the United States Treasury received the sum of $258,054.74 from the Government of Finland, representing a payment of principal in the amount of $90,000 and the semi-annual payment of interest in the amount of $133,227.50 under the Funding Agreement of May 1, 1923; $13,695.06 on account of the semi-annual payment on the annuity due under the postponement agreement of May 1, 1941; and $21,132.18 on account of the semi-annual payment on the annuity due under the postponement agreement of October 14, 1943.

These payments, says the Treasury Department advices, represent the entire amount due from the Government of Finland on Dec. 15, 1945, under these agreements.

30,000 German Prisoners to Work in French Coal Mines

Assignment of 30,000 German prisoners to work in French coal mines may partially ease the tight fuel situation in France. According to an announcement by the French Ministry of Labor, American authorities are now sending 20,000 prisoners to French mines, while 10,000 more are being supplied by French military authorities.

Dr. Kemmerer Dies; Noted Finance Expert

The death was announced on Dec. 16 of Dr. Edwin W. Kemmerer, noted international expert on finance and, over a period of 31 years financial adviser to 14 countries. A consistent advocate of the gold standard, Dr. Kemmerer not long ago urged that the United States return to that standard after the war. Seventy years old at the time of his death, he had serve in 1924 on the Dawes Commission and on the United States Trade Commission in South America in 1922. In its dispatch from Princeton, N. J., the Associated Press stated that Dr. Kemmerer was also retired Walker Professor of International Finance at Princeton University.

E. W. Kemmerer

In special Princeton advices to the New York "Herald" it was stated:

As a financial consultant, Dr. Kemmerer reconstructed money systems for the Philippines, Mexico, Guatemala, Colombia, Germany, Union of South Africa, Chile, Poland, Ecuador, Bolivia, China and Peru. In 1924 he was the Banking and Currency adviser to the Dawes Committee which drafted the reorganization of the German Reichsbank and the stabilization of German currency.

As a "money doctor," he called himself a diagnostician rather than an attending physician. His practice was simply to analyze difficulties, devise a list of remedies and then leave it to the troubled country to go on from there.

He came by some of his assignments through the United States Government. A country needing advice would apply for an American expert to the Department of State and Dr. Kemmerer would often be the man designated. Instead of issuing voluminous and hard-to-read reports he would close an investigation by submitting proposed legislation all drawn up and ready to be passed by the legislative body of the country in question.

Dr. Kemmerer was a consistent advocate of the gold standard. In May of this year he told the banking committee of the House of Representatives that the United States should immediately declare intent to resume the gold standard after the war and should call a conference of all other nations interested in restoring the international gold standard.

In the New York "Times" Princeton advises it was noted that Dr. Kemmerer was the author of many books on monetary and economic problems, the best known of which was "The ABC of the Federal Reserve System," which went through twelve editions.

Thos. L. Hume Sons Will Be Formed

WASHINGTON, D. C.—Thomas L. Hume Sons, Inc., will be formed with offices at 917 15th Street, N. W. Officers will be Thomas L. Hume, Jr., President; Laura G. Hume, Vice-President, and Charles W. Hume, Secretary and Treasurer.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market break signalled last week when week-end strength failed to materialize, causes frightened selling. Rally indicated but don't count too heavily on it.

Last week I warned in the column's first paragraph that the market was at the crossroads. Either it would head for higher prices immediately or it would take the path pointing to lower prices. There were no ifs, buts, or thens about it. The market was in a corner and had to work itself out one way or another. Up to the time you saw that column (last Thursday) the market showed no desire to advance. On Friday and Saturday it continued to show the same reluctance. On the basis of those three days the conclusion was obvious. In fact the down signal was given Friday afternoon when the rails showed a little minor strength but the industrials failed to go along.

I realize that many will consider this hindsight. But the fact is that I warned of a break when I wrote last week that ". . . the market . . . had worked itself into a position where it will either explode upwards . . . or it will splutter and fall back with a dull thud." I closed that column by adding that "by this time next week the market should be stronger . . . failure . . . will not be a constructive indication." The actual break came Monday morning and carried on practically all day. Tuesday, under the leadership of Steel, they firmed and rallied slightly.

* * *

According to widespread gossip the man to blame for the break was Walter Winchell. He is said to have broadcast an opinion that a break was coming before the Holidays. It's a little amusing to try to blame anybody for something that was evident to students of the market for the past few weeks. It's like blaming the grade crossing watchman for waving a red light when a train is coming and you are anxious to cross. If you get hit you blame the watchman. So now the second guessers are blaming Winchell. In any case, the gossip columnist now goes down in history with Andrew Mellon who, when asked about the stock market in 1929 or so, replied succinctly, "Buy Bonds."

* * *

How much lower the market is likely to go and what stocks will participate is something for the coin tosser and the psychologist to decide. In the past few weeks I had a great deal to say about the danger ahead because of a large public following, for the public has a lot to say about how high and low stocks will go. When the public purse is wide open it can go up to ridiculous levels. By the same token, if it becomes frightened stocks can drop like an elevator with a broken cable. It takes a student of mob psychology to answer when fears will subside. Unfortunately, fear feeds on fear. Rumors start and spread, and with each repetition more fears are generated and more selling occurs.

* * *

It is possible that the current break is a technical correction and may be considered healthy for the market. But what may be a shot in the arm for the whole market can be fatal to the individual. The argument will probably be made that the present high margins are a safeguard against losses, so long as one holds on. All I can say is that you have to sit through one of these "minor reactions," worrying where they will stop, before you can become smug about it. Once a decline starts there is no guarantee how far it will go. Maybe it will be five points, or six, or even twenty. Who can tell? But one thing is becoming clearer, and that is that whatever rally starts from here will have pretty tough going. So be guided accordingly.

* * *

As of last week you held six stocks with stops. My advice now is as follows: You were stopped out of American Foreign Power 2nd preferred, at 34, bought at 36. That leaves you with American Steel Founders bought at 41, stop at 39; Flintkote at 36, stop 35; New York Central at 31½, stop 28; Lockheed at 32½ (raise stop to 39), and Western Union at 52, stop 50.

In the next few days there will be some kind of a rally. On that rally I suggest doing a little selling of long stocks. Sell American Foreign Power about 37, Steel Founders across 42, Flintkote about 37, Central in region of 32, Lockheed about 42 and Western Union across 53. If the stops are taken before the rally, that is that. If the rally comes first, you'll have to decide fast. You may not get a second chance.

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.]

Floyd D. Cerf Co. Offers Fleming-Hall Issues

New common and preferred stock financing aggregating $2,250,000 for the Fleming-Hall Tobacco Co., Inc., by a nation-wide group headed by Floyd D. Cerf Co. of Chicago, was made Dec. 19 with the offering of 150,000 shares of 6% cumulative $10 par preferred stock and an equal amount of $1 par common stock priced at $15 per unit, each unit consisting of two shares, one share of preferred and one share of common. The company represents the recent merger of Cambridge Tobacco Co., Inc. and Fleming-Hall Co., Inc.

Proceeds from the financing, which is entirely for the company, will be used for purchase of additional cigarette making machinery, tobacco inventory and other purposes in the company's expansion program.

Capitalization to be outstanding, on completion of this financing, will consist of 150,000 shares of preferred stock and 517,686 shares of common stock.

The company manufactures cigarettes and smoking tobacco. Cigarettes account for more than 92% of production, cigarette tobacco more than 5% and smoking tobacco over 2%.

Among its products are Sano, Sheffield, Mapleton and Banquet cigarettes, and Bowl of Roses, Patterson's Rum and Maple, Jameson's Irish Mixture smoking tobaccos and other brands. All enjoy nationwide distribution.

The combined company will have total assets of more than $4,150,000 before financing, which will add approximately $2,000,000. Total combined cigarette sales for the first ten months of this year aggregated $4,868,298 with net earnings for the first eight months, before taxes, of $541,247.

Airline Transportation—A Major Industry

(Continued from page 3003)

faster planes have been ordered; and the volume of air freight is growing by leaps and bounds. In short, the industry is not only set to go, it is going. It did not need to reconvert. It just blossomed.

The Extent of the Industry

The present air transport industry operates approximately 67,000 route miles. This compares with some 34,000 miles in 1938. Last year 8,435 miles were added to the air transportation network. Thus far in 1945, there have been 4,000 miles added. Compared to 1938, therefore, the industry's route mileage is now nearly twice as big. In its overseas operation route miles covered approximated 80,000 just before the war. This was expanded during the war to 200,000 miles representing the vast web of air routes carved out of the skies by and for the Army and Navy transport services. Applications that are now pending would add over one-half million route miles to the overseas network. Three American airlines, Pan American Airways, Transcontinental, and Western Air and American Airlines, have already been authorized to operate air service across the North Atlantic.

At the end of last year, the domestic airlines had 325 planes in operation with a seating capacity of 6,770. This number had expanded to about 400 and seat capacity to 8,325, when the war with Japan ended. The gradual return of requisitioned planes by the military authorities has increased these figures since that time. But in spite of this increase in equipment, the demand for space is so great that the industry is forced to turn away potential customers. Plans are already under way to expand greatly the equipment necessary to meet demand for air transport space. The aircraft manufacturing industry estimates a volume of business in excess of $600 million for new planes to be sought by the airlines. Orders recently placed indicate the trend. Eastern Airlines recently placed a $10 million order with Glenn L. Martin Co. for 50 twin engined 202 type planes. These are designed to operate in a range between 50 and 700 miles, carry 36 passengers, and have a cruising speed of 270 miles an hour or 100 miles faster than the Douglas DC-3 that they are to replace. Penn-Central Airlines also recently placed a $7 million order for 35 of these planes. Pan American Airways has ordered 23 new four engine, 64 passenger Lockheed Constellation land planes to cost about $17 million, and TWA has purchased 36 of these Constellations costing $30 million. It can cruise at 300 miles per hour and fly from New York to London in eleven hours and coast to coast in ten hours. Other lines have a large number of new and larger types of planes on order.

By the end of next year, it is estimated that the airlines will have over 700 planes in operation or nearly double the number in service a few months ago. Equally important is the much greater increase in seating capacity—from over 8,000 now to more than 30,000; the increase in cruising speed—from about 180 miles per hour now to 250 miles or better per hour; and the greater comfort built into the new and larger planes. The placing of these additional planes in operation in the next twelve to eighteen months indicates that the airlines will be able to expand their volume of business in terms of passenger miles more than three times the 2.2 billion figure of 1944. Total gross revenues indicated on this basis will be at a rate in excess of one-quarter of billion dollars at the end of 1946 compared to $160 million in 1944, and only $55.9 million in 1939. The trend in growth is clearly evidenced in Table I.

TABLE I

AIR TRANSPORT INDUSTRY—TREND IN VOLUME AND REVENUES

(Figures in Millions)

	1944	1943	1942	1941	1940	1939
Passenger-miles flown	2,264	1,632	1,418	1,385	1,052	683
Mail—pound-miles flown	101,700	72,134	42,332	26,236	20,236	17,221
Express pound-miles	34,200	31,258	23,804	10,517	6,952	5,426
Gross, revenues	$160.7	$122.9	$108.1	$97.3	$76,9	$55.9
Operating profit	36.4	27.5	26.5	7.4	5.9	.4.6

The Freight Business

But the industry's growth is not confined solely to passenger business. The fastest growing segment is air express which is still small relative to passenger and mail volume. Express pound miles flown has expanded more than six fold since 1939, compared with a trebling of passenger miles flown and a more than five fold increase in mail pound miles flown in the period 1939-1944. The potential for expansion of air cargo business is considerable. For a vast number of items transportation by air is now limited only by relative costs, and these are certain to decline. In 1940, the average ton mile rate was 80 cents, and there has been a steady reduction since that time. It is predicted that ultimately this rate will be reduced to around 20 cents a ton mile with a resulting large increase of ton miles of air cargo hauled. American Airlines is now operating a Consolidated-Vultee plane on contract with a California grower. This plane has a nine and one-half ton pay load compared with three and one-half tons on the Douglas DC-3 formerly used. It is estimated that the Penn-Central Airline version of the new Martin 202 now on order by that line will be able to carry freight for a direct cost of six cents a ton mile. The average weight of the air express package has already increased from only seven pounds in 1940 to 23 pounds at the present time. Air express eliminates or minimizes to a great extent the problem of refrigeration and special handling and care. Fresh fruits, vegetables, and other perishables, drugs, chemicals, and style merchandise provide wide fields for expansion.

Keener Competition in Future

The airline companies have had to contend with competition, particularly with other forms of transportation, throughout the history of their development. It is likely that competition will be keener in the future not only with other forms of transport, but also among the airlines themselves. It will be evidenced in rates charged, services offered, and equipment used. Passenger fares charged by major airlines were reduced by 6⅔% on May 1 of this year, and again by 7% on Aug. 20. This overall reduction of about 10% brings the passenger rate to 4.5 cents a mile, which for certain routes is lower than Pullman fares. It can be expected that competition by the railroads will be strengthened with a return to more normal conditions. But it is not in the nature of airline managements to ignore such moves. In prospect is so-called two-rate airline travel service designed to appeal to the mass market. In the short high density routes up to about 200 miles, for example, such as New York-Boston, New York-Washington, and Chicago-Detroit, the reduction in gasoline load means higher passenger carrying capacity. More compact seating also means greater pay loads. With the elimination of baggage and reservation services, costs can be cut further. Hence, the scheduling of planes designed specifically for such service at frequent intervals during the days and at low fares would probably tap a large market.

Competition for overseas business by the domestic airlines is already on an intensified scale. Recently, American Airlines announced a New York to London fare of $572, which was approved by the Civil Aeronautics Board. This fare compares with $575 charged during the war and $375 charged prior to the war. Pan American Airways has announced its New York-London fare of $275 or less than one-half its competitors rate. These differences in fares are indicative of the degree of competition to be expected between lines especially in overseas services.

In respect to mail revenues the major airlines are no longer dependent on them to provide the bulk of earnings. The major lines were ordered this year to reduce their mail rate from 60 cents to 32 cents a ton mile. The loss in revenue resulting from this cut in rates will largely be offset in due course by increase of the poundage hauled. It is expected that ultimately all first class mail will be carried by air.

Effects of Increased Traffic

The advances and development in air transportation already accomplished and those in prospect are important in at least two significant respects. First, they provide the basis for stimulation of traffic on a considerably greater scale than could have been imagined ten or even five years ago. And, secondly, lower unit costs are a natural consequence of the advances that have been and are being made. The development of radar and navigational aids, together with improved systems of weather reporting during the war, when and as they are applied to peacetime air transportation, will provide greater safety and dependability and more efficient operations. So also will the use of radio control of airway traffic. The expansion of airport facilities which were developed considerably during the war will be extended. This is already indicated by public programs and plans already in being. On Oct. 18, the House of Representatives passed a bill authorizing the appropriation of $700 million over a period of ten years for a public airport development program. New York's huge $200 million Idlewild airport is now in the final stages of completion. After the First World War the large outlays for improvement and construction of highways had much to do with the accelerated growth of the automobile industry. Similarly it can be expected that large expenditures for airport facilities will aid to a very important degree the growth of air transportation.

Special Types of Planes

The utilization of special types of planes designed for the various traffic requirements of the airlines will enable the companies to carry on their services with the most efficient equipment with resulting cost savings. Smaller planes for the shorter high traffic density routes are already on order as are the huge four-motor transports which will be able to carry 200 passengers at more than 300 miles an hour. Power plants for the new planes are considerably improved over prewar models, and new developments and improvements are constantly being announced. Entirely new forms of power plants for use on planes are also in prospect in the next five years. It is confidently expected that gas turbine power plants on airplanes will come into use in that period. They result in much less vibration than reciprocating engines now used on commercial planes and therefore provide more comfort. But, in addition, payloads can be increased by their use, since the weight of airframes can be cut down to an important extent.

Further evidence of the trend towards lower operating costs is seen in plans to pool maintenance costs. For example, recently announced was a plane maintenance service contract by Eastern Airlines with Glenn L. Martin Co. This provides for centralized overhaul facilities for those airlines using the new Martin 202 transport. The method used is to lend-lease standby planes to the airlines with standby planes to be maintained in a pool by the Martin Co. The effect of this plan is to centralize overhaul facilities at the airplane manufacturing plant, assure full utilization of planes at all times by the airlines, and reduce their costs of maintenance as well as their investment in repair shops.

The Net Earnings Outlook

It would be natural to conclude that with the large increase in volume a certainty and prospective saving in costs, airline company earnings will be sharply upward. But such conclusion is not warranted at least for the near future. Costs incident to promotion and development of air routes are still relatively high. But of equal importance is the rate structure. Until this becomes stabilized, it becomes difficult to translate operating revenues into net earnings easily or with certainty. Airlines experienced the most profitable period of operations during the war despite the fact that a sizable number of their planes were taken over by the military authorities. The reason profit margins improved considerably is due to the high load factor experienced during the war and still being experienced. Last year 89 out of every 100 seats available were sold to travellers. This compared to 56 in 1939. It cannot be expected that this high ratio of seats sold to space available will be maintained indefinitely. As new and larger planes are added to the airline fleets the ratio will probably decline. Hence the high level of profit margins due to this one factor will not be as great in the period ahead as it was in the war years. Another reason for relatively good earnings reported by most airlines in the past three or four years is the special treatment accorded air transport companies under the excess profit tax law. Since their invested capital base is comparatively small, and since earnings were low in the 1936-1939 period, they were allowed to include air mail revenues either to their invested capital base or to average earnings for the purpose of figuring excess profits. For this reason, all but one airline—Eastern—remained out of the excess profits tax bracket. Eastern's provision for excess profits tax amounted to $3.5 million in each of the years 1942 and 1943 and $4.0 million last year. Under the law if an airline's earnings before taxes rose above the excess profits tax base, mail revenue had to be excluded entirely as part of the base thus putting the line's earnings on the same basis as other industrial companies for tax purposes. Beginning next year with the federal tax rate at 38%, these companies, together with the others, will be taxed at a rate double the 19% in effect in 1939. But for airlines the necessary increase in gross revenues to offset the greater tax burden is clearly in sight.

Airline Stock Prices Reflect Future Prospects

The problem of the investor in appraising the merits of airline stocks is the degree to which prospective earnings are to be capitalized. Presently the prices of airline equities reflect an optimistic appraisal of future prospects. Dow-Jones 30 industrial companies' earnings as a group are now being capitalized at a ratio of 19 times last year's earnings, and average earnings in the 1939-1944 period. Airline company earnings as a group are being capitalized at a significantly higher ratio. These and other data are summarized in Table II. But this difference is likely to be maintained over an extended period of time in view of the strong growth factor. Industrials as a group are being favorably appraised largely because of the accumulated demand for products built up during the war. Airlines are in a phase of expansion to permanently higher levels. They are already discounting in the prices of their equities an important part of this immediate growth. Most of them are at present some ten times higher than the lows established in the six years 1939-1945. The average price of the 30 Dow-Jones industrials is now about double the lows recorded in the same six year period. The present yield from dividends in the latter group is about 3.6%, while on airline stocks yields are practically negligible. It does not appear to be in the foreseeable future that such stocks can be bought for yields comparable to most other groups. All the companies will require large amounts of funds to finance their expanding business, hence dividend disbursements will necessarily be small for an extended period of time. Additional stock flotation and other means of financing are a certainty.

There is probably no better group than airlines where growth prospects are so great. They will always have an enthusiastic following which periodically goes to excesses in appraising airline values. The principal problem of the investor it would appear is to avoid these excesses while recognizing the sound basis upon which the industry is established and the general excellence of the management that guides its destinies.

TABLE II

THE DOW-JONES 30 INDUSTRIALS AND 8 PRINCIPAL AIRLINES—FINANCIAL COMPARISONS

	Current Market Price	Approximate Dividend Rate	Yield	Price Range 1939-45	Per Share 1944 Earned	Per Share 1944 Paid	Per Sh. Average 1939-44 Earned	Per Sh. Average 1939-44 Paid	Ratio: Cur. Mkt. Price to Earn. Per Sh. 1944	Ratio: Cur. Mkt. Price to Earn. Per Sh. 1939-44	Interim Figures — Gross Revenues Million $ 1945	Gross Revenues Million $ 1944	Gross Revenues % Increase	Net Income 000's Omitted 1945	Net Income 000's Omitted 1944	Net Income % Increase
Dow-Jones 30 indices	190	$6.80	3.60%	192-93	10.07	6.57	10.13	6.66	19	19	----	---	---	----	----	--
American	85	1.00	1.2	93-9	3.32	1.00	2.60	0.62	26	33	†27.1	20.3	34	3,304	2,818	17
Eastern	99	1.00	1.0	101-12	2.54	0	2.65	0	39	37	‡19.1	12.9	49	1,375	722	90
National	34	0	---	34-2	*0.36	0	**0.22	0	94	155	§1.1	0.5	111	69	28	---
Northwest	51	0.50	1.0	52-5	*1.35	0.50	**1.47	0.25	38	35	¶10.0	5.9	70	727	518	40
Pan American	22	0.25	1.1	29-10	0.67	1.00	1.20	0.67	33	18	----	---	---	----	----	--
Penn-Central	45	0.25	0.6	48-5	0.81	0	0.41	0	56	110	‡8.2	4.3	91	797	359	122
TWA	64	0	---	68-6	2.82	0	1.12	0	23	57	‡25.5	18.3	39	††1,660	2,037	—18
United	52	0.50	1.0	56-8	4.12	0.50	1.74	0.17	13	30	‡29.3	25.8	13	4,113	5,195	—21

*12 months ended June 30, 1945. †7 months ended July 31. ‡9 months ended September 30. §3 months ended Sept. 30. ¶12 months ended June 30. **Six-year average ended June 30, 1945. ††After special charges amounting to $760,000.

Government and Nation's Budget

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political success was based on the simple proposition that he voted *for* every appropriation and *against* every tax measure. Fortunately this attitude is rare in public life, but as I read the headlines, I have a sneaking suspicion that a few such men still exist. As another example, I recall the energetic head of a business organization in a state where a large amount of Federal funds was being spent. He was a vociferous adherent of a policy of Government economy. I asked him where he would recommend a cut in Federal expenditures within his own state. With this question his economy crusade ended.

Budget Processing

Those of you who might consider this an invitation to visit my office to urge economy or to press a pet project—or both—should be reminded that the Federal budget is not determined in any such way. The budget process is a long, thorough one, involving months of staff work in the agencies and the Bureau of the Budget before recommendations are made to the President. And it should always be remembered that after the President in turn makes his recommendations, it is the Congress which finally determines the responsibilities of the Government to the people and appropriates the money required to finance Government activities.

It is extremely important for the citizens of a democracy to know exactly how it happens that money for a certain purpose does or does not get into the Federal budget. Business and all other groups in the population have a vital interest in the process of budget formulation. It has been my experience, however, that even many experts have only a vague notion as to the factors that determine what goes into the budget; yet the budget reflects a very substantial percentage of our whole national product. It is the most far-reaching document which the Government formulates. No one has more forcefully expressed the importance of a national budget than Gladstone, who said, "Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relation of classes, and the strength of kingdoms."

Some of you will remember the time when, prior to the Budget and Accounting Act of 1921, each agency requested funds from the Congress without any executive examination. Nor was there any attempt to relate the requests of the individual agencies to a consistent and comprehensive program for the Government as a whole.

The situation was somewhat like that of a family with a single bank account, handing out check books to each member, and no member telling any other member how many checks he drew. Under such conditions it is obviously impossible for the family, as it was for the Government prior to 1921, to obtain an overall picture of its financial requirements. In Government, this made it impossible to state clearly the need for changes in taxes or borrowing policies. Hit-or-miss methods had to guide public finance policy, and the misses seemed more frequent than the hits.

Furthermore, when it came to the actual spending of Federal funds no central agency was charged with making certain that the various Government operations were so planned that they stayed within the appropriations and complied with Congressional intent. Without effective machinery for budget preparation and execution, the "power of the purse," always coveted by legislatures, was largely an empty prerogative.

The Budget and Accounting Act

It was the Congress which finally took action to remedy this chaotic situation by initiating and passing the Budget and Accounting Act. Congress insisted on the establishment of an executive budget procedure. Congressional leaders realized at that time, and still realize today, that orderly budget preparation and budget execution make legislative budget control that much more effective. Passage of that Act, I believe, was the most important single advance in Federal administration in our time. The budget has become one of the main tools by which the President is able to mold the hundreds of Government activities into a consistent Government program. However, we should admit that today, almost 25 years after adoption of that historic Act, we have not yet fully lived up to the responsibilities it places on us.

The highlights of the present budget procedure will bear out these facts. During the Summer of each year Federal agencies receive, by direction of the President, a general policy letter that serves as a guide in the preparation of their budget requests. The first sifting process takes place in the agency itself. Two or three months later, the agencies submit to the Bureau of the Budget their requests for the ensuing fiscal year. Their programs of activities are presented in general and in detail at hearings before Bureau of the Budget examiners. The experienced staff of the Bureau reviews the agencies' programs, and examines their administrative structure and management procedures as well as their budgetary requirements. These examinations appraise the need for the proposed activities in the light both of the President's program as a whole and of Congressional authorizations and expressions of intent. This is the second stage of the sifting process.

On the basis of this staff work, the Budget Director submits his findings to the President, who reviews them and decides what recommendations for appropriations shall be made to Congress.

Objectives

The whole process of executive budget preparation aims at a twofold objective. One is to see that the agencies render the services which the Congress has authorized, and I want to emphasize again that every service rendered, every dollar spent, must be by Congressional authorization. The second objective is to see that these services are rendered in the most economical and efficient manner.

It would be idle to attempt an estimate of the hundreds of millions of dollars of taxpayers' money that have been saved as a result of careful examination of departmental budgets. Important as these savings are, I take equal pride in the fact that the Bureau has often helped to improve the services rendered to the people. In striving for such improvements we have traveled a long way from the mere negative watchdog function of the Bureau of the Budget; we have moved toward the equally important constructive function of program planning. What may seem a conglomeration of figures in the budget actually represents an operating program.

After the President submits his budget recommendations to Congress, a third and final sifting of the requests for appropriations occurs. Specialized and experienced Congressional committees review the requests of each agency, hold their own hearings, and report to both houses for final determination.

