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Interest Rates and Inflation

By DR. L. ALBERT HAHN

Dr. Hahn Points Out That the Old Device of Trying to Check Inflation and Deflation by Raising or Lowering Interest Rates Through Central Bank Operations Has Been Abandoned and Is Being Replaced by a Confused System of Government Diagnosis and Control. Holds That Common Belief in the Necessity of Low Interest Rates Is Not Valid, That Higher Interest Rates Are Not Coincident With Unemployment, and That Purely Fiscal Reasons Should Never Determine Economic Policy. Charges That Government Is Attacking Results, Not Causes of Inflation, Which Will Lead to a Temporary Boom Followed by a Depression.

Wherever Government economic policy, business policy of an individual firm, or the future trends of stock or commodity markets are discussed the topic of inflation plays a major role. Generally speaking inflation is considered dangerously imminent.

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

A Forgotten Device

If inflation had been feared 10 years ago, the raising of interest rates would have been suggested as the simplest and most natural means of defense.

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Index of Regular Features on page 3168.

British Reaction To American Loan

London Observer Notes Considerable Unpopularity of Loan Among All Political Parties and Holds It Was Accepted Only by a Skillfully Devised Parliamentary Strategy. Socialists Fear Terms Will Interfere With Economic Planning and Others Think That Rejection Would Be Beneficial as a Tonic to Stimulate British Economic Effort. House of Lords Assent to Loan Obtained So as to Avoid a Constitutional Crisis, but Bitter Resentment Prevails and Situation Is Likened to Munich Pact in 1938 and a Similar Subsequent Breakdown Is Widely Predicted.

Paul Einzig

LONDON, ENGLAND—The House of Commons witnessed last week its most exciting debate since May, 1940, when, following the reverses in Norway, the Chamberlain Government was brought down. This time the outcome was not nearly as dramatic, but the debate itself was full of thrilling moments, and was followed with breathless interest by hundreds of Members of Parliament and by packed galleries, even though the proportion of those who understood the highly technical problems must have been less than one in ten.

One fact emerged clearly from the debate: The terms of the loan are strongly disliked by supporters and opponents alike. The only difference between their attitude is that the former think the loan

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The Menace of Declining Profits

By A. M. SAKOLSKI

Dr. Sakolski Stresses the Danger of Declining Profit Margins to Our Private Enterprise System and Points Out That Trend Toward Lower Returns on Investment Is An Indication of Industrial Decadence. Cites Example of Decline of Profit Margins in Great Britain and France, as a Basis for Accepting Socialism and Nationlization, and Warns That if the "Costs Up-Profits Down" Policy Is Continued and Government Restrictions on Profit Making Are Intensified, This Nation Will Emulate Other Decadent Powers in Accepting Nationalization and Collectivism.

The OPA has announced a policy of "Cost Up—Prices Down." The implications of this policy have been passed over lightly, though not without protest from practical business interests. But the potent economic disaster in the persistance of this policy certainly should not be overlooked or tossed aside as merely an excrescence of contemporary political expediency or as a whim of administrative action. It bears in its nucleus all the forces of ruin to the free enterprise system that the atomic bomb does to physical structures and human existence. It is a menace to progress under our way of life, and will eventually lead to socialism and state regimentation of individuals in their activities to obtain the material things of life.

A. M. Sakolski

Yet, few of the numerous tribe of modern economists have dealt with the problem. None of importance during the last half century have concerned themselves greatly with the effects of a rising or declining rate of profit. True, the profit motive as an incentive to enterprise and investment has been stressed. The entrepreneur's function has been studied and analyzed, and his importance in modern economic organization has

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The Investor's Stake in The Anti-Trust Laws

By BENJAMIN A. JAVITS

Mr. Javits Contends That the Anti-Trust Policy of the Department of Justice Stands Clearly Across the Path of American Progress and Prosperity. Says That the Anti-Trust Laws Are Being Enforced in a Manner That Prevents Small Businessmen From Getting Cooperatively the Benefits of Marketing, Research, Prices and Full Employment Which Big Business Can Attain. Big Business, on the Other Hand, Is Finding It Impossible to Deal With Problems Like the Interrelation of Labor and Prices on an Industry-Wide Basis. The Anti-Trust Laws Are Used to Protect Marginal Producers Who Otherwise Could Not Compete. The Investor Is Also Hurt Through Undue Waste in Industry, Jeopardy of His Investments in Small Business, and Costs of Endless and Needless Government Suits.

We are all familiar with the story of the little boy who came back from Sunday services and when asked what the sermon was about said that he did not quite get it clearly but he was positive that the man who preached was against sin. And so it is with the word MONOPOLY. No one can talk about it without being against it. But there are other things we do talk about like the Anti-Trust Laws that have led to a great deal of confusion in most people's thinking and to even more confusion in their talking and which are not quite so pat.

Benjamin A. Javits

A trust in the sense of monopoly is an organization developed during the 70's and 80's by which a group of companies virtually trusteed every power, except the ownership in certain hands so that there would be common practices such as in pricing, selling and buying. The arbitrariness and the

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A Foreign Reaction to American Full Employment Aims

By MIGUEL VIDAL GUARDIOLA

Former Professor at the University of Barcelona, and Member of the Spanish and Catalan Parliaments.

Spanish Economist Says That Full Employment Is Meaningless for Most Countries if It Does Not Coincide With Improvement in Their Standard of Living and an Accompanying Division of Labor. Without Substantial International Trade This Will Be Difficult to Achieve in Large Countries, and Altogether Impossible in Small Countries. He States That America Preaches About Enlarging Foreign Trade, but Asks Who Is Going to Pay for the Necessary Import Surpluses. Foreign Investments Cannot Solve the Problem. The World Hopes That America Will Find a Way to Make Its Own Prosperity and Full Employment Policies Compatible With Worldwide Economic Progress.

The world follows anxiously American debates on full employment policy. It holds out two essential aspects: (a) blind faith in the maintenance of the highest standard of life attained during the paroxysm of war production and (b) a strong trend in favor of international collaboration under American leadership to raise the standard of life in all countries. Prosperity and happiness seem to be at reach. What else can other countries ask for?

Miguel V. Guardiola

In "Ye Olde Curiosity Shop" of world economy, Americans can easily discover primitive, undeveloped, backward, war-disrupted people, surprised to learn that some administrative strategems suffice to suppress at will unemployment and poverty. They are eager to benefit by this sudden outbreak of humanitarian smartness. They are, though, very skeptical.

It is obvious that most countries cannot solve their employment problem by copying the American pattern, even if the latter were definitely established. Undoubtedly, this is not the case. Every country knows, instinctively and from sad experience, that "full employment" means nothing if it is not related to a satisfactorily increasing standard of life. They care for "full employment" spreading prosperity not for "full employment" consolidating misery.

Spain, my country, known for having tried out in the course of its long history all types of mistaken economic policies, not excluding "deficit financing," is a living example of the above.

In the difficult period after 1898, the most orthodox economic policy invigorated our economy and strengthened our finances. A permanent surplus of emigration gave way to an intense process of repatriation. Unemployment was practically nil except for some regions where urgent agrarian reforms have been postponed since thousands of years.

The First World War enriched us, and the consequent inflation ruined us again. Spain has always practised classic "deficit financing," i. e. loans to maintain purchasing power. What Professor Abba B. Lerner would call a "Periodical Distribution of Free Income" was disguised as salaries for unnecessary generals and officers, unnecessary civil bureau-

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Full Production and Sound Fiscal Policy Can Prevent Inflation

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

Mr. Foster, Holding That in 1945 Our Economy Operated Close to Capacity, Points Out That the Chief Problems Ahead Relate to Fiscal Policy. Says Low Interest Rates, Adopted as a War Policy, Together With the Method of Government Financing Through the Commercial Banks, Constitutes an Inflationary Threat, but Contends That a Civilian Buying Spree Can Be Offset by the High Reserve of Productive Capacity. Sees Need of Settlement of Industrial Strife and Holds Outlook Depends on Proper Decisions Regarding Labor, Management and Government Relationships.

The year 1945 not only saw the defeat of our enemies abroad; it ushered in, at home, a period of great promise for social and economic well-being. Of course, the transition from war to peace poses serious problems: For one thing, we lose the Government's vast war effort as the motivating force behind production, employment and consumption; for another, the war has wrought financial changes which may offer a threat to future economic stability; for still a third, the singleness of purpose that we enjoyed during the war seems to have been replaced, at least for the moment, by industrial and economic strife. These problems require our careful attention lest our failure to understand and solve them should keep us from the full enjoyment of the wealth of opportunity that lies ahead. Accordingly, it is worthwhile to review the conditions that existed in 1945 before the Germans and the Japanese laid down their arms. For it is these conditions and the circumstances surrounding them that have given rise to many of our present problems.

Stephen M. Foster

Economy Operated Close to Capacity

A first important circumstance to bear in mind is that in the first half of 1945 the country's economy was operating at close to capacity. It is true that some economic factors, notably total industrial production, had receded somewhat from their wartime peaks, nevertheless industrial production still stood 111% above the prewar level of 1939; wages and salaries, 150%; farm income from marketings, 151%; and the gross national product, 133%. And, of course, employment was about at an all time record, and unemployment was practically non-existent.

It cannot be too often stated, for a clear understanding of the reconversion difficulties, that the prime motivating force behind this capacity level of business operations was the war and the unprecedented wartime expenditures of the Government. During the first half of 1945, these expenditures were running at the annual rate of $104 billion, a figure which only a few years earlier would have been considered fantastic. They enabled the Government to be the cash customer, largely for immediate war consumption, of about half of the nation's total production of goods and services. Also, from another point of view, they give an indication of the slack that needs to be taken up by the filling of civilian wants, and the readjustments that must be made in the type of things the country produces, as the Government curtails its war effort and its purchases.

The Fiscal Policy

A second circumstance of great importance to the reconversion and post-war period is the method or methods which the Government has used for financing its purchases of approximately half the nation's annual production of over $200 billion of goods and services. There are two obvious methods available: taxation and borrowing. And all through the war our Government has elected to use both, placing a somewhat greater reliance on borrowing than on taxation. Thus, in the first half of 1945, the Government's expenditures of $52 billion were only partially met by income receipts, and the Government borrowed, exclusive of refunding operations, $27 billion of new money.

The vast new money requirements of the Government, which during the past two or three years have been running at the rate of almost $60 billion per year, might, on the basis of the law of supply and demand, have been expected to cause interest rates (the price of money) to rise. But a rise in interest rates as applied to a Government debt rapidly approaching the $300 billion mark would have a highly unfavorable effect on the Government's postwar expenditures. Accordingly, early in the war, the monetary control authorities adopted a wartime technique for keeping interest rates low: The Federal Reserve Banks established a definite rate at

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Market Outlook

By G. Y. BILLARD
Investment Research Department, J. R. Williston & Co.

Investment Analyst Sees as Favorable Factors in the Near-Term Outlook (1) the Progress Being Made in Reconversion; (2) the Gradual Retreat From Price Controls and (3) the Price Rise Tendency. Holds Basic Factor in Outlook Is the Tremendous Rise in the Public Debt Which Is Affording a Large Money Supply and Is a Potential Inflationary Influence. Says There Is Plenty of Dynamite in the Market Situation That 100% Margins or Increase in Capital Gains Tax Cannot Remove.

Concentrated liquidation following an unfortunate radio episode brought a sudden and sharp drop early in the week but the market quickly regained its composure and by the end of the week had recovered most of the ground previously lost.

Gordon Y. Billard

Short Covering

Shorts were probably sufficiently alert after experiencing months of more or less consistently rising prices and presumably took prompt advantage of the setback, but liquidation was hardly in sufficient volume to permit any extensive covering of existing short positions—and furthermore shorts had to compete with investors seeking to utilize idle cash funds.

Traditionally speaking, a rise during the year-end week is one of the most pronounced seasonal periods in the entire year and it would hardly be surprising if this phenomenon should hold true to form—and perhaps in an exaggerated way in isolated instances in view of the thinness of markets.

Auspicious Beginning

The coming year bids fair to start out at least under more auspicious circumstances than might be experienced at the end of the year.

Perhaps this observation is more the result of a reflection that years very frequently end up with a different twist than they start out with. After all, a year is a sufficiently long period of time to permit coming into play certain events which are quite unforeseen until they come very close to materializing.

And in this respect there are certain events mainly of a political nature which can be visualized that might, by summer or perhaps sooner, have quite a pronounced adverse effect marketwise. Such events, however, at this time are largely in the realm of conjecture and at any rate seem too premature to warrant any serious consideration for the present.

What's Happening

More important is the nearer term outlook and this impresses us as distinctly more favorable than otherwise.

The key to reconversion, labor and other policies seems to be more and more along the line of gradual rereat from price controls. It might be recalled, for instance, that under present directives wage increases up to 33% above January 1941 levels must now be considered by O.P.A. in "fixing prices". Moreover, price increases now are to be permitted whenever O.P.A. finds they are necessary to maintain a "generally fair and equitable level". Also, increases in prices are to be permitted when O.P.A. finds increases are necessary to "prevent hardships impeding reconversion". Furthermore, O.E.S. (Office of Economic Stabilization) is now without the power to veto price advances within the categories mentioned above.

Price trends in practically all lines continue persistently upward. Wholesale prices today are more than double the 1926 level and are already above the peak of the war period. Retail prices, on the other hand, are still slightly below the level reached just prior to V-J Day but a renewed upswing can hardly be long delayed in getting under way. Despite statistics to the contrary, it might be observed that retail prices are far higher than actually indicated by the figures due to (1) lower quality and (2) virtual disappearance of all except higher priced goods. The obvious conclusion even to the casual observer is that price control in many lines is more apparent than real.

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The Post-War Price Structure

By S. MORRIS LIVINGSTON*

Chief of the National Economics Unit
Bureau of Foreign and Domestic Commerce

Commerce Department Expert Analyzes Price Conditions During War, and Concludes There Has Been a General and Substantial Advance in Prices of Civilian Goods Reflecting the Demand on Limited Supplies. Holds Supply-Demand Relationships at End of War Created Both Inflationary and Deflationary Pressures. Says That Analysis Shows That the Areas in Which a Change in Supply-Demand Relationships Will Create a Deflationary Trend Are at Present Larger Than Areas of Inflationary Tendencies and That Even if Consumption Increases 50% Above Prewar Level, Resulting Increased Demand Will Increase Production Rather Than Lead to Higher Prices. Holds Large Wartime Profits Prevailed in Every Major Segment of the Economy and That After Reconversion, a High Volume of Productivity Will Make Possible Wage Increases.

What about the price level reached by the end of the war? Is it seriously out of line with what might be expected under conditions which we face during the reconversion period and thereafter? Does the whole structure of supply-demand-price relationships and cost-price-profit relationships suggest the need for major readjustments?

S. Morris Livingston

Must we look forward to an inflationary boom and collapse such as followed the last war, to speedy deflation, or to reasonably stable prices? Are individual prices so out of line that widespread adjustments are necessary?

To answer these questions it is necessary to have the background of the current situation—where we are and how we got there—together with an evaluation of the current and prospective forces operating on the price structure.

Reliance on Price Incentives

The wartime interrelation between supply, demand and prices has been different from that which might be expected in peacetime; nevertheless, it is easy to exaggerate the importance of this in considering postwar price trends.

It is a fact, of course, that the enormous expansion in the production of war goods and the shift of manpower to the armed forces were not accomplished entirely by bidding up of the prices of those goods and services in competition with the alternative civilian production. They were accomplished in part by direct means—priorities, allocations of materials and resources, restrictions on non-war production and the draft—plus the whole pattern of voluntary cooperation in the war effort inso-

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*Reprinted from the November 1945 issue of "Survey of Current Business" published by the United States Department of Commerce.

The Cost of "Extra-Ordinary Government"

By HON. HUGH BUTLER*

U. S. Senator from Nebraska

Prominent Member of Senate Finance Committee Ascribes Heavy Federal Expenditures to "Extra-Ordinary" Government. Sees a $30 Billion Deficit Next Year and States That No Real Tax Relief Will Come Until Federal Government Curbs Its Expenditures. Calls Attention to Byrd-Butler Bill Which Provides That Government Corporations Must Come Under Congressional Scrutiny and Warns That New Similar Corporations "Under Sweet and Noble Titles" Are Being Placed Before Congress as Additional Payrolls and Pay Checks. Says Spending Spree Is Over and End Must Be Put to Pressure Groups and Privilege Legislation. Wants Streamlined Government and a Unified Budget With Full Accountability for Spending.

Before anything else, I want to tell you I regard it my privilege, not yours, to be able to address this greatest of industrial forums, because I have eagerly anticipated this occasion.

You manufacturers are a select and influential body. It so happened I was looking for a chance to do a little lobbying of my own at your annual Congress of Industry.

Hugh Butler

It has always been brought to my attention that you men of industry are good at *changing* things. As they say in our brainy bureaucratic language known as "gobble-degook," you fellows are good at *activating* ideas, or maybe it is motivating, or maybe it is *implementing* ideas.

At any rate, I have read that you are able to take a hunk of coal, a pinch of salt and stir them up with a breath of fresh air and behold: you have nylons—and a line of frenzied women from here to Omaha.

You change dreams into realities. The point is, we need some practical changes down at Washington to get a bigger and a better output from the biggest business in the world—our Federal Government.

The Kinship of Farm and Industry

In a slightly different sense, we Nebraskans get most of our income from the processes of change, too. In our case, we mix seeds and soil to produce steak, cheese, flour, ham and such. Speaking gastronomically or metabolically, or whatever the medical term is, I wouldn't be at all surprised if most of you were at least half-Nebraskan.

But I'm sure our relationship is more than being just "belly" cousins. Our farmers talk production, production and more production. You factory men pound your desks and talk production, production and more production.

About all I've got to show for this life is my Nebraska ranch. It is really a beef factory, and its output has got to be a carload of fat cattle to market every week or we uncork the red ink bottle again. Farm and factory talk is the same language, with exactly the same considerations of investment, reserves, depreciation, overhead, hired men and market risks.

We have the same perplexing dilemma over Government subsidies and handouts. We are both concerned about taxes and their effect on our business futures.

The Core of Our Financial Problem

One of my duties as Senator is to serve on the Senate Finance Committee, which reviews and recommends taxation bills for passage.

In recent weeks, the Congress passed a tax bill which gave business and individuals some measure of tax relief. The Congress went farther than the Treasury wanted us to go in granting relief from high wartime rates.

But Congress could approve only a limited reduction. You who had your contracts terminated know how sharply war spending

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

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Agricultural Question Mark of 1946

By HON. CLINTON P. ANDERSON*
Secretary of Agriculture

Secretary Anderson, After Reviewing Agricultural Progress in War Period, Speaks Optimistically of Outlook for 1946. Calls Attention to Close Economic Interdependence of Agriculture and Industry, and Points Out That Immediate Problem Is to Maintain a Balance Between Farm and Factory Production. Warns Against a Drift Into a Policy of Scarcity and Urges a Full Production Goal for Agriculture to Be Counter-Balanced by Full Employment in Industry. Says Present Price Parity Formulas Are Out of Date and That New and More Flexible Formulas Should Be Used to Encourage a Better Balanced, Diversified Agriculture, and for This Purpose He Proposes Conferences Between Farmers, Labor and Industry to Plan Production Schedules.

The interdependence of all economic groups and the need for coordinated, progressive action on all fronts to maintain and raise the American standard of living is a familiar time-tested philosophy. It is an idealistic creed, but it brings practical results. The evidence that it works is all around us in the unsurpassed achievements of our agriculture, labor, and industry. We see the rewards every day in our lives in the form of our modern farms, great cities, tremendous factories, millions of automobiles, fine highways, schools, hospitals, and homes It is the factor that made it possible for us, a democratic nation, to organize into one great productive team to outproduce our enemies and smother them with the munitions and machines of war.

Clinton P. Anderson

No group is more familiar with the doctrine of interdependence or has done more to advance it than the American Farm Bureau Federation. You know from your own personal experience in every kind and phase of farming how vital is the need to maintain a strong, prosperous and productive agriculture, if we are to have a strong, prosperous, and productive United States. You know from first-hand, painful experience that if industry goes slack or gets tangled in the traces, the farmer soon finds himself in trouble, no matter where he farms or what he produces.

I am always glad to meet with the American Farm Bureau Federation, representing as it does hundreds of thousands of farm-

*An address by Secretary Anderson before the National Convention of the American Farm Bureau Federation, Chicago, Ill., Dec. 18, 1945.

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Expert Discusses International Use Of Atomic Power

Prof. J. R. Oppenheimer, Head of Laboratory That Developed Atomic Bomb, Holds That Problem of Making Available Nuclear Fuel Is Capable of Being Solved, but Doubts Whether Automobiles and Airplanes Can Be Operated by Nuclear Power Units Until New Ideas Are Developed.

In a radio address delivered on Dec. 23, during the United States Rubber Company Philharmonic Symphony broadcast, Dr. J. R. Oppenheimer of the University of California, who was head of the great laboratory at Los Alamos, New Mexico, where the atomic bomb was developed and tested, discussed briefly the problem involved in the use of atomic energy for industrial and transportation purposes and expressed the view that on the basis of experiments already made, such uses may come about though he expressed doubt whether nuclear power could be used in automobile or airplane transportation unless we obtain new knowledge and new ideas not now existing. Regarding this, Dr. Oppenheimer stated that "it seems to be a general impression that there are serious and fundamental problems in controlling the release of this energy and in making it useful for the purposes of society. This view is based on misconception. More than two years before the test in New Mexico, another great experiment was carried out at the Metallurgical Laboratory in Chicago. In this experiment, conditions were so arranged that the fission of one uranium atom in a great mass of uranium and graphite produced, through the neutrons it generated, the fission of a second atom, and so on indefinitely. The experiment could be run with the rate of fission and the rate of energy release adjusted within wide limits by a simple control. This was the first self-sustaining fission chain reaction.

J. Robt. Oppenheimer

"Since then many varied devices have been designed and built, each of them generating appreciable quantities of energy, all of them based on maintaining a controlled nuclear chain reaction. Some are small, some enormous; and the power which they generate also varies by large factors: but all were made as a part of the program of developing atomic bombs and all have one feature

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With Herrick, Waddell

KANSAS CITY, MO.—**Charles E. Moser, Jr.**, and **Eugene F. J. Reiner** are with **Herrick, Waddell & Co., Inc.**, 1012 Baltimore Avenue. Mr. Moser was previously in the U. S. Navy; Mr. Reiner was with the St. Louis Ord. District.

With Dempsey-Tegeler

ST. LOUIS, MO.—**Albert E. Gummersbach** and **Walter A. Stay** have rejoined **Dempsey-Tegeler & Co.**, 407 North Eighth Street, after completing war service.

Joins Coburn, Middlebrook

HARTFORD, CONN.—Lewis I. Corliss has become associated with Coburn & Middlebrook, 49 Pearl Street. In the past he was with Paine, Webber & Co. and Robert C. Buell & Co.

Churchill to Visit United States

Will Sail Early After New Year for Month's Sojourn in Florida. Only Address Scheduled During Stay Is at Westminster College, Fulton, Mo.

It has been announced that Winston Churchill, wartime Conservative Prime Minister of Great Britain, will sail for the United States shortly after the New Year to spend a month or so in Florida. This trip, it is reported, is taken under the advice of Mr. Churchill's physician, who suggested a warm climate for recuperation. Mr. Churchill, while in Florida, will be the guest of Col. Frank Clarke of Quebec, who has made his house available to Mr. and Mrs. Churchill and their daughter, Mrs. Sarah Oliver.

Winston Churchill

While in the United States, Mr. Churchill is scheduled to make but one address. On March 5, he will speak on "World Affairs" at Westminster College, Fulton, Mo., in President Truman's home State.