The entire budgetary process, from the first agency recommendations to the final determination by Congress, takes place not in the thin air of the remote stratosphere, but right here in our world of conflicting interests and conflicting points of view. Pressure is applied at each stage by groups advocating projects ranging all the way from gypsy moth control to a multi-million-dollar harbor improvement. But there are also those who strongly advocate economy in Government. The Appropriations Committees of Congress, and occasional special committees, often perform an outstanding job in nullifying pressures for unworthy projects. The work of such committees is of great service both to the operating agencies and to the public. The larger and more complex Government operations become, the more important it is to keep the operating agencies of Government on their toes.

The fact remains that any new item must run the gauntlet of severe examination by both the legislative and executive branches before it gets into the budget. The final budget is not something which has been arbitrarily determined by one Government official or by any single group. It reflects the judgment of many people; it is examined and criticized from many points of view. It represents the work plan of a democratic Government.

Subsidiary Functions of Budget Bureau

The budget procedure on the executive side is not completed with the recommending of appropriations. After Congress has acted on the President's recommendations, the Bureau of the Budget pro-rates the appropriations on a quarterly basis. The purpose of this is to prevent a shortage of agency funds during the particular spending period. The Bureau also sets up—as business does—budgetary reserves when conditions permit or demand it. In June of this year Congress placed on the Director of the Budget broad responsibilities in setting up such reserves—a great step forward in the businesslike management of Government. During the year the Budget Bureau follows the operations of the agencies through regular reports and special examinations. It sets ceilings on the number of employees within Government agencies. It also reports to Congress on unused appropriations and performs a multitude of other related duties both for the President and Congress.

These budget procedures, developed on the basis of the Budget and Accounting Act, were very significant steps toward getting order out of chaos. I say, advisedly, that they were steps *toward* getting order out of chaos, because I believe that further important steps are necessary to assure orderly Government in our time. The more chaotic the world we live in, the more essential it becomes to perfect procedures for coping with the complex responsibilities of large Government organization. Let me give you only a few examples of necessary improvements.

Government Corporations

A serious gap in our budgetary controls has existed until now in the field of Government corporations. Many Government activities are carried out, as you know, by Government corporations because they lend themselves more easily to flexible operations than do the regular departments. Yet these Government corporations should not be permitted to become independent principalities. Their activities must be made an integral part of the Government's program as a whole. The Congress has enacted the Government Corporation Control Act that attempts to close this gap in our budget procedure. It provides for what is called program budgeting without depriving the Government corporations of a desirable degree of administrative flexibility. It will take time to achieve the full benefits of this act, but the machinery has been provided for better control of Government corporations by Congress and the Executive.

Another improvement which is long overdue involves the budget document itself. At present the printed budget is about the size of the Manhattan telephone book and just about as interesting reading. It contains as many figures, but they are less understandable. Yet it is a document of concern to each individual of the United States, for it directly and indirectly affects every one. It should, therefore, be understandable to the people, not merely to the experts. We are moving toward simplification and readability but we have far to go.

Budget Provisions of Full Employment Act

On a much broader plane, another proposal for improvement in the formulation of Government programs is contained in the Full Employment Bill which is now before the Congress. Among other provisions, the version adopted by the Senate requests the President to transmit to the Congress each year a comprehensive economic program — the National Budget—based on the best available analysis of current and foreseeable economic trends. It also requests an analysis of the economic effects of the Government's activities during the previous year and provides for quarterly revisions of the Federal program. It establishes a joint Congressional Committee for consideration of the National Budget as a whole before it is referred to the various committees which will deal with specific aspects of it.

The procedures envisaged by that bill might well become the most significant forward step since the procedures established under the Budget and Accounting Act. This act laid the basis for examining the budget requirements of each individual agency as part of the Federal program as a whole. The Full Employment Bill provides that the Federal program should be examined as part of the nation's budget as a whole, the composite of all the budgets of individual consumers, of businesses, and of State and local Governments.

The need for such a broadened approach to our Federal budget problems follows from the development of Federal finances on the one hand, from economic trends on the other.

The Federal budget has become one of the most potent elements in the economic life of the nation. A decade or two ago businessmen and others could afford to pay only minor attention to the Federal budget. They could afford a negative attitude toward it. Many looked at the Federal budget as a necessary evil, at taxes as periodic annoyances, at bureaucracy as primarily a source of patronage. They considered that the country was rich enough to overlook some inefficiency in Government and pay for it without much harm being done. They could think—and often did—that if only this or that group of politicians could be thrown out of office then the budget would be almost automatically reduced and everyone would benefit. In those times the budget wasn't considered anything to be concerned about. Today it is cause for concern, I can assure you. This is due, first of all, to the sheer size of present-day Federal operations.

Importance of Federal Budget

The annual Federal budget before the first World War amounted to less than 100 million dollars; it ranged between three and nine billion dollars in the period between the wars, and reached the fantastic size of 100 billion dollars during the second World War. In the present fiscal year the budget is being cut to less than two-thirds of that amount and may be cut to one-third in the ensuing year. This is a remarkably speedy contraction of the wartime budget, but the total is still very large compared to prewar budgets.

Of course, no exact prediction of future budgets is possible until more precise plans have been formulated and Congress has acted upon them. What will be the size and organization of our armed forces? How much will we spend on national research? What will our social security, health and educational programs be? What will Congress decide about public works, national housing and international programs? Again, what will be the cost of the mandatory price support for farm products that Congress has enacted? These unknowns and many others make impossible the accurate forecasting of future budgets.

I believe, however, that for a considerable time to come we can hardly expect Federal budgets of less than 25 billion dollars. The breakdown of this figure can be made only in broad categories. We know, for instance, that what we label as "aftermath of the war" expenditures may total about 10 billion dollars annually. These expenditures include such outlays as veterans' benefits, interest on the war debt and refunds of wartime taxes. Expenditures for defense will probably be several times as large as our prewar expenditures for the same purpose and may be in the neighborhood of six to eight billion dollars. Such large outlays are required because of our greatly increased responsibility to help maintain peace among nations. That same responsibility as a great world power will require large outlays in the field of international finance, some in the form of loans and others to relieve the sufferings of millions of homeless and hungry people. Adding these uncertain estimates, one arrives at a figure approximating 25 billion dollars.

Of this 25-billion-dollar budget, less than two billion dollars, or 8%, will be for purposes of Federal administration, including the entire payroll for civilian Government employees. This two billion dollars provides for the management of the myriad Government services ranging from the collection of taxes to forecasting the weather. To me, two billion dollars is still a huge amount of money and requires close scrutiny. On the other hand, we must keep clear the fact that the 25-billion-dollar budget does not imply a 25-billion-dollar bureaucracy.

The management of a 25-billion-dollar budget and management of a 275-billion-dollar Federal debt makes imperative an attitude entirely different from that with which we lightly dismissed a billion dollar budget of some decades ago. The responsibilities of such management do not devolve upon Government alone. They are equally responsibilities of the nation and particularly of business, for expenditures of that size and the revenues required have a decisive effect on every individual and every business. This requires an awareness of the impact of Government expenditures, taxes and debt transactions on the national economy. The war experience certainly has demonstrated this impact. For example, the financial condition of State and local Governments was greatly improved as a result of the huge Federal deficits. Similarly, the balance sheets of business show the definite effects of

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Government and Nation's Budget

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Federal expenditures in the war years.

Fiscal Policy

It is not by chance that in recent decades a new concept has come into use—the concept of fiscal policy. Fiscal policy relates to public expenditures, taxes, debt transactions, all considered in view of their impact on consumers' purchasing power, business investments and international transactions. Fiscal policy, in short, is a policy that considers the Government's budget in the light of the nation's budget.

Not only because of the mere size of Federal operations are economic considerations forced upon us. They are forced upon us also because the instability of economic developments has given the Government a new responsibility, the responsibility to contribute to the stabilization of market conditions, and thereby to the stabilization of production and employment opportunities.

We have experienced the inflationary boom and its early collapse after the last war. We have experienced the speculative boom of the '20s and the depression of the '30s. We have experienced the inflationary pressures and labor shortages of global war. There are now becoming visible certain symptoms of a speculative and inflationary post-war psychology. To the extent that speculation is based on the anticipation of an early end of the President's hold-the-line policy, the speculators may—I am sure will—make a serious error. This error might be costly to them and to the nation.

The American people do not want again to go through another period of post-war speculation and inflation. They do not want again to experience a subsequent period of collapse with relief rolls of tremendous magnitude. Right now the business outlook is good. But we know the business outlook is good because of a great backlog of demand. Some time we will catch up on this pent-up demand. That will be the time when increased peacetime consumption and investment must take the place of the extraordinary war and post-war demand. That will be the real test of our ability to make our economic system work.

We have in this country a great asset, the belief of the overwhelming majority of the people, including labor, in free enterprise. We can preserve this asset only if we make sure that free enterprise can succeed. "It is," as President Roosevelt said in his budget message of last year, "the responsibility of business enterprise to translate market opportunities into employment and production. It is the responsibility of the Government to hold open the door of opportunity and to assure sustained markets. Then, and only then, can free enterprise provide jobs."

The Full Employment Policy

Aid in reaching this goal will come, I believe, through the full employment policy. As I envisage that policy for the United States, it does not mean that the Government will assure each businessman a market and guarantee each worker a job. If we want progress and freedom, we must assume risks. A dictator in a Socialist State, concerned with increasing the welfare of the consumers, might to his own advantage try the following experiment: He might hire individuals to manage the factories, shops and stores, but not pay them a fixed compensation. Rather he might permit them to retain as their compensation a part of the increased business returns resulting from their efforts to produce better goods at lower prices.

Management in such a system would be very similar to management in our free enterprise and competitive system. In other words, I think that if we had not inherited a free enterprise system we would have invented and adopted its main principles. The freedom of free enterprise will not be questioned as long as it fulfills its productive function—to provide more and better goods at lower prices. But we should not expect free enterprise to take the responsibility for events beyond its control. Business by itself cannot, individually or collectively, control inflationary booms and deflationary depressions. This is where Government is expected to discharge its responsibility. Government policy must assure conditons under which the businessman has opportunity to succeed and the worker has a chance to find a job. The responsibility of the Government to stabilize general market conditions and employment opportunities involves all the policies that modern Government has in its tool chest, such as credit and tax policies, wage and price policies, and foreign economic policies.

Businessmen must realize that their markets today are influenced, for good or evil, by the economic impact of all these Government activities. No longer will a passive or negative attitude on the part of businessmen and other leaders suffice. A constructive approach is necessary. The Government needs the advice of businessmen and other groups in appraising the economic effects of Government programs, and needs their cooperation in the execution of these programs. The businessman of today must, for his own good and that of the nation, become something of an economist and fiscal analyst. Businessmen, I believe, are realizing the influence of Government programs in their own affairs. It is not entirely by chance that businessmen who used to watch the stock market for guidance are now studying with equal ardor their "Washington letter."

The Government program should not be formulated in a bureaucratic ivory tower in Washington. It is my belief that we can succeed only if the economic program of the Government becomes a national concern during peacetime, just as victory was a national concern during the war. Wartime unity and cooperation were not seriously impaired by the fact that people had different ideas about the best strategies and policies to be employed. In facing peacetime problems we will have greater differences of ideas and interests regarding the best economic and social policies. That is the essence of a vital democracy. But our democratic Government can survive only if the differences of ideas and interest are reconciled to common democratic objectives.

The healthy growth in our economy of full employment opportunities has become one of these objectives, accepted by the great majority of the people. We may consider different methods of attaining our goal and, as a matter of fact, a variety of methods will be needed. The job ahead is of tremendous magnitude. To accomplish it the constructive cooperation of business, labor and Government, of all segments of our economy, is essential.

Insuring Against Labor Troubles

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Cycle. This is most simply illustrated in the case of prices and production. Prices are high because production is low; increased prices cause increased production; until finally prices break and they are back from where they started. This seems to be a fundamental law of nature.

The unreasonable wages which now are being demanded by certain groups will result in forcing the employers to install more new labor-saving machinery. A thousand men may, by holding a pistol up to their employer's head, force an unjustified 15% raise in wages. But in such a case, the employer is forced to install labor-saving machinery and get on with 850 men instead of 1,000. Hence, 150 men are thrown out.

Foolproof Labor Stocks

Companies whose labor expense is the smallest proportion of their total expense should be the least vulnerable to labor troubles. The following list speaks for itself: Drugs 10%; Soap 13%; Paints 17%; Food Preparations 17%; Chemicals 20%; Petroleum Refining 24%; Cement 26%; Smelting & Mining 28%; Can Manufacture 30%; Rayon 36%; Electrical Equipment 37%; Meat Packing 38%; Tires and Tubes 39%; Agricultural Machinery 40%; Machine Tools 40%; Bakery Products 41%; Office & Store Machinery 41%; Aircraft 42%; Locomotives 45%; Automobiles, Steel Works, Woolen and Cotton Mills and Shoe factories 50%.

There, however, are other factors which investors should consider, such as how the earnings of a company are affected by strikes. Considering this also makes me conclude that the allround best hedges against inflation are: (1) **Banks,** (2) **Insurance Companies,** (3) **Utilities,** (4) **Merchandising Chains,** (5) **Land Companies,** (6) **Realty and Rental Companies,** (7) **Companies owning Patents,** (8) **Finance Companies,** and (9) **Companies Making Labor-Saving Machinery.**

My Cyclone Cellar

If Congress does not rectify the present unfair labor situation we will have one big national strike when our homes will temporarily be cut off from all conveniences. As a hedge against that day, I am building in my yard a small house and stocking it with canned goods. I am driving a well for my water; am installing underground oil tanks with a good big wood pile; am building a chemical toilet and am insulating the small "hut" against heat and cold. In an emergency, we could continue to sleep in the bedrooms of my adjoining house, but the living, cooking and eating will be in this new little building!

W. W. Stevenson in Hemphill, Noyes Post

Walker W. Stevenson, Jr. has been appointed manager of the branch offices of Hemphill, Noyes & Co. Mr. Stevenson was recently released from active duty as Lieutenant (JG) USNR. The main office of the firm, which holds membership in the New York Stock Exchange and other leading exchanges, is located at 15 Broad Street, New York City.

Charles B. Crouse to Form Own Inv. Firm

DETROIT, MICH.—Charles B. Crouse will open offices in the Penobscot Building to engage in the securities business under the name of Crouse and Company, effective Jan. 2. Mr. Crouse was formerly a partner in Crouse, Bennett, Smith & Co.

Facing Facts on Consumer Credit

(Continued from page 3011)

well as peace and prosperity. You have probably read of the report of the U. S. Department of Commerce of 1939, which points out that the loss on open accounts and consumer instalment notes averaged no more than 1½% in the disastrous depression of the thirties. Furthermore, thousands of banks have entered this field of credit since 1934 and experienced few losses.

Consumer Credit Is Safe

The inevitable conclusion reached and properly so, is that consumer instalment credit is an extremely safe and sound type of credit. Yes, that's true, but consumer credit isn't fool proof, and the foregoing facts don't tell the whole story. It is to be remembered that the concerns extending consumer instalment credit were highly specialized credit institutions, dealing in one or a few types of credit, and that their personnel was highly trained and skilled in this type of work, and that many safeguards were set up to insure a satisfactory experience.

To illustrate: In the past, sales finance companies in many instances had a contractual relationship with equipment, appliance and truck manufacturers, distributors and dealers, which provided for a contingent liability on the paper purchased. For example, a sales finance company buying an instalment contract had in many cases the protection of the following safety factors: an acceptable credit risk; an adequate down payment; sound terms under which depreciation was offset by liquidation; the endorsement of a responsible dealer; a contingent liability on the part of the distributor or manufacturer to protect the financing institution against loss if the retail buyer defaulted and the dealer was unable to honor his endorsement. All this protection was in addition to the repossession value of the equipment financed.

Another factor to be considered is terms. Terms in 1929 were on a conservative basis. Standard terms on automobiles were one-third down and twelve months to pay, and the bulk of instalment financing was on automobiles. In 1940, our last full time peace year, terms were the weakest of all times; new cars 25% down and 24 months to pay, and appliances $5 down and three years to pay. If the terms existing in 1940 had been in effect in 1929, the loss experience on consumer credit in the depression of the early thirties would have been materially different.

Another factor to be considered is the personal loan activity of banks particularly on a single signature basis. Very few banks were making a volume of instalment personal loans in 1929 and the banks that were extending this type of credit were largely confining their operations to comaker loans. Today there are thousands of banks making single signature unsecured personal loans. Banks have never had experience in this type of credit in a depression. Furthermore, the records show that many of the small loan companies experienced a higher loss ratio during the depression than banks could afford to absorb on current bank rates.

Bank Activity in Consumer Credit

Bank activity in consumer credit started about 1934 and the experience since that date has created an illusion as to the skill and knowledge required to extend this credit on a safe basis. With the exception of the recession in 1937, which fortunately was short, we have experienced a rising level of national income from 1934 to date. It was actually difficult to incur excessive losses on consumer credit during this period. In early 1940, bankers who were experienced in consumer credit were becoming concerned over the unsound terms and by 1941 they were alarmed. At the same time, bankers with a sense of social responsibility were disturbed over the tendency to pyramid personal debt through the medium of refinancing. Consumer credit was extended in 1940 and 1941 on the loosest basis with the weakest terms in the history of this type of credit and many millions of dollars of consumer transactions were outstanding with substandard terms.

You know that this outstanding was satisfactorily liquidated, but we must remember this good experience was not created by the inherent soundness of the terms on the transactions outstanding; on the contrary, we were bailed out by the artificially high wages and full employment created by the war.

In addition, the fact that the manufacture of consumers' durable goods ceased with the outbreak of the war made it impossible for buyers to continue to obligate themselves for the purchase of such goods, thus assisting in the liquidation of the obligations already outstanding.

Consumer Credit Not Fool Proof

I am firmly convinced from years of personal experience in handling many millions of dollars of consumer credit that it inherently is an unusually safe type of credit and there is a great accumulation of evidence to prove this. On the other hand, it isn't fool proof. Our experience of the past 10 years must not be taken as a yardstick for future operations. We must not be lulled into a sense of false security because of our unusually good experience under highly favorable artificial conditions.

The field of consumer credit has been a very profitable one in the past and rosy pictures are often painted of the substantial profit that can be derived from this business in the future. Yes, it is true, consumer credit has been very profitable and there is good reason to believe that it will provide a profitable outlet for funds in the future. However, there are certain facts which are often disregarded in considering the future profit possibilities in this field of credit.

Yield Not High

The average yield on the funds employed appears very high to most bankers, but too often the fact is overlooked that the cost of acquiring and handling this business may be 40, 50 or even 60% of the income received. Consumer credit is retail credit. It must be merchandised in small units. Advertising and business promotion expenses are necessary and there are many detailed steps in making a consumer loan and following it through to completion.

The extremely low loss ratio on consumer credit is often quoted in relation to the rate of return on the funds employed, thus creating the impression that the net return is very high. I agree that losses are a negligible factor in a properly conducted consumer credit operation. However, losses don't tell the whole story. The collection expenses necessary to maintain a low loss ratio often exceed the actual amount of the losses incurred.

The competitive situation must be taken into consideration in appraising future profits on this business. The days of lush profits are gone forever, and properly so. Competition will be keen; 10,600 banks have signified their intention to engage in consumer credit. Non-bank lending agencies have announced broad plans for the expansion of their activities.

The rate situation on automobile dealer financing will be extremely competitive. In this connection I am not speaking of the rate available to the public, but the net rate offered to automobile dealers on discounting their paper. The following headlines from business publications indicate how competitive this business will be: "Financing Concerns Reduce Interest Rates for Automobile Dealers," "Race for Instalment Financing," and so it goes, a rate war even before goods start to roll from the production lines.

In this connection there are several factors which should be given careful consideration by all banks engaged in this type of credit. First, reduced rates mean lower yields. While banks desire to extend consumer credit at the most reasonable cost to the public it must be remembered the reduction of rates below a proper level will not only be unfortunate for the banks, but a disservice to the public and industry. Remember that the good experience on consumer credit in the past has been established with a rate structure that provided sufficient income to investigate thoroughly, to service properly, and to collect these credits and absorb losses.

The Rate Question

I wish to emphasize with all of the earnestness at my command the necessity for every bank entering this field making a thorough study of the costs involved before rates are decided upon and announced. The rate should be sufficient to cover acquisition costs and operating expense, to provide adequate reserves and to allow for a reasonable return on the funds employed.

Fortunately, banks are able to offer the public a substantial savings in finance charges over existing rates of other lenders and still receive sufficient income to render a constructive service. If a bank establishes rates on a basis of its costs rather than competition, renders a superior service and sells that service aggressively and persuasively, then I would be very optimistic on the profit possibilities for that bank in consumer credit.

The Public Relations Factor

A great deal has been written about the public relations value of this type of bank service. It has been pointed out that by making bank credit available for the vast majority of Americans, we will create millions of new satisfied bank customers. Yes, a broad expansion of bank lending in the consumer credit field will bring us many millions of new customer's and an opportunity to create good will with every one of these customers.

However, in lending to millions of new borrowers we can easily create millions of dissatisfied customers and an enormous amount of ill will. In fact, not many years ago a popular argument advanced against activity in consumer credit was that banks would be forced to use harsh collection methods and thus lose the goodwill of many citizens in their communities.

If we look at consumer credit as merely engaging in the highly profitable personal loan business or the lucrative field of automobile financing; if we fail to realize that all Americans have their pride and their dignity; if we think we are doing the public a favor by granting credit; if we make loans only on a basis of collateral and collectibility; if we handle collections in a cold-blooded manner, then we had better stay out of this business for we will do banking irreparable harm.

On the other hand, if a bank has a grasp of the fundamental principles involved, realizes its responsibilities and renders a friendly constructive consumer credit service at reasonable rates, that bank will not only make a satisfactory profit but will also win immeasurable good will in its community.

Social Significance

Next, let us analyze the social significance of consumer credit. The social implications of this type of credit transcend all others in importance.

It is to be borne in mind that consumer credit is largely extended to the families in the middle and lower income groups. In 1941, the vast majority of American families had consumer credit obligations outstanding. Their budgets were geared to the extension of this credit and it was an important part of their planned financial program.

Future Expansion

After we reach full production, the amount of consumer credit outstanding may reach a total of $15 billion. This means that the budgets of most American families will be materially affected by the extension of this type of credit. In order to get a real understanding of the social significance of consumer credit, let's analyze the folowing hypothetical yet typical case of John Jones, a discharged veteran. He is anxious to get a job, have a home, a family and all the things he has missed so much.

John gets a pretty good job. Then he gets married. He wants an automobile and he buys a car with a low down payment and on liberal terms. He needs new furniture and this is easily purchased on liberal credit. The new home appliances are glistening and attractive and the salesman explains how easily he can buy a new radio, refrigerator, washing machine and stove . . . and then there is a baby in the family . . . and then illness. John Jones has become indebted on monthly payments greater than he can repay out of his income. He is two or three months behind in his bills—and he is desperate. He is actually faced with disgrace in the neighborhood, by the repossession of his personal belongings, and he may have to take bankruptcy to prevent garnishment. This case multiplied millions of times graphically illustrates one aspect of the social significance of consumer credit. It is trite indeed to say that debt is a terrible thing—but it is—it can be economic slavery.

On the other hand, if this credit had been wisely extended to John Jones he would not have become over-indebted and when a family emergency arose he would have been able to adjust his obligations and weather the storm. There are millions of American families that have acquired a home, enjoyed the freedom provided by an automobile and secured labor-saving devices through the prudent use of instalment credit.

Danger of Credit Abuses

Please do not interpret any of my foregoing remarks as a criticism of the proper use of consumer credit, but rather as an illustration of the abuse of consumer credit and not its constructive use. I have a deep conviction based on experience that consumer credit constructively used is a beneficial social force.

It is estimated that 55 to 60 million jobs will be necessary to provide a satisfactory level of employment. It is also estimated that the national income will have to be some $130 billion to provide these jobs, maintain our economy and service the national debt. This means that a volume of some $90 billion of consumers goods and services must be distributed. To accomplish this, consumer credit must be widely utilized. It is obvious to thinking bankers that very strong pressure may exist within a few years to over-extend consumed credit on unsound terms. If we do not courageously adhere to sound principles and extend consumer credit on a constructive basis, the social results will be tragic indeed.

Consumer Credit's Economic Importance

Next, let us appraise the economic importance of consumer credit. One of the major problems we will soon face is the distribution of the large volume of consumer goods and services just mentioned. If manufacturers do not have a market for their output, production will soon cease and unemployment will result. We can provide no more jobs for people to build automobiles, radios, refrigerators, etc., than we can find ways to distribute and finance these goods.

Consumer credit has created mass markets and made possible mass distribution. Therefore, it is obvious that consumer credit will play a leading role in providing employment.

However, let us analyze what this credit really does from an economic standpoint. Consumer credit does not in itself create new wealth. It is not a magic cureall or a panacea for all of the problems of unemployment and distribution. It merely permits buying out of future income.

While it is true that consumer credit does not create new buying power, it channels the purchasing power of the average American family into worthwhile purchases that enable them to enjoy a higher standard of living than they could otherwise have achieved. To understand this one must know from intimate personal contact with thousands of Americans, their reasoning, their strength and their weaknesses.

To illustrate: Perhaps the widest use of the instalment credit principle is life insurance. When a young man takes out a $5,000 policy to protect his family in the event of his death, he has not saved $5,000; he is simply buying an estate of $5,000 on the instalment plan and making the benefit of that protection immediately available to his family. The record shows that millions of Americans have accumulated an estate through the purchase of life insurance. On the other hand, if they had not been definitely obligated to pay the premiums on their insurance in regular instalments, their income in many cases would have been absorbed in normal living expenses and an estate would never have been accumulated.

By the same token, when a family buys a mechanical refrigerator with a life of some 10 years and finances the balance in 24 monthly instalments, every time that family makes a payment they are actually saving money which has been invested in a utility that will improve their health and increase their standard of living. However, if they had not had the discipline of f o r c e d savings through monthly payments they might never have acquired a mechanical refrigerator.

True, we preach thrift and advocate that savings be accumulated for purchases. We tell our customers that when their income rises above a subsistence level they should set aside a few dollars each payday in a savings account, but if we are realistic we know that the cold fact is that such savings so painfully accumulated would not permit the great mass of American families to enjoy the standard of living they have achieved. Most people find it very difficult to set aside a sufficient amount out of current income to buy large unit durable goods. Yet, experience shows that if they buy such goods prudently on an instalment basis, the payments will be made and they will enjoy a better standard of living.

Has Raised Living Standard

Also, consumer credit has enabled American families to enjoy a higher standard of living because consumer credit has created mass buying power, thus permitting mass production and thereby substantially reducing manufacturing costs. Mass production has made automobiles, home appliances and other durable goods available to the public at much lower prices than would have been possible if such goods were manufactured in small volume for only the cash buyers.

Thus, it is evident that consumer credit is not an odious device for foisting goods on people by mortgaging their future incomes nor is it a magic formula for solving all of our economic ills. However, intelligently used, consumer credit can materially aid in creating jobs, definitely help in maintaining a high standard of living and substantially benefit our economy.

A Deterrent to Socialized Credit

And now let us examine the political aspects of consumer credit. Thinking bankers are aware and alarmed over the trend towards socialized credit in this country and its threat to a free competitive economy. The recent election in England, which was won in a landslide by the Socialist party on a platform of socializing the banks and industry, makes the worldwide trend evident. And the shocking thing is not that England went socialistic, but that when the program of socializing the banking system was announced no protest was made by the people. I think the reason is apparent. The English banking system is not democratic in the same sense as ours and the man in the street in England simply didn't care whether the banking system was socialized because he had no stake in banking. Last week the Constituent Assembly of France voted by 521 to 35 to socialize the Bank of France and the four major deposit banks, placing more than 80% of France's bank deposits under state control. The handwriting is on the wall and the trend is evident in this country.

Consumer credit wisely used can be an effective weapon to combat this trend towards socialized credit in our country, because bank consumer credit makes bank credit available to the man on the street, to the vast majority of our citizens. It means that "the bank" becomes "my bank." Bank credit gives the average men a feeling of responsibility, a sense of security and a greater stake in banking. By extending bank credit to the vast majority of Americans we make the American banking system even more democratic.

To summarize briefly, if consumer credit is properly extended on a constructive basis, it is safe, it is probitable—and it wins many new friends for banking.

At this point you may logically inquire, "How may we assist and advise our member banks to insure that they will have a satisfactory experience in this field of credit?"

In my opinion there are two basic steps that are of fundamental importance. First, it is my deep conviction that a bank cannot enjoy a satisfactory experience on consumer credit unless the directors and executive officers have a real understanding and a grasp of the basic principles involved, are aware of their responsibilities, realize its social significance, recognize its economic importance, and appreciate its political potentialities; and then with full knowledge of the foregoing, formulate well thought-out constructive long-term policies conforming with these principles.

Second, because the success of a consumer credit operation depends almost entirely upon the skill and judgment of the management and personnel, it is imperative that the most competent management and personnel available be entrusted with this work.

There is no better guide that I can suggest for your members than the "Consumer Credit Creed" of the American Bankers Association, which reads as follows:

"We believe that, in order to justify its charter, a bank must serve the reasonable credit requirements of its territory as well as provide a safe depository for funds;

"That the extension of credit to salaried or wage-earning individuals on a sound basis is an economically important part of such service;

"That, while recognizing the importance of volume in the reduction of loan costs, a bank should endeavor to assist people to get out of debt rather than into it;

"That, although a bank must be competitive, it must maintain its practices and policies on a plane which will not bring disrepute to banking, and keep all advertising restrained, truthful and exact;

"That a bank must determine for itself whether it will offer its services directly to the public or through others, but that no bank should uphold or assist such others when they indulge in unfair business practices;

"That a bank should determine the costs and hazards inherent in such credit and establish its loan charges accordingly; and, finally,

"That any bank which extends credit to individuals under these standards of practice will merit the good will and support of the general public."

With consumer credit extended by banks in conformance with this creed, I believe banks will adequately meet the credit needs of the American people at low cost and substantially contribute to the welfare of the people. I believe that bank consumer credit will materially aid our economy and at the same time win millions of new friends for banking and, finally, I believe bank consumer credit will make the most democratic banking system in the world even more democratic.

Halsey Stuart & Co. Offers N. Y. Central Equipments

Halsey, Stuart & Co., Inc., and other underwriters on Dec. 13 offered for public sale an issue of $17,700,000 New York Central RR. 1½% equipment trust certificates awarded after a competitive bidding. The Halsey, Stuart group bid 99.517 and designated an interest of 1½%. Underwriters headed by Salomon Brothers & Hutzler bid 99.407 for a 1⅝% coupon.

Subject to approval of the Interstate Commerce Commission, the certificates were offered at prices to yield 0.90% to 1.75%, according to maturity. Certificates mature $1,770,000 annually from Jan. 1, 1947, through 1956.

Proceeds will cover about 80% of the cost of buying 2 Diesel freight locomotives, 750 steel-covered hopper cars, 153 steel coaches, 60 stainless steel coaches, 4 dining cars, 4 kitchen-lounge cars, 4 tavern-lounge observation cars, 20 aluminum passenger-baggage cars and 50 steel baggage cars.

Snyder and McElhiney Are Loewi Co. V.-Ps.

MILWAUKEE, WIS. — Loewi & Co., 225 East Mason Street, members of the Chicago Stock Exchange, announce that Milo F. Snyder and Lester B. McElhiney are now Vice-Presidents of the firm. Mr. Snyder has been with them for some time. Mr. McElhiney's association with Loewi & Co. was previously reported in the "Financial Chronicle" of Dec. 6th.

Ford's Pay Offer to Unions

Writes Its Willingness to Grant a 15c Hourly Increase, Which Is 12.4% Rise Over Present Scale. Offer Promptly Rejected by Union Leaders.

On December 18, the Ford Motor Company submitted an offer to grant a general wage increase of 15¢ per hour to members of the United Automobile Workers, which, the Company maintained would cause an additional outlay to it of $33,000,000 annually. Within one hour after receiving and considering the offer, it was rejected as unsatisfactory by the Union's officials.

In its letter, the Ford Company stated:

The objective of our present negotiations has been to arrive at workable and equitable solutions to the problem of wages and the problem of company security which involves worker productivity and unauthorized work stoppages.

The only way Ford Motor Company can live and prosper in a highly competitive industry is to keep everlastingly at the job of increasing efficiency and keeping costs down so that we can make more and better cars and trucks to sell for less money.

It has been clear to us, therefore, that solutions to our problems cannot be arrived at separately, because the problems themselves are tied together. We cannot be efficient producers without eliminating work stoppages. Any increase in wages must come out of increased volume production.

Before our negotiations started, we told you quite frankly that we did not think this was the time to talk about a wage increase, because we cannot tell what our costs are going to be until we have had a history of volume production under present conditions.

We told you that materials—when we can get them at all—are costing us more than ever before. Last week we gave you our conservative estimates that, even without a wage increase, we will lose about $35,000,000 during 1946.

On the other hand, you have repeatedly maintained that these statistics do not answer the pressing and real problem of the employes you represent—the problem of meeting family budgets without the overtime pay taken home during wartime.

Theoretically, we could ask the Government to raise ceiling prices enough to cover a wage increase. We do not think it wise to go that road at this time, because present Government policy is based on the belief that only rigid adherence to OPA ceiling prices can prevent inflation.

That puts the problem squarely up to the Ford Motor Company and its employes. Unless we give up the problem as insoluble, we have no alternative but to take a gamble.

The management of the company has done its best to calculate carefully the risks in such a gamble. It has decided to risk an additional $33,000,000.

Behind this important decision is our belief that we may be able to win these things:

1. The confidence and cooperation of our employes.

2. We can stay in production and keep men employed.

3. In prompt all-out production we can sharpen our production skills and efficiency to meet and beat competition.

4. We may help to break the log-jam of post-war mass production.

5. By bringing the supply of new cars up to demand, we can do our share in halting inflation.

Therefore we propose:

1. That a wage increase of 15 cents per hour be granted, this increase to become effective at the beginning of the calendar month during which total production reaches a volume of 80,000 units including Fords, Mercurys, Lincolns and trucks.

(This represents a 12.4% increase in our present average wage and approximately 21% more than the present average of our major competitors.)

2. That these new rates remain in effect for two years from the date they become effective.

3. That this proposal be made subject to agreement on the following items involved with the problem of company security:

A. Elimination of unauthorized work stoppages.

B. Management prerogatives.

C. Reduction of the number of union committeemen.

4. That if the OPA should raise price ceilings on our products such action shall not be made the basis for additional wage proposals by the union.

We hope that you will find these proposals equitable and acceptable and that we can wind up our negotiations promptly.

Credit for Sales in Victory Loan Drive

Although the subscription books for the three issues of marketable securities offered during the Victory Loan Drive were closed at the close of business Dec. 8, sales of United States Savings Bonds, Series E, F and G, and of Treasury Savings Notes, Series C, will continue, it was announced on Dec. 18 by Allan Sproul, President of the Federal Reserve Bank of New York. All subscriptions for savings bonds or savings notes processed through the remainder of the month of December will be included in the national, State and county totals for the drive, Mr. Sproul stated in his advices, which also said:

"If payment for Series C notes, Series F and G bonds, or Series E bonds to be issued by us, is made by check *drawn on us*, or by charge to a reserve or non-member clearing account maintained with us, the subscription and check or authorization to charge the account, as the case may be, should be received by us not later than the close of business Dec. 31. If payment is made by a check on another bank, the subscription and check should be received by us in sufficient time so that the proceeds of collection will be available to us in finally collected funds not later than Dec. 31. If payment is made by a banking institution by credit to a war loan deposit account, the subscription and advice of credit should be received by us not later than the close of business Jan. 2, 1946.

"Sales of Series E bonds by issuing agents will be included in the totals for the drive, provided the stubs of such bonds and payment therefor are in our hands not later than the close of business Jan. 2, 1946. *Issuing agents qualified on a prepayment basis for sale of bonds to employees enrolled in the payroll allotment plan are reminded that their sales will not be credited to the drive unless the stubs of bonds issued have been received by us not later than Jan. 2, notwithstanding that such agents have previously paid the full issue price of the bonds.*"

On Dec. 6 the Secretary of the Treasury called attention to the fact that the subscription books for the three issues of marketable securities would close, and the Victory Loan Drive will terminate at the close of business Dec. 8. These issues are the 2½% Treasury Bonds of 1967-72, the 2¼% Treasury Bonds of 1959-62, and the ⅞% Treasury Certificates of Indebtedness of Series K-1946. As indicated above sales of the three issues of savings bonds, Series E, F and G, and of Series C Savings Notes continue.

Changes in Bill To Nationalize Bank of England Approved

The House of Commons approved on Dec. 17 a Government amendment to the Bank of England Nationalization Bill providing that the Bank should not request information regarding individual customers' affairs from commercial banks. But all Opposition amendments designed to restrict the Government's credit powers were defeated, according to special advices to the New York "Times" from London, Dec. 17, from which we also quote:

"The Opposition pressed an amendment to prevent limitation on commercial banks' freedom to withhold credit from any class of customer.

"In the debate, Hugh Dalton, Chancellor of the Exchequer, made it clear for the first time that the Government intends to direct banks to grant credit to priority borrowers. Hitherto it was believed in financial circles that the Government would control only negatively by naming classes of borrowers ineligible for credit.

"This amendment was defeated, as were amendments to force discussion in the House of Commons of appointees to the new directorate of the Bank of England, to require directives to banks to be brought before the House of Commons for review, and to ensure redemption of Bank of England stock before April 5.

"The Chancellor also parried all questions on the amount of the Bank of England's reserve, holding, with Lord Catto, that such a disclosure was not in the public interest."

Two New Directors at Stone & Webster, Inc.

Stone & Webster, Inc., announces the election of two new directors, J. P. Grace, Jr., President of W. R. Grace & Co., and Colonel Russell Robb, who has been associated with Stone & Webster since 1923. Colonel Robb was Vice-President and a Director of Stone & Webster from 1929 until 1941, when he resigned both of these positions to enter military service.

Mr. Grace is the third member of his family to serve as President of W. R. Grace & Co., the international trading and shipping organization founded by his grandfather more than three-quarters of a century ago. He joined the company immediately upon graduation from Yale University in 1936. He was elected Secretary of the company in 1942, a member of the Board of Directors in 1943, a Vice-President in May, 1945, and President on Sept. 13.

Colonel Robb is on terminal leave from the Army after serving four years with the Army Air Forces. He joined Stone & Webster immediately after graduation from Harvard University in 1923. During the war he was attached to Headquarters, Army Air Forces and later to Headquarters, Air Transport Command. He served in both the European and Pacific theaters.

Shearson Hammill to Admit

Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other Exchanges, will admit Walter Maynard and Robert A. Kugler to partnership on January 1. Both were partners in the firm in the past.

Filor Bullard to Admit

Filor, Bullard & Smyth, 39 Broadway, New York City, members of the New York Stock Exchange, will admit John A. Monahan to partnership on January 1.

Sweden and World Trade

(Continued from page 3013)

variety of other articles. Even our farmers have to import commercial fertilizers and seed-fodder cakes to keep up the productivity of their land and their livestocks. We have to buy as well as to sell, and for both purposes we need a free market. And when I say free, I mean an open market where competition on the basis of price and quality alone prevails.

Certain of Sweden's own natural resources are, to be sure, considerable. We have arable land and good pastures, large forests, minerals and water power. Our forests, for instance, produce not only lumber, but also pulp and paper, rayon, artificial wool and an increasing variety of other chemical by-products. Our mines yield not only iron ore, but also copper sulphur, other industrial minerals and, yes, even silver and gold, though in small quantities. From the iron ore we make high-class iron and steel, but only in relatively small amounts. Having almost no coal of our own, we have to export the great bulk of our iron ore to coal-bearing regions and from there import most of our commercial and structural iron. We have a rather highly developed and differentiated industry, in many instances based on Swedish inventions, but we have to import many of the raw materials. We have the human material—the scientists, the engineers, the skilled workers—but we have no petroleum wells, no cotton fields or rubber plantations. At the same time, we have developed a liking for American motor cars, nylon stockings and tropical fruit. Of course, we must trade and do what we can to secure the goods we like and get it at the lowest price and sell our products where they are in most demand. Fortunately, that is also the policy of the United States, if I understand your declarations, so there should be no conflict between us.

Sweden's Industrial Production

Partly from our own raw materials, and partly from imported supplies, we have built up our industry, which works for export as well as for the home market. During the 10 years between 1929 and 1939, the volume of our industrial production went up by approximately 70%, while the national income rose by close to 40%. During the decade that followed the First World War, that is during the '20s, we had had a similar boom. In the latter part of the '20s, as well as during the years preceding the second war, we enjoyed what is now termed full employment; our standard of living went up; we built more houses and equipped them better; we wore better clothes and enjoyed a better diet.

We made not only matches and art glass, we also made telephones and electric motors, bicycles and ballbearings, sewing machines and refrigerators. We learned to make prefabricated houses, which have turned out to be a blessing to bombed-out populations in several countries now that the war is over. But even so our productive list is short compared to that of a large industrial country like the United States or Germany before the war. And a sufficient number of customers for such a limited list have to be found in many foreign lands. Consequently we cannot be restricted to primitive bartering of goods for goods.

Wide Sphere of Sweden's Commerce

Conversely, we have to draw on many regions for the import goods needed by a population with as high a standard of living as ours. If we ship newsprint to California, we take a return cargo of Hawaiian pineapples, Oregon pears, Washington apples, and, of course, California oranges, figs and apricots. But we must also be free to buy grapefruit in Palestine, oranges in Italy, lemons in Spain, and spices in the Indies. Some of our people like coffee from Java; others prefer that of Guatemala or Colombia or Brazil. Wool and hides we must be free to buy in Australia or New Zealand, in Argentina or Uruguay. Our cotton can be Egyptian or South American, our seed-cakes may come from British India or the Philippines—or, if price and shipping conditions are favorable, both commodities can come on board at either Galveston or New Orleans. Venezuela has no match factories, but plenty of petroleum. With us the situation is exactly reversed. Why should we not trade and both be gainers? We also like American motor cars and airplanes, but to pay for them we must be free to sell telephones in Mexico, ballbearings in Brazil, and both newsprint and cream separators, electric motors and dynamos in Argentina. Even so our normal foreign trade is preponderantly with European countries, Great Britain included. Three-fourths of our prewar exports went to them and from them we took, roughly, the same proportion of our imports in return. Our capacity to produce is not great enough to threaten any large industrial nation in any market; chiefly, we hope to recover and hold our old markets. We aim at producing high quality goods, and all we ask is a chance to compete on even terms.

Opposed to Bilateral Agreements

I have thus defined Sweden's foreign trade position and requirements in some detail to make correspondingly clear how opposed we are to the system of direct barter, that is, the bilateral trade agreements that were a consequence of the collapse of international trade during the period between the two wars. Unfortunately this system had to be even further developed during the last war and in many respects is still with us. It is this retrograde trade method we must destroy; we must bend our efforts to restore the multilateral system, allowing each country to buy where most convenient and most advantageous and to sell wherever its goods are wanted. The import quota restrictions, the rationing of foreign exchange, the forced clearing, which means, "I'll buy from you only if you buy from me," must go. They are all devices for coping with immediate difficulties; in the long run, they counteract the real interests of all parties and are detrimental to world economy as a whole.

Trade With Germany

In the '30s we had to set up forced clearing agreements with several countries on the European Continent, such as Germany and Italy. It was instrumental in balancing our exports to Germany against our imports from that country. In other words, Germany had to supply manpower and equipment and raw materials to pay in goods not only for what she received from us, but for the cost of freight on Swedish ships, commissions, harbor fees, royalties, etc., and then the interest and sinking fund charges on the Swedish shares of the international credits that were granted Germany in the '20s, for instance, the Young and Dawes loans. As a matter of fact, the surplus value of the German exports to Sweden over the Swedish exports to Germany went up from a prewar average of about 125,000,000 kronor a year to over 300,000,000 kronor annually during the war, Commercial credits, totalling 240,000,000 kronor, granted to Germany in 1941 and 1942, were fully paid up before Germany collapsed. Consequently it cannot be said that Germany did not have to earn and pay for what she received from Sweden during the war. Nor can it be said that Sweden sold its goods cheaply while paying high prices on what it received in return. As a matter of fact, the prices fixed in each of the annual wartime trade treaties were so balanced that the prewar price relations with regard to export and import goods were maintained. If the Germans demanded more for their coal, we raised the cost of iron ore. The same was true of other goods too. A recent, very thorough Swedish statistical investigation has shown that the f.o.b. prices on Swedish export goods to Germany rose nearly exactly as much as did the f.o.b. prices on German goods exported to Sweden.

To a certain extent it has been necessary to keep up this system of barter, or bilateral agreements for trade, after the war, but Sweden doesn't like the procedure. It hopes that the United States and the new United Nations Organization will take the leadership in favor of a free international market and a free flow of international exchange. The publication the other day of American suggestions for the improvement of international trade with an aim of freeing it from the present maze of restrictions and regimentation will most certainly be received with great interest and satisfaction in Sweden. Sweden has no colonies, no military ambitions, and no aspirations for preferential treatment anywhere. Its trade dealings have no political strings, and there is no element of pressure in its salesmanship. Its goal is the highest possible standard of living for its people, based on their own resources in materials and skills, education and taste, and to achieve that we need the highest possible rate of employment. To be of lasting value, all foreign trade, like private trade, must benefit both sides.

Favors Reciprocal Trade Agreements

As an example of what Sweden does like, I'll cite the reciprocal trade agreements initiated by the American ex-Secretary of State Cordell Hull in the early '30s. Next to Great Britain, Sweden was the first country to sign such a treaty with the United States, based on the principle of the most favored nation. Signed in 1935, it is still in force. What results did it have? By 1938 and 1939 Swedish purchases in the United States has become three times as heavy as they had been in 1933 and 1934. Swedish exports to this country also went up, but more slowly, increasing during the same period by about one-third. This mean that in 1938 and 1939 Sweden bought from the United States more than twice as much as it sold, and in order to pay the difference Sweden had to achieve an export surplus in her trade with other countries from which the United States bought goods, as for instance in South America, the British Isles, and neighbor countries like Finland and Norway. This is the system of multilateral trade which Sweden wants to see restored. Fortunately, it is also the declared policy of the United States.

Sweden's Contribution to Rehabilitation

As for the immediate future, Sweden is, of course, mindful of its obligations in regard to relief and reconstruction and in general of its duty to do its part in reestablishing a sound international economy.

According to recent estimates, Sweden's humanitarian aid in gifts and grants-in-aid to her neighbors and to other European countries since the outbreak of the war, as well as to refugees and evacuees in Sweden, is evaluated at some 750 million kronor —roughly 180 million dollars. Of this amount some 450 million kronor represent private contributions in money and kind and 300 million kronor Government appropriations.

The largest recipients of Swedish assistance have been Norway and Finland. More than 80,000 Finnish children have been cared for in Swedish homes for periods ranging between seven months and four years. Swedish Government authorities took care of some 40,000 people from Northern Finland who in October, 1944, crossed into Sweden with most of their cattle and other livestock when hostilities broke out between Finland and Germany and the retreating Germans burned and destroyed these areas. Last winter and spring around 300,000 Norwegians, mostly children and aged people, got a hot meal a day from the Swedish relief stations in Norway. Altogether some 50,000 Norwegian refugees found a haven in Sweden during the war. While in the beginning the Norwegian Government in exile took upon itself to carry the expenses for those people, the costs were taken over, as of the fall of 1944, by the Swedish Government through nominal credits which have later on been cancelled. The same holds true for some 25,000 Danish refugees and refugees from many other occupied nations.

This year, through the tireless efforts of the Swedish Red Cross, more than 30,000 men and women were evacuated from Ravensbruck, Belsen and Dachau and other horror camps in Germany and brought to Sweden, 19,000 of them even before the final collapse of Germany. They have been cared for and rehabilitated at the expense of the Swedish Government and are now, as they recover, gradually being sent back to their homes, but many of them have nowhere to go or hesitate to return and a great number still remain.

Active relief work has been and is still being carried out in many other countries like Holland, France, Czechoslovakia and Greece (where the great international relief work in 1942-43 and 1944 was carried out by a joint Swedish-Swiss Commission under the responsibility of the Swedish Government).

For the time being the efforts are concentrated on Poland, where several large Swedish Red Cross hospitals with complete personnel and medical equipment are trying to combat the rising tide of disease. The last few weeks action has been taken to start an all-out drive for help to starving children on the continent of Europe, regardless of race and nationality.

Sweden's Grant of Credits

In addition to these purely humanitarian activities Sweden has granted or made available credits totalling some 1,800,000,000 Swedish kronor to a number of countries, including Norway, Denmark and Finland as well as the Netherlands, Belgium, France, Poland and Czechoslovakia. Some of them are earmarked for reconstruction purposes. Some have been established with a view to enabling a speedy resumption of trade that would otherwise be hampered by deficient payment facilities. To a very great extent the operations have covered immediate exports from Sweden of foodstuffs, textiles and clothing, leather and shoes and other such goods and materials of which a marked shortage existed, or still exists in Sweden. These exports have entailed continued, and in some instances even increased, rationing of the same products for the Swedes themselves.

Simultaneously, the various Government or Government-underwritten credits have made it possible for Sweden to ship normal Swedish export goods to these countries, hungry for every kind of supply, but not yet in a position to pay in return with goods or free exchange. Consequently, in the seven months since the war in Europe ended, Sweden has built up a tremendous export surplus and the trend is continuing. The Swedish Business Cycle Research Institute has recently estimated that by May, 1946, that is in one year after V-E Day, exports will be in excess of imports by at least one billion kronor. What that means to our whole economy will appear quite clearly from the fact that in the five-year period 1936-1940 Sweden had an import surplus of roughly 350 million kronor and in the single year of 1944 a similar surplus of 825 million kronor. To refer to these export figures and say, as has recently been done in this country, that Sweden is engaged in a campaign to flood the international markets with the contents of its bursting warehouses, is entirely erroneous. On the contrary, this state of things represents a very serious burden on our whole national economy with very obvious inflationary dangers in view.

Do not think for one moment that Sweden regrets the policy adopted and that we contemplate relinquishing our efforts to be of help to others in getting the wheels running. But, obviously, there is a limit beyond which we cannot go. And so you will realize, I am sure, how eagerly Government and business alike are scanning the horizon for every sign indicating that world trade is stirring anew.

Has Not Profited From War

There is an impression that Sweden has profited from the war. Nothing could be further from the truth. Our national debt has gone up from about two billion kronor to 11 billion. Our expenditures for national defense increased during the war more than tenfold, our men were mobilized; at one time Sweden had nearly half a million men under arms. Our standard of living has been lowered by some 10%; similar estimates show a 20% decline in Great Britain, while in the United States and Canada civilian consumption went up during the war by 15 to 20%. Even so, we know we are fortunate to have escaped as well as we did.

Need of Coal and Rubber

What Sweden now needs most of all for the full utilization of its production apparatus, in her own interest as well as to the benefit of the international economy, is more coal and more rubber. Normally Sweden needs to import about eight million tons of coal. Before the war about one-half came from Great Britain and the other half from Poland. During the war Germany was the only possible source, and only by selling Germany iron ore could Sweden get even half the amount of its normal supply of coal. The deficiency was made up for by increased use of firewood, peat and other domestic substitutes. But both peat and wood are bulky commodities, hard to handle and for industrial use about four times as expensive as coal. But even so, to haul firewood out of the forests Sweden needs more rubber tires for its trucks. It needs them badly. Some coal has, to be sure, been received from the United States, some has arrived from Poland, but the amounts obtained so far represent only a minor fraction of our needs.

Our problems are, as you will all have noticed, in the main not essentially Swedish. They form part of the general pattern. The maintenance of peace and the establishment of constructive, farsighted international relations are the fundamentals. The catastrophe that the world has just gone through has been so tremendous, with a climax that could not have been more dramatic. It came to an end with the use of atomic power, confronting us with new problems, the solution of which will decide the very existence of civilization. There is only one way out—the way of reason and constructive collaboration.

Importance of Freedom in World Trade

In the field of economics we stand at the same crossroads. I do not think that a sound competition between individuals, between groups of people or between nations has lost its importance and must be abandoned. On the contrary, I am fully convinced that the largest possible measure of freedom is necessary for the full mobilization of the human and material resources of the world. But more than ever we must try to find such forms for economic activities and for the exchange of goods and services within the nations and between the nations, as to make it possible to avoid destructive conflicts. The world has shrunk so much in size and has become so integrated and its various parts so interdependent that the international aspects of economic life must have the foremost place in our thinking and working.