Public Utility Securities

Are the Transit Stocks Attractive?

The transit company stocks have, of course, enjoyed a substantial wartime rise, reflecting the huge increase in operations due to decreased auto use and increased factory employment. It has been rather generally assumed that after the war the earnings bubble would be pricked, and the transit stocks would suffer a corresponding deflation. But perhaps this view may be subject to modification.

The automobile industry is not showing the rapid comeback which was anticipated earlier this year, and if labor troubles and material shortages continue there will be a continued slow-down. Returning servicemen, plus reviving factory employment for peace work, may keep the trolleys rather busy in 1946, when they will enjoy big tax savings. Their several years of prosperity has "fattened" them, permitting substantial improvement in financial structure and cash position. Some of them have been able to refinance on favorable terms. Following is some brief comment on leading issues:

Baltimore Transit, selling over-counter around 6½, earns about $1.52 a share. The company has been involved in litigation with the City of Baltimore, but this has apparently been cleared up; the voting trust has been terminated and a new President appointed. Accumulations on the two income bonds were cleared up in 1942. Arrears on the preferred stock amount to about 50%, so that a recapitalization would be in order. Federal excess profits taxes in 1944 were very large and their elimination may facilitate some recap plan.

Los Angeles Transit is controlled by National City Lines, which owns about 59% of the common stock. Selling around 10 over-counter, the stock seems reasonably priced in relation to earnings, estimated at over $1 for 1945 (87 cents was earned in 9 months). Dividends, however, amounted to only 25 cents this year.

Rochester Transit (11) and **Syracuse Transit** (28) pay $1 and $2 respectively, affording good yields. They have been recapitalized on a conservative basis, and present dividend rates seem well covered by earnings. Syracuse should enjoy tax savings next year estimated at around $6 a share (based on 1944 earnings).

Twin City Rapid Transit is one of the few issues on the Big Board (now 14). The company operates in St. Paul and Minneapolis, and has a record of efficient management. $2.62 a share was earned in the nine months ended Sept. 30, but there are still $49 arrears on the preferred stock.

Kansas City Public Service sells over-counter around 7. Earnings are difficult to appraise because of a large contingency charge. Twenty-five cents a share was paid last January, and 30 cents will be due Jan. 2, affording a yield of over 4%.

Third Avenue Transit, selling on the Exchange around 13, does not appear particularly attractive, even allowing for anticipated post-war earnings improvement upon completion of the bus conversion program. There are, of course, large arrears on the adjustment income bonds and a recapitalization would seem to be essential before the stock could pay any dividends. Meanwhile, the Company is suffering from management troubles.

St. Louis Public Service A in the 12 months ended September, earned $1.91 a share and the dividend rate is $1. National City Lines has a substantial interest in the company. Tax savings next year should be substantial. The stock is around 20½ in the unlisted market.

Eastern Mass. Street Railways is an extremely "high leverage" issue, quoted over-counter around 4, with a poor market. The high share earnings ($3.81 plus nearly $17 potential tax savings, estimated) mean little because of the complicated capital structure, including several preferred stocks with substantial arrears.

Capital Transit serves Washington, D. C., and is controlled by the North American Company system. The minority stock is hard to buy but at the last available quotation around 34, offered a yield of nearly 6%.

Philadelphia Transportation, around 9½ over-counter, has a highly complicated capital structure. The stock was issued in reorganization in 1940. The present dividend rate is 80c, affording an excellent yield. There should be some substantial tax savings next year, as a buffer against any decrease in revenues.

Duluth-Superior Transit, around

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Foresees Higher Real Estate Values

Charles F. Noyes Holds Present Real Estate Prices Are About 60% of 1932 Level, Whereas Stock Price Averages Show a Much Greater Advance. Sees Ground for Higher Real Estate Prices.

Charles F. Noyes, head of the real estate firm of Charles F. Noyes Company, has issued a statement predicting further rise in real estate values and more activity in the real estate market in 1946.

Charles F. Noyes

According to Mr. Noyes, "Common-sense with any degree of economic knowledge and particularly the study of the happenings of the last 12 months puts real estate at the top of the investment list. Why invest in securities and bonds with a 2% to 4% return when good real estate can be had that will show from 4½% to 6% with perfect safety, and if carefully and expertly selected, from 7% to 10% on a substantial equity? Furthermore, this return will increase as rental values increase and get towards normal. Nineteen hundred and forty-six (1946) will witness greater activities in the purchase of buildings for occupancy. Office buildings, store and commercial property and even apartments will be purchased by one or more tenants as an investment and to protect the business or family in a permanent home and as a hedge against inflation in the matter of increased rentals as well as increased returns on the investment. (a) We have inflation. It is here. This cannot be denied. It is only a matter of opinion as to how far it will go and its ultimate effects. (b) Labor costs have increased in every direction. Buildings are almost entirely the result of labor and everything that enters into building construction is the result of labor. (c) Our new zoning laws are more drastic than the old. Coverage of land is limited by the law. Generally speaking, new buildings cannot provide more than 65% to 70% of area comparable with existing buildings of the same height.

"Prices of real estate today average possibly 60% of the values of 1932 and in many cases much less than this while, conversely, the Dow-Jones averages show a percentage increase of 212% in connection with industrial stocks, 128% on railroad stocks, 34% on utility stocks and 39% on bonds. The following comparison is definite. It is conclusive.

DOW-JONES AVERAGES

	Industrial	Railroad	Utility	Bonds
December 14, 1932	61.93	28.16	28.33	77.45
December 14, 1945	193.34	64.15	38.05	107.92
Percentage Increase	212%	128%	34%	39%

"As against the increase of 212%, 128%, 34% and 39% above specified, New York City real estate is selling not at an increase but at substantially 60% of the values of Dec. 14, 1932.

"Real estate values must be and will be higher in 1946 than in 1945, and five years hence we will wonder why such low prices prevailed in 1945 and 1946. Labor and all costs of operating buildings of every description have increased greatly. Rents may be held down temporarily by artificial governmental regulations but eventually along common-sense lines they will sharply advance until owners obtain a fair return on a fair valuation, and such a valuation is much, much greater than today's prices. The purchase of well selected real estate is the outstanding investment of this period and the public is just commencing to realize it."

Adjournment of First Session of 79th Congress; Legislation Enacted—Measures Pending

The first session of the 79th Congress adjourned on Dec. 21; the session began on Jan. 4 last, and the second session will be brought underway on Jan. 14, in an "election year." The closing of the first session occurred at 2:11 p.m. in the House on Dec. 21, while the Senate wound up its deliberations at 3:47 p.m.

Noting that the session wrote history, in war and peace, the Associated Press on Dec. 21 added, however, that there were many important matters which President Truman urged it did not write into laws. One of these was the proposal to make permanent the Fair Employment Practices Committee set up in wartime to police any discrimination against Negroes and other minorities. The Associated Press further said:

Senators Ball, (R.-Minn.), and Chavez (D.-N.Mex.) served notice that they would bring it up as soon as the second session opened Jan. 14.

In the absence of the legislation he had asked, Mr. Truman yesterday extended the Committee's authority under the emergency wartime grant of power.

At the same time, the Chief Executive made plain his dissatisfaction with Congress's handling of labor and employment bills.

In his final news conference before Christmas, Mr. Truman who, as Vice-President moved up to the Presidency in April following the death of President Roosevelt, also said he wants Navy Secretary Forrestal to remain at his post at least for the present, despite their differences over Army-Navy unification.

The President declared, said the Associated Press, that despite his own commitment to a merger of the Army and Navy into a single department of national defense, no effort will be made to muzzle Navy officers who disagree.

His only insistence, he told questioners, is that naval officers opposing the merger make it clear that they are expressing their personal views and not those of the Administration.

From the Associated Press, we also quote:

Although its tally of "things undone" is a long one, the 79th Congress, perhaps more than any of its recent predecessors, made its voice heard 'round the world by the things it did.

It ratified the United Nations Charter; it overwhelmingly enacted a law to give living effect to this country's participation in UNO; it appropriated new money to the UNRRA; it extended the lend-lease program and the reciprocal trade agreements act, and it wrote into law the Bretton Woods international monetary agreements.

In doing those things it followed the recommendations of both Mr. Roosevelt and Mr. Truman.

On the domestic front Congress: Appropriated approximately $62,-billion while a two-front war was in progress and then, after the last shots had been fired, took back some $52 billion of current

(Continued on page 3167)

Problems of the Justice Department

Attorney General Clark Tells Bar Association Administrative Complexities of Government Regulating Agencies Have Grown and Commends the McCarran-Summers Bill Which Would Restrict Powers of Judiciary in Passing on Administrative Rulings. Notes Increasing Attitude of Contempt for Law and Promises Vigorous Action Against Black Markets and Anti-Trust Violations so as to "Lubricate the Machinery of Postwar Business and Put Reconversion Into High Gear." Wants Business to Cooperate With Justice Department and Asserts That Full Weight of Government Authority Will Be Brought to Bear on the Side of a Lawfully Prosperous Nation.

In an address before the American Bar Association meeting in Cincinnati, Ohio, on Dec. 19, Attorney General Tom C. Clark, upheld the principles of the McCarran-Summers Bill to fix the powers of the courts in ruling on the validity of decisions of Governmental administrative agencies, and also commented on what he called the growing disregard for law as illustrated by black markets and violations of Government economic controls. He promised vigorous execution of the anti-trust laws, which action, he contended, was essential to promote rapid reconversion and the preservation "of a lawfully prosperous nation."

Tom C. Clark

Commenting on the growth of administrative law making agencies, Mr. Clark said:

Administrative law has been perhaps the primary subject of discussion among legal thinkers for the past 20 years. Some have considered it a threat to our democracy, an alien system and a "contrivance of self-seeking bureaucrats." But it is my contention that the administrative process has had to expand to meet the needs of an increasingly complex civilization. Full recognition, it seems to me, has not been given to the fact that the phenomenal growth of the administrative process in recent years has been forced by phenomenal events—two world wars of catastrophic proportions, and an intervening financial depression, all in one generation.

The administrative process in the Federal Government is as old as the Government itself and at the very first session of the First Congress under the Constitution, statutes were enacted conferring important administrative powers. It was the rapid expansion of railroads, accompanied by discriminatory rate adjustments, irresponsible financial manipulation, and speculation, that led to the enactment in 1887 of "An Act to Regulate Commerce," creating the Interstate Commerce Commission.

The creation of other agencies, to meet the needs of changing times, has steadily continued, in the State governments as well as the Federal. The great advantage of administrative agencies is their flexibility, their capacity to do a complex task fairly and with dispatch.

Illustrations of Administrative Complexities

The Fifth Quarterly Report of the Office of Contract Settlement shows what tremendous progress has been made in settling terminated war contracts through administrative action. The surrender of Japan caused the termination of over 100,000 prime contracts, involving 24,000,000,000 dollars in cancelled commitments.

Add to this the contracts that were terminated by V-E Day and you have some realization of the gigantic task faced by the War and Navy Departments and by the Office of Contract Settlement.

Some 288,000 prime contracts, involving 62,000,000,000 dollars in cancelled commitments, have been terminated from the beginning of our war production to date.

Of these, some 185,000 contracts, involving over 25,000,000,000 dollars have now been settled.

Similar records of accomplishment may be found in other administrative agencies.

The Interstate Commerce Commission receives, analyzes, and files thousands of rate schedules, applications and complaints.

Yet that is only a part of its work.

The Social Security Board keeps literally millions of records, and disposes of 8 or 9 hundred thousand claims a year.

In the light of these few examples, it is no wonder that Congress has resorted more and more frequently to the administrative process as an instrument for the execution of its legislative policies.

An examination of an act with which we are all familiar—The Selective Training and Service Act—will serve to illustrate the manner in which the Congress has placed broad rule-making and adjudicatory functions in a single agency. In this statute Congress wisely refrained from seeking to

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Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — **Marcus L. Haas** has become associated with **Stockton Broome & Co.** He was formerly in the U. S. Army and prior thereto was with Beer & Co.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO — **Alfred C. Jones** has joined the staff of **W. E. Hutton & Co.**, 42 North Main Street. Mr. Jones has recently been with the O. P. A. Prior thereto he was with Greene and Brock, and McDonald-Coolidge & Co.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO—**Adrian Karman** has become associated with **Grant Brownell & Co.**, Winters Bank Building. He was formerly with the Ohio Company for a number of years.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — **Robert S. Layton** has become associated with **Sidlo, Simons, Roberts & Company**, First National Bank Building, after serving in the U. S. Army for four years.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Frederic A. Pakas**, who has recently been in the U. S. Army, has become associated with **Alison & Company**, Buhl Building.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — **Ernest B. Kelly, Jr.** has rejoined the staff of **Halsey, Stuart & Co., Inc.**, 601 Griswold Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — **Lloyd H. Ratz** has been added to the staff of **Charles A. Parcells & Co.**, Penobscot Building.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Robert D. Savage** is now with **Watling, Lerchen & Co.**, Ford Building. Prior to serving in the U. S. Army he was with Crouse & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — **Herbert Schollenberger, Jr.**, has rejoined **Campbell, McCarty & Co., Inc.**, Buhl Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—**Melvin Clanton** is with **Thomas Darst & Co.**, Southeastern Building.

(Special to THE FINANCIAL CHRONICLE)

HANNIBAL, MO.—**Headley G. Ealum** has become connected with **Bankers Bond & Securities Company**, B. & L. Building. He was previously with the Pike Grain & Securities Co.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—**John F. Guzauckas** and **Philip C. Judd** are with **Brainard, Judd & Co.**, 75 Pearl Street. Mr. Judd was with the firm prior to serving in the Army.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—**Herbert E. Armstrong** has become connected with **Denton & Co., Inc.**, 805 Main Street.

(Special to THE FINANCIAL CHRONICLE)

JACKSON, MICH. — **Verl R. Huntley** has become affiliated with **Investment Securities Company**, National Bank Building, after serving in the U. S. Army.

(Continued on page 3161)

Real Estate Securities

During the year 1945 many real estate securities were mentioned in this column. At the present time the market is considerably higher than when the issue was summarized. Lack of space prevents listing all of them; however, the ones listed show the market value increase during the year:

	Present Market	Market 1-1-45
Trinity Buildings	108	67
U. S. Realty & Improvement	108	75
Westinghouse Building	55	32
Equitable Office Building	137	50
Hotel Lexington	108	91
Alden Hotel	76	57
Park Central Hotel	94	66
Broadway 41st	72	65
80 Broad Street	73	45
Madison 52nd	81	63
Governor Clinton	90	68
40 Wall Street	78	50
Broadway Motors Building	88	65
2 Park Avenue	96	84
165 Broadway	72	44
Hotel Drake	75	55
Broadway Barclay	43	34
London Terrace	81	64
Chanin Building 4s	89	68
Dorset	52	44

It is our opinion that as a class real estate securities have acted as well or better than any other type of security during the years and that 1946 holds prospects for continued gains.

Truman's Fact Finding Proposal No Remedy

By WILLFORD I. KING*

Lecturer in Economics at New York University

Dr. King Contends That the Railway Labor Act, on Which President's Proposal Is Based, Has Not Produced Results That Are Satisfactory and That the Employees Did Not Benefit. Claims President's Proposals, if Adopted, Will Spread Unemployment and Will Lead to More Inflation. Says Real Remedy Is Repeal of Wagner Act and Applying Anti-Monopoly Laws to Labor.

On Dec. 3, President Truman sent to Congress a special message asking it to enact legislation authorizing him to set up Fact-Finding Boards to recommend settlements in crucial nation-wide labor disputes. This plan largely parallels the procedure under the Railway Labor Act.

Willford I. King

Since enactment of that act, strikes in the railroad field have been a rarity. Therefore, the President's action is widely hailed as a logical solution of one of the most knotty problems confronting the nation. The general verdict is that the system will almost certainly work well in other industries since it has proved so satisfactory in the railway field.

Before uncritically accepting this conclusion, the thoughtful citizen will do well to note the assumption underlying it—namely, that the Railway Labor Act has produced results which are satisfactory. What are the facts?

How It Worked Out

The procedure during the pre-war period, under the terms of the act, is correctly typified by the following portrayal of the course of events in a controversy: The Railway Labor unions demand a 15% increase in wage rates. The railroads point out that most of them are losing money; *that* a large part of their bonds are in default; *that* their stock has become practically worthless; and *that* if the Interstate Commerce Commission grants, and the railroads put into effect, higher freight rates, the result will be to divert more of the business of transportation to ships, trucks, pipe lines, and electric power lines. The unions remain adamant in their demands. Federal conciliators set to work. They cannot get an agreement. The unions vote to strike. The President then appoints an Emergency Mediation Board. It listens to the evidence which shows that railway wage rates are already much higher than those received by workers of like skill in other industries. The sad financial plight of the railway investors is not disputed. The Mediation Board completely ignores all the evidence, decides to split the difference, and hence awards the workers a 7½% increase all along the line.

The railroads now apply to the Interstate Commerce Commission for rate increases. After months of hearings and consideration, some increases are granted. These result in further declines in railway traffic.

Before, however, this has occurred to any marked extent, the railway unions demand another 15% increase, and the whole procedure is repeated, the Mediation Board again splitting the difference and granting another 7½% raise. The only variation is that if, perchance, the "cost of living" is rising slightly, the Board makes the increase 10%.

A Temporary Reprieve

When the stockholders and bondholders have the temerity to complain that their property is being confiscated by this procedure, they are told that the railroads are over-capitalized. When they prove, by official Federal figures, that the actual investment in the railroads has been far greater than the book value of the railroad capital, they are told that this fact in irrelevant—that the present capitalization is out of line with earnings, and that the only solution is "to put the railroads through the wringer." When this procedure is completed, the common and preferred stockholders are left with the choice of using their certificates as wallpaper or hoarding them as souvenirs. The junior bondholders become holders of stock, the value of which will be squeezed out by future wage increases, and only the senior bondholders retain any considerable share of the value of their original investments. If the wage-increase mechanism keeps on operating, all that they are really getting is a temporary reprieve from confiscation of their holdings.

Look at the Record

To gain a clear comprehension of the cumulative effects of the workings of the Railway Labor Act during the pre-war period, it is necessary to note some of the pertinent statistical facts. One can get a reasonably fair picture by comparing averages for the periods of 1921-1925 with those for 1936-1940. The first period precedes the boom of the late 1920's. The last period comes after recovery from the depths of the late depression, but precedes the time when the European war began to affect our traffic greatly. Here are some significant figures taken

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*A statement issued by Dr. King through the Committee for Constitutional Government, Inc., New York City.

Railroads: Fifty Years Past and to Come

By JOSEPH B. ENNIS*
Senior Vice-President, American Locomotive Company

Veteran Transportation Expert Reviews Progress in Improvement of Railroads and Locomotives, and Points Out the Expanding Use of Transportation Services. Says There Is No Excess Railroad Capacity and That to Effectively Operate There Must Be More Technological Improvements in Locomotive Power. Describes New Locomotive Types, Such as Diesels and Steam Turbines, and Concludes That Despite Competition of Other Types of Transportation, American Railroads Have Been Revitalized and That in Next Decade They Will Do More Business Than in Any Previous Peacetime Period.

Fifty years ago when I was drawn irresistibly into the locomotive industry I faced a great opportunity.

Today, as I look toward the future, I am bound to say that I think the locomotive industry and the railroad industry offer the young men of America a greater opportunity than they did half a century back. I am delighted to be a young man today.

Joseph B. Ennis

The future looks exciting and challenging from where I stand because, it seems to me, we may be on the threshold of an era of transportation such as you or I or any of us has not seen before. Total war, the far-reaching bomber, the vast and unbelievable logistical problems solved in order to take millions of men tens of thousands of miles with vast mountains of equipment, all these things have created in our minds a point of view which did not exist before and which has great bearing on the future of our industry.

That point of view has been crystallized in the expression "One World." It is an acceptance of the fact that we are near to every nation in the world—phys-

*An address by Mr. Ennis at the dinner celebrating the 50th anniversary of the American Locomotive Company, Waldorf-Astoria Hotel, New York City, Dec. 11, 1945.

(Continued on page 3158)

Approves Anglo-American Financial Agreement

Eugene P. Thomas, President of National Foreign Trade Council, Issues Statement of Its Executive Committee. Holds Terms of Agreement Conform to Recommendations Previously Made by the Council and States That Anglo-American Cooperation Along Lines Laid Down Is Essential to a Healthy World Economy.

The Executive Committee of the National Foreign Trade Council, in a statement made public by Eugene P. Thomas, Council President, on Dec. 24 expressed approval of the Anglo-American financial agreement as conforming generally to recommendations of the Council in regard to extension of financial aid to Great Britain coupled with modification of exchange controls and trade barriers.

Eugene P. Thomas

Other parts of the broad agreement announced Dec. 6, containing the joint statement regarding the settlement of Lend-Lease, reciprocal aid, surplus war property and claims as well as the joint statement regarding the undertaking reached on commercial policy as embodied in "Proposals for Expansion of World Trade and Employment" issued by our Department of State, are receiving further study by appropriate Council committees.

Text of Statement

The Executive Committee of the National Foreign Trade Council, on recommendation of the International Finance Committee, endorses the financial agreement negotiated by the Governments of the United Kingdom and the United States, which forms part of the completed negotiations announced Dec. 6, 1945. In making this endorsement, the Committee believes that while the financial agreement provides for proper financial aid to Great Britain it also includes a commitment on the part of Great Britain to take the following steps in regard to exchange controls which are of paramount interest to American trade:

(a) British exchange controls will not be applied to restrict payments or transfers on permitted American imports into the United Kingdom and on other current transactions after the agreement becomes effective, and similar restrictions on all current transactions will be eliminated not later than one year after the effective date of the agreement.

(b) Sterling area exchange restrictions will be eliminated on current transactions "with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed" as soon as possible but not later than one year from the effective date of the agreement.

The Committee notes with satisfaction that the agreement generally conforms to the statement

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Business Man's Bookshelf

Labor Policy of the Federal Government—Harold W. Metz—The Brookings Institution, Washington, D. C.—cloth, $2.50.

World Supply of Wool and Prospects for Leading American Woolen and Worsted Manufacturers—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—paper—50¢ (to public libraries and nonprofit institutions, 25¢).

Tomorow's Trade—Problems of Our Foreign Commerce — Stuart Chase — The Twentieth Century Fund, 330 West 42nd St., New York City—cloth—$1.00.

Opportunities, Qualifcations and Risks in Small Business for Veterans Under the GI Bill of Rights—John B. Padde, Manufacturers Trust Company of New York—paper.

Foreign Exchange Legislation in Germany (Printed in German)—Monetary and Economic Dept. of the Bank for International Settlements, Basle, Switzerland—40 Swiss francs.

From Bretton Woods to Full Employment—Dag Hammarskjold—Supplement A to Svenska Handelsbanken's **Index**—paper.

Postwar Goals and Economic Reconstruction—Institute on Postwar Reconstruction, New York University, New York 3, N. Y.—$3.50.

Business Booms and Depressions—Since 1775—Comparative chart of price trends, national income, federal debt, business activity, etc.—Hannaford & Talbot, 519 California Street, San Francisco 4, Calif.

Insurance and Bank Stocks—Ready reference table giving comparative figures—White & Company, Mississippi Valley Trust Building, St. Louis 2, Mo.

Wall Street Commentator—Digest of current events in the financial markets of North America, with reviews and analyses of specific situations appearing to offer exceptional investment and/or profit possibilities — Bennett, Spanier & Co., Inc., 105 S. La Salle Street, Chicago 3, Ill.

Consolidated Rock Products Co.—Special report—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Estabrook & Co. to Admit

BOSTON, MASS. — Stedman Buttrick will be admitted to partnership in Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchanges, on Jan. 3.