Inflationary Danger in Federal Borrowing From Reserve Banks

(Continued from page 3004)

ceding emergency legislation, the act greatly increased the power of the Federal Reserve System to buy Government securities. This was done partly by technical provisions to free the use of Government securities as collateral for Federal Reserve notes, and partly by concentrating power in the Reserve Board to purchase Government bonds.

Aware that there were dangers in giving these added powers to a Government board, Section 14 of the Federal Reserve Act, which relates to open market operations, was amended to provide that the Reserve System could buy Government securities "only in the open market." They could not be forced to take Government paper direct from the Treasury.

The reason is a very sound one for the safety and health of the nation's monetary system. When the Reserve Banks buy Government securities directly from the Treasury the operation is not subjected to the test of selling securities in the open market; and the Treasury is able to dip into the funds of the Reserve System with no check. The funds in the custodianship of the Reserve System may be thought of as trust funds. They are the country's banking reserves, and their use ought to be subjected to very careful consideration and tests. For another Government agency like the Treasury to use those funds directly is a good deal like permitting a trustee to borrow trust funds.

Treasury Should Borrow Only From Public

There is a certain amount of safeguard in providing that when the Treasury wants money it has to sell securities to investors, to insurance companies, to banks, and others. This means that the Treasury at all times must try to follow policies which give these buyers of Government bonds confidence. At the same time it compels the Treasury to steer clear of easy money devices that may wreck the country.

If the Treasury can short-circuit these wise checks on its operations through the power to borrow directly from the Federal Reserve System, it is in fact very much like permitting the Government to print greenbacks and paying its expenses that way. The procedure of the Government's borrowing directly from the central bank was the mechanism used in France and Germany in the great inflation in those countries in the early 1920's. It has proved itself historically a very dangerous mechanism.

The Second War Powers Bill allowed, for the period of the war, the Reserve System to buy securities directly from the Treasury up to five billion dollars. There was some excuse for this because the war financing problem was so difficult that both the Treasury and the Reserve System needed a good deal of freedom to produce the necessary money. As a matter of practice, the power was not used very much; only a few hundred million dollars, so that even in that extreme situation the power did not prove to be necessary. In peacetime, however, the power will hang as a constant threat of inflation over the nation's money system, and this raises the serious question whether such a power should be continued.

The committee report covers this subject as follows:

"The War Powers Act of 1942 gives the Treasury the power to sell directly to the Federal Reserve Banks not to exceed $5,000,000,000 worth of securities at any one time. Without this provision, it would be necessary in some cases to buy the securities in the open market and the Treasury would be required to pay substantial sums in fees and commissions, which are avoided by the exercise of this power."

The Principle Involved

This statement says nothing about the great principle involved in this whole question—the great danger to the country of continuing in the hands of Government inflationary money practices without any outside check. The committee directs attention only to a relatively minor point: the few dollars of costs which might be involved in the very small commissions which a buyer of securities pays. To say that these are substantial sums is untrue. A dealer in Government securities ordinarily gets a commission of 1/32 of 1%, and in a great many cases it is less than that, particularly at times when the Federal Reserve buys which ought to be at times when the market is weak and when it is profitable to make purchases. The commission would fall on the seller.

To center the continuance of a power of this nature on an argument over financing fees while neglecting the great principle of sound national finances is a gross distortion of values. I should like to point out also that this matter was considered only by the Judiciary Committee and was not referred to the Committee on Banking and Currency which is the committee best informed in these matters and best able to exercise competent judgment on the highly technical problems.

I question seriously the wisdom of continuing this particular power even for another six months in the present inflationary conditions of the country. If ever we are to get off the shifting sands of loose fiscal policy, certainly now, when the nation is flooded with money, is the time to do it.

Conquer Fear and Have Industrial Peace

(Continued from page 3014)

vanced up the bare, rocky slope. Twice they were driven back by small arms fire. On the second attempt the platoon leader became a casualty. Lieutenant Wigle volunteered to command the men in a third attempt. Armed with a carbine he led the platoon up the slope. Scaling the walls in front of them, he drew the enemy's fire, while his men helped each other over.

Still leading his men, Lieutenant Wigle drove the Germans from room to room of the first house, then into the second, and finally into the last house. There the 36 paratroopers took refuge in the cellar. Well in advance of his men, Lieutenant Wigle started down the cellar steps, calling upon the trapped Germans to surrender. He was answered by a hail of fire which severed his spine and paralyzed his legs. Lying on the cellar steps, his carbine still on the enemy, the Lieutenant called upon his men to stay clear of German fire, and throw grenades into the basement. The men refrained from obeying his command for fear the grenades might kill him. Instead they dragged him up the steps, then completed the capture of the enemy detachment. Lieutenant Wigle shook hands with all his men before being carried away for treatment. He died on the way.

I have told you about Lieutenant Wigle for the sole purpose of pointing out that he possessed two attributes which the American people must recapture if we are successfully to surmount the difficult problems of reconversion. Those were courage and faith. Lieutenant Wigle was unafraid. So deep was his faith in our American democracy and economy that he gave his life that they might be preserved.

During the war practically everyone in America had courage and faith. When confronted with dangerous foreign foes we closed ranks and courageously proceeded to overwhelm them. We never doubted, we never faltered, even during the dark days of Bataan and Corregidor. We had faith in our ability to carry on. Never in history has a peaceful nation so quickly or so efficiently marshalled its industrial and military strength. Never in history have two military nations been so thoroughly and abjectly defeated as were our enemies. Having thus demonstrated our ability to defend our democracy and our economy in the far stretches of the world, I do not believe that the American people intend to let down our democracy and our economy here at home.

Frankness, however, compels me to say that since the war's end, there has been more of a sense of fear and more of a loss of faith than we had even during the dire months of early 1942. We are in the midst of a period of industrial strife. I do not attempt to minimize is seriousness. It is ugly. If prolonged it will dangerously imperil our reconversion to peacetime production. Strikes are always costly. They are costly to labor, to management and to the public. Management and labor and the Government have the responsibility of using every reasonable effort to minimize them. We must not, however, become so absorbed in that effort that we fail to seek out the basic causes behind them.

It is my duty, under the law, to foster and protect the welfare of the wage earners of the United States. As a part of that task, I am charged with the responsibility of furnishing the services of conciliation, mediation and arbitration in industrial disputes. Constantly I am being urged by some to assist them in their dispute by publicly denouncing what they term to be selfish or stubborn management. I have been equally urged from the other side that I publicly denounce what they call irresponsible union leadership. I have consistently refused the demands of each. In so far as the Department of Labor deals with the question of conciliation, mediation and arbitration of disputes, I do not intend to destroy its effectiveness by yielding to the insistence of either side.

Basic Causes of Labor Unrest

That does not, however, prevent me from discussing what I consider some of the basic causes of our present unrest, nor to suggest what I think should be done about them. It is my firm belief that the fear complex, more than any other factor, is responsible for our present unrest. Workers are fearful that they will lose their jobs or their homes, or that if they do find jobs they will not pay enough adequately to feed, house and clothe them. Returning veterans are fearful that they will not get jobs. They, too, want homes. They want to marry and raise families. They are surprised and apprehensive on returning to this country to be faced with doubt about their speedy readjustment to civilian pursuits. Management is fearful because it doubts labor's ability or willingness so to maintain or increase its productivity as to enable them properly to operate. If we could but eliminate these fears, the industrial strife which surrounds us would disappear. There is one simple answer to it. It was given on March 4, 1933, at a time when the horizon was much darker than it is today. That is, that the American people must be taught the lesson that "we have nothing to fear except fear itself."

Mr. Chairman, I related the story of Lt. Wigle because I want to believe that although he died, he is not dead. If he is dead, then you and I are faithless to the trust he handed on to us. The part he played and the cause he served did not end as he died. The scoffers may scoff. The men with memories shortened to their own shadows may forget. But we must try to live the belief that he died that other men might be free.

The war is over. We have had our horrible social upheaval, and now we are enduring the resultant and lesser shocks. The story is like that of the earth, tortured by conflict and gasses and then broken by a tremendous upheaval of nature. We tremble as the earth quakes. We continue to tremble in the days that follow as the lesser shocks try our souls. It is not the time for cries of alarm, for loud shouting, for inflammatory speeches. It is the hour for men to think soberly and calmly of the problems we have immediately with us and of the goals one year and two years and five years ahead. It is the hour for reasoned judgment and for men with courage enough to have faith that reasoned judgment will prevail.

We must counsel together. We must organize ourselves to calm the fears. We must revive the peaceful processes of society. We must get the productive lines started again. And as we establish a firm line which we can hold, we must begin to rebuild the world in which we must live. If, during the most difficult hours, we are unable to induce men to join in the effort to restore calm and some degree of order, we must assume just as much authority, and only as much authority, as we need to compel order. We must, in short, establish a quiet zone in a nerve-wracked world.

I have, throughout my lifetime, believed in collective bargaining. And as long as I live, I want to have faith in collective bargaining because collective bargaining is democracy at work. From its very first hours, this Administration has done everything within its power to encourage and to induce men to put their faith in collective bargaining. But in these hours of uncertainty and doubt, perhaps there are men without sufficient faith in their fellowmen and faith in democracy to submit their cases to collective bargaining. We might abandon reason, ourselves, and denounce them. We might parade them in scorn in the highways and byways of public opinion. But rational men, men of judgment and men with real faith in the inevitable victory for democratic processes, will know that in the hours of uncertainty and doubt we gain nothing by inspiring the passions within men.

The art of living together in peace and harmony is the most difficult of all arts. If you will study the development of our educational organizations and notice the constantly increasing interest in the social sciences, you will be impressed I am sure, with how men are struggling to discover the methods through which men may live together. But this is not a science. It is beyond the realms of science. It is an art, the most difficult and therefore the highest of all the arts. It rises out of the love of man for his fellowmen. We all know the message that was sung to us in the first hour of Christmas. It was a message of assurance which marked out for us the path we must follow if we would have peace. The promise then and the promise now is that of "peace on earth to men of good will." The art of living together and therefore the art of democracy itself is an art which can only be perfected by men of good will and men who wish to be men of good will.

The "Public Good" Paramount

But, enterprise of all kinds can not divorce itself from the public welfare or the common good. Enterprise of all kinds exists for, and must exist for, the public welfare or the common good. I like the phrase "the common good" because I think it expresses a bit more of what we all desire than does the phrase "the public welfare." The common good is like unto the body of man, the whole body made up of various parts. Management and labor are like unto the hands of the body. If there is a wound in those hands, the body not only has every right to know every fact related to that wound, it has also the obligation of life itself to know every fact. If it does not, the body may die, and inevitably it will die.

I am interested in collective bargaining, as I am sure you are and as I am sure every intelligent man in the fields of management and labor must be, but I think that the objectives of collective bargaining cannot be limited to isolated points of conflict within the family. Certainly, collective bargaining must deal firstly with the questions of emergency, but the ultimate objective of collective bargaining must be to establish greater understanding within the industrial families and to develop and maintain more of the family spirit within industry. That understanding cannot be reached through efforts to conceal facts and information which are of common interest within the family. Yes, we all have individual rights, rights which are natural rights and in those matters we have every right to insist on living with ourselves and retaining within ourselves the information which affects us only. But in the fields where every right we have is associated with the rights of our fellowmen, we cannot insist on unlimited license to affect our fellowmen and their welfare without at the same time cooperating to establish understanding of all the facts involved.

We have with us now, the immediate problems which are summed up in the phrase "full employment." Without much trouble, Mr. Chairman, I could have brought to this meeting an immense array of facts to prove beyond question that we must have full production of goods and services if our government, or the common good, is to remain solvent. But you have heard of those facts and I do not think anything more could be added here tonight if I were to recount to you the story about our national and local and private debts and the necessity of producing wealth to maintain our solvency. We are going to have full employment and full production. We must have it and we can only hope that we can attain these ends through development of the family spirit within industry of all kinds. Our obligation to democracy compels us to seek the methods of governing ourselves, of ourselves and by ourselves and for ourselves.

I am, as you are and must be, interested in full production because of the desire to improve our standard of living. We talk much about our standard of living in our country and perhaps we may be justly proud of it when we compare it with that in some other countries. But the cold facts relating to housing, the cold facts relating to nutrition, the cold facts relating to the minimum of educational opportunities for many of our fellowmen may make us ask ourselves just how much pride we should have in our accomplishment.

On Sept. 6, the President presented to the Congress a program through which these objectives of full production and full employment might be attained. He recognized that production alone would not solve the problem, but that the purchasing power of the people required strengthening if they were to consume the products of our industries. Therefore, he urged amendments to the Fair Labor Standards Act, by which those in low income groups could be assured of sufficient income to enable them to make such purchases. He urged the adoption of legislation by which through Government planning, it will be possible to assure full employment.

The Administration has prepared and will launch a program for housing. The President has just recently urged the Congress that it protect the public health. These are but a few of the measures which the President has urged as essential to the National welfare. Through the support of those in this country with understanding of and appreciation for the social needs of the people, this program can and will be enacted by the Congress of the United States.

Opportunity for Personality

But I am interested in full employment and full production for an even more important reason. Every man has within himself, until it is stifled and destroyed, the desire to produce. It is the desire to express his personality. We know it, in greater or less degree, in our earlier years. The farmer loves to grow more and finer corn and wheat and fruit. The wage earner in the factory loves to produce better and better things. In government, yes in government, the workers in greater and less degree, are striving constantly to do a better and better job.

If we are sincerely interested in our standard of living, we must understand that living itself is expression of personality and that when through our selfishness, or our mistakes of judgment, we prevent full opportunity for employment and full opportunity for expression of personality, we are destroying the spirit and the souls of men. We are destroying the common good.

Management and the leaders of labor organizations are trustees for the common good. Just as I am, by result of various circumstances, your public employee as Secretary of Labor, and therefore your trustee, the leaders in the field of management and labor are trustees. Tomorrow, we will have rendered an accounting. We will have passed on the torch to our successors as did Lieutenant Wigle. We are now being tried. And we must not fail.

The Depression Years

I would recall to you, because here in Detroit you had the very trying experience of knowing the facts, the hours from 1929 to 1932 and thereafter. Those were the years of another kind of shock, another earthquake which was more disastrous than was the earthquake of war. I want to leave with you a thought which impressed me. I happened to know in Washington a man who sat in one of the most difficult places during those years, a place where much of the currents of Detroit swirled around him.

"There was the day," he told me, "when the man who constructed many of the great buildings of Detroit came to me to ask for a clean shirt. He wanted a clean shirt so he could get a chance to drive an automobile back to Detroit. He had not eaten in two days. He had slept in an abandoned automobile. He cried as he told of walking down Pennsylvania Avenue and of how he looked at the Capitol dome and asked whether it was erected there to establish the kind of a life he and others were then having to live in the United States.

"There was the merchant prince who came in another morning to tell of how his millions had perished over night and how he was bankrupt and in debt and wholly dependent upon the charity of his friends. There were college professors who wanted only a clerical job in the government. There were men by the scores and hundreds who began by asking for food and then returned to demand food.

"One night," my friend continued, "after battling against that kind of a flood for twelve successive hours, a light dawned for me. Every man who came to my desk, rich man and poor man, insisted that the only thing he asked for from this world was security for himself and for his family. Suddenly it dawned on me, the story of how little security was found in bank accounts, in stocks and bonds, in ownership of industry, in ownership of farms. There was no security to be found there. There was only one place where security could be found and it was entirely obvious. Security, in any society of people, can only be found when your fellowman is also secure. The measure of his security will bound and limit your security."

Even though that story and the thought in it seemed so obvious to me after I had heard it, I could not escape from the impression it left on me. We cannot find security behind the walls we erect because there will be no walls which are high enough. They would be but Maginot lines which would fail us when we most need them. We can, if we will, find security through developing more and more of the family spirit within industry and more and more of charity for our fellowmen.

We have finished one phase of the war, or the great social upheaval. We must assume our obligations.

"It is for us the living, rather, to be dedicated here to the unfinished work which they who fought have thus far so nobly advanced. It is rather for us to be here dedicated to the great task remaining before us, that from these honored dead we take increased devotion to the cause for which they gave their full measure of devotion—that we here highly resolve that these dead shall not have died in vain—that this nation, under God, shall have a new birth of freedom and that government of the people, by the people, for the people shall not perish from the earth."

Modern Railroad Communication

(Continued from page 3016)

Lines may disclose some interesting information which will point toward the answer to this question. In order that you may examine the trends so developed and form your own conclusions, let us imagine, if you will, that we are about to start out on one of these experimental journeys. We will make this imaginary run on the Burlington main line from Chicago to Denver. This is all typical prairie country starting at 600 feet above sea level at Chicago and rising to a mile above sea level at Denver with dips in the Mississippi and Missouri River valleys. East of the Missouri River it is substantially all double track; west of there it is mostly single track, a major portion of which is equipped with centralized traffic control, the siding switches with their accompanying signals being operated from a central point. This eliminates the use of train orders at the intermediate stations, it avoids delay to trains in meeting or passing other trains, and increases the capacity of the single track by as much as 75%.

Let us assume that we are at the Chicago Departure Yard where this train that we are going to travel on has been assembled and is now about ready to depart. This train has a 5400 H.P. Diesel electric locomotive pulling it, which will run through to Denver—over a thousand miles distant—and after two or three hours for servicing and refueling, will be ready to make the trip back to Chicago. It is equipped with radio and there is similar equipment in the caboose, so that communication by telephone over these radio facilities may be had between the two ends of the train at any time. Between the locomotive and caboose there are 125 cars with a gross weight of 6,500 tons and last but not least, a distance of 6,000 feet.

Before our train can proceed the airbrakes must be tested. First, the train line must be properly charged. The engineer is in no position to determine that the air line has been cut through to the caboose. To establish this ordinarily requires the trainmen to walk a considerable distance and inform the engineer by hand signals when the proper pressure has reached the rear end of the train. It is the conductor's responsibility to see that this information is conveyed to the engineer. In accomplishing this, delays varying in length are not uncommon, particularly in bad weather. The radio telephone avoids this delay. Next, the engineer must be told to set the brakes for inspection then to release them for the final inspection. This likewise, ordinarily must be done by hand signaling and involves considerable delay in traveling back and forth, all of which is avoided by the radio telephone. These preliminaries having been attended to we are finally ready to move and the conductor communicates that fact to the engineer over the radio telephone instead of signaling by hand for him to proceed.

We are just starting to move out of our initial terminal and according to the best calculations, have avoided 45 minutes of detention time through the use of the radio telephone. We look at our watches; it is 1:00 P.M. As we get under way and head out on the main track, we must move at restricted speed through the turnout until the whole train is on the main track. As the caboose passes the main track switch, the conductor radio telephones that fact to the engineer who then opens the throttle, thus attaining maximum speed somewhat earlier than ordinarily would be possible. Let us be conservative and mark but five minutes delay avoided on this account.

Signaling vs. Radio Telephone

Two hours go by. We meet a long freight train moving eastward on the opposite track. As the cabooses of the two trains pass each other, we notice that the trainmen exchange signals each indicating that he has checked the condition of the other train and that everything is all right. If that other train had a radio telephone we could talk to him instead of having to rely on hand signals. It certainly would be better, especially if there was anything wrong to be reported. Another hour passes and it looks like we might be headed for some trouble. Sparks have been observed coming from the running gear of the eighth car ahead of us. There is only one thing to do, stop the train and find out what is wrong. Unless one of the crew on the engine happens to be looking back at this particular time, the possibility of conveying this information to the engineer by hand signals is remote. The only alternative without the radio telephone is for the conductor to set the airbrakes from the valve in the caboose which, under certain circumstances, may have and often does have the effect of breaking the train in two. If that should occur, we will be delayed, and may have to set out and further delay any cars of freight that may be damaged and require the replacement of a drawbar or other repairs. There might even be some shock damage to the lading. Fortunately in this instance, we have the radio telephone, so the conductor talks to the engineer, explains the situation and directs him to bring the train to a stop. The flagman immediately goes back to protect the rear end of the train and the conductor proceeds to the scene of the trouble. It proves to be a minor defect; he returns to the caboose, so informs the engineer, the flagman is called in and when he is aboard the engineer is told to proceed. All this has taken 20 minutes. It would have taken at least twice that long without the radio telephone and if the train had in fact broken in two, the delay could have been as much as two hours. Let us be conservative, however, and say that 20 minutes delay was avoided.

At 5:00 P.M. we pull into the receiving yard at Galesburg—162 miles from Chicago. Galesburg is the hub of Burlington operations east of the Missuri River. Here main lines from St. Joseph, Kansas City, St. Louis, Hannibal, Quincy, Peoria, the Southern Illinois Coal Fields, the tri-cities, Moline, Rock Island and Davenport, and the twin-cities, St. Paul and Minneapolis, intersect the main line over which we are traveling. It will be necessary to change crews and break up our train at this point, setting out some cars and picking up others. To facilitate this process the Galesburg terminal has two large Hump Retarder Yards, one for eastbound, the other for westbound traffic. These are yards where the cars move by force of gravity from an elevation to the proper track, through switches and retarding or braking devices controlled from a central point. We notice that the engines in these Hump yards are equipped with telephone communication so that their movements can be directed at all times by the two Humpmasters. This is a slightly different form of communication from that which we are using on our trains. It is the so-called carrier or inductive system. Under this method the voice, instead of passing through the air all the way, is transmitted through the rails on which the engine moves and through an antenna wire erected along the side of the track. While serviceable only for the limited areas where the rail is bonded and the paralleling antenna can be provided, this method of communication has proved to be quite satisfactory for these Hump yard operations.

Keeping Local Contacts by Radio

While our train is being assembled our locomotive has gone to the roundhouse some two miles distant for fueling and servicing. Ordinarily we would be quite out of touch with them during this period but with our radio telephone, we find we can continue to talk to the engineer and keep ourselves informed as to the progress of his movements. This might be rather important in case the inspection developed anything which might delay the prompt return of the locomotive to our train.

At 8:00 P.M. our new train is assembled and we are ready to move again. We still have a total of 125 cars and approximately 6,500 tons. First the air must be tested just as was done when leaving Chicago and in this process the radio telephone again avoids 45 minutes delay. We also avoid another five minutes delay by being able to tell the engineer when we are through the final turnout.

As we move across Iowa we observe that considerable track work is in progress necessitating slow orders. The locations are marked by fixed signals and normal speed is resumed promptly when the conductor informs the engineer over the radio telephone that the final signal has been passed. We count six instances of this kind and estimate five minutes delay avoided in each case.

We change crews at Ottumwa, 280 miles from Chicago and leave there at 12:30 A.M. At a small station west of Ottumwa our train comes to a stop. It develops that the block ahead of us is occupied by another train which has broken down. The dispatcher decides to put us over on the eastward track so that we can get around it. This is a place where only trailing point crossovers are maintained and we cannot make a forward crossover movement so this necessitates a backup movement in the dark. The conductor, however, controls the train from the rear by radio telephone instead of having to resort to hand signals. Another 20 minutes delay is avoided.

We change crews at Creston, 393 miles from Chicago and leave there at 5:00 A.M. As our caboose passes the depot at Red Oak at 7:00 A.M. the operator signals to our conductor that something is dragging. We have noticed the operators giving these signals all along the line but this is the first time anything other than a clear signal has been given. Again we are faced with the necessity of stopping the train and again the radio telephone proves its utility. The stop is made without difficulty, a dragging brake beam is made secure and after 30 minutes delay we are again on our way. At least 20 minutes delay has been avoided.

We change crews at Pacific Junction 475 miles from Chicago, leaving there at 8:30 A.M. We proceed without further incident, arriving in the receiving yard at Lincoln, 551 miles from Chicago, at 11:30 A.M.

Lincoln is a sort of cross-roads for the Burlington lines west of the Missouri River with main lines from St. Louis, Kansas City, St. Joseph, Omaha, Sioux City and Billings intersecting the main line over which we are moving. Our train must be broken up and reassembled here. As at Galesburg, a hump retarder yard with the pusher and trimmer engines equipped with carrier telephone communication greatly facilitates this work. Meantime our engine is being fueled and serviced at the roundhouse a mile distant.

Centralized Traffic Control

As we are about to enter the territory equipped with centralized traffic control, we decide to go to the dispatcher's office and take a look at the master machine while our train is being put together. The dispatcher shows us how the positions of the moving trains are constantly shown by lighted lamps on his diagram board, how by turning a knob he can operate any switch in his territory, and how the whole thing is automatically interlocked so there can be no possibility of error. He points out two opposing trains approaching each other and is quite proud of his lineup when the two trains finally get by each other without either of them having to stop.

Our train is now ready—this time it consists of 115 cars, 6,000 tons. We again go through the air testing procedure avoiding 45 minutes delay. We avoid another five minutes delay as we go through the turnout and reach the main track. Our departure time is 2:00 P.M.

We change crews at Hastings, 648 miles from Chicago, leaving there at 6:30 P.M. The weather is getting bad, a heavy rain and strong side wind.

We change crews at McCook, 779 miles from Chicago and leave there at 12:01 A.M. Mountain time. The weather continues to be very bad. Two hours out of McCook our train stops for a block signal. With a slippery rail we get a bad start and pull the drawbar out of the head end of a car of beans. This means the missing coupler must be replaced by a chain so that the car may be moved to the nearest siding and set out. This would be a time-consuming job under any conditions but is particularly so in bad weather and at night. The engineer must make a very careful move to bring his separated train together so that the chain can be applied and still not cause further damage by bumping into the damaged car. Also there must be no false moves made while the men are under the cars applying the chain. Fortunately the break is only six cars ahead of the caboose so that the conductor is able to direct the various moves by his radio telephone. A radio telephone of the walkie-talkie type, if and when they become available, will be just the thing for this sort of work. We get 50 minutes delay here but the conductor tells us the delay would have been an hour and a half if he had not had the radio telephone.

We change crews at Akron, 922 miles from Chicago, leaving there at 7:30 A.M.

Without further incident, we proceed to Denver, 1,034 miles from Chicago, arriving at 1:00 P.M. Allowing for the change in time our trip has consumed 49 hours and the radio telephone has avoided delays aggregating 4 hours and 20 minutes. Although this was an imaginary trip, all of these instances of the use of the radio telephone were founded on real events as observed on actual test runs. These and other similar instances are constantly recurring from day to day.

Value of Radio Telephone

To assist you in arriving at your decision as to the proper answer to the question we asked ourselves at the beginning, I would also make these observations: first, the cost of equipping a freight train of this kind with radio telephone between head and rear is less than 1% of the cost of a Diesel electric freight locomotive and the cost of maintaining radio telephone service does not differ substantially from the cost of maintaining other conventional communication equipment. Second, any delay avoided does not operate to reduce the transportation payroll. The train and enginemen are on a dual basis of payment and will continue to be paid for actual mileage made so that in operations of this character, the time element is not a controlling factor.

When the operator at Red Oak gave us that signal that something was dragging, I suppose a question was immediately raised in your minds as to whether it would have been better if he had had a radio telephone for communication with the train instead of having to resort to hand signals. The answer is obviously yes, although because of the lack of available eqpuipment, we have not as yet found it possible to carry on actual experiments in the use of radio telephone service between moving trains and wayside stations. We have, however, since May 1944, continuously maintained a radio telephone experimental installation in our Chicago yards, which operates on the same principle. There we have several Diesel electric switch engines equipped with radio telephone, also one fixed station. The fixed station is connected through a telephone line to the yardmasters supervising the several districts in which these switch locomotives operate. This provides radio telephone communication between these yardmasters and the various switch engines, wherever they may be. We have found the service to be dependable and effective throughout that portion of the Chicago switching district in which we operate, which has a radius of about 18 miles.

I might invite you to put in an imaginary day with me on one of these switch engines but probably you are already tired out from our Denver trip, so perhaps all that it is necessary to say is that our operating people, after these many months of actual experience, consider that the productivity of a Diesel electric switch locomotive and the crew operating it, is increased from 5 to 6% by the application of the radio telephone. The cost of equipping a Diesel electric switching locomotive with radio is only slightly more than 1% of the cost of the locomotive itself.

Radio Use in Railroad Yards

In addition to the ordinary routine of yard operations, we do find occasionally some unusual situations where the radio telephone on yard engines is of particular value. For example, there was the case where a bad fire occurred in the lumber district. The nearest switch engine was working about a mile distant from the fire. The yardmaster, four miles away, learned of it, notified the engine by radio telephone to go over there at once and as a result several cars of lumber were saved which otherwise would have been totally destroyed. Then there was the case where a troop train was moving through the far south side of Chicago for delivery to another line and one of the soldiers fell from a third tier berth breaking his arm. As the engine was equipped with radio telephone, the trainmen were able to get an ambulance started immediately and the man was taken care of much sooner than would otherwise have been possible.

In all of our experimental work the radio telephone has been treated as an added facility and one to be judged and utilized solely on its own merits. It does not supplant or replace any of the time tested signals or other appliances now in service, nor does its use relieve any employee from the strict observance of the established rules governing train movements which have been the product of so many years of experience and study, and which have made railroad property the safest place in the world for one to be.

The radio telephone must for the present be regarded as a new tool which has just been made available for railroad use. Its application to that service will doubtless present many and varied problems requiring much time and study for their solution. The railroads on their record can be expected to work out these problems and to advance the whole matter with characteristic caution but without undue or unnecessary delay.

Chairman of General Electric Co. Advocates Loan to Britain

(Continued from page 3015)

think and act differently, they have a common blood stream and any major illness must affect them both. One cannot grow fat while the other starves; one cannot escape exposure to the dangers which confront the other."

Britain's Difficulty Temporary

Mr. Reed pictured Great Britain as a large, experienced industrial company temporarily in trouble, with debts, serious damage to plant and facilities and a pressing need for working funds. The condition is not unusual in business, he said, and the suffering company must borrow capital or pressure its existing creditors to extend more credit. He described the United States as another great enterprise competing for business, but as often happens, the two sell materials and products to each other. If we decide not to lend, Britain must go to her existing creditors, chiefly India, Egypt, Australia, Ireland, Canada and Argentina, for more credits to tide her over.

"The difficulty with this arrangement," said Mr. Reed, "is that it forces Britain and those other countries to deal almost exclusively among themselves. . . .

"The formation of such a bloc not only closes the doors to the sale of American products in that area, but it also forces the creation of other economic blocs which in turn trade and exchange goods largely within themselves. A Russian bloc, a dollar bloc and perhaps others would emerge, each endeavoring to strengthen its position by inducing or high pressuring marginal countries to leave one bloc and join another.

"This means, of course, that governments become the dominating factor in world trade. Regulation and control of exports, imports and foreign exchange is inherent in the system. The international flow of goods under these circumstances is not measured by demand and price and quality of goods, but rather by artificial regulations resulting from political considerations and a shortage of particular currencies. This results inevitably and unhappily in the total volume of world trade being drastically reduced. We would export less and we would import less, with resulting decrease in our employment potential. And the pullings and haulings that would surely go on between these economic blocs, including special governmental measures taken to achieve short-term advantage, would be the source of irritation, ill feeling and, ultimately, military conflict."

Mr. Reed pointed out that if we make the loan, it should be on the basis that will serve our own national interest.

"The immediate thing we seek," he stated, "is to remove insofar as possible the present fiscal limitations and obstacles to the free flow of trade. We want the flow of goods to be determined by customer demand and product values, not by government regulation or decree. We want the blocked sterling unblocked. Our loan would make it possible for the British to commit themselves to pay for all future purchases from other countries in pounds which are immediately exchangeable into dollars or other currency. It would also then be possible for Britain to agree to make her instalment payments on the accumulated IOU's in free exchange.

"This means that if any of the supplier or creditor countries prefer to use the payments for the purchase of American goods, Britain would pay in dollars rather than in pounds. In addition, the British would join with us in effecting as between ourselves, and urging upon other countries, sound international economic policies, including the gradual reduction or elimination of trade preferences, tariffs, uneconomic international cartel agreements between private parties or governments, export subsidies, export and import controls, etc. All of these things contribute directly and importantly to encouraging a far greater exchange of goods and services between the countries of the world."

Mr. Reed's remarks were the first made on the proposed British loan by a spokesman of the United States Associates, which is representative in the field of international trade and finance of a large portion of American business and industry.

More Cooperation in Business and Government

In another address, before the Chamber of Commerce of the State of New York, on Dec. 13, Mr. Reed reiterated his statement that the United States must assume leadership in international cooperation and urged a closer and more effective unity regarding foreign policies on the part of business organizations, Congress and the State Department.

"In the past, as you know," Mr. Reed told the Chamber of Commerce members, "business has suffered by the fact that there was a multiplicity of large associations, national, State and local, making individual pronouncements on exactly the same subjects. I am speaking particularly of foreign subjects, but it applies to domestic issues as well.

"These pronouncements were made in such a way that it appeared to the man in the street that business does not know what it wants," he continued. "So many unnecessary and unimportant differences between the various groups has resulted, by and large, in a complete lack of punch, or effectiveness, in the views of business men on public opinion, the Congress, the State Department, or whatever agency was concerned.

"One of the things we are hoping to accomplish is the elimination of those difficulties on these foreign questions. We shall set up a working committee on Subject A, which is an important one in the foreign economic field, and then invite representatives of all of these great associations to come in and participate in the work of that committee, and add to the membership whatever additional personnel seems to give it the right balance.

"Out of that working committee we can get agreement on what the facts are, and attempt to develop a position that would be, not unanimous—there will be differences of opinion—but would be supported by a majority. It would expose everyone to the other's point of view. From that working committee will come a recommendation which will then be reviewed at the level of the policy makers of these various associations, again with a view to exposing each other's point of view. In that way large areas of common agreement can be reached.

"If we can do this before any particular association makes its own individual study, then we can furnish them the facts as they have been agreed upon; the discussions and the recommendations that have been worked out, all included in the working document, for their consideration. I think to do it in that way will bring about a greater unanimity in the ultimate opinion of business men which will tremendously increase our importance and our strength, in influencing American public opinion, and our effectiveness in dealing with the Government.

"This, then, is what we are shooting at. We believe that every corner drug store, every insurance company (that has an investment portfolio to consider), every public utility, every railroad, every mercantile establishment, and every manufacturer, who may never have shipped a dollar's worth of goods abroad, has a real stake in seeing to it that the policy of this Government on foreign economic affairs is sound.

"We believe that prosperity at home is going to be a direct result of the soundness or unsoundness of our foreign economic policy. We do not think they can be separated.

"If that is true, then the United States Associates should be supported by very large numbers of companies and individuals from coast to coast. That is the job we are undertaking.

"Part of our job is to avoid duplication and we have a committee working with other groups. We must not limit our support to those having an interest in exports and imports. We must have the broadest possible base, and we must have the interest of divisions of industry that have never considered themselves affected by our interest in our foreign economic policy.

"That, very briefly, is what we are trying to do. I am not going to pass among you with applications, but I do want you to appreciate, as I appreciate, the fact that this great Chamber has identified itself with our work. I know a great many of you have been approached by the United States Associates and I hope you will give it consideration with sympathy and understanding of the things I have said."

Banks Rejoins Blyth as Munic. Trading Mgr.

Blyth & Co., Inc., 14 Wall St., New York City, announces that Lieut. Joseph S. Banks has been released from active duty with the U. S. Air Corps and is once more associated with the company in charge of the municipal trading desk in the New York office.

Paul D. Sheeline Has Resumed Inv. Business

BOSTON, MASS. — Paul D. Sheeline has resumed his investment business in Boston from offices at 31 Milk Street. Mr. Sheeline has been serving in the Armed Forces for several years.

Associated with him as Manager of the Municipal Trading Department is John L. Donovan.

NYSE Christmas Tree

From the outside gallery of the New York Stock Exchange fronting Broad Street came recorded Christmas Carols on Dec. 17 as the 43-foot Norway Spruce Tree, erected by the Exchange in Broad Street over the week-end, was lighted at noon for the Holiday season. This is the largest of 22 trees which, since 1920, except during the war, have graced the financial section at holiday time with a Christmas atmosphere. The Christmas carols will continue through this week and next, at noon and in the late afternoon. On Friday, Dec. 21, a special program of Christmas music will be played at the base of the tree by the 12-piece Brass Choir of the Seventh Regiment, conducted by Captain Francis W. Sutherland.

Duff Inv. Sec. Officer

Rufus P. Duff has been appointed investment securities officer of the Excelsior Savings Bank, it was announced by Reginal Roome, President of the bank.

Our Reporter's Report

Except for a few secondary undertakings business in the underwriting world has come pretty much to a standstill and is expected to remain virtually dormant through the balance of the year.

Considering the heavy pace set by last week's operations, the letdown was more or less welcomed around the Street where there was every indication that the remaining days of the fading year will be given over largely to task of keeping up with seasonal festivities.

It's just about impossible to get a quorum to look over a deal these days, according to several of those whose job is to organize selling groups and really undertake the task of marketing new securities.

People in the business are tired out and, as a general rule, inclined to sidestep new undertakings for the moment. Added to this is the fact that most of the larger institutional investors are closing their books for the year and for that reason disposed to forego business which would upset their schedules.

Of course, there are methods of overcoming the latter obstacle, such as making purchases for deferred delivery, or holding new securities which may be wanted in broker or dealer names until after the turn of the year.

But on the present occasion, it does not appear that buyers will be required to make much use of such facilities, since underwriters, themselves, seem to be perfectly willing to let new business go over until after the turn of the year.

Market Is Receptive

The current hiatus in new offerings is completely chargeable to the holiday spirit that has pervaded the Street after four years of war. It cannot be charged to any lack of enthusiasm so far as conditions in the market are concerned.

One need only recall the heavy outpouring which marked the closing of the Victory Loan Drive, to realize that investors are in a decidedly receptive mood.

A total of something like $350,000,000 of securities were brought to market, including several good sized secondaries, and there were no audible complaints among underwriters with regard to the outcome.

Atlantic Refining Co.

One of the largest propositions well up on the list for early 1946 consideration is that projected by Atlantic Refining Co. involving $25,000,000 of new debentures and 102,000 shares of new cumulative preferred stock.

The company went into registration on these securities toward the close of last week and is expected to expedite their marketing as much as possible.

The new preferred will be offered to holders of its common stock in the ratio of one new preferred share for each 26 shares of common held. Bankers will underwrite any unsubscribed portion of the issue.

Pullman Deal Ahead

Recommendation by the three-judge Federal Court that the Pullman sleeping car facilities be sold to a large group of railroads brings nearer to market the financing which will be necessary to complete the transfer of those extensive properties.

The prospects are that the other competitors for the business, or at least one of them, will carry the fight, to block the sale, as outlined above, to the higher courts.

But in all events, the railroads have gotten over their first hurdle in their campaign to keep the Pullman facilities available to the public in what they term the most plausible manner.

Since this transfer will involve payment of upward of $75,000,000 to Pullman Inc., for the properties, it seems certain that securities of a new company in that amount most likely will have to be underwritten.

Holds British Loan Unbusinesslike

(Continued from page 3015)

their current dollar receipts without restriction. In other words, if Australia or India, or some other member of the Empire should sell us something and get dollars for it, such country could then use the dollars any way it wished. With the dollar pool in effect, such countries can only use those dollars at the pleasure of Britain, that is, they must give Britain the dollars and accept sterling.

"There is nothing in the agreement to indicate that the United States will receive anything in the nature of foreign bases, raw materials, communications or other concessions.

"In connection with the loan agreement Secretary of State Byrnes has issued a White Paper containing many laudable and desirable aspirations with respect to world trade. While recognition of this White Paper is made by the British, they are not signatories to it. They agree to undertake to help us work out world-wide multilateral agreements governing such things as tariffs, cartels, quotas and production, to be administered by an international trade organization. But these are only promises to "try" to help work out agreements with the other forty-eight countries of the United Nations. In other words, the British will only cooperate in working out such world trade agreements if we lend them $3,750,000,000, settle our lend-lease account, and give them title to our investments and materials in Britain on a 55-year note. If it costs this much to get the cooperation of Britain in world trade, what will it cost to get the cooperation of the other forty-eight countries of the United Nations?

"It is the 'Chronicle's' view that any advantages claimed by the proponents of the loan are greatly outweighed by the unsoundness and disadvantages of the proposal.

"If we must continue to help the British temporarily, let's do it by selling them our agricultural products, cotton, grain, meat, tobacco, etc., on easy credit until the world gets more settled and we can see our own way a little better, and let's see what we are to get in return. Fifty-five years is much too long."

Guy H. Simpson to Open Firm in Greensboro

GREENSBORO, N. C. — Guy Haskette Simpson, Jr., is forming Guy H. Simpson & Co. to engage in the investment business. The firm's offices are located at present in the O'Henry Hotel. Mr. Simpson in the past was an officer of the First Securities Corporation of Durham.

European Experiences With Price Control

(Continued from first page)

market alone puts the whole social system of private ownership of the means of production and free enterprise in order and provides it with sense and meaning.

There is nothing automatic or mysterious in the operation of the market. The only forces determining the continually fluctuating state of the market are the value judgments of the various individuals and their actions as directed by these value judgments. The ultimate factor in the market is the striving of each man to satisfy his needs and wants in the best possible way. Supremacy of the market is tantamount to the supremacy of the consumers. By their buying, and by their abstention from buying, the consumers determine not only the price structure, but no less what should be produced and in what quantity and quality and by whom. They determine each entrepreneur's profit or loss, and thereby who should own the capital and run the plants. They make poor men rich and rich men poor. The profit system is essentially production for use, as profits can be earned only by success in supplying consumers in the best and cheapest way with the commodities they want to use.

From this it becomes clear what Government tampering with the price structure of the market means. It diverts production from those channels into which the consumers want to direct it, into other lines. Under a market not manipulated by Government interference, there prevails a tendency to expand the production of each article to the point at which a further expansion would not pay because the price realized would not exceed costs. If the Government fixes a maximum price for certain commodities below the level which the unhampered market would have determined for them and makes it illegal to sell at the potential market price, production involves a loss for the marginal producers. Those producing with the highest costs go out of the business and employ their production facilities for the production of other commodities, not affected by price ceilings. The Government's interference with the price of a commodity restricts the supply available for consumption. This outcome is contrary to the intentions which motivated the price ceiling. The Government wanted to make it easier for people to obtain the article concerned. But its intervention results in shrinking of the supply produced and offered for sale.

If this unpleasant experience does not teach the authorities that price control is futile and that the best policy would be to refrain from many endeavors to control prices, it becomes necessary to add to the first measure, restricting merely the price of one or of several consumers' goods, further measures. It becomes necessary to fix the prices of the factors of production required for the production of the consumers' goods concerned. Then the same story repeats itself on a remoter plane. The supply of these factors of production whose prices have been limited shrinks. Then again the Government must expand the sphere of its price ceilings. It must fix the prices of the secondary factors of production required for the production of those primary factors. Thus the Government must go farther and farther. It must fix the prices of all consumers' goods and of all factors of production, both material factors and labor, and it must force every entrepreneur and every worker to continue production at these prices and wage rates. No branch of production must be omitted from this all-round fixing of prices and wages and this general order to continue production. If some branches were to be left free, the result would be a shifting of capital and labor to them and a corresponding fall in the supply of the goods whose prices the Government has fixed. However, it is precisely these goods which the Government considers as especially important for the satisfaction of the needs of the masses.

But when such a state of all-round control of business is achieved, the market economy has been replaced by a system of centralized planning, by socialism. It is no longer the consumers, but the Government who decides what should be produced and in what quantity and quality. The entrepreneurs are no longer entrepreneurs. They have been reduced to the status of shop managers—or **Betriebsfeuhrer**, as the Nazis said—and are bound to obey the orders issued by the Government's central board of production management. The workers are bound to work in the plants to whom the authorities have assigned them; their wages are determined by authoritarian decrees. The Government is supreme. It determines each citizen's income and standard of living. It is totalitarian.

Price control is contrary to purpose if it is limited to some commodities only. It cannot work satisfactorily within a market economy. The endeavors to make it work must needs enlarge the sphere of the commodities subject to price control until the prices of all commodities and services are regulated by authoritarian decree and the market ceases the work.

Either production can be directed by the prices fixed on the market by the buying or the abstention from buying on the part of the public; or it can be directed by the Government's offices. There is no third solution available. Government control of a part of prices only results in a state of affairs which — without any exception — everybody considers as absurd and contrary to purpose. Its inevitable result is chaos and social unrest.

II.
Price Control in Germany

It has been asserted again and again that German experience has proved that price control is feasible and can attain the ends sought by the Government resorting to it. Nothing can be more erroneous.

When the first World War broke out, the German Reich immediately adopted a policy of inflation. To prevent the inevitable outcome of inflation, a general rise in prices, it resorted simultaneously to price control. The much-glorified efficiency of the German police succeeded rather well in enforcing these price ceilings. There were no black markets. But the supply of the commodities subject to price control quickly fell. Prices did not rise. But the public was no longer in a position to purchase food, clothes and shoes. Rationing was a failure. Although the Government reduced more and more the rations allotted to each individual, only a few people were fortunate enough to get all that the ration card entitled them to. In their endeavors to make the price control system work, the authorities expanded step by step the sphere of the commodities subject to price control. One branch of business after the other was centralized and put under the management of a Government commissary. The Government obtained full control of all vital branches of production. But even this was not enough as long as other branches of industry were left free. Thus the Government decided to go still farther. The **Hindenburg Program** aimed at all-round planning of all production. The idea was to entrust the direction of all business activities to the authorities. If the Hindenburg Program had been executed, it would have transformed Germany into a purely totalitarian commonwealth. It would have realized the ideal of Othmar Spann, the champion of "German" socialism, to make Germany a country in which private property exists only in a formal and legal sense, while in fact there is public ownership only.

However, the Hindenburg Program had not yet been completely put into effect when the Reich collapsed. The disintegration of the imperial bureaucracy brushed away the whole apparatus of price control and of war socialism. But the nationalist authors continued to extol the merits of the **Zwangswirtschaft**, the compulsory economy. It was, they said, the most perfect method for the realization of socialism in a predominantly industrial country like Germany. They triumphed when Chancellor Bruning in 1931 went back to the essential provisions of the Hindenburg Program and when later the Nazis enforced these decrees with the utmost brutality.

The Nazis did not, as their foreign admirers contend, enforce price control within a market economy. With them price control was only one device within the frame of an all-round system of central planning. In the Nazi economy there was no question of private initiative and free enterprise. All production activities were directed by the **Reichswirtschaftsministerium.** No enterprise was free to deviate in the conduct of its operations from the orders issued by the Government. Price control was only a minor device in the complex of innumerable decrees and orders regulating the minutest details of every business activity and precisely fixing every individual's tasks on the one hand and his income and standard of living on the other.

What made it difficult for many people to grasp the very nature of the Nazi economic system was the fact that the Nazis did not expropriate the enterpreneurs and capitalists openly and that they did not adopt the principle of income equality which the Bolshevists espoused in the first years of Soviet rule and discarded only later. Yet the Nazis removed the bourgeois completely from control. The entrepreneurs who were neither Jewish nor suspect of liberal and pacifist leanings retained their positions in the managerial structure. But they were virtually merely salaried civil servants bound to comply unconditionally with the orders of their superiors, the bureaucrats of the Reich and the Nazi Party. The capitalists got their (sharply reduced) dividends. But like other citizens they were not free to spend more of their incomes than the Party deemed as adequate to their status and rank in the hierarchy of graduated leadership. The surplus had to be invested in exact compliance with the orders of the Ministry of Economic Affairs.

The experience of Nazi Germany certainly does not disprove the statement that price control is doomed to failure within an economy not completely socialized. Those advocates of price control who pretend that they aim at preserving the system of private initiative and free enterprise are badly mistaken. What they really do is to paralyze the operation of the steering device of this system. One does not preserve a system by destroying its vital nerve; one kills it.

III.
Current Inflation Fallacies

Inflation is the process of a great increase in the quantity of money in circulation. Its foremost vehicle in continental Europe is the issue of non-redeemable legal tender banknotes. In this country inflation consists mainly in Government borrowing from the commercial banks and also in an increase in the quantity of paper money of various types and of token coins. The Government finances its deficit spending by inflation.

Inflation must result in a general tendency towards rising prices. Those into whose pockets the additional quantity of currency flows are in a position to expand their demand for vendable goods and services. An additional demand must, other things being equal, raise prices. No sophistry and no syllogisms can conjure away this inextricable consequence of inflation.

The semantic revolution which is one of the characteristic features of our day has obscured and confused this fact. The term inflation is used with a new connotation. What people today call inflation is not inflation, i. e., the increase in the quantity of money and money substitutes, but the general rise in commodity prices and wage rates which is the inevitable consequence of inflation. This semantic innovation is by no means harmless.

First of all there is no longer any term available to signify what inflation used to signify. It is impossible to fight an evil which you cannot name. Statesmen and politicians no longer have the opportunity to resort to a terminology accepted and understood by the public when they want to describe the financial policy they are opposed to. They must enter into a detailed analysis and description of this policy with full particulars and minute accounts whenever they want to refer to it, and they must repeat this bothersome procedure in every sentence in which they deal with this subject. As you cannot name the policy increasing the quantity of the circulating medium, it goes on luxuriantly. Not every government is so careless in this regard as that of France, which issues every day about a billion francs of newly printed banknotes. But even the most reasonable governments are firmly committed to the policy which only a few years ago was called a policy of inflation.

The second mischief is that those engaged in futile and hopeless attempts to fight the inevitable consequences of inflation—the rise in prices—are masquerading their endeavors as a fight against inflation. While fighting the symptoms, they pretend to fight the root causes of the evil. And because they do not comprehend the causal relation between the increase in money in circulation and credit expansion on the one hand and the rise in prices on the other, they practically make things worse.

The best example is provided by the subsidies. As has been pointed out, price ceilings reduce supply because production involves a loss for the marginal producers. To prevent this outcome the Government grants subsidies to the farmers operating with the highest costs. These subsidies are financed out of additional credit expansion. Thus they result in increasing the inflationary pressure. If the consumers were to pay higher prices for the products concerned, no further inflationary effect would emerge. The consumers would have to use for such surplus payments only money which had been already put into circulation. Thus the allegedly brilliant idea to fight inflation by subsidies in fact brings about more inflation.

IV.
Fallacies Must Not Be Imported

There is practically no need today to enter into a discussion of the comparatively slight and harmless inflation that under a gold standard can be brought about by a great increase in gold production. The problems the world must face today are those of run-away inflation. Such an inflation is always the outcome of a deliberate Government policy. The Government is on the one hand not prepared to restrict its expenditure. On the other hand it does not want to balance its budget by taxes levied or by loans from the public. It chooses inflation because it considers it as the minor evil. It goes on expanding credit and increasing the quantity of money in circulation because it does not see what the inevitable consequences of such a policy must be.

There is no cause to be too much alarmed about the extent to which inflation has gone already in this country. Although it has gone very far and has done much harm, it has certainly not created an irreparable disaster. There is no doubt that the United States is still free to change its methods of financing and to return to a sound money policy.

The real danger does not consist in what has happened already, but in the spurious doctrines from which these events have sprung. The superstition that it is possible for the Government to eschew the inextricable consequences of inflation by price control is the main peril. For this doctrine diverts the public's attention from the core of the problem. While the authorities are engaged in a useless fight against the attendant phenomena, only few people are attacking the source of the evil, the Treasury's methods of providing for the enormous expenditures. While the OPA makes headlines with its activities, the statistical figures concerning the increase in the nation's currency are relegated to an inconspicuous place in the newspapers' financial pages.

Here again the example of Germany may stand as a warning. The tremendous German inflation which reduced in 1923 the purchasing power of the mark to one billionth of its prewar value was not an act of God. It would have been possible to balance Germany's postwar budget without resorting to the Reichsbank's printing press. The proof is that the Reich's budget was easily balanced as soon as the breakdown of the old Reichsbank forced the Government to abandon its inflationary policy. But before this happened, all German would-be experts stubbornly denied that the rise in commodity prices, wage rates and foreign exchange rates had anything to do with the Government's method of reckless spending. In their eyes only profiteering was to blame. They advocated throughgoing enforcement of price control as the panacea and called those recommending a change in financial methods "deflationists."