Mosher Attacks President's Wage-Earnings Policy

NAM Executive Says It Will Prevent Full Employment, Will Benefit Only Small Groups of Workers and Will Be Fatal to Small Business. In New England Addresses, He Accuses Department of Commerce of Producing "Conjectural Jingosim" to Support CIO Wage Demands and Criticizes Government Forecasters for Ignoring Pyramiding Effects of Wage Increases. Holds Labor-Management Conference Was "No Flop" and Calls for Legislation to Place Labor and Management on Equal Basis in Collective Bargaining.

Ira Mosher, President of the National Association of Manufacturers, issued a statement on Dec. 21 in which he strongly denounced the President's directives to the fact-finding boards regarding the consideration of company earnings in wage awards.

Ira Mosher

"President Truman's statement yesterday," Mr. Mosher stated, "that wages are paid out of earnings, and that fact-finding boards should have the legal right to examine the books of employers, is a perfect example of that type of thoughtless and short-sighted political policy which is largely responsible for much of the present labor difficulty in this country and which is bound to stop progress and prevent full employment in the coming years if approved and applied."

"What the Chief Executive is saying in effect," Mr. Mosher continued, "is that wages must be based upon 'ability to pay' and that 'ability to pay' is measured by the earnings of a company. This is a fundamental economic fallacy because the ability to pay must be measured by productivity, not by earnings."

The rest of Mr. Mosher's statement follows:

Ability to pay as measured by earnings would mean that whenever there is technological improvement in the productive process, thereby reducing the cost of production, the full benefit of the improvement would be passed along to a small group of workers in the form of higher wages instead of to the public in the form of lower prices. Had that policy been in effect over the past generation our mass markets could not have developed and we would still be in the handicraft stage of our grandfathers.

Further, ability to pay as measured by earnings, if that is to be adopted as a national policy, would mean that Government must support a reduction of pay for all workers in companies which are operating at a loss. American business will not support such a policy. Certainly labor would not want it. And no Administration which has the interest of labor sincerely at heart would seriously suggest such a policy if it took the time to think through the problem.

In every year between 1913 and 1940, except during the First World War (1916-1919), at least 40% of our business corporations showed no net income, and in 1932 almost 84% showed no net income. In other words, except in wartime, never more than three out of five business corporations have any net earnings, and in all but the most prosperous years never more than two out of every five have net earnings.

Finally, ability to pay as measured by earnings would mean the freezing of our industrial system into the hands of businesses with established earning capacities because they would be the only ones able to pay the wages established under this formula. It means simply that new businesses cannot start, the little fellows get squeezed out, and we move to the "corporate state" with the Government determining prices, profits, investment, and who shall work where and for how long and at what wage.

The President's proposal that wages should be determined by ability to pay as measured by earnings would be contrary to the public interest because:

The benefits of increased efficiency would not be passed on to the public in the form of lower prices as they have been in the past;

It would hurt labor, because under this formula wage rates must be reduced when earnings decline; and

It would undermine our system of political and economic freedom because competition would be eliminated and there would

(Continued on page 3160)

Dealer-Broker Investment Recommendations and Literature

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

Bank and Insurance Stock Digest—data on interesting situations—Geyer & Co., 67 Wall Street, New York 5, N. Y.

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.

Expanding Markets for Electronics—discussion in the Fortnightly Market and Business Survey—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Industry Trends—in the retail and building trades—memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available are memoranda on recent railroad reorganization developments and the **Fortnightly Investment Letter.**

Investing for Appreciation—suggestions—John H. Lewis & Co., 14 Wall Street, New York 5, 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.

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.

Bowser, Inc.—special study—Goodbody & Co., 115 Broadway, New York City.

Also available is a special study of **Oxford Paper.**

California Consumers Corporation—detailed analytical study—Straus & Blosser, 135 S. La Salle Street, Chicago 3, Ill.

Also available is a study of **United Stockyards Corporation.**

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

Also available are circulars on **Oregon Portland Cement, Riverside Cement,** and **Spokane 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.; Douglas Shoe; TACA Airways; American Window Glass; Lamson & Sessions;** 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.

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

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

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

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

Also detailed circulars on **Fashion Park, Shatterproof Glass, Wellman Engineering Co.; Walt Disney Productions; Foundation Company;** and **Segal Lock & Hardware.**

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.**

Leland Electric, U. S. Truck Lines, Inc., and **Standard Stoker Co.**—memoranda—Otis & Co., Terminal Tower, Cleveland 13, Ohio.

P. R. Mallory & Co., Inc.—analysis—Steiner, Rouse & Co., 25 Broad Street, New York 4, N. Y.

Merchants Distilling Corp.—recent analysis—Faroll & Co., 208 South La Salle Street, Chicago 4, Illinois.

Also available is an analysis of **Standard Silica Corp.**

Midland Utilities and **Midland Realization**—detailed study—write for circular M-3—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

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

New England Public Service—an appraisal of outlook and possibilities—Daniel F. Rice & Co., 14 Wall Street, New York 5, N. Y.

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

Nunn-Bush Shoe—new memorandum—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

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

Also for dealers only are analyses of **National Radiator Co.** and **Republic Pictures.**

Railways & Light Securities Co.—Descriptive memorandum on oldest leverage investment company in the United States—Du Pont, Homsey Co., Shawmut Bank Building, Boston 9, Mass.

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.

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

Also available is a memorandum on **Wellman Engineering** and **Du Mont Laboratories.**

Wellman Engineering Co.—memorandum—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

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

To Admit Partner

SPOKANE, WASH.—Louis H. Hachez will be admitted as a partner in L. F. Hachez & Co., Paulsen Building. Prior to serving in the U. S. Army, he was a partner in the firm.

David McKnight With G. H. Walker in N. Y.

G. H. Walker & Co., 1 Wall Street, New York City, investment bankers, announce that David W. McKnight, formerly V.-Pres. of Argus Research Corporation, is now associated with their firm as Director of Research. Mr. McKnight had been with Argus Research since 1934; prior to which time he was Railroad Editor of the "Journal of Commerce." For several years he was a member of the faculty of New York University School of Commerce.

David W. McKnight

New School Lectures On Shape of Peace

The New School for Social Research, 66 West 12th Street, New York City, announces a series of four January lectures on "The Shape of Peace." First of the series will be "The Shape of Peace," by Hans Kohn on Jan. 3rd; Aaron Levenstein is the second speaker scheduled for Jan. 7th, his topic being "Labor After the War: Labor and Technology"; Leo M. Cherne will speak on Jan. 10th on "Economic and Social Developments in the United States"; on Jan. 14th, J. Raymond Walsh will speak on "American Politics at the End of an Era."

All lectures will be held at 8:30 p.m. Admission is $1.50.

Allen Beers to Form Own Investment Firm

PHILADELPHIA, PA.—Allen E. Beers will form his own investment firm shortly. He was formerly associated with Euler & Co. and was a partner in Allen E. Beers & Co. of Allentown.

King Murphy in Atlanta

ATLANTA, GA.—King Murphy is engaging in the investment business from offices in the Healey Building.

Chicago Personnels

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **William L. Christy, Lyle W. Hamann** and **James R. Murphy** have rejoined the staff of **Central Republic Co.**, 209 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Everett F. Seegers** has become associated with **Howard F. Detmer & Co.**, 105 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **John P. Noonan** has become connected with the **First Securities Co. of Chicago**, 134 So. La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Herbert J. Burt** has rejoined **W. C. Gibson & Co.**, 231 South La Salle Street, after completing his service with the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Hyde Gillette** has rejoined **Glore, Forgan & Co.**, 135 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**John H. Jackson** has rejoined **Harriman Ripley & Co., Inc.**, 135 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Paul Joseph Bax** has returned to **Kidder, Peabody & Co.**, 135 South La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Clymer S. Bowen** and **Edward J. Dalton** have become associated with **Merrill Lynch, Pierce Fenner & Beane**, Board of Trade Building, after serving in the armed forces. Mr. Bowen was formerly with Bacon, Whipple & Co.; Mr. Dalton was with Merrill Lynch, Pierce, Fenner & Beane.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Martin De Table, Jr.**, is with **David A. Noyes & Co.**, 208 South La Salle Street, after serving in the armed forces.

CHICAGO, ILL. — **George H. Hall** has become affiliated with **Faroll & Company**, 208 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Arthur H. Bothen** has rejoined **First Securities Company of Chicago**, 134 South La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Russell G. Longmire** has rejoined **W. C. Gibson & Co.**, 231 South La Salle Street, after serving in the U. S. Army Air Forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **M. Scott Bromwell** and **Richard P. Mattiessen** have rejoined **Halsey, Stuart & Co., Inc.**, 123 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Robert M. Barnes** has become associated with **Lazard Freres & Co.**, 231 South La Salle Street. He was formerly with Glore, Forgan & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Samuel S. Batton** is now with **Merrill Lynch, Pierce, Fenner & Beane**, Board of Trade Building. He was previously in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **William B. Pierce** has become associated with **Slayton & Co., Inc.** He was formerly with Blyth & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **William B. McNulty** has joined the staff of **Ames, Emerich & Co., Inc.**, 105 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Benjamin Crawford** has rejoined **Bacon, Whipple & Co.**, 135 South La Salle Street, after serving in the U. S. Army.

CHICAGO, ILL. — **Harold N. Forbis** has rejoined **A. G. Becker & Co., Inc.**, 120 South La Salle Street. He has recently been serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **James D. Lynch** has rejoined the staff of **A. G. Becker & Co., Inc.**, 120 South La Salle Street, after service with the U. S. Naval Reserve.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Andrew D. Buchan** and **William J. Gratza** have returned to the **First Boston Corporation**, 231 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Donald C. Pearson** has been added to the staff of **W. C. Gibson & Co.**, 231 So. La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Paul Hackbert**, who has been serving as First Lieutenant in the U. S. Army has rejoined **Goldman, Sachs & Co.**, 208 South La Salle Street. He was overseas thirty-four months in an anti-aircraft division.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Lore W. Alford** has rejoined Harris, Hall & Co., Inc., 111 West Monroe Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Ray R. Kidd** is with **Slayton & Co., Inc.**, after completing his service with the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Edward E. Liening** has rejoined **Valiquet & Co.**, 135 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Albert S. Hammer** has been released from active duty as Captain in the U. S. Air Corps, and is again with **John Nuveen & Co.**, 135 South La Salle Street.

Arthur Bothen Rejoins First Securities Co.

CHICAGO, ILL. — Arthur H. Bothen has rejoined First Securities Company of Chicago, 134 South La Salle Street, after 21 months' duty with the Army in the South Pacific. He will be in their Sales Department and will also continue to handle the underwriting of Tax Anticipation Warrant issues covering Illinois Municipalities. Mr. Bothen has been on La Salle Street since 1931.

Rutherford Rejoins Lewis

CHICAGO, ILL.—Lt. D. M. Rutherford has been released from the United States Army and has returned to the Buying Department of Benjamin Lewis & Co., Field Building.

Howard Taylor Joining Hornblower & Weeks

BALTIMORE, MD.—Howard R. Taylor, member of the Baltimore Stock Exchange, has become associated with Hornblower & Weeks, Keyser Building, and is liquidating the investment business which he has conducted as Howard R. Taylor & Co. since 1908. Mr. Taylor served as a member of the Board of Governors of the Baltimore Stock Exchange from 1935 to 1941 and was President of the Exchange from July, 1942, until last June. Hornblower & Weeks, established in 1888, are members of the New York Stock Exchange and other leading national Exchanges.

Warner Orvis Rejoins Orvis Bros. & Co.

Com. Warner D. Orvis

Commander Warner D. Orvis, after two and one-half years' service in the United States Navy, as officer in charge of the Industry Co-operation Division, Office of Procurement and Materiel in New York, has been released from active duty and has resumed his place as a general partner in Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange.

Raymond Sargeant Is With Hogle in Denver

DENVER, COLO.—Raymond E. Sargeant has become associated with J. A. Hogle & Company, Equitable Building. Mr. Sargeant, who for the past three and one-half years has been in the U. S. Navy, was formerly a partner in Sargeant, Malo & Company of Denver for ten years.

Name to Be Carr & Co.

DETROIT, MICH. — The firm name of Carr, Chapin & Co., Penobscot Building, members of the Detroit Stock Exchange, will be changed to Carr & Co. Roy F. Chapin will retire from partnership in the firm. Partners in Carr & Co. will be Howard F. Carr and Valette D. Eis, both members of the Detroit Exchange, general partners, and Sewart N. Lawson, special partner.

Diamond, Turk Admit

Diamond, Turk & Co., 30 Pine Street, New York City, members of the New York Curb Exchange, admitted Richard W. Weinberg to partnership in the firm on Dec. 17.

Paul A. Davis Opens Office

MIAMI, FLA. — Paul Arthur Davis has opened offices in the Shoreland Building to engage in the investment business. Mr. Davis was previously with Frank D. Newman & Co. and Corrigan, Miller & Co.

Canadian Securities

By BRUCE WILLIAMS

Bretton Woods and whither now? With the virtual certainty of hasty implementation of this ambitious international currency plan before the year-end deadline many exchange doubts should soon be put to rest. What of the long-awaited restoration to its old parity of the Canadian dollar, and of the fate of sterling which has such a vital bearing on the Canadian currency level?

In spite of the wishful thinking of many recent speculative investors in Canadian internal securities a logical appraisal of the situation leads to the conclusion that there will be no change in the initial relationships of the U. S. and Canadian dollars and sterling.

During the war years, Canada in particular has based its whole economy and its very efficient system of controls on the 90 cent dollar. In the present world state of doubt and confusion any recognized stability is not to be lightly abandoned. The transition from the old system to the new will be accomplished with the minimum of dislocation if the basic common factor of a 90 cent Canadian dollar and 4 dollar pound is retained.

With the sterling dollar ratio unchanged, the realignment, if necessary, of other currencies will be greatly simplifed. Some contemplated devaluations might be postponed until it is possible better to assess an appropriate level based on world trade movements under freer conditions. Currency devaluation in itself is not a remedy for economic ills, and it can become a bad habit.

Thus the maintenance of the existing parities of the leading currencies could exert a considerable psychological influence on other countries. Apart from the question of the preservation of currency stability throughout the world, there is also the more pressing factor of self-interest.

There is no immediate advantage to Britain to devalue the pound—for some time imports will rank before exports. This country is interested in the revival of international commerce and the elimination of currency wars. In the case of Canada there is even more concern regarding the maintenance of existing exchange rates.

Export trade is the life-blood of the Dominion and its proportion to national income is the largest in the world. Even with the implementation of the Bretton Woods plan there will still be import quotas and until there is a large measure of freedom of world trade Canada can not afford to make her exports more expensive by voluntarily raising the value of the Canadian dollar. At a later stage ,however, world economic conditions and the progress of Canadian development are likely to make it difficult for the Dominion to resist the upward pressure on its currency.

Turning to the market for the past week, in spite of the holiday influence there was still an active demand for high grade externals, and Nationals pushed still further beyond their all-time highs. Montreals and Albertas were less active although prices were fairly well maintained.

Internals were in steady demand and free funds were steady at 9 3/16%. There was renewed display of interest in Steep Rock Iron which rose to 2.90. This development has highly promising prospects which should ultimately be reflected marketwise.

With regard to future prospects although the general level is high there is more likelihood of further advance rather than recession. There is still a differential in favor of Canadian high grades in contrast with comparable domestic securities and demand continues far to outstrip the supply.

Johnston Director of Am. Business Shares

Henry R. Johnston

Henry R. Johnston, Treasurer of the Committee for Economic Development, has been elected a director of American Business Shares, Inc., 33 Wall Street, New York City, it was announced by Andrew J. Lord, President. Mr. Johnston was at one time Vice-President in charge of the Trust Department of Manufacturers Trust Co. and later President of the investment firm of Case, Pomeroy & Co., Inc.

Yale Securities Co.

Yale Levin is forming Yale Securities Co. with offices at 2751 University Avenue, Bronx, N. Y., to engage in the securities business. Mr. Levin was formerly associated with Roggenbrug & Co.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Following a mild recession the middle of last week, caused by reports that the differential discount rate would be eliminated, the market turned strong when no action was taken and prices again moved into new high ground. . . . Volume was not heavy and activity was somewhat restricted since the financial district was also in a holiday mood. . . . The upswing this time was led by the restricted 2¼s due 1956/59, and this issue went on to a new alltime high. . . . Close behind was the bank eligible 2½% due Sept. 15, 1967/72, which sold above 108 for the first time. . . . The partially exempts kept pace with the rest of the list, as the last four maturities pushed on to new alltime tops. . . .

FULLY DISCOUNTED

Reports that the differential discount rate would be eliminated caused a short-lived flurry in the market. . . .The importance of this rate change as a market factor seems to have been quite fully discounted. . . . Rumors of a rate change were given considerable publicity after the Seventh War Loan and had the market confused for a short period. . . .

It turned out to be a good buying opportunity at that time when prices receded temporarily, as weak holders were shaken out of their securities. . . . It will again be a good time to buy if the market should lose its equilibrium because of the elimination of this discount rate, or rumors to that effect. . . .

The dealers will probably find that their borrowing rate from the banks will be increased if the differential discount rate is removed and this could cause some selling from these sources. . . This would be a good opportunity for investors to pick up issues they can use if prices should recede. . . .

BULGING TREASURY

It is indicated that the Victory Loan total will amount to more than $22 billions, which probably means that the Treasury will be out of the market for new money until the early fall of 1946. . . . Fear that the 2½s due Dec. 15, 1967/72 would be the last long-term high coupon issue to be offered for a considerable period resulted in a great scramble to buy this bond. . . .

Accordingly it is believed that this obligation will be outstanding in an amount in excess of $11 billions which would mean that purchases of this bond alone would be greater than the entire goal set by the Treasury for the drive. . . . Thus the 2½s due Dec. 15, 1967/72 will be the largest marketable issue, taking over the position previously held by the 2% due Dec. 15, 1952/54, and the 2% due Sept. 15, 1951/53. . . .

The 2¼s due Dec. 15, 1959/62, as previously indicated, will be a much smaller issue although purchases will be in excess of $3 billions, which would bring it in line with the 2¼s due 1956/59, which are outstanding in the amount of $3,823,000,000. . . . The large subscriptions to the 2½s will increase slightly the debt service, which leads some in the financial district to believe that the Treasury will offset it by the continued refunding of the high coupon callable obligations with short-term low coupon issues. . . .

NEXT YEAR?

Probably the most important point of concern among money market experts is the policy to be followed by the Treasury in refunding callable and maturing obligations during 1946. . . . The program that will be adopted will have an important bearing on the Government bond market. . . .

It is believed in some quarters that the Treasury, in order to offset the inflationary potentialities of the large bank deposits, to say nothing of the future increase that will take place in them, should refund the callable and maturing obligations with issues that are suitable for purchase by the insurance companies and savings banks. . . . This would entail some increase in the debt service, but it was pointed out that this would be much less expensive than the cost that would be exacted by inflation. . . .

The Treasury will not need much new money in the future so it is now in a position to put a debt conversion program into operation. . . . A substantial amount of the outstanding certificates, largely held by the banks, should be converted into long-term 2¼% and 2½% bonds, which would be sold to non-bank investors. . . . This would cut down the amount of bank deposits and purchasing power, which are not needed at this time. . . . This would also tend to prevent the restricted bonds from rising too sharply. . . .

ANOTHER WAY

Even if the Government should not see fit to offset to a considerable extent the inflationary implications of present and increased deposits, it could improve its future borrowing position by eliminating some of the floating debt through the offering of some long-term high coupon obligations to the non-deposit institutions and some medium-term securities to the commercial banks. . . .

This would likewise have a beneficial effect on the Government bond market, since it would prevent the presently outstanding issues from going to prices which many of the commercial banks can no longer afford to pay. . . .

It would also keep these institutions, principally the smaller ones, from buying non-Government low quality obligations, that caused so much of their trouble in the past. . . .

IDES OF MARCH

It may be that the market will get a clue to the policy the Treasury will be committed to, when notice is given as to the way the March maturity of 1% notes and the 3¾% partially exempt bonds are going to be handled. . . If these issues are refunded with certificates, it is quite likely that the Treasury is still confining itself to the policy of cutting debt charges without too much concern about future consequences. . . .The 3¾% is a small issue and may be paid off in cash. . . . This would reduce deposits somewhat and might indicate a change in policy. . . .

On June 15 when the partially exempt 3s and 3⅛s will be retired, there will probably be a much clearer conception of the Government's future refunding program. . . .

Ohio Municipal Comment

The year 1945 draws to a close with prices of Ohio municipals continuing the upward march toward the peak levels which obtained in the bull market for tax-exempts earlier in the year. Indeed, recent evidence suggests that the Ohio market has more than regained the formidable position it enjoyed prior to the sharp setback suffered by the entire municipal field in consequence of V-J Day.

The point is perhaps best illustrated in a comparison of the standing of the mark-t early in September and at the present time. The record, according to weekly data compiled by J. A. White & Co., Cincinnati, shows that the composite yield on 20 Ohio bonds is now 1.29%, as against 1.40% in the September period. In the case of 10 high-grade bonds, the current yield is 1.13% as compared with 1.19%.

The sharpest advance has taken place in the 10 lower grade bonds, the present level of 1.45% being in contrast with the 1.65% figure which obtained several months ago.

In short, the Ohio municipal market has participated fully in the recent marked improvement in the price level of municipals generally and gives every indication of making additional gains.

* * *

Among recent new issue offerings, all of which have been awarded on extremely favorable terms to borrowers, the outstanding items were those presented by the cities of Elyria and East Cleveland.

The Elyria bonds, amounting to $1,325,000, were taken by an account headed by Stranahan, Harris & Co., Inc., Toledo, and including Ryan, Sutherland & Co., and Roose & Co. The group paid a price of 100.634 for the $1,175,000 water works improvements as 1¼s, and 100.291 for the $150,000 limited tax sewers. The former issue matures on Sept. 1 from 1947 to 1976, inclusive, and optional on and after Sept. 1, 1956, while the limited tax loan is due annually from 1947 to 1956, inclusive.

The reoffering scale was from 0.50% to 1.25% and the underwriters succeeded in placing more than half of the offering in the first day.

The East Cleveland issue of $250,000 general building improvement bonds, due from 1947 to 1956, inclusive, was awarded to the Ohio Company of Columbus, on a bid of 101.292 for 1s, making a net interest cost to the borrower of no more than 0.79%. The bonds were not reoffered.

* * *

While the current calendar of prospective awards includes a number of substantial loans, the principal contender is Franklin County, which will open bids Jan. 4 on a total of $1,900,000 bonds, being part of the $9,500,000 authorized by the voters at the Nov. 6 election.

The offering consists of five separate issues, with the overall maturity dates being from 1947 to 1970, inclusive.

Six Cleveland Men Appointed by ABA

CLEVELAND, OHIO—Frank C. Rathje, President of the American Bankers Association, has appointed six prominent Cleveland bankers to the working organization of the Association.

Among the appointments were: Brigadier General Leonard P. Ayres, Executive Vice-President of Cleveland Trust Co., made Chairman of the Economic Policy Commission.

Loring L. Gelbach, President of Central National Bank, made Chairman of the Board of Regents of the Graduate School of Banking.

Sidney B. Congdon, President of National City Bank, named to the Postwar Small Business Credit Commission.

Francis H. Beam, Vice-President of National City, appointed Chairman of Subcommittee on Section 5219 U. S. Revised Statutes of the Committee on Federal Legislation.

R. S. Douglas, Assistant Counsel of Cleveland Trust, a member of the Committee on State Legislation, and Chairman of the Subcommittee on Assignment of Accounts Receivable Legislation of the Committee on State Legislation.

Dale Brown, Assistant Vice-President of National City, named to Public Relations Council.