The German nationalists were defeated in the two most terrific wars of history. But the economic fallacies which pushed Germany into its nefarious aggressions unfortunately survive. The monetary errors developed by German professors such as Lexis and Knapp and put into effect by Havenstein, the Reichsbank's President in the critical years of its great inflation, are today the official doctrine of France and of many other European countries. There is no need for the United States to import these absurdities.

Henry Patton Named V.-P. of F. H. Hatch

Frederic H. Hatch & Co., Inc., 63 Wall Street, New York City, announces the appointment of Henry H. Patton as Vice President. Mr. Patton, who was a lieutenant in the U. S. Naval Reserve, conducted his own securities business in Philadelphia prior to entering the service in January, 1942.

"Rye Corner" Hearings Get Started

(Continued from page 3005)

ities at a time when these facilities were needed for other grain crops for which there was important demand." Should the views of the Department prevail in the end, the respondents would be deprived of all trading privileges on all contract markets, and those respondents now registered as futures commission merchants or floor brokers would have such registration revoked.

Were Customers' Trades "Directed" By Brokers?

Appended to the Government's complaint is a list of certain Daniel F. Rice and Co. customers who traded in rye during the period described. Among these customers was the General Foods Corporation which, along with Mr. Metcalf, in November 1943 had been instructed by the Business Conduct Committee of the Board of Trade to make no further purchases of rye without that committee's approval. The complaint charges among other things:

"(i) While respondent corporation and respondent Metcalf were prohibited from acquiring futures or actual rye on the Chicago Board of Trade, as set forth in paragraph (h), the sole agent for the corporation's actual rye, namely, Daniel F. Rice and Company, together with the remaining respondents engaged in a concerted heavy purchasing program in May 1944 rye futures on the Chicago Board of Trade, as set forth in paragraphs (j), (k), and (l), thereby assuming and continuing the futures end of the market operations when the respondent corporation could not do so in its own name. Thus, the dominant control of the rye market was maintained and increased, the price of futures and actual rye in Chicago being kept at a manipulated level.

"(j) Respondent Daniel F. Rice and Company was authorized to act as sole agent for the respondent corporation with respect to its holdings of actual rye during the winter of 1943-1944 and spring of 1944, and during this period no portion of respondent corporation's holdings was sold or delivered until after the expiration of May 1944 rye futures although not in excess of 10,000 bushels of this rye was shipped from Chicago by respondent corporation. Meanwhile, such offerings as were made by respondents were restricted to those prospective buyers who would move the rye into consumptive channels and who would not place it at the disposal of such other persons as might offer it for sale or delivery on the Chicago Board of Trade. This arrangement and understanding permitted the respondents to operate in the futures market with assurance that none of such rye would be delivered on May 1944 futures contracts.

"(k) Respondents Daniel F. Rice, Ryan, and O'Brien, engaged in large purchases of May 1944 rye futures on the Chicago Board of Trade as the result of which (1) they collectively held on Dec. 24, 1943, long May 1944 rye futures contracts amounting to 2,090,000 bushels, while Schedule A customers of respondent Daniel F. Rice and Company, as shown on Schedule A, held 3,555,000 bushels. These combined holdings accounted for approximately 26% of all open May 1944 rye futures contracts on the Chicago Board of Trade, namely, 21,715,000 bushels; (2) they collectively held on Feb. 11, 1944, long May 1944 rye futures contracts amounting to 4,595,000 bushels, while Schedule A customers of respondent Daniel F. Rice and Company, as shown on Schedule A, held 3,355,000 bushels. These combined holdings accounted for approximately 38% of all open May 1944 rye futures contracts on the Chicago Board of Trade, namely, 21,077,000 bushels; (3) they collectively held on April 29, 1944, long May 1944 rye futures contracts amounting to 3,180,000 bushels, while Schedule A customers of respondent Daniel F. Rice and Company, as shown on Schedule A, held 2,515,000 bushels. These combined holdings accounted for approximately 46% of all open May 1944 rye futures contracts on the Chicago Board of Trade, namely, 12,404,000 bushels. . . ."

No Price Ceiling on Rye

Rye being subject to no price ceiling, it is the contention of the Government that the activities of the respondents in this case not only by the magnitude of their own operations, but because of the stimulus to the public, caused a large increase in the price of the grain in 1944. The complaint states that, during the period of the respondents operations, the price of rye futures advanced about 52¢ per bushel between December 1942 and December 1943. Thereafter, to May 1944, the Government alleges, the respondents maintained the price at about $1.25 to $1.35 per bushel. Trading in grain futures is greatly facilitated by the relatively low margin requirements as compared, for example, with those of the stock markets. The margin for rye is only about 15%. During 1944, Government officials point out, trading in rye in Chicago totalled about 4,000,000,000 bushels, as compared with an annual crop of from 25,000,000 to 40,000,000 bushels. The fact that there were ceiling prices on wheat, corn and oats, made rye an unusually attractive medium for speculation.

The Washington Background of the Hearings

The Commodity Exchange Authority is that part of the U. S. Department of Agriculture which is charged with the enforcement of the Commodity Exchange Act. Among other objectives, that Act was designed to prevent manipulation, corners, and excessive speculation in the futures markets.

The Government recently has been giving especial attention looking toward a reduction of speculative activity in the rye futures market. Activity in rye futures has reached an unprecedented volume in recent years. The annual average volume for the ten years preceding 1942 was about 330 million bushels, substantially all of this trading being on the Chicago Board of Trade. In the first six months of 1945, trading on the Chicago Board of Trade totaled nearly two billion bushels, or an annual rate of 3,950,000,000 bushels, it is pointed out here.

In addition to issuing several complaints charging violations of the Commodity Exchange Act through manipulation of the price of rye and rye futures, the Commodity Exchange Authority took several other steps to correct the situation. On June 27, 1945 it proposed to the Chicago Board of Trade:

(1) That an initial margin of at least 33⅓%, equivalent to approximately 50 cents per bushel, and a maintenance margin of at least 20% be established on all trades exclusive of bona fide hedges. The Commodity Exchange Act does not give the Government authority to set margins.

(2) That a daily trading limit and open interest limit of 500,000 bushels be established, and

(3) That trading in July 1945 futures be immediately limited to liquidating trades and bona fide hedging transactions.

The Chicago Board of Trade, effective July 5, raised initial speculative margins to 25 cents per bushel with a maintenance requirement of 15 cents per bushel (from 20 and 12 cents, respectively) and established position limits effective Aug. 1 of 700,000 bushels on nonspreading speculative accounts with daily trading limits of 1,000,000 bushels. It also restricted activity in the July futures to liquidating and hedging transactions. Subsequently, effective Nov. 14, it again raised initial speculative margins to 35 cents and maintenance margins to 25 cents.

On Nov. 23 the Commodity Exchange Commission (consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General) issued an order which became effective Dec. 3 reducing daily trading and net position limits on speculative transactions in rye futures, from two million to 500,000 bushels. This order was issued after public hearings were held in Chicago. According to the Commission's order, the limits established did not affect provisions of the Commodity Exchange Act relating to manipulation or corners nor relieve any contract market of its responsibility under the Act to prevent manipulation and corners.

The situation in the rye market has changed materially in recent months. Trading in rye futures during the five months July-November 1945 totaled 1,117,624,000 bushels, a reduction of 28.6% from the 1,565,032,000 bushel total for the same period in 1944. Open contracts as of Nov. 30, 1945 totaled 24,311,000 bushels, a reduction of 7,256,000 bushels during the month. This is also a reduction of 57% from the high of 56,938,000 bushels as of March 31, 1945.

J. M. Mehl, Administrator of the Commodity Exchange Act, under which the action is brought, declined to comment on the case at this stage, except to say he "was well satisfied with developments thus far."

General Foods Corp.'s Position

The position of the General Foods Corporation in this matter is the same at that of any other speculative purchaser of rye. The Corporation has publicly admitted that it purchased the rye, not that it might have the grain to use in the manufacure of its products, but instead that, through the anticipated profits accruing from a rise in the price of its rye holdings, it might make up for the loss of business occasioned in its normal activities because of the shortage of corn. The corporation explained the activities of which the Government complains in a letter to its employees stockholders dated July 27, 1945. Since the hearings to date have been devoted to the presentation of the Government's case and the respondents have not yet taken the stand to develop their answers to the charges, the following questions and answers as given in the above mentioned July 27 letter will serve to indicate the position which the company will take when it testifies. The letter was signed Mr. Charles Francis, Chairman of the board, and Mr. Austin S. Igleheart, President of the company.

1. Was General Foods in the rye market?

A. Yes, from Dec. 1, 1942, to April 23, 1945.

2. Why?

A. We bought rye, which was cheap, as a means of guarding against possible reduction of profit in the manufacture and sale of wheat and corn products. The combination of price ceilings on the products we make from corn and wheat and the advancing prices of these grains threatened us with a squeeze. Shortages, actual and in prospect, limiting our ability to buy adequate supplies of corn became another factor.

Thus, to protect jobholders and stockholders we attempted to offset anticipated losses. In short, we were in the position of one who tries to make up on apples what he thought he would lose on bananas.

Our maximum holdings of 9¼ million bushels of rye were not excessive in the event disastrous corn and wheat shortages had occurred, in view of the fact that our annual manufacturing requirements of wheat and corn, and their products, amount to approximately 16 million bushels.

It was also hoped through research to develop additional uses for rye.

Fortunately for the nation and for the world, corn and wheat production continued at high levels, but your company had tried to prepare for the contingency of shortages.

3. Did we make a lot of money on the operation, as has been implied?

A. No. We didn't make any money. After paying the storage and handling charges, we even lost some. From early in 1944, when the General Foods management was convinced that its reasons for holding rye no longer existed, we gradually disposed of the rye.

4. Did we "corner" the market?

A. No. It has been charged that in May, 1944, the alleged corner involved 89% of a total volume which has been variously referred to as "deliverable supply" and "total crop."

At the top of our holdings, in May, 1944, we held 9¼ million bushels. Rye statistics published by the War Food Administration as of June 1, 1944, reported 21 million bushels in commercial storage, and more than 10 million bushels at interior mills and on the farms. These figures add up to more than 31 million bushels. Our top holdings were approximately 29% of this total, or 44% of the amount in commercial storage.

Against our top holdings of 9¼ million bushels in May, 1944, 2 million had been sold for future delivery, leaving us with net ownership of 7¼ million bushels.

With respect to total crop harvested in 1944, the best figures available indicate that our top holdings were about 35% of that amount.

But we don't want to confuse anyone with statistics. The Encyclopedia of the Social Sciences defines a "corner" as follows: "a plan of manipulation whereby one operator or more secures possession of all or substantially all of a given commodity . . . available for delivery upon the outstanding contracts of short sellers, in order to compel such sellers to settle at an arbitrary and abnormal settlement price imposed by the operator of the scheme."

Since that is technical, too, perhaps the next question will be more enlightening.

5. Did our policy have the price effect of a "corner"?

A. No. During May, 1944, at the peak of our rye holdings, the price per bushel declined from $1.32⅝ on May 5 to $1.12 on May 23. That is not the imposition of "an arbitrary and abnormal settlement."

6. Did our rye policy prevent the normal sale and distribution of rye?

A. No. We made it clear through offers to responsible Government officials that General Foods would sell rye as directed, either to Government or to private buyers.

7. Is General Foods in the rye market now?

A. No. We sold our last bushel of rye on April 23, 1945. Since we've had no rye for three months, any statements about our dealings in rye since that time are obviously incorrect.

8. Well, how does the General Foods management feel about its rye transaction?

A. We now know, of course, that the possible shortages in other grains fortunately did not develop; we now know that research into new commercial uses for rye has not proved fruitful; we realized no profit.

Realizing that hindsight is better than foresight, we must answer that our transactions seemed wise at the time.

Another Respondent Comments

Another of the respondents in this case, although preferring to remain anonymous at this time because only the Government's side has so far been under presentation, commented to the "Chronicle" as follows: "In 1942 rye was in a depressed price position, and had been for a number of years, both in relation to its "parity" and in relation to wheat and other grains. The established parity from October 1943 through May 1944 was $1.20 to $1.22. The price realized by the farmer in December 1942 was only 50% of parity. In the first five months of 1944 it averaged 91%.

"If parity were translated into Chicago market price by adding 19½¢ for transportation and handling costs, as OPA has done in its recent rye pricing order (MPR 604), it would be found that permissive ceiling prices during this period would have been $1.39½ to $1.41½.

"During the period of the complaint the price of rye increased from $0.70 to $1.25-1.35 a bushel; so, even at the peak, rye was not reflecting full parity, and was receiving less than the permissive ceilings.

"Rye has maintained a relationship to the price of wheat over a period of years of about 25¢ to 30¢, rye being lower than wheat by that amount. Yet in 1943 rye prices were 41.5 to 48.6¢ less than the price of wheat; and in May 1944— the date of the alleged corner—cash rye was selling at average prices of 50.8¢ a bushel less than was wheat.

"It is alleged that during the period of the complaint rye prices increased 52¢. During that time wheat increased 50¢ and was being traded in at ceiling prices ($1.73⅜) from April 15 through May 1944. Oats increased about 32¢ a bushel, and during March, April and May was trading at its ceiling price of 82¢. Corn during the first eight months of 1944 was not traded in at all. The price action of rye thus seems to be fully justified its relative commercial value and by the price trends of related grains.

"During the period mentioned in the complaint rye was the only grain not under a ceiling. This naturally attracted traders to it.

"The Government has related the holdings of all the respondents —including 9¼ million bushels held by the General Foods Corporation and about 2½ million by the others—to the deliverable rye in public store in Chicago, stated to be 13,056,000 bushels. During this period, however, the 'visible supply,' which means the rye in commercial position at 21 points East of the Rockies, was about 23,000,000 bushels. This reduces to about 50% the 89% of the supply which the Agriculture Department uses to support its contention that there was a corner. Moreover, the 'commercial supply' of rye in the United States and Canada, as reported by the Bureau of Agricultural Economics for this period, was even larger, namely 31,000,000 bushels.

"The Government claims that, by the actions of the respondents, the shorts were compelled to make delivery on future contracts, but in this connection it is pertinent to note that in the five rye futures involved from May 1943 to May 1944, inclusive, the great bulk of rye deliveries on futures contracts were made on the first day of the contract month. This indicates no pressure on the shorts.

"For example, in May 1944—the Government's exhibits in this case reveal—rye used for deliveries totaled 4,100,000 bushels. Of this, Cargill, Inc., delivered 2,650,000 bushels and the Continental Grain Company about 1,000,000 bushels, a substantial portion of it purchased from Cargill, Inc."

Government's Fiscal Policy

(Continued from page 3002)
have represented a reduction in living standards of this group.

A Piecemeal Tax Structure

The tax structure has developed piecemeal and reflects attempts to meet emergencies by shifting emphasis wholly on one or another source or end. Funds of the type which might be invested have faced, over the past 15 years, both increased rates and increased uncertainty. The combination has been too much to contend with. In the emphasis on planning, it must be remembered that business is called upon to plan too, and that frequent changes in taxes make planning more difficult. Specifically, the tax system seems to be geared toward the penalizing of venture capital in its treatment of interest, profits, and dividends, as well as capital gains. The constant tendency of funds to be invested directly or through financial institutions in fixed interest obligations, has been furthered by our tax system. But interest, in the end, must be paid from the results of economic activity and the activity will not be undertaken unless the risk takers have some encouragement.

In dealing with increased consumption, the emphasis is placed on a national wage policy. Wages are a derivative problem. Wages cannot be treated with as though they existed in a vacuum. In wages, prices and profits we deal with sensitive influences related one to the other, affecting our national welfare. A labor government accepts as a part of its responsibility a reform of the national wage policy, and attempts to spiral wages over a short period of time. There are extreme dangers in such a policy, for wages advanced under forced draft may kill off glowing prospects of maximum employment. High wages without maximum employment make for an unhealthy state of affairs. The national wage policy must respect a sound pricing policy for the finished product of industry in the interest of the consumer, and it must respect the adequacy of business profits.

Effect of Low Profits and Interest Rates

I do not mean, by a reasonable expectation of profits, any particular rate, and even less a guarantee. I recognize, for example, that when interest rates in the pioneer days were 10% or more, it took a higher prospective return to induce investment in risk-taking enterprise than in a period of low money rates. At the same time, business — both corporate and individual—must not be confronted with a "heads I win, tails you lose" attitude. This would be a good time, now that stop-gap tax legislation has been enacted, to begin at once a broad revision of our tax system. It may be that in the past we reduced tax rates when they should have been increased, and vice-versa. It may be that we need a more flexible system, which would be changed from time to time in conformity with broad changes in the business cycle. In that event, business would be prepared for change in advance.

I sometimes wonder whether the profound change in the last 20 years in the return on capital is appreciated. Today a greater amount of capital and savings is at work than at any time anywhere in world history. Overall figures are not available, but by examining the interest rate on public and private securities, the rate of return of public utilities, and the average rate of profit on the investment in business by and large it will be found that the average rate of return is strikingly low. The tendency toward a lower average rate of return in a dynamic society in itself is not alarming, but it means that the environment must be more conducive to making an investment initially. In other words, we cannot cut money's earning power in two and expect it to go to work, and at the same time create a hostile environment so that the retention of the smaller return or the principal itself becomes a matter of grave doubt.

In this respect government has the responsibility of abstaining from denouncing business attitudes that have largely vanished, and business has the responsibility of passing on the benefits of technological improvement so as to sustain buying power.

The impact of technological improvement in the past has created several dislocations and hardships which we have now tried to soften. No technological progress can be made without investment, and to encourage such investment is the best way to assure a continued general rise in our standard of living. As yet, no modern society except our own has been able to harmonize political liberty and economic progress, and if investment at a moderate rate of return is the cost of this happy conjunction of circumstances, it appears to me that the price of money is cheap, in more than one sense.

A sound fiscal policy requires of the Administration, with the aid of Congress, a coordination of our Federal activities in the fields of money, labor and wages, price control, allocation of materials and supplies, and taxes. There exists an insatiable demand for American goods and services at the present time; adequate purchasing power is assured in view of dammed up savings and the outlook for employment, with the result that there rests upon the shoulders of Government and business full responsibility for maximum employment and prosperity.

The Building Industry

As regards the prospects for the construction industry, and more particularly residential construction, I understand that you will hear from several authorities better qualified than I to deal with this subject. There exist important bottlenecks which must be overcome to assure large-scale activity in this field. Briefly they are represented by the following:

There were 500,000 construction firms in the United States prior to the war, while there are scarcely more than 35% of such firms engaged in business at this time.

There is an acute shortage of labor. The building trade unions are strongly entrenched. Their leaders discourage apprenticeships in the bricklayers', painters' and carpenters' unions, and it is understood that some of the unions have closed their ranks to war veterans who acquired the trade during their wartime enlistment.

Speculation in real estate has become a matter of great concern to the authorities. This comment applies especially to unimproved real estate subject to small home development.

Costs of construction are estimated to have increased from 30 to 40% over prewar costs.

Your Association is largely interested in private residential construction. You must bear in mind that competition is keen in all phases of the construction industry competing for labor and materials. Non-residential construction demand is represented three-fourths by the requirements of the farmer, railroads, service trades, public utilities, wholesalers and retailers, and one-fourth by demands for business expansion. Their combined demands are substantial.

President Truman has promised to address himself to the problems confronting this important industry. It is hoped that the President and his advisors will work out a program of action at the earliest possible date which will expedite building activity in all its phases, first, because of the seriousness of the housing shortage, and second, because of the important contribution which the building industry makes to general recovery.

It is my opinion that despite these several important problems which must be reserved, private residential construction, which will approximate $500 million this year, will rise to an annual rate of $4 billion in 1947 and to higher levels by 1948.

Interest Rate Policy

The interest rate became the function of Government almost 12 years ago, and marks one of the most decided changes in the financial structure of the country. The stability and value of our currency is determined by the Government's fiscal policy. Hence, the course of such a policy is of great importance to all, especially those dealing in money and capital such as banks of various types, and building and loan associations. As a result of the large Federal debt accumulated during this war the Government's fiscal policy centers around the management of this debt (currently $263 billion, estimated at $273 billion by June 30, 1946, as compared with $259 billion on June 30, 1945). The pattern followed by the Government in contracting the debt is likely to have a substantial bearing upon the management of the debt. The pattern of war financing had three main objectives:

1. To keep the cost of financing down, which was accomplished by control of interest rates.
2. To provide a variety of securities suitable to the individual needs which will influence the policies in future refunding.
3. To prevent inflation.

Success was complete for Points 1 and 2 but has resulted in complete Government dominance of the money and capital markets, accompanied by a complete change in heretofore accepted methods of monetary controls. These changes are important in appraising the future course of the Government's fiscal policy.

Government Short Term Financing

The original methods of regulating money markets and credits at the beginning of the Federal Reserve System were **quantitative controls**. They were operated by means of the discount rate, supplemented by manipulation of the legal reserve requirements and the open market policies of the Federal Reserve Board. Under the war economy, new regulations were introduced, working on the principle of qualitative control of money and credit in determining their use. In this category belong: (a) the raising of margin requirements; (b) control of consumer credit by increasing down payment and reducing maturity; (c) control of investment policies of commercial banks, savings and insurance companies. The reasons for the adoption of qualitative credit controls are the composition and distribution of the Federal debt. The Government has financed the war to a great extent by short term obligations such as bills, notes and certificates of indebtedness. The combined total of these three kinds of borrowing plus the bonds maturing before 1950 amounts to approximately one-third of all Government obligations outstanding at the present time.

Short term Government obligations are chiefly held by commercial banks which have between 60 and 70% of their earnings assets in such obligations. The Government will have difficulty in the redeployment of its obligations under peacetime conditions. The total debt is distributed as follows: 37% in private hands; 8%, Federal Reserve System; 10%, Government agencies and trust funds; 30%, commercial banks; 4%, savings banks; and 8%, insurance companies.

Inasmuch as deficit financing is likely to continue for several years more, the Government will have to rely upon banks and the Federal Reserve System for residual underwriting. Today the commercial banks, savings banks and the Federal Reserve System already hold 45% of the total Federal debt. They will have to absorb obligations liquidated by corporations and savings bonds which are expected to be turned in at the rate of from $5 to $6 billion for the next few years.

The Government has two alternatives in managing the debt: One is through continuation of the present system of maintaining an enormous floating debt; the other is through large funding operations. The latter method supposes financial conditions quite different from those prevailing currently. To be successful, a balanced budget is a primary prerequisite. The former methods require retention of large floating debt which implies continuation of present credit and monetary regulations and possibly the institution of even more rigorous controls if interest rates are to be kept low and the price structure stable.

Future of Debt

Our Federal debt ultimately will have to be paid or settled. Governments pay by means of taxes collected or funds borrowed from the people—or by inflation, which means a reduction in the purchasing power of our currency. Whether the latter method is adopted intentionally or unintentionally makes no difference.

The Government's recent actions and proposals in the matter of taxes, labor legislation and unployment relief, with its adoption of the Keynesian theory of compensatory spending, clearly indicates that our Administration has chosen the easy path of reducing the weight of the debt by means of gradually lowering the purchasing power of the dollar. The current problem is not one of avoiding inflation—which already is with us—but one of controlling its spread. The Government will do well if it succeeds in preventing present conditions from turning into a runaway inflationary spiral. Any expectation or hope of going back to the prewar dollar reflects wishful thinking and an utter lack of understanding of the financial and economic factors of wartime economy.

The management of our enormous Federal debt and continued deficit financing will require Government insistence upon a policy of low interest rates. This in turn presupposes a firm control over the money markets and the nation's credit structure, and implies continuance of a system of rules and regulations hardly compatible with the traditional American idea of a system of free enterprise. Thus we have further indication that we have moved into an era of politically-managed economy. Business, industry and investors alike should recognize these fundamental changes.

Prices

In a study of the price level and the advisability of a continuation of price controls, we must differentiate between cause and effect. The fundamental cause which makes the price level a problem is cheap and easy money in a period of scarcity of goods, accompanied by unspent current earnings which tend to grow. Savings spill over in all directions. There are three approaches in the hands of the Government in dealing with inflationary tendencies. They are taxes, price, and credit controls.

There are those who believe that capital gains and losses provisions of the Internal Revenue Code should be amended, lengthening the long-term holding period and increasing the maximum effective rate of taxation. A capital gains tax is a capital levy, and the holding period and rate of taxation are a definite barrier to the fluidity of capital. The present capital gains provisions have induced a scarcity of offerings in both the real estate and security markets and a resultant bidding up of prices.

Except in the case of real estate, credit controls are being rigidly enforced. The stock market is on virtually a cash basis. Regulation "W" remains in effect.

It will take time to relieve the pressure in the housing situation. It is difficult to reconcile repeal of the Price Control Act which expires on June 30 next with the scarcity that exists in apartment rentals and small housing throughout the nation. As much as we abhor regulation and control in any form, there is a need to hold rentals on existing occupancies within reasonable limits while new construction must go forward at an accelerated pace. Stable prices are essential to an orderly economy.

Conclusion

In my opening remarks I spoke of your business and emphasized interest rates and prices as related to your business. I stated further that these considerations attending your efforts take root in the need for a healthy and vigorous economy. I have spent considerable time—too much time in fact—in posing the problem of establishing a sound fiscal policy.

In dealing with money, we must remove ourselves from our emotions and treat with cold reality. In sifting and analyzing the facts as I see them in the present day situation, and applying my interpretation to the outlook for the coming year, I believe we can anticipate on the part of the government a continuation of a low interest rate policy; price control on a much restricted basis that will deal with real estate rentals and acute commodity shortages; the elimination of double taxation of corporate profits that are paid out in the form of dividends; a national wage policy calling for an approximate 15% wage rise, accompanied by a compensatory price increase in the finished product, and increasing regard for the interest of the consumer through improved quality and lower priced merchandise.

Despite efforts on the part of the Government, I believe the price level will continue to rise at the rate of 5 to 10% per annum. In my opinion this trend is not to be regarded too seriously, but rather as accepted hand-in-glove with recovery. Volume production may usher in a highly competitive period in industrial activity in the last six months of 1946 and it is volume production that will prove to be the natural and effective brake on rising prices.

I have noted for some time a gradual but persistent shift to the right in public thinking in this country, for a country which grows privately rich, despite Federal debt, lacks interest in reform and extremes in politics.