Skall Cited for Merit

Lieutenant Colonel David G. Skall, well known Cleveland broker, who also was active in Cleveland Stock Exchange affairs before entering the Army Air Corps, has been awarded a citation for Legion of Merit.

The citation reads: "For exceptionally meritorious conduct in the performance of outstanding services in the Headquarters Army Air Forces from June 10, 1943, to Sept. 3, 1945.

"Lieutenant Colonel Skall demonstrated exceptional initiative and efficiency in determining the rapidly changing requirements of the Pacific Theater for air units; in balancing these requirements against available resources and capabilities, and in developing and executing plans by which these requirements were met within the time schedule imposed by combat operations. As a result of his imagination and resourcefulness, the weight of air power brought to bear against Japan was measurably increased."

Gottron, Russell Co. Formed in Cleveland

CLEVELAND, OHIO—Gottron, Russell & Co. will be formed as of Jan. 2nd, to succeed Gillis, Russell & Co., Union Commerce Building, members of the Cleveland Stock Exchange. Partners will be James N. Russell and Richard A. Gottron, Exchange member.

Webb With Paul Davis

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Cecil A. Webb has become associated with Paul H. Davis & Co., Union Commerce Building. Mr. Webb was formerly with Thomson & McKinnon in Orlando, Fla. Prior thereto he was with Goodbody & Co., Courts and Co. and Beer and Co. in Atlanta. In the past he with with Henry Zuckerman & Co. in New York City.

Ohio Personnels

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, O.—**John E. Dippery** and **Harry E. Schwall** are with **Slayton & Co., Inc.**

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Hilda M. Marquart** has become associated with **Livingston, Williams & Co., Inc.**, Hanna Building. Miss Marquart was formerly with the Cleveland Trust Company.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Henry T. McKee** is now affiliated with **E. H. Rollins & Sons, Inc.** He has recently been in the armed forces. In the past he was with Lowry Sweney, Inc.

(Special to THE FINANCIAL CHRONICLE)

YOUNGSTOWN, OHIO — **John D. R. Barbour** has rejoined the staff of **McDonald & Company**, after serving in the armed forces.

Ohio Brevities

Pathe Industries, Inc., which announced last week that it had entered into an Anglo-American reciprocal agreement for the distribution of a number of outstanding British and American films throughout the world, has called a special meeting of the holders of Pathe common for Jan. 7 to vote on a proposal to split the stock 10-for-1.

It was reported at the same time that stockholders of Commonwealth Securities, Inc., and V. D. Anderson Co., both of Cleveland, had approved merger of the two companies with Pathe Industries.

In a notice to Commonwealth holders, Secretary William R. Daley said that as provided in the agreement of merger, each share of Commonwealth Securities preferred was convertible into 3/10ths of a share of Pathe preferred (par value $100 a share), and .275 of a share of Pathe common stock (par value $5 per share), and each share of Commonwealth common was convertible into 1/45th of a share of Pathe common ($5 par value).

Robert R. Young, chairman of Alleghany Corp. and Chesapeake & Ohio Railroad, who also holds a controlling interest in Pathe Industries, stated the Young interests and J. Arthur Rank, British movie magnate, will operate a world-wide distributing system, starting next September, with a minimum of 20 films, ten British films from the Rank Group and 10 American films from the Young interests, under the trade-mark, "Eagle Lion," which the Rank Group is already using throughout the world.

In the U. S., the Young interests will form a new company to handle the distribution in the U. S. and Central and South America, including Mexico. It will be owned by Pathe and will be known as Eagle Lion Films. To enable this name to be used, the name of the existing Rank Group in the U. S., Eagle Lion Films, Inc., will be revised, the statement continued.

Distribution in the British Isles and throughout the rest of the world will be handled by the present Rank organization.

"The American films to be contributed by the Young interests through the Eagle Lion distribution system will be high budget pictures made by the outstanding Hollywood independent producers.

"The British films will be selected from the finest product of the producing organizations in the Rank Group, with the exception of those films to be distributed by United World Pictures Co., formation of which was announced Nov. 28," it continued.

Negotiations were conducted by G. I. Woodham Smith of London, England, representing Mr. Rank. Kenneth M. Young, President of Pathe, signed for the Young interests with Robert S. Benjamin of New York, as counsel.

* * *

George C. Brainard, Chairman of the Federal Reserve Bank of Cleveland, will take over the posts of President and General Manager of Addressograph-Multigraph Corp. on Jan. 1. He has left his position as president of General Fireproofing Co. of Youngstown, O., but will remain as a director.

Brainard, who has been on the board of Addressograph for a number of years and who also has participated in the company's postwar production plans, succeeds Joseph E. Rogers, who will continue as chairman of the executive committee and a director.

* * *

White Motor Co. has purchased a government-owned plant in Cleveland for $807,350 from Reconstruction Finance Corp. and reports that it will center its expanded bus-building program in this plant starting next summer. It is planned to triple the company's annual output of 500 buses turned out before the war.

R.F.C. also said that Thompson Aircraft Products Co., subsidary of Thompson Products, has bought a government-owned portion of its Euclid, O., plant for $5,000,000 and that Ohio Crankshaft Co., Inc., has purchased a plant for $608,000.

* * *

A group headed by Northern Trust Co. of Chicago, purchased $1,175,000 City of Elyria, O., 1.25% water works improvement bonds due Sept. 1, 1947-1976. The bonds were scaled from .50 to 1.25% yield.

Three Ohio firms in the group were Stranahan, Harris & Co., Ryan, Sutherland & Co. and Roose & Co.

* * *

A total of 700,000 common shares of Alleghany Corp. common stock was offered to selected dealers by Otis & Co. at $5.75 a share, less a commission of 37½ cents per share. The offering did not represent new financing by the company.

* * *

This Saturday, M. A. Hanna Co., Cleveland, will become the largest stockholder in Pittsburgh Consolidation Coal Corp., world's biggest commercial producer of bituminous coal.

On that date, the merger of Bessemer Coal & Coke Corp. of Pittsburgh, with M. A. Hanna Co. is effective.

Hanna directors voted the merger overwhelmingly. Out of a total of 971,764 common shares entitled to vote, 889,829 shares were voted for the merger while 125 shares were voted against.

Charles B. Merrill, president of Merrill, Turben & Co. of Cleveland, is the new member of the Board of Governors of the Investment Bankers Association of America. Merrill, who succeeds Maynard H. Murch of Maynard H. Murch & Co., Cleveland, was chosen to the three-year term earlier in the month at Chicago. Merrill also is president of Western Reserve Investing Corp., is a member of the Cleveland Stock Exchange and the Bond Club. Another Ohioan, Hazen S. Arnold of Toledo, was elected a vice-president of the Investment Bankers Association.

* * *

Charles M. Lemperly, Vice-President and director of sales, and Gordon H. Robertson, have been elected to the Board of Directors of Sherwin-Williams Co., Cleveland, world's largest paint and varnish manufacturers. Robertson is Vice-President and General Manager of Acme White Lead & Color Works, Detroit, Sherwin-Williams subsidiary.

Directors appointed M. J. Fortier as Vice-President and general manager of Sherwin-Williams Co. and Sol B. Coolidge was named Vice-President and director of auxiliaries which includes the management of the company's smelters, oil mills, and pigment and can manufacturing plants.

* * *

First National Bank of Scranton, Pa., submitted the winning bid of 1⅜% for $350,000 Erie Railroad promissory notes to finance less than 80 per cent of the cost of 100 seventy-ton covered hopper cars to be built by Greenville, Pa., Steel Car Co.

Erie officials said the bid was believed to be the lowest rate of interest ever received for that type of security with a final maturity of 10 years.

The notes, evidence of indebtedness under a conditional sale agreement, were dated January 1, 1946 and will mature quarterly from June 1, 1946 to March 1, 1956.

Railroad Securities

Southern Railway pretty well typifies the progressive improvement during the war years in the credit standing of roads formerly characterized as marginal. Not too many years ago even the highest coupon series of the Development & General (junior) Mortgage could be purchased in the 20s. Even as recently as last year the highest coupon series was available at a discount from par. Now the company is not able to buy them at wide premiums over par. Some time ago the company offered to purchase up to $5,000,000 of the 6½s and 6s at 123 and 118, respectively. This offer met with such a cold reception that when it expired on Nov. 30 it was extended to Dec. 24. It is indicated that even the extension of the time limit brought in few, if any, bonds.

General money market conditions and the steady contraction in the amount of railroad bonds outstanding may be cited as contributory factors to the present market appraisal, but the most important consideration has undoubtedly been the change in the status of the road itself. The Southern management was one of the first to embark on an aggressive debt retirement program. After liquidating temporary loans contracted during the depression (to a large extent to meet principal maturities) the management turned its attention to the high coupon series (6% and 6½%) of the junior mortgage and more or less concentrated there, where the greatest interest saving was promised, up to the present.

As a result of the debt program, and without considering any bonds that may have been retired through the purchase offer, fixed charges have been reduced to around $12,100,000. This represents a cut of some 27% from the burden supported ten years ago. Ever since 1932 the road's annual earnings have run pretty well above that figure. It is generally considered now that the company should have little difficulty in covering its obligatory requirements by a substantial margin under virtually any foreseeable conditions. In addition, with its strong financial status and favorable earnings prospects, it is expected that the program of reducing debt and charges will be continued.

With the obvious improvement in the road's credit standing and the substantial reduction there has been in interest charges in recent years, the equities, and particularly the common, have been attracting a considerable amount of speculative and semi-investment buying. The common has reacted from the earlier 1945 high of 60 and in recent markets has been selling to afford a return of better than 5% on the 1945 dividend rate of $3 a share. Naturally, earnings this year are being distorted by such extraordinary items as accelerated amortization but even at that it is expected that final results will show better than $7 a share on the common. In 1944 the company earned close to $15 a share.

There are too many uncertainties in the immediate picture to make any intelligent estimates for earnings for a specific period such as 1946. A lot will depend on the effect on industry generally of current and pending strikes. There will also be the question of the extent of wage increases for rail labor and to what extent such increases will be retroactive. That there will be some increase is hardly open to question. There will naturally be a lag between wage increases and any possible compensating upward adjustment of railroad freight rates. Finally, there will be the question of the possible influence on near term earnings of tax carry-backs.

While near and intermediate term earnings for specific periods will be subject to wide distortions by outside factors, it is possible to estimate what the basic earning power of the road may be ex the distortions. Over a period of years Southern has benefited traffic-wise from the industrial expansion of the South. This is still a factor. Many plants established for war uses will presumably continue in operation in a peace economy. Since the depression years Southern has installed a considerable amount of new equipment with a consequent saving in operating costs. Substantial sums have also been spent on additions and betterments to the properties with consequent economies. Interest costs have been shaved as outlined above. Both from the standpoint of traffic potentialities and the standpoint of costs and charges ahead of the equities, then, Southern is well situated. Unless all present ideas as to the general national economy over the next few years prove to be ridiculously overly optimistic Southern should have little difficulty in keeping earnings at, or above, the $7 estimated for 1945. Obviously, this affords adequate protection to the recent dividend rate.

Very High Frequency Space Radio for Train Communication

By P. B. TANNER*

Manager, Radio Sales Dept., Bendix Radio Corporation

Mr. Tanner Describes the Two Forms of Radio Train Communication in Use Today and Points Out That the Underlying Differences Between Them Is in the Wave Frequencies. Points Out That the VHF Space Radio Broadcasts Waves in All Directions and Does Not Require an Inductive Carrier System by Means of Wayside Wires. Holds That Although the Range of the VHF Radio Is Short It Has the Advantage of Less Interferences and Is Better Adapted to a "Warning" Purpose. The VHF Radio Is Also Free From Atmospheric Noises and Man-Made Static and Is Light and Portable and Involves Less Operational Problems as Well as Being Lower in Cost

We at Bendix realize that the acceptance of railroad radio will depend in the final analysis upon whether its use will result in worth-while economies in daily railroad operations. After Mr. Hasselbacher's talk (See "Chronicle" of Dec. 20, page 3016.—Editor), I don't think there can be any question in your minds but that these economies will be very far-reaching, and as he has intimated, our experience is still too limited to permit foreseeing further economies which may develop from the general use of radio by railroads.

P. B. Tanner

As most of you probably know, there are two forms of train communication in use today, the inductive carrier system, and very high frequency space radio. The inductive carrier system has been used for a period of years but its general acceptance has been delayed due to the technical limitations of the early equipments. In the meantime, in the past year and a half to be exact, the success obtained with very high frequency radio in military aviation has led to the development of the VHF space radio system for railroad use. Bendix Radio is proud to have had a leading part in the development of this new system, together with forward-looking railroads such as the Burlington, the Sante Fe, the Baltimore and Ohio and several others.

Without going too deeply into a technical discussion, the differences between the two systems stem principally from the different frequencies or wave-lengths on which they operate. The inductive carrier systems use low frequencies, generally in the neighborhood of 100 kilocycles, that is, with wave-lengths in the order of 3,000 meters. The VHF or very high frequency space radio system operates on frequencies between 158 and 162 megacycles, or wave-lengths of only about two meters. You can appreciate that the characteristics of these two frequencies are quite different.

The outstanding difference in the two systems is the method of propagation of the electric waves which carry the messages. At the low frequencies employed in the inductive carrier system, the waves tend to follow the telephone or telegraph wires over which they are transmitted, and can be received satisfactorily only when the train is within a short distance of these wires—say up to 50 yards or so.

With VHF space radio, the waves are broadcast in all directions, and can be received anywhere within the range of the transmitter, just as in the case of your automobile radio.

It is immediately apparent that this dependence upon wayside wires constitutes a serious drawback to the use of the inductive carrier system in many phases of railroad operations. For example, in metropolitan areas, where wires are often carried underground, or on industrial sidings where no wires exist, the inductive system cannot provide communication. Likewise on the main line, when the wires do not follow the right-of-way, as in the case of wide curves or through deep cuts, the inductive carrier system is again at a disadvantage. In the same way, when storms prostrate the wire lines, inductive communication is often impaired, right at a

*An address by Mr. Tanner before the Railroad Section of the New York Association of Security Analysts, Dec. 7, 1945.

(Continued on page 3155)

The Anglo-Czechoslovak Monetary Agreement

Treaty Follows Same Pattern as Those With Members of Sterling Bloc, and Restricts Payments of Sterling Balances Outside the Sterling Area. Fixes Exchange Rate of 20½ Czechoslovak Crowns to £.

The "Chronicle" has received the official text of the Monetary Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Czechoslovak Republic, signed in London, Nov. 1, 1945. This document follows the lines of similar agreements made by Great Britain with other countries, but is distinctive in that it is the first treaty of this nature made with an important nation, not a member of the Sterling Bloc. Under the terms of Article 7 of the Agreement, both countries contract to renew the terms, if either of the contracting parties adhere to a general international monetary agreement. Since both Great Britain and Czechoslovakia have ratified the Bretton Woods Agreements, amendments to the Treaty may be required.

The following constitutes the full text of the agreement:

Monetary Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Czechoslovak Republic.

London, 1st November, 1945.

The Government of the United Kingdom of Great Britain and Northern Ireland, of the one part, and the Government of the Czechoslovak Republic, of the other part, have agreed as follows:

Article 1.

(i) The rate of exchange between the Czechoslovak crown and the £ sterling shall be Kcs.201.50 = £1.

(ii) This rate (hereinafter referred to as "the official rate") shall not be varied by either of the Contracting Governments except after mutual consultation.

(iii) In all territories where they have jurisdiction the Contracting Parties shall enforce the use of the official rate as the basis of all transactions involving a relationship between the two currencies.

(iv) The Bank of England and the National Bank of Czechoslovakia, as agents of their respective Governments, shall fix by mutual agreement the maximum spread above or below the official rate which will be authorized on the markets which they control.

Article 2.

(i) The Bank of England (acting as agents of the United Kingdom Government) shall sell sterling to the National Bank of Czechoslovakia (acting as agents of the Czechoslovak Government) as may be required for payments which residents of Czechoslovakia, under the exchange regulations there in force, are permitted to make to residents of the sterling area—

(a) against Czechoslovak crowns to be credited at the official rate to the Bank of England's No. 1 Account with the National Bank of Czechoslovakia, provided that the balance standing to the credit of that Account is not thereby increased above a maximum of Kcs.200 million: or

(b) if the balance standing to the credit of the Bank of England's No. 1 Account with the National Bank of Czechoslovakia amounts to Kcs.200 million, against gold to be set aside in the Bank of England's name at the National Bank of Czechoslovakia, Prague.

(ii) The National Bank of Czechoslovakia (acting as agents of the Czechoslovak Government) shall sell Czechoslovak crowns to the Bank of England (acting as agents of the United Kingdom Government) as may be required for payments which residents of the sterling area, under the exchange regulations in force in that area, are permitted to make to residents of Czechoslovakia—

(a) against sterling to be credited at the official rate to the National Bank of Czechoslovakia's No. 1 Account with the Bank of England, provided that the balance standing to the credit of that Account is not thereby increased above a maximum of £1 million plus such additional sum as the Contracting Governments shall have agreed to recognize as equivalent to the net amount of sterling owned by residents of Czechoslovakia at the date on which this Agreement enters into force; or

(b) if the balance standing to the credit of the National Bank of Czechoslovakia's No. 1 Account with the Bank of England amounts to £1 million plus the additional sum referred to in sub-paragraph (a) above against gold to be set aside in the name of the National Bank of Czechoslovakia at the Bank of England, London.

(iii) The Bank of England and the National Bank of Czechoslovakia shall maintain minimum balances upon their No. 1 Accounts with each other, the amounts of which shall be determined by agreement between them.

(iv) Gold set aside in Prague in accordance with the provisions of this Article shall be at the Bank of England's free disposal and may be exported.

(v) Gold set aside in London in accordance with the provisions of this Article shall be at the National Bank of Czechoslovakia's free disposal and may be exported.

Article 3.

(i) The Bank of England shall have the right at any time to sell to the National Bank of Czechoslovakia, against all or part of the sterling balances held by that Bank, either Czechoslovak crowns at the official rate or gold to be set aside at the Bank of England in London.

(ii) The National Bank of Czechoslovakia shall have the right at any time to sell to the Bank of England, against all or part of the Czechoslovak crown balances held by that Bank, either sterling at the official rate or gold to be set aside at the National Bank of Czechoslovakia in Prague.

Article 4.

(i) The Government of the United Kingdom shall not restrict the availability of sterling at the disposal of residents of Czechoslovakia for making—

(a) transfers to other residents of Czechoslovakia;

(b) payments to residents of the sterling area; or

(c) transfers to residents of countries outside Czechoslovakia and the sterling area to the extent to which these may be authorized by the Government of the United Kingdom under the arrangements contemplated in Article 7 (iii) hereof.

(ii) The Czechoslovak Government shall not restrict the availability of Czechoslovak crowns at the disposal of residents of the sterling area for making—

(a) transfers to other residents of the sterling area;

(b) payments to residents of Czechoslovakia; or

(c) transfers to residents of countries outside the sterling area and Czechoslovkaia to the extent to which these may be authorized by the Czechoslovak Government under the arrangements contemplated in Article 7 (iii) hereof.

Article 5.

The two Contracting Governments shall cooperate with a view to assisting each other in keeping capital transactions within the scope of their respective policies, and in particular with a view to preventing transfers between their areas which do not serve direct and useful economic or commercial purposes.

Article 6.

Any sterling held by the National Bank of Czechoslovakia shall be held and invested only as may be agreed by the Bank of England and any Czechoslovak crowns held by the bank of England shall be held and invested only as may be agreed by the National Bank of Czechoslovakia.

Article 7.

(i) If during the currency of this Agreement the Contracting Governments adhere to a general international monetary agreement, they will review the terms of the present Agreement with a view to making any amendments that may be required.

(ii) While the present Agreement remains in force the Contracting Governments shall cooperate to apply it with the necessary flexibility according to circumstances. The Bank of England and the National Bank of Czechoslovakia, as agents of their respective Governments, will maintain contact on all technical questions arising out of the Agreement and will collaborate closely on exchange control matters affecting the two areas.

(iii) As opportunity offers, the Contracting Governments shall seek with the consent of the other interested parties—

(a) to make Czechoslovak crowns at the disposal of residents of the sterling area and sterling at the disposal of residents of Czechoslovakia available for payments of a current nature to residents of countries outside the sterling area and Czechoslovakia; and

(b) to enable residents of countries outside the sterling area and Czechoslovakia to use sterling at their disposal to make payments of a current nature to residents of Czechoslovakia, and to use Czechoslovak crowns at their disposal to make payments of a current nature to residents of the sterling area.

(iv) Notwithstanding that each of the Contracting Governments shall be alone responsible for its monetary relations with third parties, they shall maintain contact wherever the monetary relations of the one affect the interests of the other.

Article 8.

For the purposes of the present Agreement—

(i) the expression "the sterling area" shall have the meaning from time to time assigned to it by the exchange control regulations in force in the United Kingdom;

(ii) transactions between the Bank of England and the National Bank of Czechoslovakia are to be considered as transactions between the sterling area and Czechoslovakia;

(iii) transactions entered into by the Government of any territory within the sterling area or by the Czechoslovak Government are to be considered as transactions entered into by a resident of that area or of Czechoslovakia respectively.

Article 9.

The present Agreement, which shall be subject to review and adjustment after mutual consultation, shall come into force on the 5th November, 1945. At any time thereafter either Contracting Government may give notice to the other of its intention to terminate the Agreement, and the Agreement shall cease to have effect three months after the date of such notice. It shall terminate three years after the date of its coming into force, unless the Contracting Governments agree otherwise.

In witness whereof, the undersigned, being duly authorized by their respective Governments, have signed the present Agreement and have affixed thereto their seals.

Done in London, in duplicate this 1st day of November, 1945.

For the Government of the United Kingdom of Great Britain and Northern Ireland:

(L.S.) ERNEST BEVIN.

For the Government of the Czechoslovak Republic:

(L.S.) Dr. RUDOLF KURAZ.

R. H. Johnson & Co. Offer Alaska Airlines Common Shares

A public offering of 125,000 additional ($1-par) common shares of Alaska Airlines, Inc., was made Dec. 26 by a group of underwriters headed by R. H. Johnson & Co., at $15.50 per share. The shares represent an additional offering out of an original authorized issue of 1,000,000 shares. The company's latest financial statement, dated July 31, showed a total of 410,387 shares issued, of which 30,200 shares were held by the company's treasury. As of Oct. 31 there were 22,001 additional shares outstanding.

Proceeds from the latest sale will be used by the company to provide funds for standardization of equipment, procurement of instrument flight facilities, enlargement of general operations, and retirement of a bank loan.

Alaska Airlines, Inc., was incorporated under the laws of the Territory of Alaska on Nov. 27, 1937, as successor to Star Air Service which originally was formed in 1933. Carrying passengers, property and mail on regular and irregular schedules, the air line operates over more than 6,000 miles of route mileage.

Other members of the offering group are A. M. Kidder & Co.; Bond & Goodwin, Inc.; Coburn & Middlebrook; Foster & Marshall; Van Alstyne, Noel & Co.; Courts & Company; J. C. Bradford & Co., and Reinholdt & Gardner.

Red Cross Names Stephens and O'Connor

Appointment of William A. Stephens as American Red Cross Commissioner for Great Britain and Western Europe was announced on Dec. 4 by Basil O'Connor, National Chairman. Mr. O'Connor was reappointed chairman by President Truman on Dec. 11.

Mr. Stephens, a deputy commissioner in the theater indicated since Oct. 1, succeeds the late Frederick A. Carroll of Boston who was killed in an automobile accident in France Oct. 16. Overseas with the Red Cross for three years, Mr. Stephens was regional director for Northern Italy previous to his transfer to the Western European theater. His work with the 5th Army was recognized by the award of the Bronze Star Medal "for meritorious services in support of combat operations from January, 1943, to October, 1944, in North Africa and Italy." Mr. Stephens went to England as office manager for the American Red Cross London office and was later assigned to the Mediterranean theater where he helped plan Red Cross service to evacuation hospitals, was regional supervisor at Oran, and then coordinated Red Cross services with the 5th Army.

Before joining the Red Cross, Mr. Stephens was in the brokerage business, associated with the firm of Gude Winmill & Company on the New York Curb Exchange.

In reappointing Chairman O'Connor, President Truman named five members for the Red Cross Central Committee; these, said the New York "Times" in advices from Washington Dec. 11, were the Secretary of the Treasury, Fred M. Vinson, succeeding Danel W. Bell, Under-Secretary; William A. Clayton, Assistant Secretary of State; Tom Clark, Attorney General; Vice Admiral Ross T. MacIntire, Surgeon General of the Navy, and Maj. Gen. Norman T. Kirk, Surgeon General of the Army.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

As we draw to the close of 1945 it is of interest to review the trend of significant banking figures since the first of the year, and to compare them with figures for the comparable period of last year. The following tabulation shows aggregates for a group of 15 leading Wall Street banks*:—

TABLE 1

Date—	Deposits	Governments	Loans & Discounts	Total Earning Assets	Cash
		(000,000 omitted)			
12-31-43	$21,819	$13,382	$4,075	$18,671	$4,959
3-31-44	22,472	13,886	4,419	19,578	4,674
6-30-44	24,131	14,809	5,128	21,228	4,816
9-30-44	22,542	14,273	4,468	20,095	4,326
Quarterly average (1944)	$22,741	$14,088	$4,523	$19,893	$4,694
12-30-44	$25,155	$15,780	$5,416	$22,451	$4,678
3-31-45	23,717	15,195	4,608	21,120	4,587
6-30-45	26,514	15,967	6,629	23,990	4,541
9-30-45	24,599	14,947	5,534	22,034	4,664
Quarterly average (1945)	$24,996	$15,472	$5,547	$22,399	$4,618
% change	+9.9%	+9.8%	+22.6%	+12.6%	—1.6%

It is very evident that earning assets of the banks have been substantially higher throughout 1945 than during 1944. Based on quarterly figures, deposits and holdings of Government securities have averaged nearly 10% above last year, while loans and discounts have averaged 22.6% higher and total earning assets, 12.6%. Cash, on the other hand, has averaged 1.6% lower.

The influence of the Government's war loan drives on deposits and Government holdings is very apparent. For example, as a result of the Sixth War Loan between Nov. 20 and Dec. 16, 1944, deposits increased from $22,542,000,000 as of Sept. 30 to $25,155,000,000 on Dec. 30, and Government holdings expanded from $14,273,000,000 to $15,780,000,000. Similarly, during the Seventh War Loan (May 14 to June 30, 1945), deposits rose from $23,717,000,000 on March 31 to $26,514,000,000 on June 30, while Governments rose from $15,195,000,000 to $15,967,000,000. The effects of the Victory Loan obviously will not appear until the 1945 year-end statements-of-condition are published by the banks. Between Loan Drives there occurs a shrinkage in deposits as the Government's deposit accounts are drawn down.

TABLE II

Dates—	U. S. Governments	Commercial Loans	All Loans	Total Loans & Investments
		(000,000 omitted)		
12-29-43	$12,234	$2,418	$4,184	$18,214
3-29-44	13,366	2,465	4,446	19,007
6-28-44	13,957	2,337	4,971	20,061
9-27-44	14,083	2,290	4,300	19,577
Quarterly average (1944)	$13,410	$2,378	$4,475	$19,215
12-27-44	$15,060	$2,464	$5,521	$21,724
3-28-45	14,948	2,346	4,463	20,524
6-27-45	15,481	2,241	6,247	22,824
9-26-45	14,824	2,301	5,361	21,434
Quarterly average (1945)	$15,078	$2,338	$5,398	$21,626
% change	+12.4%	—1.7%	+20.6%	+12.5%

It is an interesting coincidence that average aggregate earning assets of the 15 banks thus far in 1945 should be 12.6% greater than in 1944, for, as was pointed out in this column two weeks ago, indications are that total net operating profits, based on Bank of Manhattan's report, should approximate 12.5% better this year than last.

It is now of interest to examine the weekly figures of New York "member banks," as reported by the Federal Reserve Board, for approximately similar dates.

Total loans and investments have thus far averaged 12.5% higher than in 1944, which is in close agreement with the 12.6% for total earning assets of the 15 leading banks represented in Table 1. There is some difference, however, between member banks and the 15 banks in their respective percentage increases of Governments and Loans.

The Victory Loan Drive opened on Oct. 29, 1945, a full month after the last date on the above tabulation. The effect of this is already being registered in the banking figures, as can be seen by comparing the latest amounts reported for the New York City Member Banks, with those reported for Sept. 26, as follows: Governments, $15,971,000,000; Commercial Loans, $2,641,000,000; All Loans, $6,902,000,000; Total Loans and Investments, $23,952,000,000.

In the face of this record it is hard to escape the conclusion that banks will report the best earnings in 1945 that they have enjoyed in many years. Furthermore, with earning assets at an all-time high and apparently destined to rise still higher, coupled with the fact that the excess profits tax terminates at the close of this year, it is logical to believe that bank earnings may continue to improve during the next few years.

Despite these exceptionally favorable factors in the banking situation and outlook, the market is not responding. Consider this comparison:

Dow Jones Industrials: Dec. 31, 1944, 152.32; Dec. 21, 1945, 189.07; gain 24.1%.

American Banker Index: Dec. 31, 1944, 45.8; Dec. 21, 1945, 49.8; gain 8.7%.

There is an amazing lag in bank stock prices which sometime the market will undoubtedly rectify.

*Bank of Manhattan, Bank of New York, Bankers Trust, Central Hanover, Chase National, Chemical, Corn Exchange, First National, Guaranty Trust, Irving Trust, Manufacturers Trust, National City, New York Trust, Public National and United States Trust.

Legion Plan for Military Training

A plan for universal military training was submitted to the House Military Affairs Committee on Dec. 18 by the American Legion, through its National Commander, John Stelle. The Legion plan, according to the Associated Press from Washington, calls for up to four months of intensive, basic training for all youths between 18 and 20, and those of 17 who have parental consent. Trainees would then be given several optional ways of completing the remainder of their year of training—either in the armed forces, National Guard, R. O. T. C., college or industry.

Value of Franc Cut; Action Essential: Vinson

It was announced by the French Government on Dec. 25 that it had cut the value of the franc by more than half, setting it at 119.10669 to the dollar, and 480 to the pound sterling. The Associated Press advices from Paris, reporting this, said the "devaluation of the franc, which since the liberation, has been pegged at 50 to the dollar and 200 to the pound, will take effect tomorrow [Dec. 26] with publication of the decree in the official Government Journal."

The press advices from Paris as given in the N. Y. "Journal of Commerce" went on to say:

Members of the constituent assembly forecast last week the franc would be reduced in value as a step toward full scale resumption of international trade.

The decision to cut was taken at a four-hour Cabinet session Sunday.

It was known that the Government wanted to stabilize its money before ratification of the Bretton Woods monetary agreement, scheduled for debate in the constituent assembly tomorrow.

French financial experts said the two-cent valuation of the franc was artificial and prevented the French from "selling anything in the United States or in England." They were divided as to how devaluation might affect the French domestic economy. Some held that it would increase inflation; others maintained it would so stimulate production of goods that living costs would fall. Because of the devaluation, the Government ordered that French Stock Exchanges remain closed tomorrow.

The assembly now is considering the 1946 budget, which contemplates a 120,000,000,000 franc deficit, estimated on the old evaluation.

The nation's international trade since liberation has been confined largely to token shipments of luxury goods—perfume, cognac and champagne. Unable to fulfill her part of a trade agreement with Sweden, France recently transferred 400,000,000 francs worth of gold to Sweden, partially covering deliveries France had been unable to make.

The present devaluation is the fifth in nine years. During that time the value of the paper franc has declined steadily from approximately five gold centimes (0.049 gold francs) to the present rate of slightly more than half a gold centime (0.0064 gold francs).

The move was taken to align France's currency more closely to its actual value in comparison to world money on the eve of the assembly's meeting tomorrow to consider ratification of the Bretton Woods Agreement.

The Government announced also that currencies in the French colonies would be changed. Those overseas territories whose local currency will have the same dollar and pound value as the metropolitan franc are Algiers, Tunisia, French Morocco, the French West Indies and French Guiana.

Those colonies where 100 francs of local currency will be made equal to 170 metropolitan francs are French West Africa, French Equatorial Africa, French Congo and Cameroons, French Somaliland, Madagascar, Reunion and St. Pierre and Miquelon Islands.

New Caledonia, New Hebrides and the rest of French Oceania will have a rate of 100 local francs, equal to 240 metropolitan francs.

According to Associated Press accounts from Washington, Dec. 25, Secretary of the Treasury Vinson said that "a change in the franc rate was an essential step in the French program of economic reconstruction."

In a letter to Rene Pleven, French finance minister, Secretary Vinson added that "it has been generally recognized that the foreign exchange value of the franc was out of line." Expressing appreciation for keeping this and other interested governments informed, Secretary Vinson, the Associated Press added, told Mr. Pleven he had followed "with sympathetic interest the efforts of France to cope with her difficult economic problems."

John Perkins to Be R. L. Day Partner

BOSTON, MASS. — John H. Perkins will become a partner in R. L. Day & Co., 111 Devonshire Street, members of the New York and Boston Stock Exchanges, on Jan. 3rd. Mr. Perkins has been with the firm for some time in the Trading Department.

Old U. S. Warships For China Urged

On Dec. 17 it was announced that Secretary of the Navy Forrestal had written Congress, through Speaker Sam Rayburn, urging that surplus American warships or other vessels be turned over to China under an authorization to the President to make the transfer on any terms that he might deem proper, according to Associated Press Washington advices. Mr. Forrestal stated that the legislation proposed "is in conformity with recent recommendations of the Joint Chiefs of Staff and the State, War and Navy coordinating committee, and the Navy Department has received advice from the White House. It appears that the national interest, as well as considerations of good conscience, require that the United States give aid to the Republic of China by assisting that nation in maintaining a navy at a strength which will make possible a substantial contribution toward the maintenance of peace in the Pacific."

Expert Discusses International Use Of Atomic Power

(Continued from page 3133)

in common: they do not develop energy at a high temperature.

"The technological problem of operating such units to produce energy at a temperature high enough to make it profitable to generate electrical power, or to provide steam for heat or for industrial uses, appears to be capable of solution in many ways in the very near future. We see no real limitation on the availability of nuclear fuel. Therefore we may look confidently to the widespread application of such sources of power to the future economy and technology of the world.

"One word of warning may be appropriate: a unit of this kind, operating, let us say, at a thousand kilowatts, produces radiations roughly equivalent to those from ten tons of radium. If men are to be anywhere around such units, this radiation must be absorbed by shields of very appreciable bulk. For this reason alone, we do not think automobiles and airplanes will be run by nuclear power units—not, at least, until a new idea supplements our present knowledge.

"But the fact that nuclear-energy units require an insignificant amount of fuel makes us think that they will be applied to extend the present uses of power in our economy. We do not expect petroleum or coal to become outmoded as fuels. It is clear that although useful power plants may be only a few years away, the full adaptation of the new possibilities to a living economy will be a matter of many more years than that.

"Most scientists see one of the greatest benefits of the atomic age in just those radiations and radioactivities which made the power plants so intractable. These agencies hold particular promise in the fields of biological, biochemical, and medical studies, where they should provide tools of immense power, both for the treatment of disease and for the attack on fundamental problems.

"Only time and work can show if these hopes are justified. Even for the field of physics there will be new possibilities. I may give one example: the neutron is a constituent of atomic nuclei, but it does not occur free in nature, where its properties can be studied. Neutrons do occur in great numbers among the fragments of the chain reacting systems, and it is there that their somewhat unfamiliar behavior will best be explored. Of this whole field of research we see very much less than the mariner sees of the iceberg. That is what is meant by research.

"The explosion in New Mexico was neither a controlled source of power nor a research tool—it was a weapon. Within a few weeks it was to be a weapon used against human targets in the strikes against Japan of August 6th and 9th. Today this is the aspect of the atomic age which is most prominent—and most rightly prominent—in all our thoughts. There does not seem to be any valid doubt that atomic weapons can be made, made plentifully, made cheaply, and indeed be made very much more destructively than the one we tested in New Mexico. There does not seem to be any valid hope that defenses against such weapons can be made effective against attack based on surprise, or that specific defenses against such weapons, other than the destruction of enemy bases and enemy carriers, will be developed in the future. There is, to my mind, little valid foundation for the belief that in a world torn by major wars these weapons, for tactical or humane reasons, will be left unexploited.

"Often before men have claimed that a weapon had been found so terrible that wars would cease; often before men have pointed to the increasing technical and social interdependence of the peoples of the world and argued that wars should cease. The fact that these arguments have not prevailed does not mean that they will not prevail today. The fact that increasingly terrible wars have been waged does not mean that we should prepare to wage still more terrible ones in the future. It is not in this sense that history is to be read. For this is what is now the atomic age: a world to be united, in law, in common understanding, in common humanity, before a common peril."

Gimbel & Co. to Admit Two

Gimbel & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Percy Friedlander and William S. Greene to partnership on January 1.

Orvis Brothers to Admit

Henry H. Balfour, who has been with Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, in the investment department, will become a partner in the firm on January 1.

Cowen Co. to Admit Langsan

Cowen & Co., 54 Pine Street, New York City, members of the New York Stock Exchange, will admit Ira N. Langsan to partnership in the firm on January 2.

Knowlton Rejoins Kuhn, Loeb & Co.

Hugh Knowlton will resume partnership in the investment banking firm of Kuhn, Loeb & Co., 52 William Street, New York City, members of the New York Stock Exchange, on Jan. 1, 1946, after an absence of three and a half years, part of which was spent in Government service, it has been announced.

Hugh Knowlton

Mr. Knowlton left the firm on June 30, 1942, to become Vice-President in charge of the communications division of the United States Commercial Company, a subsidiary of the Reconstruction Finance Corporation. He later became director of research and planning of Eastern Air Lines, Inc., from which position he is now resigning. He remains a member of the board of directors of Eastern Air Lines, Inc., and is also a director of International Telegraph and Telephone Corporation.

Gavan & Co. to Open

Bernard J. Gavan will acquire the New York Stock Exchange membership of Herbert Salomon and will form Gavan & Co. with offices at 39 Broadway, New York City, effective January 2. Mr. Gavan will be general partner in the firm and Isabelle P. McDermott will be a limited partner.

Appoints Two Assistant Directors of Trading and Exchange Division

SEC Names Raymond Vernon and Irwin Friend Both N. Y. City College Graduates. Vernon to Head Work of Securities Exchange Regulation and Friend to Direct Research in Fields of Individual Savings. Sources and Uses of Capital Funds and Capital Markets.

The Securities and Exchange Commission announced on Dec. 13 that it had appointed Irwin Friend and Raymond Vernon as Assistant Directors of the Trading and Exchange Division. Mr. Friend will direct the Division's research activities in the fields of individuals' saving, the sources and uses of corporate funds, and the capital markets. Mr. Vernon will head the Division's work in the regulation of securities exchanges and the analysis of over-the-counter and exchange markets, as well as the "Survey of American Listed Corporations."

Mr. Vernon was graduated from the College of the City of New York and from Columbia University, and holds the degree of Doctor of Philosophy in finance from the latter institution. Before his appointment as Assistant Director, he was the Assistant to the Director of the Trading and Exchange Division. In that capacity, he was responsible for the coordination of the Division's activities in the field of securities market regulation and for the statistical and analytical work relating to these programs. He is the author of "The Regulation of Stock Exchange Members" and of numerous other treatises. Before joining the staff of the Commission in 1935 he was associated with the National Bureau of Economic Research.

Mr. Friend is a graduate of the College of the City of New York. He has been on the staff of the Commission since 1937 and has represented it on various inter-agency committees of the Federal Government. He is also a member of the Conference on Research in Income and Wealth. Prior to his appointment as Assistant Director, Mr. Friend was Supervisor of the Financial Analysis Section of the Trading and Exchange Division. Since 1941 he has been in immediate charge of the Commission's studies of the volume and composition of saving and the sources and uses of corporate funds. He is the author of a number of articles in these and related fields.

To Form Anderson Bros.

Anderson Brothers will be formed on Jan. 2nd with offices at 71 Broadway, New York City. Partners will be Elliott M. Anderson and W. Colford Anderson, both members of the New York Stock Exchange, who have recently been doing business as individual floor brokers.

De Coppet & Doremus to Admit

Floyd C. Noble, member of the New York Stock Exchange, will be admitted to limited partnership in De Coppet & Doremus, 63 Wall Street, New York City, members of the Exchange. Mr. Noble was previously a limited partner in Struthers & Dean.

Mutual Funds

A Momentous Year

The year 1945 will be remembered in history—it marked the end of the second World War and the unleashing of atomic power. 1945 was a momentous year, too, in the investment company field. The aggregate net assets of mutual funds passed the billion dollar mark early in the year; and growth of the industry continued at a rapid pace throughout the period.

We are still more than ever of the opinion that the first billion of net assets will prove to be one of the early milestones in the ultimate growth and development of mutual funds. This is not to say that the industry will escape its share of growing pains in the process. Indeed, growing pains were clearly in evidence during the achievement of its outstanding 1945 record.

The National Association of Investment Companies, created to foster the legitimate interests not only of the mutual funds (open-end companies), but also of the closed-end companies, found attitudes on some current questions within the industry apparently irreconcilable and was forced to restrict its activities, mainly to fact-gathering and statistical operations.

Curtailment of the Association's functions did not settle the differences which it was unable to solve. Investment company sponsors, by and large, are markedly individualistic and operations in the field are sufficiently flexible to permit considerable variance of opinion on technical procedures. Some questions, particularly those involving the handling of capital gains dividends, must seek final satisfactory solution in a revision of federal tax laws. Others will probably be settled on precedent and majority practice.

The important thing, as we see it, is the constant pressure for refinement and improvement within the industry itself. Now solidly established, defined and regulated by Act of Congress, mutual investment companies as a group have achieved excellent growth and performance records during their relatively short history. During the last 10 turbulent years their combined performance record has been so outstanding as to silence erstwhile critics.

Once considered as suitable only for the small investor, mutual funds are finding increasing acceptance among alert trustees, corporate fund managers, educational, philanthropic and religious institutions, executors, guardians and other institutional investors.

The advantages of mutual funds are also gaining wider recognition among wealthy individuals who traditionally follow institutional practice in the management of their capital. Only last week **National Securities & Research Corp.** reported a half million dollar purchase of **National Securities Series** by one individual. This transaction is not an isolated case—it is a good example of the trend toward greater use of mutual funds by large investors.

Outlook for 1946

The usual holiday lull in the release of investment company literature by the leading sponsors was punctuated this year by a number of excellent surveys of the 1946 outlook for business and securities. Notable among these is **National Securities & Research Corp.'s** current issue of Investment Timing. After analyzing the results of last year's forecasts—which have proven to be remarkably accurate—this sponsor surveys the current situation under a number of important headings including: Capital vs. Labor, National Income, Taxes, Money Rates, Foreign Trade, Cost of Living, Inflation, and Security Prices.

Here, in part, are the conclusions reached:

"The year 1946 should mark the beginning of several years of unprecedented prosperity for the business and industry of this country. . . .

"In our opinion the major trend of the stock market continues upward. Some time during the new year we expect substantially higher prices than those ruling at present, although we also look for an intermediate setback of 10% or more, larger than any we have seen this year. We do not expect to see the top of the current bull market reached in 1946."

* * *

Broad Street Sales Corp. analyzes "The Outlook for Stock Prices" in its current Letter and makes a comparison between present conditions and those which existed in March, 1937 and November, 1927, the two previous periods when the Dow-Jones Industrial Average reached its present level. The discussion recalls that in 1927 the market at this level was still a Buy and that the next 12 months "saw a further advance of 51% in industrial stock prices." In 1937, by contrast, the market at this level had reached its top and was entering into a sharply declining phase.

Broad Street concludes that: "The present situation is more comparable to that of 1927 than that of 1937, and that a stock market decline of the character of 1937-38 is not a present probability."

Forecast for the Railroad Equipment Industry

In a current memorandum on the outlook for the railroad equipment industry **Distributors Group** forecasts:

1. A record volume of peacetime business.

2. Highest earnings in the industry's history.

3. Substantially higher prices for railroad equipment stocks.

This sponsor estimates that domestic and export sales volume of the companies currently represented in **Group Securities' Railroad Equipment Shares** should average about $900 million a year during the early postwar years. This compares with a sales volume of $325 million for these same companies in 1937—an indicated sales increase of 177%.

Last year the companies represented in Railroad Equipment Shares earned $2.92 per share on average. This compares with $1.16 in 1936 and $2.75 in 1937. This year they will earn on average about $2.60 per share. With elimination of the excess profits tax, Distributors Group estimates that 1946 earnings of these same companies will average around $3.50 per share, and in 1947 will rise to between $5.50 and $6.00 per share—"an all-time high level which should be maintained for several years thereafter."

To support the third part of its forecast, this sponsor points out that with the Dow-Jones Industrial Average now at approximately its 1937 high point, the stocks in Railroad Equipment Shares are still selling on average at only $35.57 per share as compared with a high of $55.16 at their 1936-37 peak.

The Cost of "Extra-Ordinary Government"

(Continued from page 3132)

is being curtailed. Nevertheless, the Congress had before it the Budget Bureau's forecast of a $66 billion budget for this fiscal year ending next June 30. Of this $66 billion, about $30 billion will be a deficit.

In short, the 1945 tax amendment was the most tax relief we could offer on a strictly short range basis.

Real tax relief will not come until the Federal Government curbs its spending. Lowering operation costs is the only way to lower taxes. Otherwise, endless deficits pile up and we are chained to interest charges from which we cannot escape.

And when I say tax relief, I mean all those elements that will free our enterprise and preserve our inventive and productive strength.

I mean the preservation of small business—and that of the whole nation for that matter—from the dangers of Big Government. I mean the riddance of excess profits taxes and the double take on corporate income and dividends.

But we can't cut taxes and escape deficits until appropriations—Government expenditures—are brought into line.

You may ask: Since Congress controls the spending and must authorize all apprporiations, why doesn't Congress itself just balance the budget?

Well, I'm glad you asked. It is a good question.

It is true that Gongress DOES have the power of approving the expenses for ORDINARY Government in its three historic branches—the legislative, judicial and executive. But in the past 16 years, out of emergency, depression and war, we have erected a FOURTH branch — an EXTRA-ORDINARY Government, if you please, which answers to no audit nor to any conscience save its own.

It is said that the magnitude of this extra-ordinary Government is now so great as to rival Government proper.

There are 101 of these Government corporations, all financed by taxpayers. Our first step toward sound Government was to drive as many of them as we could into a corral, where Congress and the people could keep an eye on them.

Let me tell you about this, briefly.

The Byrd-Butler Bill

In 1943, some of us got interested in the "good neighbor" policy and journeyed down to South America to examine the fruits of this activity.

Possibly some of you may remember the startling disclosures that resulted from this trip. The whole nation gasped at the size of our spending program in Latin America.

What I want to add to the record now is that in spite of those collossal revelations, the thing that impressed me most was a telephone call to my office from one of the "discovered" corporations. The party on the telephone wanted to know: "Where in the world did you get the information about us; we're supposed to be secret."

It was then and there, gentlemen, that I knew Big Government was getting away from Congress. It was up to Congress to recapture those secrets. In the following months the Byrd-Butler Bill was framed. I shared with the distinguished Senator from Virginia, Harry F. Byrd, the sponsorship of that measure.