But passing reference has been made to the role of this country in foreign affairs. We are the leading nation of the world; we are the leading creditor nation of the world. In spite of the apparent friction that exists in some foreign quarters among the major powers, there is widespread confidence that with the help of Great Britain and Russia we will gradually establish and secure the peace of the world. The Bretton

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A Tax Program

(Continued from first page)

stood united for the common purpose, and that the manufacturers the farmers, and the scientists of this land were performing miracles. Unity of effort and skill in meeting new problems are qualities that make any nation and any organization great.

Questions Unanswered

We hoped that the conversion to peace would be accomplished with the same facility and distinction that had characterized the conversion to war. We wanted to see every effort made to insure a prosperous economy here, and a return to normal conditions abroad. Active business, full employment and a high national income were the goals and in the light of the war record, they did not seem impossible of accomplishment. But with the end of the war, the unity of purpose of nations and of individuals began to dissolve. The particuiar and conflicting interests of individuals and of groups came once more to the fore and all sorts of complicated questions arose, to which different nations and different individuals would give different answers. To what extent must individual nations relinquish their sovereignty? What should the activities of Government be? What can best be accomplished by private enterprise? In the fiscal field, do we need to bother about the fact that expenditures have been and could easily remain much greater than Governmental receipts? To what extent should we undertake to finance Great Britain and the world and can we afford to do it? Should taxes be further reduced? If so, what ones?

There is no such clear agreement on questions like these as there was upon the necessity of winning the war. Most citizens have not yet thought them through and many of us wish we didn't have to think about them at all. Yet decisions on most of them must be made. The intelligent procedure seems to be to assemble the relevant data on each problem; let competent men work out and present to the public the possible solutions and their recommendations; and let the Congress and the people coordinate the results and decide what is to be done. Such is the democratic process and we have found that it works.

Post-war Tax Policy Report

About a year and a half ago, President Henry M. Wriston of Brown University assembled a group of men to consider whether the time had come to make a study of fiscal policies for the nation after the war and how such a study should proceed. They agreed that the work needed to be done and that the best way to do it was the usual one of appointing a committee. Consequently, the Committee on Postwar Tax Policy was formed to assemble the material and to make a report. The Maurice and Laura Falk Foundation of Pittsburgh agreed to finance the work. Prof. Harley L. Lutz, of Princeton University, acted as research director. The Committee consisted of five men with diverse professional training, but all with long experience in dealing with Federal tax problems. The Committee published its report in September in a book of 275 pages, accompanied by a short summary, or popular version, of 50 pages. Most of you have seen it and so I shall not review it with you this afternoon. Rather, I shall speak independently of the major fiscal problems the country confronts and shall outline to you my own ideas on them as briefly as possible.

Taxation Can Defeat Aims

The first question we confronted was: what can be done in the fiscal field to facilitate rapid reconversion and to promote active business? We all want to see a healthy, vigorous economy for factory and farm, an economy which will provide jobs of their own choosing for those willing and able to work. We want also to see the American way of life preserved—that is, a high standard of living achieved without sacrifice of individual liberty. The tax system cannot bring about these aspirations and ideals, but it can operate so as to defeat them. All taxation is burdensome and tends to slow up economic activity in some particular. But it is possible to work out plans which will raise the money the Government requires with the minimum of braking effect upon incentives to produce.

1945 Act Well Considered

The Revenue Act of 1945, introduced and passed with commendable speed, was a well-considered first step. In my opinion, Congress picked the right objectives and carried them out admirably. For once, our accomplishments in the complex fiscal field are well ahead of our accomplishments in other directions.

First, it was wise to repeal the excess profits tax at once. That tax was not only a war measure, primarily designed to drain off war profits, but it operated quite unfairly as between competing business. There were many sound reasons for its repeal: the tax operated as a damper on new corporations or rapidly growing corporations and hence would check or defeat exactly the kind of enterprise this country needs at this time. It was good statesmanship to clear the tax off the books promptly, now that the war is over.

It was sensible also to repeal the capital stock tax and declared-value excess profits tax, that guessing game with too high stakes. The elimination of these three forms of corporate tax, moreover, will greatly simplify the tax problems of corporations and the provisions of the Internal Revenue Code itself. Repeal is certainly the cleanest method of tax simplification. Unfortunately, it cannot be used as a general remedy.

The slight reductions in individual and corporate tax rates generally applicable were a necessary and just accompaniment of the excess profits tax repealer. The reductions could not be great, for the Federal expenditures and deficit are still tremendous. The corporate tax rate is still about three times what it was only 10 years ago and more than 50% higher than it was five years ago. Individual rates, too, are far higher than they were before the war. Nevertheless, both individuals and corporations needed the bit of encouragement and incentive to produce that the transition act gave them. It was a well-timed and well-executed move.

Major Questions in 1946

Congressional leaders have announced that work on a new general revenue bill will start early in 1946. At that time, the whole Federal tax structure will be reviewed and recast in a more permanent mold. It is not too early, then, to list the major questions which Congress must face and to consider what the solutions should be.

Expenditures are the key to the problem. In order for private enterprise to be vigorous and to expand, it must have confidence in the stability and soundness of the Federal budget. Business must be able to feel that this great factor in its costs and in the conditions under which it operates is wisely controlled and is reasonably predictable. Hence, a balanced Federal budget should be the normal practice. A policy of normally balanced budgets being indicative of fiscal stability, will be much more conducive to private effort than a policy of balance only in times of great prosperity with recurring deficits at other times. If the budget is normally to be balanced, the control of expenditures is vital.

Prudent Budget $15 Billion

Can the budget be balanced in a normal year? No individual or group can forecast accurately what the budget will be, but we can analyze the possible expenditures and classify them as being necessary or optional. Our committee organized several sample budgets along these lines. It is not essential to burden you with more than the totals, which were $15 billion for a low Federal budget, representing prudence and care in expenditure; $18 billion or $19 billion for a budget exhibiting restraint and control over expenditures, but greater liberality than the basic necessities required; and $22 billion for a liberal or high budget. Individual fiscal experts will write their own detailed prescriptions, but they will generally agree that $18 billion of Federal expenditures is about what we must expect; that $25 billion is a fearsome possibility if Congress is controlled by liberal spenders.

Most Revenue from Income Tax

Several important facts become clear from these schedules and studies. In the first place, it is evident that the budget at best will be more than twice that of the Thirties and four or five times that of the Twenties. Expenditures for necessary functions of the Federal Government bring about this result. If the Government takes on a number of optional functions and spends rather liberally on them, the total budget can reach a much higher figure.

Second, as the total money to be raised increases, the choices of taxes and rates to be used decreases. If expenditures can be held down, the taxing power need not be used to the full. As the requirements increase, it becomes more and more necessary to employ all the different forms of imposts. If the Federal expenditures are to be stabilized at $25 billion, as some Washington commentators have forecast, the problem of raising enough revenue to balance the budget in a normal year will be very difficult.

Third, the income tax must play the major part in raising revenue, and since the great bulk of income is received by persons with incomes of moderate size, the starting rate of the income tax, 23% for 1945 and 19% for 1946, will necessarily remain high—not so high as 19%, but much higher than the nominal tax rates of the Twenties and early Thirties. In that connection, note that even last year, with the income tax our chief revenue producer, with the heaviest income tax rates we have known, and the individual exemptions as low as $500, only about half of the national income was taxed and in earlier years it was a much smaller proportion.

On the premise that individual income taxes will be the mainstay of the post-war tax system, the current exemption of $500 per person should not be increased for some time to come. After the present transition period, the standard initial rate of the individual income tax should be not less than 15%. The rates in the middle brackets and the upper brackets, which reach a maximum of 91% for 1945 and 88% for 1946, should be adjusted and reduced all along the line, so that the highest surtax should be, say, 72%, the bracket rate applicable to income in excess of $10,000 should be, say, 32%, the bracket rate at $25,000, 45%, and the bracket rate applicable to an income in excess of $100,000, say 55%. The withholding principle and payment of taxes currently should be retained. Married persons should continue to have the option of making joint or separate returns.

Dividends Taxed Twice

There would be general agreement on the proposition that, if incomes are to be heavily taxed, all forms of ordinary income should be taxed alike. Certainly there should be no discrimination against particular forms of income. Yet, in recent years, corporate dividends have been fully taxable to the individuals who received them, notwithstanding the fact that the corporate income which produced the dividends had already been heavily taxed to the corporation itself. Interest on corporate bonds and debentures has not been subjected to this double tax, since the corporations had a full deduction for these payments. Hence, there has been and is a strong incentive to finance corporate enterprise with debt rather than with equity obligations. In an equitable tax system, the discrimination against dividend income certainly should be removed. Moreover, if we want to encourage active business enterprise and new ventures there is the more reason for giving income from venture capital an even break.

Consider Small Corporations

Congress has already begun the process of reducing the corporate rate and further reductions should be made when we enter into normal post-war years. Congress has shown particular consideration for small corporations and special treatment should continue to be given them so long as the tax rates applicable to corporations generally exceed those applicable to individual enterprises.

Various other changes should be made in the system of corporate taxation in the interests of greater equity. Allowance of business net losses as a deduction against business profits of other years should be made by permitting a carry-forward for a reasonable number of years, not less than five or six. Dividends received by one corporation from another subject to Federal income tax should not again be taxed. The 2% differential tax on corporations making a consolidated return should be eliminated.

Improved Administration

Income tax administration should give much greater weight than heretofore to the decisions of management with respect to the proportion of a company's earnings that should be retained. Greater recognition should be accorded to business accounting procedures and results, with particular reference to the accounting for: (a) depreciation and obsolescence; (b) expenditures for such intangible purposes as research and development; (c) salary determination. If the last two recommendations are given effect, as they can be, by action of the Bureau of Internal Revenue, much useless and time-consuming controversy and litigation can be avoided without any loss of revenue to the Treasury in the long run.

Excise Taxes

Income taxes on individuals and corporations will produce two-thirds or three-fourths of the post-war revenue. The remaining one-third should be met, as it has been in the past, by excise taxes of general application and by customs duties. Even with freer international trade, customs duties can be used to produce more than they have in past years. The tobacco taxes and the liquor taxes have given the Federal Government long and satisfactory service. We badly need the element of stability of tax revenue which they assure. Some other selected excises of general application should be employed, but a general sales tax will not be necessary unless the budget rises to $22 billion or more.

Estate and Gift Taxes

The Federal Government would do well to withdraw from the field of estate and gift taxation. All but one of the States employs death taxes and more and more are adopting gift taxes as well. The revenue from these taxes is not very significant to the Federal Government. The nuisance of duplicate administration is considerable. The States need to be left with some important forms of taxation all their own. Death taxes have had a long history as a State source of revenue, while their use by the Federal Government is largely associated with war financing. Hence, why not give them back to the States for their exclusive use?

If these taxes are not now given back to the States, they should be better coordinated, so that duplicate levies, one at the time of a gift, another at death, are reduced to the minimum. The exemptions should be liberal and the rates moderate. Finally, taxes on transfers between husband and wife should not be levied. One transfer tax per generation is enough.

$18 Billion Tax Bill

The Congress and the country must choose what activities the Federal Government is to perform and how they are to be paid for. If the $18 billion figure should be the total, the taxes to meet it might be somewhat as follows:

	Billions
Excises, customs, etc.	$4.4
Corporation income tax at 30%	4.4
Individual income tax at 20% initial rate	9.6
	$18.4

We are now beginning the transition period from war to peace.

Gov't Fiscal Policy

(Continued from page 3043)

Woods proposals and the conclusion of the loan negotiations between Great Britain and the United States signal the further belief that this country will accept its responsibilities as a great creditor nation. Our foreign policy can be no stronger than we are strong internally.

In this great democracy, the envy of the world, we possess a balance of power between labor and farmer not enjoyed by any other government in the world. Through the years, we have learned that we can rely on this balance of power at crucial points in our history, speaking through the Congress, to right our course. Following in the wake of war attended by sacrifice and tension, we find a nation confronted with a great home-coming and reunion. We are in the throes of readjustment. Despite friction and concern regarding affairs at home and abroad, the common sense of the American people will, in short order, manifest itself.

Nicholas Murray Butler in his book, "True and False Democracy," written 38 years ago, said:

"Jealousy of power honestly gained and justly exercised, envy of attainment or of possession, are characteristics of the mob, not of the people; of a democracy which is false, not of a democracy which is true. False democracy shouts: Every man down to the level of the average! True democracy cries: All men up to the height of their fullest capacity for service and achievement! The two ideals are everlastingly at war. The future of this nation, as the future of the world, is bound up with the hope of a true democracy that builds itself on liberty."

The challenge is clear.

Is the leadership of America at the helm?

Military expenditures have not, of course, ceased. The Federal expenditures in the fiscal year 1945-1946 will be less than were budgeted, but they will still be greatly in excess of revenues. Expenditures will still be abnormal for 1946-1947 and perhaps for another year after that. The only hope of a balanced and business-like budget is to reduce expenditures and to reduce them more rapidly than revenues are reduced.

We ought to aim at a balanced budget in the first normal post-war year, now distant two or three years. In the meantime, the primary aim should be to reduce expenditures, not taxes.

Taxes cannot be precipitately lowered, for we must remember first that, even with careful management, expenditures will remain at a greatly higher level than during the Thirties; and, second, that the budget should really be balanced three years from now.

Congressional Test Next Year

The policy I advocate is one of prudent and even conservative administration of the Federal budget. One test will come next year when Congress undertakes the task of general revenue revision. What lines should such revision take? Can any taxes be reduced when the Treasury is confronted with a budget deficit for the current year of $31 billion and perhaps another deficit for the fiscal year 1946-1947 of a good many billions of dollars?

Excise Taxation Needs Review

There are, nevertheless, a good many items which should be included in the revenue revision program next year. In the first place, the time is ripe for a review of the whole program of excise taxation and the determination of exactly what sales of commodities are to be subjected to taxes and at what rates in ensuing years. Doubtless, the liquor taxes and the tobacco taxes will be retained, although both may be slightly reduced. On what other articles of more or less general consumption should sales taxes be levied? The Bureau of Internal Revenue has set up a system for the administration of a series of sales taxes of quite general application. It would be well not to abandon the system entirely, since our revenue system in the past has suffered from too great dependence on income taxation. The British have been wiser in maintaining excise taxation as an important element in their fiscal plans. Since the subject is a highly controversial one, Congress will need to devote a good deal of time to it.

Dividend Taxation Unjust

The elimination of the double taxation of dividends should be the next principal item on the docket. It is generally recognized that the present plan of twice taxing corporate income distributed as dividends, while other forms of income are taxed only once, is not only unjust and discriminatory, but unwise.

We want to encourage the formation and the active employment of risk capital. We certainly do not wish to give special tax encouragement to the use of bond and debenture issues for financing rather than stock issues. Congress should move promptly to eliminate the present discrimination against corporate income distributed as dividends.

For similar reasons of equity, the tax for the privilege of filing consolidated returns and the tax on dividends distributed by one corporation to another should also be eliminated at this time. This would greatly improve the fairness of the tax system and would be beneficial both to individuals who receive dividends and to corporations which pay them.

There are numerous other inequities of less general importance which Congress will want to consider next year. Among them are the tax treatment of cooperatives engaged in business and of public utilities or other enterprises operated by municipalities in competition with private enterprise. Congress would be well advised, however, not to enter upon a program of further reduction in individual tax rates or of increases in exemptions while we confront the necessity of Federal expenditures considerably in excess of current revenues. The aim should be to reduce expenditures and to maintain our tax system at approximately its present productivity until the Federal budget can actually be balanced.

The major points of sound fiscal policy that I would emphasize, in conclusion, are few and simple. Vigorous private enterprise is essential to the American way of life as we have known it. A sound tax and fiscal system is essential to an active and healthy economy. The Federal budget should be balanced in a year of normal business activity. The key to a balanced budget is careful control over expenditures. If expenditures are kept under reasonable control, taxes need not be excessive. Many more citizens will have to pay Federal taxes than paid them during the Twenties and Thirties, but the wartime rates can be considerably reduced if we watch expenditures. That is the essential condition to Federal fiscal health, on which our economic health greatly depends.

Whither the Economic Trend?

(Continued from page 3003)

so hard will be either durable or prosperous.

We all know that the potentialities for peace and prosperity are present and almost everyone senses that we are on the threshold of a period which might bring great economic development, higher standards of living and accelerated social progress. But the times are turbulent. Bloody fighting is still under way in several areas of the world. The victorious nations seem to be uncertain as to how they should organize the peace. Inside almost every nation great ideological battles are under way to determine the relative roles of Government, labor and business. The productive mechanisms in some nations are destroyed, while in others they are paralyzed because of organizational difficulties. Fiscal and financial organizations everywhere are laboring under the burden of unprecedented debt or are in the throes of chaotic inflation. It is not a pretty picture. Under these conditions the optimism which we all want to feel about the post-war period is apt to be chilled by the unpleasant realities of the present.

Recovery from War

I suspect, however, that the months ahead will bring significant improvement in all these areas. History teaches us that recoveries from the devastations of war have nearly always been more rapid than at first seemed possible. We know that many countries are attacking their fiscal problems vigorously. Demobilization is proceeding rapidly and reconversion is under way. Progress may be slow at first but it is almost sure to be accelerated as time goes on. To be sure, nerves are taut, tempers strained, the people weary after their exertions on the home and military fronts and the readjustments in the early post-war period involve severe economic strains and dislocations. It would be surprising if conditions were otherwise but there is reason to hope that this phase will soon pass.

Therefore, what I should like to talk to you about tonight is the general shape of the post-war economic world, or, more precisely, some of the conditions we shall face when the readjustment-reconversion-demobilization phase is completed. Many observers are prone to assume that our system of private enterprise has lost its vitality but there are a number of factors which encourage us to view our economic future with cautious optimism.

A Long Peace Period Ahead

In the first place, we should be able to contemplate a long period of peace, by which I mean freedom from anything more than the localized conflicts which are almost always under way somewhere on the globe. This assumption of a long peace may be supported by some quite cynical reasoning. For example, the "exhaustion factor" is a powerful reason for expecting that for a considerable period in the future the world will not again be engaged in global warfare. The aggressor nations are not only defeated but their war potential is destroyed and the rest of the world is exhausted or horrified by the costs of war on the modern scale. War has become an enterprise so large and so expensive, involving as it does whole populations and complete industrial mobilization, that it will take a generation or more before the major nations, even if they were so disposed, could be ready for it again. Another factor is that we seem to have learned to depend less on pious and impractical idealism and more on hard realism in international relations. It must be confessed that the present situation leaves much to be desired, but in some respects it is encouraging that the disagreements which are inevitable between nations are being aired in public and, in effect, put on the agenda for the international conferences. We seem to be having our post-war squabbles now instead of deferring them until later and this may well increase the chance that they will ultimately be dealt with constructively. Another reason for viewing the situation with some hope is that the new weapons which World War II produced are so fearsome that they may well deter aggression. Almost everyone seems to sense that the atomic bomb leaves us no alternative but to develop a world organization capable of preventing warfare and, in the words of a distinguished French statesman, such an organization has become categorically imperative. Thus, the probabilities seem to be heavily in favor of a long period of peace.

Means Higher Living Standards

A long peace would have a profound economic meaning, for if nations remain at peace and do not engage in a great armament race they will be able to produce for consumption for their peoples instead of for war, which means a higher standard of living. One of the great troubles with the period of the 30s was that the economic resources of many of the leading nations were devoted primarily to the production of war materials, which reduced the volume of goods available to the people so severely that aggression seemed the only way out. Again, war preparations require the use of totalitarian economic devices in international trade which as we know from hard experience operate in a vicious spiral to contract trade. Freedom from war or from feverish preparations for war may well create an environment in which those restrictive devices that strangle trade may gradually be relaxed. The 30s were plagued with constricted investments, internally as well as externally, for capital naturally becomes timid when it is confronted by the threat of war. If the future does diminish the threat of renewed warfare, we could get the first real revival in international investment we have experienced for quite a long period of time.

Deflation of 30s Liquidated

Another reason for restrained optimism concerning the economic outlook is that we seem finally to have liquidated the deflation of the early 30s out of our psychological system. In the later 30s investment in new and improved production by American industry responded only feebly when business volume increased. Everyone sensed the need for expansion; there were millions of men seeking jobs and the people's wants were high, but private investment did not respond. While the reasons for this were many, one of the most important of them was the psychologically depressive after-effects of the inevitable liquidation which accompanied the vicious deflation of economic values. The last five years have witnessed a great resurgence in the values of many of the properties, loans and securities, which had suffered so greatly in the depression. The rise in real property and security prices has lifted many bonds, loans and investments held by investors to a point where they are no longer pressing problems of liquidation. Again, many of the productive plants which industrial organizations built in the optimistic 20s constituted excess capacity until the war put them to active use, but it now seems likely that they will continue to be productive investments in the period of good business ahead. These factors had a severely restrictive effect on the ability as well as the inclination of the people to seek opportunities for the producive employment of funds, but now I sense that we are free of these psychological depressants and can justify an expansionary attitude towards new investments.

This factor is of great importance and it ought to be pointed out that many of the business decisions of the 20s turned out to be so embarrassing and costly to those who made them, not because the public did not want an increased volume of goods or because the labor and materials were not available to increase production, but only because the whole economy subsequently was subjected to a vicious and prolonged deflation. In retrospect it appears that we need not have experienced either the inflation of the 20s or the deflation which followed, if our fiscal, monetary and Governmental policies had been more realistic in both periods. In the ensuing years unfortunately and often without provocation private business was saddled with blame for what happened and was subject to a campaign of defamation which could not help but chill enterprise. The psychological and monetary costs of "picking up the pieces" from the last depression were heavy indeed. It is no accident that now for the first time since the late 20s many American business enterprises are actively planning to expand markets, increase production and go ahead vigorously.

New Markets to Develop

A third reason for viewing our economic future with some optimism is that we have several great new markets to develop. During the war years, as we all know, several million new families have been formed and these will have to be housed and supplied with the automobiles, electric gadgets, community facilities and the other goods and services which are part of the American standard of living. Here is a tremendous market for the products and services of American business.

Another new market for the post-war period is a temporary one but it is large. I refer to the deferred demand which has accumulated in recent years because production in our durable consumers' goods industries was shut off when the nation's productive organization was mobilized for war. Estimates of the magnitude of this market differ considerably, depending upon their source, but it is of great

(Continued on page 3047)

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, DEC. 22

ELECTRONIC CORP. OF AMERICA on Dec. 3 filed a registration statement for 70,000 shares 55 cent cumulative convertible preferred and 100,000 shares common stock $1 par.

Details—See issue of Dec. 6.

Offering—Preferred stock $10, common stock $5.

Underwriters—First Colony Corp., Simons, Linburn & Co., Childs, Jeffries & Thorndike, Coburn & Middlebrook, Grubbs, Scott & Co., Hirsch & Co. and Irving J. Rice & Co.

SUNDAY, DEC. 23

MAREMONT AUTOMOTIVE PRODUCTS, INC. on Dec. 4 filed a registration statement for $1,000,000 4% sinking fund debentures, due Dec. 1, 1960. Price to public to be offered by amendment.

Details—See issue of Dec. 6.

Offering—Price to public to be offered by amendment.

Underwriters—Kebbon, McCormick & Co., Chicago.

McCRORY STORES CORP. on Dec. 4 filed a registration statement for 60,000 shares of cumulative convertible preferred stock, par $100, and 150,000 shares of common stock, par $1. In addition 150,000 shares of common were registered which are reserved for conversion of the preferred stock. The dividend rate on the preferred will be filed by amendment.

Details—See issue of Dec. 13.

Offering—The 60,000 shares of preferred will be initially offered to holders of its common stock of record Dec. 27. Holders of a certain number of common shares (including United Stores Corporation) have agreed to waive their rights to subscribe and the shares of new preferred to which they would otherwise be entitled to subscribe will be sold to the underwriters, except for a small number of shares to the remaining common stockholders so as to make possible the ratio which will be filed by amendment. The underwriters have agreed to purchase any shares of new preferred which are not subscribed for by common stockholders. The underwriters also will purchase at $22 per share any of the 150,000 shares of common which are not purchased by the holders of 5% cumulative preferred stock pursuant to the common stock purchase warrants attached to such shares of stock, except the shares of common reserved for issuance upon exercise of fractional warrants which will remain valid until December 1, 1946. According to the registration statement the company on Dec. 14, 1945, will redeem all of its $2,625,000 3¼% sinking fund debentures, and will call for redemption all its 5% cumulative preferred.

The offering price of the new preferred will be filed by amendment.

Underwriters — Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co., head the underwriting group.

MONDAY, DEC. 24

NEW YORK DOCK CO. on Dec. 5 filed a registration statement for $12,000,000 first mortgage 3½% bonds due Dec. 15, 1970.

Details—See issue of Dec. 13.

Offering—The price to the public will be filed by amendment.

Underwriters—The underwriting group will be headed by Hayden, Stone & Co., and Halsey, Stuart & Co., Inc.

WEDNESDAY, DEC. 26

GRAHAM-NEWMAN CORP. has filed a registration statement for 14,999 shares of capital stock, minimum stated value of $50 per share.

Address—52 Wall Street, New York, N. Y.

Business — Diversified management investment company of the open-end type.

Offering—Of the 14,999 shares being registered, additional shares in a number as yet undetermined, but estimated to be no less than 6,250 and no more than 7,500, will be offered to all stockholders, pro rata, at a price of $100 per share which is less than net asset value, and this offer will expire on Jan. 30, 1946. Any stock not subscribed for will be deregistered and will not be issued.

Proceeds—The proceeds, estimated to be between $625,000 and $750,000 except any of such proceeds used to repurchase shares and except any amount included as accrued dividends in the price of shares issued or repurchased, will be held in cash or its equivalent, pending investment in under-valued securities, arbitrage operations, self-liquidating situations, and in conformity with the corporation's stated investment policies.

Underwriters—None named.

Registration Statement No. 2-6038. Form S-5. (12-7-45).

SATURDAY, DEC. 29

SOUTHERN UNION GAS CO. has filed a registration statement for 27,000 shares of 4½% cumulative preferred stock, par $100.

Address — 1104 Burt Building, Dallas, Texas.

Business—Public utility.

Offering—The price to the public will be filed by amendment.