Comptroller General Warren says it is the most important piece of legislation of its kind presented in Congress in the past 25 years. I suppose the canny General dates it from women's suffrage.

At any rate, I regard it as Congress' declaration of independence from Big Government or, perhaps it is only the preamble to the new Magna Charta of free enterprise that will chart our post-war evolution. It is only EVOLUTION, thank God.

The Byrd-Butler Bill provides that the 101 Government corporations henceforth must come under the scrutiny of Congress in their financial operations. They must toe the same line of budgeting, financing and auditing that the Constitution draws for the other three branches of Government.

It will, we hope, write the end to EXTRA-ORDINARY Government with its extra curricular activities.

May no other Senator ever again be told that some billion-dollar enterprise of Government is a *secret* from him and the taxpayers!

The Road Ahead

But the costly mistakes of the past 16 years of wasteful spending, with their debts, are bygones, after all. Instead of bitter recrimination, let's just make sure they are *forever* gone, pay the cost, and learn our lesson.

So, where do we go from here?

When I sit and squirm in my Senate seat, thinking about us taxpayers, I am convinced that the Byrd-Butler Bill is only a starter.

Now that the war agencies are on their way out, it is going to be far easier to say NO to *them* and the rest of Government, than for Congress to resist the appeals of pressure groups for *new* spending.

Depression and war gave us Big Government and not a few imported ideas for making it Bigger. Emergencies, both real and fancied, opened the door for the do-gooders. There was so much reform in the air you couldn't cut it with a corn-knife.

Under sweet and noble titles, Congress is still getting these legislative lures to Paradise. But these rosy paths always lead to the payroll and paycheck. The big slice is for Big Government which is the payoff in the distant future, when only the Almighty knows what the value of the dollar will be. Let us recognize these social stunts for what they are—taxes for Big Government.

Out our way, and I believe out your way, too, the folks want Government in the open. Money on the barrelhead.

The spending spree is over, and the pendulum is swinging back. The majority party, whichever it be, must take the responsibility for discouraging pressure groups and privilege legislation.

These boys who are coming home from the wars are convinced the American way is best. If they have one hard and fixed opinion, it is that no way of life or kind of government they saw overseas even remotely interested them.

We get a great deal of mail from them in Congress, and you can take it from me most of our veterans will be happy to get away from Government controls.

They want a chance to make money. Plain old profits—enough to send a shudder down the spine of any soapbox socialist.

Mutual Fund Literature

Keystone Co.—Current issue of Keynotes stressing "An Extra Payday Every Month in 1946."—**Selected Investments Co.**—Current issue of "These Things Seemed Important."

Dividends

Affiliated Fund, Inc.—A regular quarterly dividend of 4¢ per share payable Jan. 21, 1946 to stock of record Jan. 10.

They saw first hand the results of the plundering of thrifty citizens by taxation in fascist countries, and they saw the fawning, faceless freaks of humanity that it spawns. They saw nations disintegrate, because men's dreams of progress were stifled by the State. They saw Big Governments that bogged down in debt and moral decadence.

These boys fought to be free.

Stream-lined Government

And so it is up to us, citizens, voters and Congress, to see that this war-swollen bureaucracy of ours is cut down to peacetime size.

It has three times too many employees, with all the attendant evils of duplication and harassment of citizens. Before the war, there were less than a mliion civilian jobholders on the Federal payroll. Now there are more than three million. Depression and war agencies still honeycomb the regular Government structure. They must be eliminated, along with their orders, edicts, rules and surveys, deviously tied up with taxpaying and penalties which often have more weight than the laws passed by your Congress.

Much of this Big Government derives from the war powers of the President. Most of them will continue for six months after those war powers are ended either by Congressional resolution or by Presidential proclamation.

The President has not indicated when he might proclaim officially that hostilities have ceased. But I wish to point out that the war powers quite likely will run into the next fiscal year.

A $50 Billion Budget

The daily press reports a Government spokesman as saying that the forthcoming budget would total about $50 billion. This compares with estimated revenues of about $30 to $35 billion, and indicates a deficit of $15 to $20 billion to be piled upon our mountain of debt.

A $50 billion budget, plus about $10 billion that State and local governments will spend, will give us a national tax load of about $60 billion, if that spending is to be balanced by tax revenues.

Sixty billion dollars, folks, is 46% of the national income which the Treasury estimates for next year.

I submit our Government spending should be brought more in line with our ability to pay.

In Nebraska, our Constitution says the State's debt can't exceed $100,000. Our State capital, one of the wonders of the West, was paid for the day it opened. We build our roads the same way, and we have good roads. That is the way Nebraska likes to do business, and I represent Nebraska.

Let me quote to you what the Nebraska Bankers Association wants in Washington. This is from its resolutions of less than a month ago. It puts into words what I've been thinking:

"Now that the war is over . . . we feel that deficit spending should stop and that when existing commitments have been fulfilled, all Government subsidies should be discontinued.

"Consideration should be given to reduction of taxes. Government corporations . . . should be discontinued unless approved directly by Congress; our national budget should be brought in balance at the earliest possible date; and all the broad powers granted the Executive Department, and under which most of these spending agencies exist, should be returned to Congress so that we may have a Government by the will of the people through their elected representatives and not by executive order."

The Debt and the Budget

The stupendous new element of post-war budgeting will be the debt. Next June 30, the end of the current fiscal year, it will have reached $275 billion, or thereabouts.

It defies definition. It is more money than our Government spend in the 150 years prior to 1940. The biggest debt of any nation at any time.

There is currently some fashionable double talk which we Nebraskans fail to understand that this debt may be lightly regarded since we just "owe it to ourselves." On such a theory, no debt ever should trouble us so long as it is internally held.

By all that's honorable in Government, it must be a sound debt. We can't play around with bankruptcy and 85 billion bondholders.

Congress must find a way to amortize this great block of credit in a manner as painless as possible to the nation's welfare. We need the counsel and guidance of Statesmen who are financiers, and of financiers who are real Statesmen. We can't pay off with catch-words and slogans and repeated bond issues.

We are not balancing the budget until we provide for the handling of the debt, and we will never lick inflation until we balance the budget.

It may take a debt commission or a special committee of Congress, but the problem of our post-war Federal finance will be that of squeezing debt repayment into the national budget—for the next 50 to 100 years, if necessary.

Foreign Spending

At such a critical stage of our national finance it does not seem prudent that we should separate our considerations of foreign and domestic spending. They come from the same pocket. Foreign relief, too, must be carefully distinguished from foreign loans. It would be a disservice to any nation to extend loans above its ability to repay, and would win for us again the title of usurer and Shylock.

I hope some of your special study groups will write me your opinions, particularly about the debt. But there is only one direction that I am prepared to take, and it is my theme henceforth. It is: "Balance the Budget."

The Full Accounting Bill

In the beginning of my talk I told you I came here to plead a special cause, and to lobby your Congress of Industry.

Then I have tried to say that free enterprise and tax relief are the Siamese twins of the return to sound Government. Let no more fancied crises separate them —and us—from fiscal sanity. Why, a one-cent change in the corn or cotton market, under the touch of Big Government's propaganda machine, can be made to look as if disaster and chaos will result if Big Government doesn't take over! Let us dismantle this oppressive machine in a careful and businesslike manner by the simple means of testing each part for efficiency before we remove it.

I think I know how to do it.

That is why I decided to make your Congress of Industry my pulpit of what I hope will be my next legislative venture. I think it as important as the Byrd-Butler Bill. With your indulgence, I shall send up the frist trial balloon.

I am proposing a FULL ACCOUNTING BILL, which would place all Government financial operations on a businesslike basis. Every year at one time and in one specific measure Congress would consider the full operation of Government which would be out in the open for everyone to see.

As soon as I return to Washington I shall introduce a measure asking the responsible fiscal officials of Government—the Secretary of the Treasury, the Director of the Budget and the Comptroller General—to report their recommendations on this full accounting of Federal spending. I hope that Senator Byrd will join me as a sponsor.

This plan is to provide for suitable legislation to:

1. Include all appropriations in one general appropriation bill. Congress never gets the full financial picture of the Government for which it is financially responsible. It votes appropriations in dribbles; the money can be spent three years later, when another Congress is unaware of it and might possibly be appropriating other moneys for the same purpose. Bear in mind, Government finance is Congress' exclusive job.

2. Make each year's budget be a complete operation by discontinuing permanent appropriations.

3. Relate the handling of long-term projects (such as contract authorizations for building ships) to proper annual appropriation.

4. Intergrate deficiency and supplemental appropriations into the annual budget.

5. Improve the execution of each annual budget and secure a more prompt and efficient annual accounting both by the expending agency and the Comptroller General to show whether funds were expended properly.

With these improvements, gentlemen, the Congress and the public will know the true state of the nation's finances.

It will not know the state of the nation until this, or some other method, provides a way for drawing a complete total on the complicated arithmetic of Government. You do it in business—you've GOT TO.

We have got to do it in Government to save it from consuming itself.

I earnestly solicit your support. Here is a final thought.

Seventy-five minutes have elapsed since this afternoon session began. During this time the Federal Government has spent over 9 million dollars. It has added over 4 million dollars to the debt—your debt.

NASD District 12 Elects New Executives

PHILADELPHIA, PA.—Francis J. McGuiness, Chaplin & Co., Pittsburgh; R. Conver Miller, E. W. & R. C. Miller & Co., Philadelphia; Harold F. Scattergood, Boenning & Co., Philadelphia, and Wilson A. Scott, Grubbs-Scott & Co., Pittsburgh, were elected committee members of District 12 of the National Association of Securities Dealers, Inc., to serve for three years.

S. Davidson Herron, Mellon Securities Corporation, Pittsburgh, was elected Chairman of the District, at a meeting of the committee.

Dobbs to Admit Two

Dobbs & Co., 30 Broad Street, New York City, members of the New York Stock Exchange, will admit Albert Wolf Greiner and Geoffre C. Armbrister to partnership on January 1. Both have been associated with the firm for some time.

Wood, Struthers Admit Colgate & Langreth

As of Jan. 2nd, Wood, Struthers & Co., 20 Pine Street, New York City, members of the New York Stock Exchange, will admit Henry A. Colgate and George L. Langreth to partnership. Mr. Colgate in the past was a partner in James B. Colgate & Co.; Mr. Langreth has been with Wood, Struthers & Co. for some time.

Dominick to Admit

Bernon S. Prentice will become a limited partner in Dominick & Dominick, 14 Wall Street, New York City, members of the New York Stock Exchange and other leading Exchanges, on January 1. In the past he was a member of the firm.

Elkins, Morris to Admit

PHILADELPHIA, PA.—Elkins, Morris & Co., Land Title Building, members of the New York and Philadelphia Stock Exchanges, will admit George W. Elkins, Jr. to partnership on January 1.

To Be Foster Bros., Young

TOLEDO, OHIO—Effective Jan. 1, the firm name of Snyder, Wilson & Co., 410 Madison Avenue, members of the New York Stock Exchange, will be changed to Foster Bros., Young & Co.

The Post-War Price Structure

(Continued from page 3132)

far as it was motivated by patriotism rather than personal gain.

Price increases were nonetheless relied on to a considerable degree to expand production. Where a choice had to be made between higher prices and less required production, the decision was in favor of permitting higher prices.

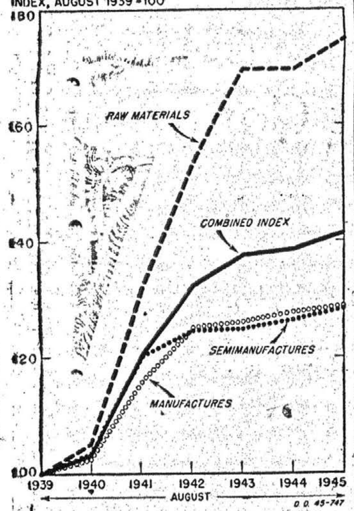
In general, the prices paid for finished munitions actually declined during the war, reflecting the reduction in unit costs as large-scale production was reached. It is true that manpower was attracted to these fields by the economic incentives of higher wage rates, upgrading, over-time and other pay premiums, as well as by patriotic motives. Because of the economies of mass output, however, the costs of production of munitions items, and therefore the prices paid, typically were stable or falling.

Almost All Prices Have Risen

Contrary to the tendency of munitions prices, the prices of practically all civilian type goods and of most curently produced services have increased. The index of wholesale prices pictured in chart 1, which excludes most of the strictly munitions items, rose over 40% from August 1939 to August 1945.

There were the usual variations in individual commodities which are characteristic of even a more normal peace-time period. Raw materials tended to go up more than manufactured goods. Gas and electricity actually declined in line with the long-term trends. Farm products more than doubled.

Chart 1.—Wholesale Prices, by Economic Classes



Source: U. S. Department of Labor. Indexes recomputed to August 1939 as base by the U. S. Department of Commerce.

The general picture, however, is one of widespread and substantial price increases with comparatively few exceptions.

Granting that price increases have been widespread, are there not serious discrepancies between the prices of various products or groups of products which must now be corrected? Are some prices more than ample while others would call for upward adjustment in a free market? Will such adjustments result in higher or lower average prices?

Undoubtedly price controls were more effective at some points than at others. An outstanding example of effective control is rental rates. In general, however, the record does not indicate much more than the usual dispersion of price changes.

Controls Did Not Prevent Increases

Chart 2 shows the price increases of the major groups entering into the Bureau of Labor Statistics cost of living index (Consumers Price Index for Moderate Income Families in Large Cities) over two periods. The black segment of the bars shows the change in the 3 years prior to the effective date of the General Maximum Price Regulation. Up to that time there was a relatively free market. Informal agreements, as well as formal controls, affected the prices of a number of imported raw materials, metals and certain other basic industrial commodities but these controls affected the ultimate consumer only to a very limited extent. Also there was still some slack in the labor supply and other resources to meet demands for additional production. The second period covers three years of tighter supply and extensive price controls.

Prices rose in both periods, though the rate of increase was not so rapid in the past three years as in the preceding period. Nevertheless, the price changes in this second period are consistent with and an extension of those which occurred in the first three years.

Rent is the only group which did not show a substantial further increase. It is a special case, however, in appraising current prices in relation to costs, in that it is a payment for use of an existing asset rather than for current production. Rent controls were not only relatively easy to enforce; they could be applied strictly without fear that current production would thereby be limited.

Chart 3 examines the degree of price dispersion. It groups 175 of the individual items included in the cost of living index by deciles (10 groups of equal weight in the index) according to the extent of their price rise from June 1939 to June 1942. The major item excluded is rent. With the total index increasing 18% over the three years, items accounting for one-tenth of the total weight of the 175 items actually declined slightly. In contrast, the top tenth increased over 50% in this first period.

In general, those items which increased most in price during the first three years made an equal gain in the three years following the General Maximum Price Regulation. The lower tenth which actually declined in the first period increased only moderately in the second. The upper tenth had risen by almost 90% at the end of the six years. In only two of the 10 deciles were the price rises in the second period sufficiently different from the first so that the trend lines actually crossed.

More detailed study of the individual items discloses about the same dispersion of price changes in the second period as in the first three years of relatively free markets. It is true that prices of some items, notably meats, were actually rolled back. Subsidies were used in some instances to provide ample incentive to producers while holding down prices to the consumer. Other items such as fresh vegetables, where controls were more difficult, increased more in the second three years than in the first.

This dispersion will continue. There are a variety of reasons why some prices will go up while others go down. The evidence does not suggest, however, that they are wartime distortions which will require more than the usual amount of such adjustments. On the contrary, it indicates the general nature of wartime price increases. Those items which increased little if any are typically those which are very stable or, like electric power, subject to a downward secular trend. Even where prices were actually rolled back in the second period they remained high.

Prices Covered Wartime Costs

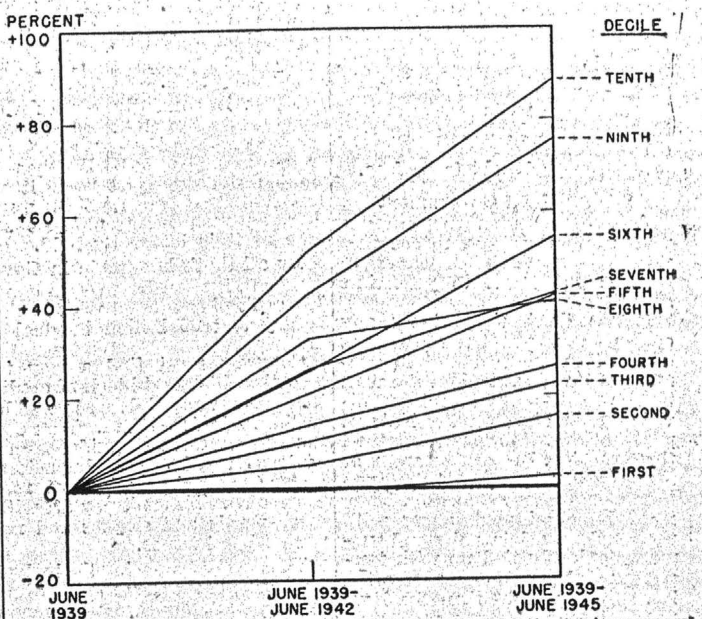
It is true that there has not been a free play of supply, demand and price in the civilian sector of the economy and that the price level for civilian goods at the end of the war is undoubtedly much less than it would have been if controls had not been exercised. It is clear from the record that price controls were effective in limiting price advances. They did not—nor were they intended to—prevent advances where necessary to secure required production.

Neither did these controls prevent an increase in prices sufficient to cover wartime costs and leave high profits before taxes. Aggregate corporate profits before income and excess profits taxes in 1944 were about $25 billion, or roughly one-fifth of the net value of production by corporations. There is no major segment of the economy in which prices were insufficient to cover costs.

Profits before taxes are used here as the best measure of cost-price relationships during the war. Even after the high wartime income and excess profits taxes, profits were at peak levels. Relief under the carry-back provisions of the tax laws will require upward adjustment of these reported earnings for the war years.

The earnings of unincorporated businesses also suggest that wartime controls have not prevented price rises which were ample to cover wartime costs. The net income of nonagricultural proprietors increased more than 25% from 1941 to 1944 without a corresponding increase in the physical volume of goods and services produced or distributed. The net income of agricultural proprietors almost doubled over the same period.

Chart 3.—Percentage Change in Consumers' Prices, by Deciles [1]



[1] Data represent 175 consumers' prices which are 77.8% of the total consumers' price index by weight; the major item excluded is rent. Deciles are determined by percentage change from June 1939 to June 1942 in terms of base weights in the index. Consumers' price index was formerly designated "cost of living" index.

Sources: U. S. Departments of Labor and Commerce.

Just as there was no large segment of the economy which did not experience large profits, so there was no important segment where the supply was limited by reason of prices. The existing price structure offered sufficient profits over and above costs to encourage maximum production for war, and to provide consumers with a volume of goods and services as high as or higher than in the best prewar year. Shortages were relative to the insatiable demands of war and to the demands of consumers with high wartime incomes. Whenever there was any doubt whether existing prices would encourage all-out production the price ceilings were usually liberalized.

Demand and Supply

Given this background as to what has happened to prices and production during the war, analysis of supply-demand-price relationships may well start with an appraisal of wartime restrictions on consumer expenditures and the potential effects of removing those restrictions.

Wartime Consumer Expenditures

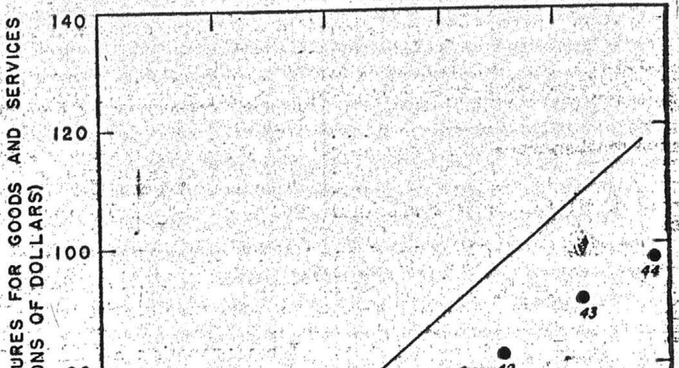
In the aggregate, wartime controls prevented a rapid spiralling of prices, costs and incomes, each influencing the others. Thus, one result was to limit the amount consumers had to spend.

Aside from this important effect, the influence of controls on prices might be measured by their restrictive influence on consumer expenditures out of wartime income, given the limited supply of goods and services. The potential effects of removing those controls may be deduced from the extent to which consumer expenditures fell below the relationship to current income which would be expected under more normal conditions in the absence of controls.

Out of a disposable income of $138 billion after taxes in 1944, consumers saved approximately $40 billion. This is considerably more than a normal rate of saving. Chart 4 shows this prewar relation between total consumer expenditures and disposable income and the extent to which expenditures fell below what would have been expected during the war, if goods and services were freely available.

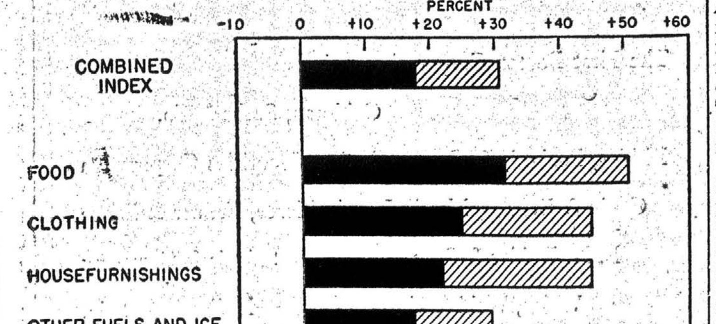
The excess of savings, or the deficiency of expenditures, is in the neighborhood of $20 to $25 billion. This is not a measure of deferred demand—it is simply the difference between what was spent and what would have been

Chart 4.—Relationship Between Consumers' Expenditures and Disposable Income



Source: U. S. Department of Commerce.

Chart 2.—Percentage Change in Consumers' Price Index, June 1939 to June 1945 [1]



[1] Formerly designated "cost of living" index.

Source: U. S. Department of Labor.

spent in the absence of supply difficulties.

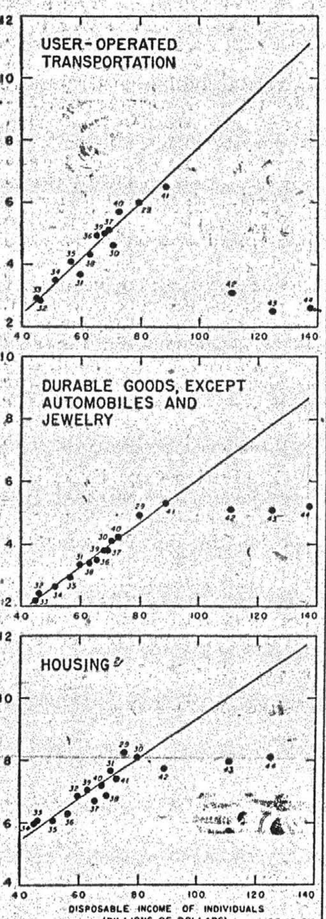
Deficiencies Concentrated

This deficiency, however, is heavily concentrated in certain segments of the consumer's budget. About two-fifths of it was due to his inability to buy new automobiles, to the rationing of gasoline and tires, to the gradual decline in the number of automobiles in use, and to the resulting curtailment of a variety of other expenditures related to user-operated transportation. The top panel of Chart 5 shows the consistent relation of this group of expenditures to disposable income from 1929 through 1940 and the apparent deficiency of expenditures relative to the high wartime income.

Almost one-fifth of the aggregate deficiency was due to severe shortages or complete absence of a wide variety of other consumers durable goods. The middle panel of chart 5 shows this relation for all consumers durables except automobiles, which are included in the top panel, and jewelry. Jewelry sales are excluded because they increased fully in line with the increase in income.

Housing is another field in which expenditures did not keep pace with the increase in income.

Chart 5.—Major Segments of Wartime Deficiency in Expenditures Relative to Income [1]



[1] Lines of regression were fitted to data for 1929-40.
[2] Housing expenditures for the current year are related to income for the previous year.

Source: U. S. Department of Commerce.

This deficiency, as shown in the bottom panel of chart 5 was due to the limited supply of housing for rental purposes, relative to the large increase in demand with the rise in consumer income, and to the limitation of expenditures related to home occupancy and home ownership by rental and other controls.

In the user-operated transportation, durable goods and housing segments, controls were effective in limiting consumer expenditures so that the full impact of demand on the limited supplies was not reflected in higher prices. It is in these areas that there is room for some increase in expenditures even in the face of a substantial decline in consumer income. This would be true even if there were no deferred demands backed by the purchasing power of wartime savings.

These three categories, covering about one-fourth of consumer expenditures in a more normal year, accounted for about three-fourths of the total deficiency of expenditures in 1944. There were other deficiencies, notably in medical care, in domestic and personal service and in such special items as foreign travel. Over most of the other categories, however, current outlays do not appear to have been seriously out of line with the large increases which have occurred in consumer income.

Half of Budget in Line With Income

For the half of consumers' budgets represented by expenditures for fod, beverages, tobacco, clothing and jewelry, outlays have been in line with increased incomes. This is clear from chart 6. It is in spite of the fact that the number of civilian consumers was reduced.

To the extent that wartime controls have limited consumer buying power they have affected demand in these categories. In large measure they have not prevented the price increases resulting from the pressure of existing buying power on the limited supplies of goods and services.

Increased Expenditures Raised Prices

Consumer expenditures for food increased about 60% from 1951 to 1944. In contrast, the Bureau of Agricultural Economics reports that approximately the same physical quantity of food was available to civilian consumers in 1944 as in 1941.

The latter estimate does not cover the processing of those foods. For example, there may have been larger consumption of flour in the form of bakery products. Neither does it allow for the large increase in sales of beverages and meals eaten away from home.

However, if allowance is made for the deterioration of conveniences and services in connection with restaurant sales and retail distribution of food, the conclusion seems warranted that the average consumer obtained very little more in 1944 than he received for a much smaller expenditure in 1941.

The Bureau of Labor Statistics shows an increase of only 29% in retail food prices from 1941 to 1944. This, however, excludes or only partially includes such intangible or unmeasurable factors as "black market" sales, forced trading up to higher-priced items or higher-priced stores, and the general curtailment of such services as retail delivery.

Consumer expenditures for clothing increased over 50% from 1941 to 1944. Again the available evidence suggests that there has been comparatively little increase in physical volume. In fact, such evidence as does exist suggests an actual decline in supplies available to civilian consumers. Special indices of the output of clothing and shoes for civilians compiled by the Federal Reserve Board record a substantial decline from 1941 to 1944. The yardage of clothing available to civilian consumers also dropped substantially.

The Bureau of Labor Statistics index of retail clothing prices increased 34% over the three-year period. Again, however, this does not include or make sufficient allowance for various intangibles, such as forced trading up because of shortages or deterioration of low-priced lines, general lowering of quality of the merchandise, and elimination of many of the conveniences and services connected with its distribution.

While the statistics available do not permit of any precise measurements, the same general conclusions can be drawn with respect to a wide variety of consumer goods and services. In spite of increases in consumer expenditures, which are roughly commensurate with the rise in consumer income, the consumer was getting very little more real value in the last few months of the war than he did for a much smaller expenditure in 1941. In the face of the limited resources available, the increase in consumer expenditure necessarily was reflected primarily in increased prices.

This is not to say that price controls have been ineffective in these fields. We do not know to what extent the absence of such things as new automobiles might have resulted in diversion of consumer demand to other categories of expenditure if the controls had not operated. Even more important, the controls have been effective in preventing a spiralling of prices, costs and incomes, thereby preventing even higher consumer buying power and even greater pressure on the limited supplies of goods and services.

Speaking very broadly, however, prices for such things as food and clothing—items that account for over half of the consumer budget—today are not far different from what might be expected, given present consumer incomes, present supplies of those items, more active competition from all the items which are not now readily available and no price controls.

This conclusion is highly significant in appraising the current price level and evaluating probable trends. It is from this benchmark that we must analyze the possible changes in supply-demand relationships during the transition from war production and thereafter.

Consumer Income in the Transition

Consumer demand during the transition and thereafter will depend primarily on what happens to consumer income. Therefore, the next step is to see how consumer income may be affected by curtailment of war production. It will also be necessary to appraise the effect of deferred demand and accumulated war savings.

In the absence of increases in basic wage and salary rates, a decline in consumer income would be inevitable, even if unemployment should be held to a practical minimum. This is because the reduction in working hours, the loss of overtime and other premiums, the shift from high-wage war industries to lower - wage civilian lines, and the withdrawal of some workers from the labor market as war production is curtailed will more than offset the return of servicemen to civilian jobs paying more than they received for their military service.

Since this article is not concerned with a prediction of general business conditions, it will suffice to point out that unemployment during the transition will inevitably be more than the practical minimum in a normal peacetime year. The decline in incomes in the next few months will be substantial.

In appraising the effect of a decline in consumer income, it is important that the high rate of saving, or deficiency of expenditure, in relation to income has been closely related to the absence of certain categories of goods from the market. These goods will not be available in quantities adequate to meet consumer demands during the early stages of transition from war production.

Expenditures for some items—those not to be had during the war—can be expected to increase as fast as additional goods of this type are available almost regardless of the shrinkage in income. The pressure of demand for goods of this type will continue to be intense.

On the other hand, if we accept the evidence of chart 6 that a large part of consumer expenditure is already in line with the present high income, then it follows that any substantial decline in this income will mean some lessening of the pressure of demand for many commodities and services. In the aggregate, consumers will spend fewer dollars for those goods and services.

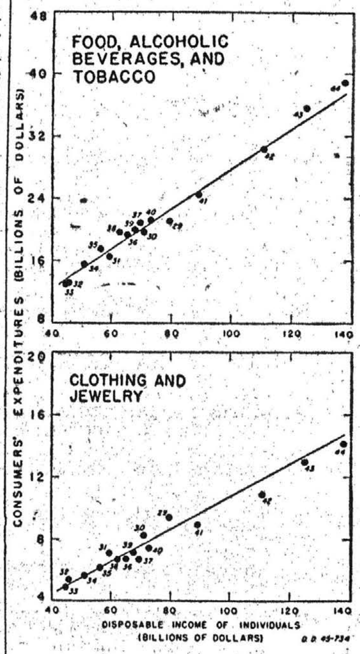
This does not necessarily mean a decline in the physical quantities purchased. If the end of the war brings sufficient easing of the supply, this physical volume—the real value to the ultimate consumer—may increase even though dollar expenditures decline. The result would, of course, be a decline in prices, particularly that portion of the price represented by the intangibles and not measured by price indices.

Accumulated Buying Power

During the last four years consumers have saved well over $100 billion. Aside from debt reduction, increased value of insurance policies and other forms of savings, they have accumulated over this period almost $100 billion in currency, bank deposits and Government bonds. That is more than their total income in the best prewar year. Consumer holdings of these liquid, spendable funds have almost trebled since the war began.

On balance, the importance of wartime savings lies in their influence on the way consumers will spend their current income. Some consumers will use these savings to meet various contingencies, such as unemployment, or to buy goods which were not available during the war. Others will continue to save out of their current income.

Chart 6.—Major Segments Where Wartime Expenditures Were in Line With Income [1]



[1] Lines of regression were fitted to data for 1929-40.

Source: U. S. Department of Commerce.

The expenditure decisions of the average consumer will depend on conditions at that time—including his confidence in continued employment. But because his reserves against the proverbial rainy day will be very large by prewar standards, he will be willing to spend more and save less out of his postwar income than he would under the same conditions if these reserves had not been accumulated.

Appraisal of this influence of wartime savings on postwar expenditure decisions, and therefore on prices, depends, however, on some understanding of the motives involved in their accumulation. Why did consumers save rather than spend so large a part of their war income? In what ways will the removal of wartime conditions alter those expenditure decisions?

The first point to be noted in this connection has already been

(Continued on page 3150)

The Post-War Price Structure

(Continued from page 3149)
made. Most of the huge accumulation of savings during the war resulted from the curtailment of expenditures in those parts of the total consumer budget shown in chart 5. Some of these expenditures were of the sort which could be deferred and some could not. Typically, the deferrable demands are again in the areas where the supplies available to consumers will be limited in the early stages of the transition. Wartime savings tend to reinforce those demands even though the purchases may be paid for out of current income.

The combination of deferred demands and accumulated buying power will serve to maintain the pressure of demand on supply in those areas in spite of a decline in consumer income and until a high volume of production has satisfied the most urgent needs. Over this segment then price controls are necessary until the latter condition is reached. But it should be kept in mind that this segment accounts for only about one-fifth of consumer expenditures.

In addition, consumers did not buy as much of the services as they normally would out of wartime incomes. There are few deferred demands to be made up in this group. The two haircuts that had to take the place of three left the hair the same at the end of the war as it would have been had it been trimmed a third more times. But accumulated buying power will encourage increased spending for services as additional manpower becomes available to provide them.

The larger part of consumer expenditures, shown in chart 6, was approximately in line with high wartime incomes. There are deferred demands for some items, such as nylon hosiery, but on balance there is no deficiency to be made up. Neither were expenditures for such things as food and clothing appreciably in excess of the normal relation to disposable income.

This is in spite of the fact that consumers held, during the last few months of the war, most of the liquid savings which they have today. In addition, the current income which would normally have been spent on consumers durable goods and other restricted items was available for increased expenditures in other fields.

These influences encouraging a more-than-proportionate increase in expenditures for the available goods and services were offset by other influences discouraging spending. The patriotic pressure to save rather than spend during the war, reduced quality and excessive inconveniences involved in the purchase of many goods and services, and long working hours which meant less demand for goods and services connected with leisure-time activities all played a part.

Will those accumulated savings which did not burn holes in the pockets of consumers during the last months of the war be a more effective stimulus to spending and therefore exert a greater pressure on prices now that the war is over? In what ways will the offsetting influences affecting the amount of expenditure on nondurable goods relative to current income be modified?

Of the influences tending to increase wartime spending for nondurable goods, the savings will remain. The lack of competition from the durable goods will continue only until large scale production of those goods is resumed.

Of the influences tending to discourage spending during the war, the removal of the patriotic motive for saving and a moderate increase in leisure time could operate to increase the pressure of demand. The others will be modified as there is a lessening of the pressure of demand relative to supply. Improved quality and improved service will, however, mean more for the consumer's dollar, rather than price increases, and hence may be classed as antideflationary rather than inflationary. The use of savings to tide consumers over a period of unemployment or other loss of current income will operate in the same way.

In summary, deferred demands and accumulated buying power will serve to increase the pressure of demand for those things which were not available during the war. Accumulated buying power will cushion any decline in demand for the other goods and services resulting from a decline in consumer income. It will not, however, exert a greater upward pressure on prices than it was already exerting toward the end of the war. It will be more effective as an antideflationary influence than as a threat of inflation.

Business Expenditures

Business capital expenditures, including changes in inventories as well as privately-financed outlays for equipment and construction, were drastically curtailed during the war—from almost 20 billion dollars in 1941 to less than 2 billion dollars in 1944. Most of the large additions to plant and equipment in the war industries were financed by the Government.

Despite the high rate of capital formation in some fields, there are deferred demands for facilities to replace those which have worn out and could not be replaced under the controls in effect during the war. More important, however, are the demands for improvements to keep up with technological developments and for postponed expansion. Wartime experiences with shortages, and the anticipation of substantially more than the prewar volume have emphasized these needs. As production of consumer durable goods is resumed, it will be necessary to replace working inventories all the way from raw material to retail outlet.

Business holdings of liquid assets have increased by over 40 billion dollars to about two and one-half times the prewar level. The availability of these financial resources will influence business judgment as to what capital expenditures are feasible and desirable.

All of the influences determining the actual amount of business outlays after the war cannot be summarized here. It is clear, however, that these outlays will be large—much larger than the privately-financed amounts during the war and possibly well above the best prewar year. For confirmation the reader is referred to three articles in the June and July 1945 issues summarizing business plans as reported to the Department of Commerce.* In the early stages of the transition the demand for some machinery and equipment will be in excess of the available supply.

Inventory Boom Should Be Avoided

The inventory aspect of business demand deserves special attention. It is possible that the necessary inventory accumulation may be exceeded and that speculation will start in purchasing—a situation reminiscent of 1919. There are some of the same inflationary demands and dislocations of supply in international trade today as there were 26 years ago.

Also, businessmen see a big domestic market at hand if they can get production going in a hurry. Any apparent inadequacy or threatened interruption of their sources of supply may cause them to anticipate their requirements so that their own production and distribution will not be hampered by lack of materials.

There are, however, several reasons why the brief inventory boom and collapse after the last war are not likely to be repeated. First and foremost, are the Government controls over both prices and inventory holdings which can prevent such excesses. Secondly, businessmen remember the licking they took in 1920 when losses on inventories and forward commitments put many of them into the red ink and forced some firms into bankruptcy.

Better information now available on inventories will provide ample warning to the Government and business of developing excesses. Furthermore, the probable decline in consumer income from the wartime peak is larger now than in 1918, and there is now a much greater potential increase in output of civilian goods over either the wartime or prewar rate.

Weighing the general situation, therefore, it appears that, while the possibility of an inventory boom cannot be ruled out, it is not likely to develop. The danger of such a boom can be eliminated by action to nip any such tendency at its inception through firm use of the inventory and allocations controls of the War Production Board and its successor.

Civilian Supply

On the supply side, the manpower and other resources released from the war effort will be available for increased civilian production. Whether or not they are fully utilized, they will make for an easing of the pressure upon prices.

The increase in civilian supply will be less than the curtailment of war production. Under the pressure of wartime demands individuals were employed who would not normally be seeking jobs. Hours of work were extended, vacations were postponed. In general, the country worked during the war at a pace which most people do not wish to continue after the war.

Nevertheless, the postwar productive capacity of this country, given reasonably full utilization of available manpower, is far above the national output in the best prewar year. The magnitude of this potential supply has an important bearing on postwar prices. Our ability to produce once we are over the reconversion "hump" is so great that the problem posed will be one of finding markets for any such output and not one of consumers searching out sources of supply.

It will take time to shift to the production of civilian goods. The time required varies from only a few days in some industries to a matter of many months in others. To cite an extreme case it will take 2 to 3 years of rapid expansion for residential construction to grow from the present extremely low level to the ultimate volume indicated by the deferred demands in that field.

We are attempting here to appraise the forces at work on the price structure, without becoming involved in any predictions as to the course of business activity. This task is made somewhat easier because the supply of civilian goods and the buying power of consumers are not independent of each other. The same conditions which over time make for a large demand will also create a large supply and vice versa.

It is true that disposable income is not necessarily a consistent share of production. It depends also on tax rates and on that part of the value of the product which is retained by business as reserves or undistributed profits. In general, however, any increase or decrease in consumer disposable income will be accompanied by a somewhat larger increase or decrease in national output.

In other words, high productive employment after the war means a large supply of civilian goods as well as a large demand for those goods. Similarly, the failure to shift manpower and facilities from the war effort to the production of civilian goods would leave little room for any increase in consumer expenditures but it would also provide very little in the way of additional civilian goods.

Supply and Demand in the Transition

These supply-demand relationships can be summarized in terms of, first, the variations to be expected between two broad categories of goods and, second, the difference between two periods of time—the transition and the period beyond. The transition or reconversion period might be defined as the first year after VJ-day.

Where consumer expenditures have been severely restricted, notably in user-operated transportation, consumers durables, housing and some services, prices have increased during the war, but not to the full extent which would reflect the free competition between civilians for the limited supply available to them. In these segments a large increase in expenditures is possible even in the face of a substantial decline in consumer income. This possibility is enhanced by the deferred demands, backed by purchasing power in the form of liquid funds which have accumulated.

It is in these same segments that the time necessary to shift from war production and to reach a high volume of civilian output will limit supply for a while. This will mean sellers' markets for such commodities until a period of high production has satisfied the most pressing demands. It is here that continued price controls will be necessary until full-scale production is reached.

This pressure of demand on limited supplies will be further accentuated because producers are also planning to increase their outlays on construction and for new equipment as soon as materials and manpower are available. As with the deferred consumer demands, these plans of producers are not likely to be greatly affected by any probable near-term changes in earnings.

These two segments of demand are large, but combined they are not so large as that portion of total spending which has not been curtailed during the war. Earlier it has been shown that expenditures for nondurable goods have been very nearly in line with increased consumer income. It is clear, therefore, that prices of these goods, including those intangibles which cannot be measured adequately by any index, reflect most of the impact of the present demand on the limited supply available to civilians.

Curtailment of war production will cause both a decline in consumer income and an increase in the manpower and other resources available for civilian production. Since prices of most non-durable goods have reflected wartime conditions of demand and supply, this combination of decreased demand and increased supply should make for some easing of prices.

Any spending of wartime savings will operate to cushion the decline in demand for nondurable goods resulting from the drop in income but probably will not be large enough to prevent it. The sellers' market for these goods which has featured the war will tend to disappear and competition will give the consumer better value for his expenditure than he received during the war.

However, too much should not be made of prospective divergent tendencies. The analysis of price changes during the war demonstrated that, in general, they make a consistent whole. The aggregate level of civilian goods prices has been raised without that degree of distortion which would require a great deal more than the usual readjustments between individual prices which go on all the time.

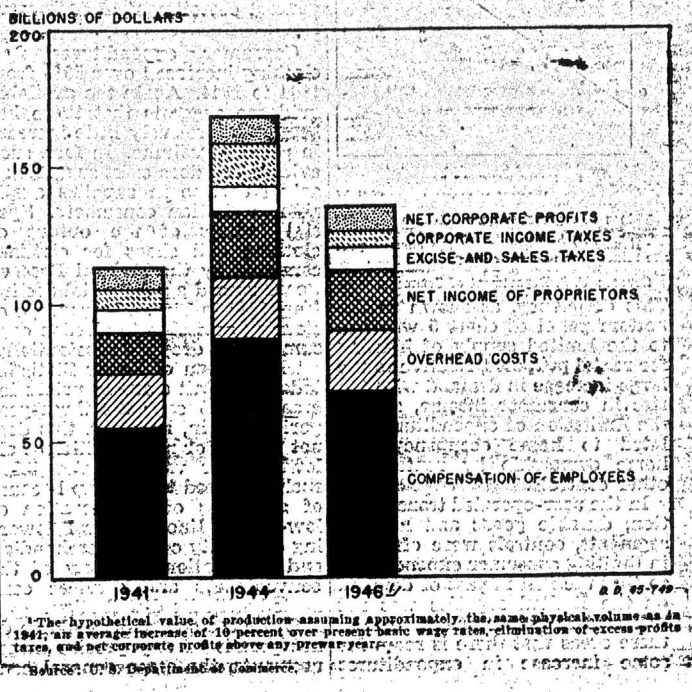
We have indicated that the area in which changing supply-demand relationships will encourage lower prices over the next year or so is much larger than the area in which the pressure of demand on supply will continue for a while. The net change in the general price level, however, will depend on what happens to costs, such as wages, and on government controls, including floors as well as ceilings.

Productive Capacity Inflation Deterrent

Deferred demands will be important in some lines for several years. But in general the dominant fact is the enormous productive capacity of this country. Excepting the difficult period of transition from war production, it

Chart 7.—Distributive Shares of Private Production

(Before Adjustment for Inventory Revaluation)

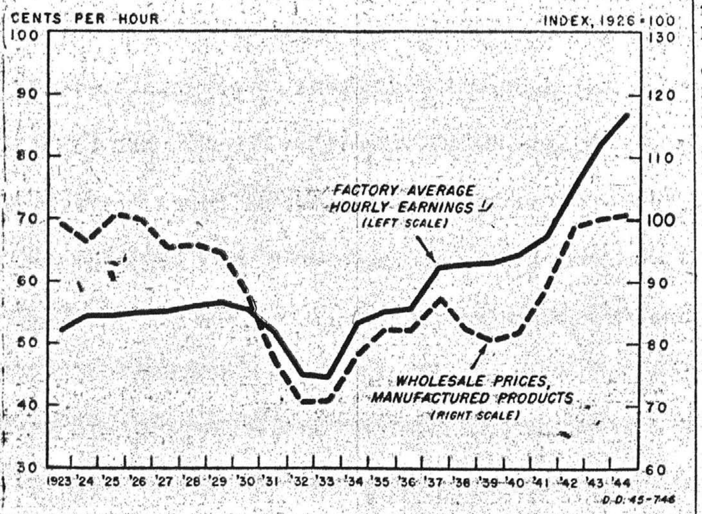


1 The hypothetical value of production assuming approximately the same physical volume as in 1941, an average increase of 10 percent over present basic wage rates, elimination of excess profits taxes, and net corporate profits above any prewar year.

Source: U. S. Department of Commerce.

* Wilson D. Stevens, "Planned Capital Outlays by Manufacturers," June 1945, "Planned Outlays and Financing of Manufacturers" and "Planned Outlays and Financing of Utilities and Railways," July 1945.

Chart 8.—Average Hourly Earnings of Factory Workers and Wholesale Prices of Manufactured Products



[1] Data for 1939-44 are estimated straight-time average hourly earnings weighted according to the distribution of employees by industries as of January 1939.

Source: U. S. Department of Labor.

is hard to visualize any general inflation of the prices of goods and services without full employment. Until that level of production is approached any pressure of demand will tend to show up in increased production rather than in higher prices.

A peacetime level of production which approaches the capacity of available manpower can provide a very large increase over the prewar standard of living. In order to reach this higher standard of living, consumers must not only satisfy their deferred demands but also buy a wide variety of goods and services which many of them never had before.

Granting that human wants are inexhaustible there is also some inertia to rapid changes in ways of living. It is difficult to visualize the average consumer increasing his consumption of goods and services by somewhere around 50%, which would be possible under conditions of full employment, and still leave unsatisfied demands sufficient to exert an upward pressure on the general price level. This inertia to rapid changes in ways of living also should temper any inflationary tendency resulting from the desire of consumers to spend part of their wartime savings.

Production Costs

Shifting to the second viewpoint, let us see what has happened during the war to all of the factors which make up the total cost of production and distribution and what may happen to them. Chart 7 shows these cost factors, as well as profits, for the privately produced segment of the gross national product in 1941. It excludes government wages and salaries and interest on Government debt.

Overhead Costs

A group of overhead items, including interest, rent, depreciation and other reserves and various real estate and other taxes which do not fluctuate with business volume, accounted for roughly 18% of the total value of privately produced goods and services in 1941. As a group these overhead items increased about 10% from 1941 to 1944. Since there was more of an increase in the physical output of goods and services this meant an actual decline in unit cost.

The future cost of these items per unit of output will depend largely on the total volume of business transacted. The net increase in this unit cost from 1941 to 1946 is not likely to exceed 10%. With a higher level of production required for even moderately good employment in subsequent years, the cost per unit might actually be less than in 1941.

Wages and Salaries

About half of the total value of goods and services produced in the private sector of the economy in 1941 was made up of compensation of employees. The increase in hourly wage and salary rates since 1941 has been a little more than one-fourth. This is the average intra-industry increase in straight-time hourly rates. It includes upgrading as well as changes in basic wage rates. The increase in the average pay envelope was considerably more because of overtime and because of shifts of employment to industries paying relatively high wages. The aggregate of wage and salary payments was further expanded by the increase in the number employed.