Proceeds—The company is offering holders of its $2,152,183 outstanding 25-year sinking fund 6% debentures, due Nov. 1, 1967, the right to exchange their holdings for shares of the 4½% cumulative preferred stock on the basis of one share of preferred for each $100 principal amount of debentures, with a cash adjustment. The offering amounts to 21,521 shares and the underwriters have agreed to purchase such shares as are not issued under the exchange offer and the additional 5,479 shares covered by the registration statement. The proceeds will be used to retire any unexchanged debentures at the redemption price of 100 plus accrued interest. The balance of net proceeds will be added to working capital.

Underwriters—E. H. Rollins & Sons, Inc., heads the underwriting group.

Registration Statement No. 2-6039. Form S-1. (12-10-45).

BERYLACA YELLOWKNIFE GOLD MINES, LTD., has filed a registration statement for 5,720 shares common stock (par $5).

Address—41 Richmond Street, East, Toronto, Ontario, Canada.

Business—Incorporated June 25, 1945, and to date has done superficial exploration work on properties.

Offering—Company has an authorized capital of $40,000, divided into 8,000 shares (par $5). There have been issued for property, 2,000 shares, in escrow; issued for cash 280 shares and in treasury 5,720 shares which are being offered at par for public subscription.

Proceeds—The proceeds of this issue will enable the company to do all required assessment work, pay the government dues and acquire a 21-year renewable lease on the company's mining claims. The intention is to continue exploration work preliminary to the incorporation of a 3,000,000 shares mining and development company to take over this company on the basis of 125 shares of the new company for each $5 share of this company.

Underwriters—None named.

Registration Statement No. 2-6040. Form S-3. (12-10-45).

ASSOCIATED FUND, INC. has filed a registration statement with the SEC covering 10,000 full paid certificates in units of $100 each and 10,000 installment payment certificates in units of $100 each of Associated Trust Fund.

Address—506 Olive Street, St. Louis 1, Missouri.

Business—Investment Trust.

Underwriters—None named.

Registration Statement No. 2-6041. Form C-1. (12-10-45).

MONDAY, DEC. 31

CONSOLIDATED BISCUIT CO. has filed a registration statement for 80,750 shares of common stock, par $1.

Address—1465 West 37th Street, Chicago, Ill.

Business — Manufacture and sale of crackers.

Offering—The new stock will be offered to common stockholders of record some time in January at $10 per share in the ratio of one share for each four shares held.

Proceeds—The company expects to use the proceeds for the purpose of enlarging its Chicago plant and for the purchase of additional machinery and equipment for its Chicago and West Roxbury (Boston) plants, and for working capital. The total costs of additions will range from $550,000 to $750,000.

Underwriters—None mentioned.

Registration Statement No. 2-6042. Form S-1. (12-12-45).

AUTOMATIC CANTEEN CO. OF AMERICA has filed a registration statement for 129,966 shares of common stock, par $5.

Address—1430 Merchandise Mart, 222 West North Bank Drive, Chicago 54, Ill.

Business—Business is automatic merchandising of food products.

Offering—Price to public will be filed by amendment.

Proceeds—Proceeds will be added to the company's general funds and will be available for any post-war requirements, including purchase of automatic vending machines.

Underwriters—Hornblower & Weeks and Central Republic Corp., Inc.

Registration Statement No. 2-6043. Form S-1. (12-12-45).

BUFFALO NIAGARA ELECTRIC CORP. has filed a registration statement for 350,000 shares of preferred stock ($100 par). The dividend rate will be filed by amendment.

Address—Electric Building, 535 Washington Street, Buffalo, N. Y.

Business—Public utility.

Offering—The new stock will be offered for sale at competitive bidding, and the offering price filed by amendment.

Proceeds—The net proceeds, with other funds of the company, will be applied toward the redemption in February, 1946, of the presently outstanding 350,000 shares of preferred stock, 5% series, at the redemption price of $105 per share plus accrued dividends.

Underwriters—The names will be filed by amendment.

Registration Statement No. 2-6044. Form S-1. (12-12-45).

STERLING ENGINE CO. has filed a registration statement for 100,000 shares of 55 cent cumulative convertible preferred stock ($8 par) and 150,000 shares of common stock ($1 par).

Address—1252-1270 Niagara Street, Buffalo, N. Y.

Business—Manufactures and sells internal combustion engines for governmental, industrial and private use, both at sea and on land.

Offering—The 100,000 shares of preferred stock are to be offered first to the holders of the company's outstanding common shares at $10 a share. The common shares are reserved for conversion of preferred. The preferred is convertible at any time into 1½ shares of common stock.

Proceeds—Proceeds will be used to retire $400,000 bank indebtedness and for additions to working capital.

Underwriters—Burr & Co., Inc., 57 William Street, New York 5, N. Y.

Registration Statement No. 2-6045. Form S-2. (12-12-45).

TUESDAY, JAN 1

OX FIBRE BRUSH CO., INC.—Alfred Robinson McEwen, Benjamin L. Shuff and Luke Vincent Lockwood, trustees under the voting trust of capital stock of Ox Fibre Brush Co., Inc., have filed a registration statement for voting trust certificates covering 18,694 shares of the company's capital stock, par $100.

Address of Issuer—522 Fifth Avenue, New York, N. Y.

Purpose—The voting trust is for a period of five years, and no provision is made in the agreement for earlier termination and the holders of certificates have no power of termination. The termination date of the agrement is Dec. 10, 1950.

Registration Statement No. 2-6046. Form F-1. (12-13-45).

DALLAS RAILWAY & TERMINAL CO. has filed a registration statement for 162,500 shares of common stock (par $20).

Address—Interurban Building, Dallas 1, Texas.

Business—Supplies local street railway and coach service in Dallas, Texas and vicinity.

Offering — The shares are presently owned by Electric Power & Light Co., parent of Dallas, and proceeds from the sale will be received by Electric Power & Light. Upon consummation of the sale Dallas will cease to be a subsidiary or an affiliate of Electric.

Proceeds—Not stated.

Underwriters—To be sold at competitive bidding.

Registration Statement No. 2-6047. Form S-1. (12-13-45).

WEDNESDAY, JAN. 2

UNION ASBESTOS & RUBBER CO. has filed a registration statement for 217,384 shares of common stock (par $5). The shares are issued and outstanding and are being sold by certain stockholders.

Address—310 South Michigan Avenue, Chicago, Ill.

Business—Post war business manufacture and sale of lines of insulation, railroad specialties and other products which constituted its principal business during the pre-war period, and, in addition, from time to time to introduce new products.

Offering—The price to the public will be filed by amendment.

Proceeds—The proceeds go to the selling stockholders.

Underwriters—Kuhn, Loeb & Co. heads the underwriting group.

Registration Statement No. 2-6048. Form S-2. (12-14-45).

CARRIER CORP. has filed a registration statement for 120,000 shares of cumulative preferred stock. The dividend rate will be filed by amendment.

Address—300 South Geddes Street, Syracuse, N. Y.

Business—Air conditioning, refrigeration and industrial heating business.

Offering—The company will offer the preferred stock to the holders of its common stock on a pro rata basis upon terms and at a price to be filed by amendment, on the basis of so many shares of preferred for each 100 shares of common held. The underwriters have agreed to purchase such shares of preferred as are not subscribed for by the common stockholders, together with the balance of the authorized 120,000 shares which are not offered to stockholders. The public offering price will be filed by amendment.

Proceeds—The corporation will, upon payment for the new stock, call for redemption all of its then unconverted cumulative preferred stock, 4½% series. Such stock is convertible into common stock, but the company pointed out it is impossible to determine at this time how much of the proceeds of the sale of new stock will be required to redeem unconverted 4½% preferred stock. Assuming no substantial amount is required for redemption, it is proposed to make the following expenditures: $2,500,000 for acquisition of new machinery, equipment, etc.; $1,100,000 for additions to working capital to carry receivables and inventories and $2,000,000 for the construction and equipment of a new factory in the Syracuse area.

Underwriters—Harriman Ripley & Co. Inc. and Hemphill, Noyes & Co. head the underwriting group.

Registration Statement No. 2-6049. Form S-1. (12-14-45).

ATLANTIC REFINING CO. has filed a registration statement for $25,000,000 20-year debentures due Jan. 15, 1966 and 102,000 shares of cumulative preferred stock, Series B, par $100. The interest and dividend rates will be filed by amendment.

Address—260 South Broad Street, Philadelphia, Pa.

Business—Engaged in substantially all branches of the petroleum business.

Offering—The preferred stock is offered by the company to the holders of its common stock at a price to be filed by amendment at the rate of one share of preferred for each 26 shares of common held of record at the close of business on Jan. 8, 1946. The underwriters have agreed to purchase any unsubscribed preferred stock. The public offering prices of the debentures and preferred will be filed by amendment.

Proceeds—The net proceeds from the sale of the debentures and preferred stock will be applied as follows: $25,375,000 for the redemption of $25,000,000 fifteen year 3% debentures, due Sept. 1, 1953, at 101½. The balance of the net proceeds is to be added to the general funds of the company and will be used from time to time for such corporate purposes as the board of directors may determine. Included in the uses to which such funds may be devoted are: the repayment of bank loans and other obligations, the acquisition and development of additional production and the expansion of refining, transportation and marketing facilities.

Underwriters—Smith, Barney & Co. head the underwriting group.

Registration Statement No. 2-6050. Form S-1. (12-14-45).

BUFFALO BOLT CO. has filed a registration statement for 58,386 shares of common stock, par $1.

Address—North Tonawanda, New York.

Business—Manufactures a complete line of standard bolts and nuts, and special lines of cap screws and rivets.

Offering—The underwriters are offering 43,386 shares at a price to be filed by amendment. In addition there may be eventually offered under the prospectus all or a part of an additional 15,000 shares of common, issued and delivered by the company to Lee Industries, Inc., on Aug. 10, 1945, Buffalo Bolt acquired the assets subject to liabilities of Eclipse Lawn Mower Co. from Lee Industries for 15,000 shares of Buffalo Bolt common. Lee Industries distributed to its stockholders the 15,000 shares of Buffalo Bolt common which, at the then market value of $10 per share, were worth $150,000. Lee Industries was dissolved on Sept. 17, 1945.

Proceeds—The proceeds from sale of 43,386 shares of its common stock, together with $1,500,000 from a bank loan will be applied to the payment in full of the $550,000 funded debt outstanding Sept. 30, 1945, and toward the payment of $1,600,000 short term bank loans.

Underwriters—Van Alstyne, Noel & Co. heads the underwriting group.

Registration Statement No. 2-6051. Form S-1. (12-14-45).

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.

ALASKA AIRLINES, INC. on Oct. 31 filed a registration statement for 125,000 shares of common stock (par $1).

Details—See issue of Nov. 8.

Offering—Offering price to public, $16 per share.

Underwriters—R. H. Johnson & Co. heads the underwriting group.

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.

CABOT YELLOWKNIFE GOLD MINES, LTD., on Nov. 13 filed a registration statement for 1,000,000 shares of common stock par $1.

Details—See issue of Nov. 22.

Offering—The price to the public is 30 cents per share.

Underwriters—John William Langs is named principal underwriter.

CENTRAL POWER & LIGHT CO. on Nov. 23 filed a registration statement for 100,000 shares of preferred stock, par $100. The dividend rate will be filed by amendment.

Details—See issue of Nov. 29.

Offering—Central Power & Light Co., Mass., proposes to offer the holders of its 7% and 6% preferred stock an opportunity to exchange their shares for shares of the new Texas concern on a share for share basis plus cash. The dividend rate on the new preferred will be specified by underwriters in connection with the sale at competitive bidding. It is expected the exchange offer will be in effect for about ten days and that the shares of the old preferred stock not exchanged will be redeemed on Feb. 1, 1946, at $120 per share and accrued dividends in the case of the 7% preferred, and at $110 per share and accrued dividends in the case of the 6% preferred.

Underwriters—The shares will be offered for sale under the Commission's competitive bidding rule, and the names of underwriters will be filed by amendment.

THE CONSOLIDATED, INCORPORATED, English name of La Consolidada, S. A., a Mexican corporation, on Nov. 28 filed a registration statement for 166,667 American preferred shares and 614,667 American common shares. The underlying shares consist of 166,667 shares of 6% cumulative preferred, par 75 pesos, and 614,667 shares of common, par 25 pesos.

Details—See issue of Dec. 6.

Offering—Company is offering 166,667 Mexican preferred shares at 75 pesos per share to the holders of Mexican common stock on a pro rata basis. American preferred shares will be issued against any Mexican preferred shares not subscribed for and will be purchased by the underwriters for offering in the United States at a price to be filed by amendment. The preferred shares are convertible to, and including Dec. 31, 1950, unless previously redeemed, into American common stock on a share for share basis.

Underwriters—Shields & Co. head the underwriting group.

EUREKA CORP., LTD., on Sept. 28 filed a registration statement for 2,695,000 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.

FANSTEEL METALLURGICAL CORP. on Nov. 20 filed a registration statement for common stock, without par value, the number of shares to be filed by amendment.

Details—See issue of Nov. 29.

Offering—Holders of common stock of record given the right to subscribe to new common stock at $61 per share on basis of one new share for each five shares held. Rights expire Dec. 26.

Underwriters—Hallgarten & Co., is the principal underwriter.

GENERAL INSTRUMENT CORP. on Oct. 25 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.

Details—See issue of Nov. 1.

Offering—The price to the public will be filed by amendment.

Underwriters—Burr & Co. heads the underwriting group.

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.

GENERAL SHAREHOLDING CORP. on Nov. 29 filed a registration statement for $2,650,000 3% debentures, due Dec. 1, 1960.

Details—See issue of Dec. 6.

Offering—The price to the public will be filed by amendment.

Underwriters — Union Securities Corp. heads the underwriting group.

GULF PUBLIC SERVICE CO., INC., on Nov. 28 filed a registration statement for 312,500 shares of common stock ($4 par). The shares are issued and are being sold by certain stockholders.

Details—See issue of Dec. 6.

Offering—The price to the public will be filed by amendment.

Underwriters—To be named by amendment.

INDIANA STEEL PRODUCTS CO. on Oct. 29 filed a registration statement for $1,000,000 12-year 5% sinking fund debentures with warrants to purchase common stock, and 40,000 shares of common (par $1), reserved for exercise of common stock purchase warrants.

Details—See issue of Dec. 6.

Offering—The company is offering to the holders of its outstanding shares of 6% convertible preferred stock, which have been called for redemption on Dec. 29, 1945, the opportunity to exchange the preferred at the redemption price of $22 per share, for debentures, with warrants, at par, with cash adjustments for accrued dividend on preferred and accrued interest on the debentures. The underwriters are initially offering $340,000 of debentures, with warrants, for cash sale to the public at a price to be filed by amendment but not less than 102½.

Underwriters—Brailsford & Co., Chicago, and Kalman & Co., Inc., St. Paul.

This list is incomplete this week.

Whither the Economic Trend?

(Continued from page 3045)

significance that they are all large. Deferred demand is sizable enough to require the maintenance of capacity production for from one to two years in many industries and in others the time required to catch up with pent-up demand is three or even four years. A related factor is the deterioration and obsolescence which has occurred in our industrial, transportation and distribution establishments. Through the entire range of our manufacturing and service industries there are huge expenditures of these types which have been deferred for a long period and now must and can be met. Here is another big market.

Still another market is to be found in the foreign demand for American productive machinery. Aside from needs for rehabilitation, which are enormous, almost everyone familiar with conditions in the world outside this country agrees that there is a crying need for widespread industrialization. Foreign industry needs to catch up with American productive progress and we know it will make better markets for us if our foreign customers are prosperous. The underlying purpose of the international economic and financial organizations which have been proposed is to provide foreign nations possessing usable resources with the means to exploit them and the chances that a loan will be repaid are much greater—as we know from experience—if the loan results in an increase in production.

The New "Know How" Capacity

One fact frequently lost sight of is that the war taught us how to industrialize at a rate far beyond anything we believed feasible before. We now have the "know how" to build new productive capacity quickly and have demonstrated that if the job is broken down into its component parts relatively unskilled labor soon can be trained to tend the machines in an assembly line. Our great productive output during the war was made possible by the use of housewives, people from clerical occupations and youngsters, who had no previous experience or skill in tending the elaborate and complex machinery of modern industry. But they did the job because industry's production executives divided the work into parts so small that they could easily be performed by workers without long training. Thus, it seems clear that we are now in a position to help the world catch up with the industrial revolution and to provide a great market for our industry in doing so.

Another new market for the post-war period has its origin in the fact that close to ten millions of our people, who were completely or partially unemployed in the depressed years of the 30s, obtained well-paying jobs in the war period. In effect, they were raised from the pauper class to the middle class. This is a fact of massive significance, for these people, who were living rather close to the subsistence level after they lost their jobs, homes, insurance, bank deposits and self-respect in the great depression of the early 30s, now have a very sizable stake in cash, deposits and War Bonds, in addition to the prospect for continual employment. Thus they represent a vast new market for all of the goods and services which go to make up the American standard of living.

The Domestic Migration Factor

Another marekt of lesser importance has its origin in the migration of people from the farm to the city and from smaller to larger communities which came about because of wartime changes in the location of our productive establishment. A smaller migration following World War I was in part responsible for the building boom of the 20s and there is good reason for believing that this migration factor will provide a market for a much larger number of new homes in the period ahead. That this is not an unimportant element in the building outlook is clear from the doubling up of families which is so prevalent today and from the fact that people are still living in trailers in many sections of the country.

The final market to which I would like to direct your attention is the good old-fashioned American one. It is the market for machinery and new facilities to produce the new goods and gadgets which are now ready for development as a result of the technological progress of the past few years. We have a long list of new things which the American people will want; they represent our new industries of the future. Then, too, it must be remembered that the new processes and new raw materials now available to American industry are capable of reducing the real cost of quite a large number of familiar goods and this, in turn, means wider markets. We are perhaps in a new phase in the industrial revolution with amazing new markets to be developed.

These new markets add up to a tremendous potential but the problem we still must face is whether that potential will be realized or whether once again we will settle back into the bleak stagnation and frustration which characterized the 30s. It is clear for all to see that we need not do so, but our economic policies have become such a patchwork of self-contradiction and confusion that we shall have to be extremely careful lest we let an historic opportunity to achieve productive prosperity slip away from us. With such a potential we should be able in the years ahead to realize a long period of high level prosperity interrupted only infrequently by brief corrective depression-readjustments; it will be a shame if, instead, we return to the conditions of the 30s when we experienced chronic depression punctuated now and then by half-hearted and short-lived periods of only moderately good business.

Devising Economic and Fiscal Policies

The problem of devising policies which will enable us to realize on the potentialities I have described is not an easy one, but I submit that we cannot have productive and durable prosperity unless we provide an environment favorable enough so that basic incentives to economic expansion again can be activated. A few major elements of a program looking in this direction are mentioned below.

First among these is balance in the budget of the Federal Government. With the potentialities for good business as favorable as they appear to be in the years immediately ahead, a balanced budget is feasible, but it will require a firm resolve to resist the demands of pressure groups and to pare expenses drastically. After successive years of deficits during which the debt has grown to nearly $300 billions, a balanced budget would carry more than ordinary significance in business and financial circles for it would attest the determination of the nation to keep its credit standing inviolate. Conversely, if at this juncture we as a nation are unwilling to set the early balancing of the budget as an unalterable goal, we will put to test our claim to financial integrity in fiscal affairs. We should, of course, plan for a budget surplus large enough to permit some retirement of debt but a condition of balance in the reasonably near future is indispensable if we are to experience real prosperity instead of an inflationary boom.

In working toward this goal, emphasis should be placed on economy in Government operations wherever possible because it is highly desirable as a second requirement that we further revise the tax system in a manner which will provide increased incentive for saving and for the owners of capital to assume the risks of new business ventures. In time of war, everything properly becomes subordinate to the all-embracing needs of the State for the sinews of war and the means of paying for them. But once the emergency is over it is equally important for us to recognize in our tax structure the great motivating force underlying our free enterprise system, namely, the profit incentive to expand production and employ people. This is essential if we are fully to capitalize upon the potentialities for good business that lie within our grasp.

Money and Credit Policy

Another condition which must be present if we are to translate the potentialities of the future into actual prosperity is balance in the money supply. Enterprise cannot thrive in an atmosphere of violent credit inflation or credit deflation. If these two threats to economic progress and stability are to be avoided, it is necessary that government monetary and banking authorities adopt policies which will prevent a further concentration of the Government debt in the commercial banking system, for such concentration results in an increased money supply. We need instead to bring about an increase in non-bank investment in Government securities and a reduction in bank holdings so that banks may make additional credit available to business and provide the funds for aggressive business expansion in the coming years without a further increase in an already over-expanded money supply. The time has come for the authorities to give serious consideration to such increases in coupon rates on Government securities and to such changes in their form as will make them more attractive to non-bank investors. We shall need the most skillful and courageous management of the public debt in the period ahead if we are to have real prosperity.

Let me sum up by saying we are on the threshold of a period in which the potential for a long period of prosperity is very great. That fact must, I think, dominate our Government policies, for it will be the economic crime of our generation if those potentialities are not realized.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Clarence F. Gould to Gerard S. Smith will be considered by the Exchange on Dec. 27. It is understood that Mr. Smith will act as an individual floor broker.

Transfer of the Exchange membership of Henry S. Sternberg to Eugene M. Geddes will be considered on Dec. 27. Mr. Geddes will continue as a partner in Clark, Dodge & Co.

Transfer of the Exchange membership of Thomas H. P. Whitney to William P. Burke will be considered on Dec. 27. He will continue as a partner in Whitney & Elwell.

Transfer of the Exchange membership of David A. Noyes to Paul E. Murin will be considered on Dec. 27. Mr. Murin will continue as a partner in David A. Noyes & Co.

Charles E. Brady, limited partner in Carrere & Co., will become a general partner effective Jan. 1.

J. Marshall Booker, member of the Exchange, and a limited partner in Corlies & Booker will become a general partner as of Jan. 1.

James A. Hetherington II, Exchange member, and limited partner in Goodbody & Co., will become a general partner effective Jan. 1.

Paul Marshall Rosenthal, general partner in Ladenburg, Thalmann & Co., will become a limited partner on Jan. 1.

Robert R. Diefendorf, limited partner in Riter & Co., will become a general partner, effective Jan. 1.

John J. Neff and William P. Travers will retire from partnership in Francis I. du Pont & Co. on Dec. 31.

Herbert F. Boynton and Ernest L. Ward, Jr. will retire from partnership in F. S. Moseley & Co. on Jan. 1st.

Robert W. Morgan, a member of the Exchange, and Arvid E. Taube will retire from Stillman, Maynard & Co. on Dec. 31.

Purcell in New Location

Edward A. Purcell & Co., members of the New York Stock Exchange and other Exchanges, announce the removal of their offices to 50 Broadway, New York 4, New York.

Earl K. Madsen With Buffett

OMAHA, NEB.—Earl K. Madsen has rejoined Buffett & Co., Omaha National Bank Building. Prior to serving in the U. S. Army he was trading manager for the firm.

Loan to Britain Held No Permanent Solution

New York Trust Company Publication Points Out Loan Represents Only an Emergency Remedy, and That Great Britain Still Must Solve Basic Problem of Increasing Consumption of British Goods and Services Abroad. Says Economic Conflict Between Dollar and Sterling Areas Would Be a Calamity.

The proposed loan of about $4.4 billion to Great Britain by the United States may be of temporary assistance but is not a permanent solution for Britain's post-war financial and trade problems, asserts "The Index," quarterly publication of the New York Trust Company.

"The assumption may be accepted," the study says, "that for political reasons, both international and domestic, a way must be found to assist Great Britain in the present emergency, and that without such help, exchange rates cannot be stabilized, exchange and trade restrictions cannot be removed, and confidence among nations and foreign traders restored.

"However, the clear fact remains that in the long run Great Britain still must solve the basic problem of increasing world consumption of British goods and services, which must be satisfactory as to quality and price."

The study points out that Britain must import even a major portion of the raw materials required for the functioning of modern industry within the British Isles, and must import agricultural foodstuffs in large volume to live. Before the war, Great Britain imported approximately two-thirds of her food requirements.

"These purchases," the analysis continues, "were paid for by exports, overseas investments, and such services as shipping, insurance and banking. Normally, somewhere in the neighborhood of 40% of Britain's imports were paid for by investments and service income, so that these factors have an important bearing upon the British trade position. During the war, however, Britain sold some of her investment holdings in this country and elsewhere, thereby reducing her income in addition to the cut suffered by loss of exports.

"Even before the war the need of a major reorganization of the basic exporting industries had become plain if Britain was to continue to carry on the volume of foreign trade upon which her existence as a major power depended. Technical improvements were made in these industries and a drive for markets begun. Some success attended these efforts but the war prevented definite evidence being returned that would show whether Great Britain is to continue to be a major competitor in foreign trade, especially in the freer foreign markets proposed in the Bretton Woods Agreement."

United States trade with Great Britain and the other countries of the sterling area, the study shows, through good and poor peacetime years constitutes about 25% of our foreign trade which is in itself less than 8% of our domestic business and in some years amounts to only about 4%.

"A practical view of the loan proposal would take this into consideration," "The Index" says. "Will the loan contribute substantially to employment in this country? Will the loss of a portion of our business with the sterling area, if the loan is not made, contribute to unemployment in the United States?

"Another practical consideration is our own capacity to continue grants in aid on very long-term loans, the collectibility of which is in any way uncertain.

"In general there is a recognition of the interest of the United States in reaching stability in international economic relations, the reconstruction of Britain's position, the enlargement of the world area in which the free enterprise system can function, the stabilization of exchange rates and release of all forms of governmental restrictions and controls which hamper international trade. An economic conflict between a sterling and a dollar area would be a calamity with far-reaching consequences."

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Michigan and Connecticut securities' sections on pages 3012; Missouri on page 3013.

Chicago Bd. of Trade to Close Early Dec. 24

The Chicago Board of Trade announced that dealings will be suspended at noon on the Mondays preceding Christmas and New Year's and resumed on the Wednesdays following the celebrations.

Whitney, Goadby Changes

H. N. Whitney, Goadby & Co., 49 Wall Street, New York City, members of the New York Stock Exchange, will admit Robert L. Hollins and John B. Connell to partnership on Jan. 1st.