The wartime labor cost per unit of product was increased further by premium rates for overtime. In manufacturing alone these premiums amounted to about 7% of total wages. They were a smaller part of the compensation of all private employees including salaried workers and nonmanufacturing wage earners.

The cost per unit of product was also modified by a variety of influences affecting productivity. For example, the use of marginal workers, high labor turnover and the pressure to produce a large volume in a hurry all tended to increase labor costs. On the other hand, costs were reduced by large scale continuous production without the usual changes to meet customers' preference and by reduction of some selling effort and services connected with distribution.

The net effect of these influences on the labor cost per unit of output is difficult to measure. In many instances the same products were not being produced as in 1941. On balance it would appear that, because of temporary wartime conditions, labor-costs per unit of output increased more than wage rates.

By the end of the transition period a large part of the wartime premiums for overtime will be eliminated. There will also be some reversal of upgrading and other wartime increases designed to meet the conditions of a tight labor market. Some of the worst instances of wartime inefficiency should be corrected, but on balance it is doubtful if there will be any large increase over the 1941 output per man-hour. With current basic wage rates, the labor cost per unit of output would be about one-fifth above 1941 but substantially below the war peak.

Over a longer period the increase in labor costs relative to 1941 will be determined not only by further increases in basic wage and salary rates but also by the ability to absorb those higher rates because of increased efficiency. From 1929 to 1941 the increase in the total national output per man-hour averaged a little over 2% per year compounded. The result was a decline in prices notwithstanding the increase in wage rates, and with profits maintained in line with the volume of production.†

Chart 8 is a striking example of this tendency because the growth in productivity has been greater in manufacturing than in the total national output. The average hourly earnings in manufacturing as compiled by the Bureau of Labor Statistics were 30% higher in 1941 than in 1929, but the wholesale prices of manufactured goods were 5% lower. Over the 18 years from 1923 to 1941 the average increase in hourly earnings relative to prices was 3%.

Careful appraisal of all the factors involved leads to the conclusion that the next several years should witness a more rapid increase in productivity as it catches up with the prewar trend.

Incomes of Self-Employed

A little less than 15% of the total output of goods and services in 1941 was retained as income of the self-employed. The 1944 farm income was 88% above 1941. Allowing for the larger output in 1944 the income per unit of output had risen by more than 50%. Incomes of other self-employed, which in the aggregate are somewhat more important than farmers, rose 28% from 1941 to 1944. Because of the difficulty of measuring the physical output of these nonagricultural entrepreneurs we do not know how much their income increased per unit of output.

Both groups have benefited from an extremely favorable competitive situation. The number of farmers and nonagricultural self-employed declined substantially while the demand for their services increased greatly. Their incomes contain an element which is analogous to the overtime and other premiums paid wage and salary workers.

It seems reasonable to expect that entrepreneurial incomes will return to a level more nearly in line with the increase in wage and salary rates since 1941. The bar for the year 1946 in chart 7 assumes a 25% increase over 1941 in income per unit of output for both agricultural and nonagricultural selfemployed and a 20% increase over 1941 in physical volume of farm output.

Over the longer run there is the same possibility of offsetting increases in efficiency. For example, the output per person engaged in agriculture increased 68% or 1.7% per year from 1910 to 1941. There have been larger gains during the war due to accelerated mechanization as well as favorable weather.

Taxes

About 6% of the total value of private production in 1941 was accounted for by excise, sales and related business taxes. These tax payments had increased 30% by 1944, largely because of increased Federal excise tax rates. Some reduction in those rates is probable—if not in 1946, then certainly in 1947.

Another factor affecting the general price level is the reduction in income tax rates. Chart 7 allows for the repeal of the excess profits tax. Even if corporate profits after taxes in 1946 should be as much as 9.5 billion dollars, only slightly below the wartime peak, elimination of the excess profits tax would reduce total corporate income and excess profits taxes to a little over 6 billion dollars as against 15 billions in 1944. This would amount to less than 5% of the value of private production as compared with 9% of the larger output in 1944. Such tax relief does not affect business costs but it obviously makes a considerable difference in what profits can be earned under the existing cost-price structure.

† See the demonstration of the latter point in Dwight B. Yntema's "Corporate Profits and National Income" in the September 1944 issue.

Corporate Profits

Corporate profits, after taxes but before adjustment for inventory revaluation, amounted to 8.5 billion dollars in 1941. It is estimated, however, that almost 3 billions resulted from increased value of corporate inventories because of advancing prices and less than 6 billion was included in the value of current production for that year. This was about 5% of the total value of private production, although a somewhat larger percentage of the net value of production by corporations.

Profits after taxes in 1944 were close to 10 billion dollars, practically all earned from current operations. This was 6% of the much higher output in that year.

For purposes of analysis chart 7 assumes 9.5 billion dollars of profits in 1946, all of it earned from current operations. While this is not intended as a forecast of actual profits next year some consideration should be given to the reasonableness of the figure.

Since almost two-thirds of all corporate profits are earned in manufacturing, chart 9 is an excellent guide. It shows the close relation between profits and the volume of business over the whole period 1922 through 1941. Earnings shown are before income taxes but have been adjusted to exclude inventory profits or losses.

The manufacturers' share of the 9.5 billion dollars, plus income taxes, when related to the higher than 1941 dollar volume of production expected in 1946 because of higher prices, would lie approximately on a line drawn through the years 1932 and 1941.

Table 1 showes profits both before and after taxes related to the value added by manufacture. The figure assumed for 1946 would be a substantially higher margin of earnings before taxes than the average for the years 1923 through 1929 and only a slightly lower margin of net profits after taxes. The aggregate net after taxes would be well above any prewar year.

Table 1.—Corporate Profits in Manufacturing Compared With Value Added by Manufacture

	Value Added	*Corporate Profits from Operations — Before Taxes		— After Taxes	
	Billion Dollars	Million Dollars	% of Value Added	Million Dollars	% of Value Added
1923-1929 average	26.5	3,841	14.5	3,320	12.6
1930	25.1	3,350	13.3	3,033	12.1
1931	18.6	974	5.2	809	4.3
1932	11.6	—879	—7.6	—979	—8.4
1933	14.0	—592	—4.2	—800	—5.7
1934	15.9	87	.5	—179	—1.1
1935	18.6	1,428	7.7	1,070	5.8
1936	21.7	3,065	14.1	2,456	11.3
1937	25.2	2,878	11.4	2,224	8.8
1938	21.5	1,911	8.9	1,534	7.1
1939	24.7	3,057	12.4	2,423	9.8
1940	29.7	4,924	16.6	3,390	11.4
1941	42.6	8,453	19.8	3,507	8.2
1942	56.5	11,000	19.5	4,900	8.7
1943	71.5	14,700	20.6	5,600	7.8
1944	75.0	15,000	20.0	5,800	7.7

*Adjusted to exclude inventory profits or losses, capital gains or losses, etc.
Source: Bureau of Foreign and Domestic Commerce.

Since it is for a year in which transitional difficulties will affect both costs and volume this allowance for corporate profits in the right-hand bar of chart 7 appears ample. Prices which would leave such a margin in 1946 would, of course, provide a greater net profit as production gets rolling.

Cost-Price Relations in the Transition

Thus under the existing wage rates, the next year would bring a decline from the wartime peak of production costs. A large part of the wartime premiums for overtime, night and holiday work will be eliminated. Increased competition will mean some reduction in the incomes of farmers

(Continued on page 3152)

The Post-War Price Structure

(Continued from page 3151)

and other self-employed. These changes will be only partially offset by spreading overhead costs over a smaller volume of business. Reduced tax rates will allow a large reduction in profits before taxes and still leave high net earnings.

Again using existing wage rates, and assuming that the physical volume of private production in 1946 will be about the same as in 1941, the net increase in price per unit of national output from 1941 to 1946 would be somewhere between 15 and 20% as compared with the 23% increase to date in the cost-of-living index.

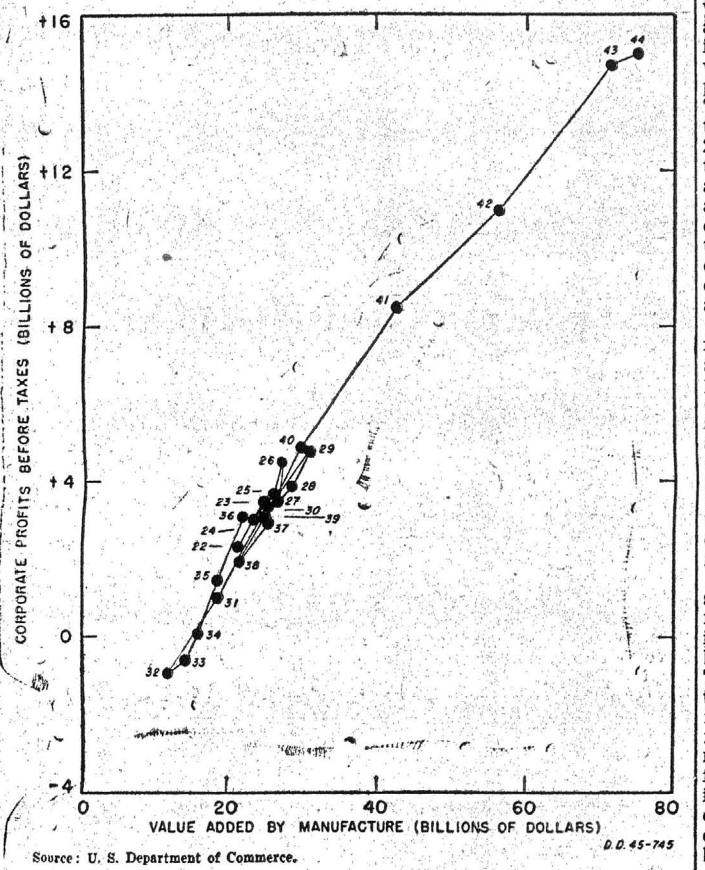
But any assumption of no change in wage rates is unrealistic. The decline in war production will mean a lessening of the extreme pressure of demand on the supply of labor. It also brings about, however, reductions in earnings through loss of overtime and other premiums and through the return from war industries to lower paying civilian jobs.

These reductions in take-home pay, in the absence of a large decline in living costs, naturally present a persuasive case for labor to press for wage increases. The free play of supply and demand will be modified by the action of organized labor and by public opinion, particularly as public opinion may coincide with and be implemented by Government policy. Viewed objectively, there seems a strong probability of further increases in basic wage rates.

It is apparent from the analysis that it is possible to raise wage

Chart 9.—Relationship Between Corporate Profits in Manufacturing and Value Added by Manufacture

(Profits Before Income Taxes, but After Adjustment for Inventory Revaluation)



Source: U. S. Department of Commerce.

rates and still keep the cost of living index at its recent level. For the purpose of this analysis chart 7 assumes for 1946 an average increase of 10% in basic wage and salary rates. The result is a total value of private production 23% higher in 1946 than in 1941.

Since the total physical volume is assumed to b[illegible]y the same as in 1941, the hypothetical increase in prices from 1941 to 1946 is in line with the reported increase of 23% in the cost of living index from 1941 to the end of the war. Such an increase in wage rates would still allow for the large profits indicated, and allow for elimination of all the intangible and unmeasurable wartime increases in prices which could not be included in the index.

This 10% is necessarily a rough approximation. More importantly, it is an average for all wages and salaries. It recognizes that some industries can afford a much larger increase while others are in a less favorable position to raise wage rates without raising prices. The variation for individual companies will be even more.

To cite one extreme case, the amount of the allowable average increase is held down by inclusion of domestic service as part of the total value of private production. Since in this instance there are no other costs of production, any increase in wage rates would automatically increase prices.

Longer Run Price-Cost Relationship

The year 1946 is a transition one which will not afford the full impact of lowered unit costs that comes with high volume. That will come after production hits its full stride.

Increased production over the longer period is the answer to the requirement of an increase in the real income of employees, workers, and consumers. There is every reason to assume that the necessary increases in productivity will occur to make possible a larger increase in wage rates without an increase in cost per unit of output. Another glance at chart 8 will serve to emphasize that such increases in wage rates relative to prices are possible.

Inflation or Deflation?

In summary, there has been a general and substantial advance in the prices of almost all civilian-type goods during the war. The exceptions are due more to the inherent stability of some prices than to wartime controls. Careful analysis does not disclose much more than the usual disparity among individual prices, or suggest the need for major adjustments to bring them into line.

In general, the full effect of wartime demand on limited supplies was reflected in increased prices for such items as food and clothing. Expenditures for most nondurable goods and some services, accounting for well over half the consumer's budget, were fully in line with high wartime incomes.

In contrast, expenditures for user - operated transportation, other durable goods, housing and some services have been restricted. The full impact of demand was not reflected in prices. This distinction has an important bearing on the price outlook.

These supply-demand relationships at the end of the war will be subject to strong pressures both inflationary and deflationary. There is need for perspective in viewing these opposing forces so that one is not overly impressed by one or the other.

On the deflationary side there is the sharp cut in Government war expenditures now in progress and the corresponding shrinkage in consumer incomes earned in war production. Government expenditures in 1944 were perhaps 70 billion dollars above a peacetime level. Of this total roughly 20 billion dollars was repaid to the Government in business and personal taxes. Additional amounts were retained as depreciation, other reserves and undistributed profits. The remaining disposable income of individuals earned in war production was about 40 billion dollars.

This does not mean that we are facing any vast gap between consumer buying power and the supply of consumer goods to be purchased. As the productive resources become available possibly a third of the shrinkage in war expenditures will be offset by increased business outlays for capital goods, thus putting income in the hands of consumers without creating additional consumer goods for them to buy.

If production of consumer goods should continue at the wartime rate, the disposable income earned in their production would increase because of decreases in tax rates. The balance of the shrinkage in total disposable income can result in a reduction from the abnormally high rate of wartime saving rather than a cut in expenditures for consumer goods. Those savings in 1944 were perhaps 25 billion dollars above a more normal percentage of the smaller income to be expected in 1946.

Any increase in the production of civilian goods above the wartime level will result in an increase in the incomes earned in that production. Thus it will affect the demand for those goods as well as the supply. Similarly any shrinkage in production for civilians will mean a decline in both buying power and supply.

This loss of income earned in war production does mean, however, that there will not be any such excess of buying power over the available supplies as existed during the war. Declining war production releases resources for expanded civilian supply along with the decline in consumer income. Where prices at the end of the war reflected the full impact of demand on supply the implications of a decline in demand and an increase in supply should be clear.

On the inflationary side are the deferred demands for durable goods and the large accumulation of unspent war income. They will serve to maintain the upward pressure on prices for these goods until large volume production has satisfied the most pressing requirements. Since wartime prices for these goods did not reflect the full impact of supply on demand, some restraint on prices will be needed until production gets rolling.

In most nondurable goods and services the accumulation of spendable funds in the hands of consumers will be more important as a cushion to deflation than as a threat of inflation. Before the end of the war consumers already had most of these savings and their influence on expenditure decisions—and therefore on prices—was already felt. These savings may be used to limit a decline in expenditures resulting from a shrinkage in income. In general they will not exert a greater upward pressure on prices than they did during the war.

In the long run, any strong inflationary pressure from wartime savings presupposes that the average consumer will still consider these reserves against the proverbial rainy day more than adequate when his current consumption has been increased 50% above the prewar level. Until that limit of productive capacity is approached, increased demand will tend to result in increased production rather than higher prices.

The analysis has shown that the areas in which changing supply-demand relationships will create a deflationary tendency are larger than the areas in which inflationary tendencies will persist for a while. The general price level, however, may be determined more by organized pressure on the cost of production than on the balancing of supply and demand in the market place.

The analysis has shown that wartime cost-price relationships were adequate to assure all-out war production and to provide large profits in every major segment of the economy.

Some of the wartime increases in costs, such as premiums for overtime, are disappearing as war production is curtailed. Elimination of the excess profits tax will allow an increase in costs or a decline in prices without impairing net profits after taxes. These savings will be partially offset in the coming months by the need to spread fixed overhead costs over a smaller total volume of business. On balance, however, it is clear that there is room for some increases in wage rates or some declines in prices, or both.

For the country as a whole, including nonmanufacturing as well as manufacturing, it appears that immediate basic wage increases averaging somewhere around 10% are consistent with the maintenance of the cost of living index at its present level, elimination of the intangible price increases not included in the index, and net profits in 1946 above any prewar year. The average, of course, includes some producers who can afford much more than 10% while others will be in a less favorable position.

After reconversion is completed, sustained high volume and a catching-up with the normal growth in productivity will make possible a larger and more general wage increase or a greater decline in prices. Until that increase in output per man-hour has actually taken place, however, many producers are not in a position to absorb this larger increase without passing it along in higher prices.

Viewed quite objectively, it seems probable that increases in wage rates in the coming months will be of the order of magnitude which will serve to maintain the cost of living at somewhere near its present level. Consumers will obtain more for their dollar than they did during the war because of elimination of various intangible price increases, but any change in the general price level will not be large enough to be labeled either inflation or deflation.

Because of the immediate pressure of deferred demands, there is need to hold the price front firmly during the life of the Price Control Act. The key to the price outlook, however, is production. The danger of a spiral of rising prices exists over the next few months only because of the time involved in converting to the output of civilian goods and services.

Looking beyond 1946, the magnitude of our productive capacity—far above what was produced and consumed in the best prewar year—is the fundamental guarantee against the possibility of a further marked rise in the price level. When this production is fully utilized, and the most pressing deferred demands are met, the problem will be one of finding markets for all that our farms, mines, and factories can turn out.

The Investor's Stake in The Anti-Trust Laws

(Continued from page 3130)

unsocial practices of some of these trusts or monopolies were so vicious as to call for correction by passing a law. One of our great troubles in this democracy is that we believe we cure evils by merely passing a law. We forget that the administration of a law and the experience under a law are what really determine its effect.

And so it was with the Sherman Anti-Trust Law which was passed in 1890 but which really did not make any sense until it was interpreted by the courts of the land. The Sherman Anti-Trust Law was one of the most sweeping laws on the books. By its very all-inclusiveness, it has done far more harm than good. Such harm has come because public opinion has not understood how the law has been interpreted by the courts and it certainly has not understood how it ought to be administered. For instance, the Standard Oil case which was decided in 1911 did not disband the Standard Oil Company because it was a monopoly. It did disband it because the management of the Standard Oil Company was shown in their operations to be unprincipled, arbitrary and ruthless. The fact is that companies like the United Shoe Machinery Co. which controlled over 99% of an industry which is as near a monopoly as any one could achieve was approved and legalized by decision of the United States Supreme Court based upon the Sherman Law.

And so in other cases like International Harvester and United States Steel Corporation where the Supreme Court of the United States said that mere size is no longer an offense. There are many more ways in which it could be shown that the Supreme Court stands for reasonableness and decency, regardless of whether a trust or group controls 99% or 70%. In certain cases like the Trenton Pottery case, a small percentage were condemned for indecent practices. Price maintenance even per se which came about as a result of decent and fair operation has not been condemned.

It is my firm conviction that the United States Department of Justice in its Anti-Trust policy today stands clearly across the path of American progress and prosperity. This is not to say that either Tom Clark, the Attorney General of the United States, or Wendell Berge, his Assistant in Charge of Anti-Trust Laws, are not two of the finest men whom one would care to meet. What I mean to say is that American public opinion has been so malformed or so unformed with respect to the Anti-Trust Laws and particularly are our Congressmen so badly informed that we have paid and are about to pay the penalty of defeat in winning the peace, if we do not learn quickly. The Anti-Trust Laws have been used and are being used, whether knowingly or unknowingly, as a political club over the heads of the American businessman who has as much interest in progress as in profit. The Anti-Trust Laws are a political club particularly against the vast group of smaller businessmen in whose survival and sustenance lies the only hope of our continuing and growing as a great nation.

The problems of full employment, the problems of prices, the problems of markets, the problems of research, particularly insofar as the little man is concerned, can only be carried on successfully in cooperation with his fellow businessman who is not big enough to do what the big fellow can do. But the sweeping language of the Sherman Law is still being used to prevent groups of little people in business from getting together to stand up to the competition and practices of the large units in an industry. This has never been brought clearly to the attention of the American Congress nor to the attention of the American people. In this day when we must all sit down and solve our common problems together, there is this law which says "THOU SHALT NOT."

Even in competition between various basic industries like cement and steel and aluminum, the sweeping language of the Anti-Trust Laws is invoked to keep people from working together so that they can either solve their common problems or at least attempt to deal with them.

In answer to the direct question as to how the investor is interested in the Anti-Trust Laws, it is fair to say that his interest is very vital, particularly today. The great lesson of this war was that we all worked together and were thus able to do the job of the home front on production—which had as much to do with the winning of the war as did the effort of those who used at the battlefront what civilians made and created.

In the first place, wasteful competition in peacetime is just as unthinkable as wasteful competition was unthinkable during wartime. We dare not lose the peace—we have too much at stake. The peace can easily be lost if, for instance, the steel industry or the automobile industry or any of the many thousands of industries we have cannot work together to solve the labor problem on an industry-wide basis. Certainly, it is far more important to have full employment and a constantly rising standard of living with securtiy and industrial peace for all concerned than it is to have any other single thing we could think of. A healthy condition in the economy can only be created by all parts of the economy working together. The Anti-Trust Laws are a constant threat and are constantly standing in the way of that being done. Therefore, investments are not only jeopardized but very often are not made because of fear of prosecution. Without investment, employment is not created.

Another great problem is the fact that the stockholders' money is wasted by endless, needless harassment and litigation instituted by the Government not for the purpose of really proving any great issue but because it make good political reading. Hundreds of millions of dollars in time and money are being spent by American business to carry on litigation which could never be successfully carried through the courts but which have been instituted by the Government to force the companies to choose the easiest way by compromising, even if it hurts the stockholders.

For instance, there is now a trial going on in the motion picture industry to provide for the divorcement of the motion picture companies from the operation of theatres. The motion picture industry has been in litigation for years and years. The litigation seemingly never ends. In the final analysis, the economy of the situation must be adhered to. There is no improvement in the situation by divorcing the theatres from the motion picture companies because the stockholders in the final analysis would be about the same. The Government makes a great show of prosecuting a big company or big companies. Really, it is prosecuting many hundreds of thousands and in some cases millions of stockholders. The Anti-Trust Laws should be used to eliminate unfair competition or monopolistic practice should be common sense not legalism.

This is most unfortunate to those investors who are willing to speculate their money and start a small business. The small business is not protected by the present enforcement of the Anti-Trust Laws. In fact, such enforcement is clearly destructive of small business.

Today, wages and prices are national problems. They cannot be treated on a piecemeal basis. It is a question of whether they can even be treated on an industry-wide basis as in steel, for example, if all other industries cannot get together to solve their problems. In certain industries, laws have been passed to permit industries to work together but these industries have had political "know-how" like coal and milk and there is no reason why all industries are not in that same category.

When we were called upon to make the greatest effort in our history during the war, the Anti-Trust Laws had to be suspended. The Sherman Law which is typical of the Anti-Trust Laws says that every contract, combination and conspiracy in restraint of trade is hereby declared unlawful. The fact is, as the Supreme Court pointed out in 1911 in the Standard Oil case the language makes no sense because every time that you as a shoe dealer sell a pair of shoes, to that extent you restrain trade by taking that particular shoe buyer out of the market. The purchase of a pair of shoes is a contract in the legal sense. Any one as a layman can therefore see that the rule of reason had to be laid down by the Supreme Court by reading into the law the word "unreasonable" so that the law really now reads "every unreasonable contract, combination and conspiracy in restraint of trade is hereby declared unlawful." The fact is, as pointed out then, that wherever and whenever we have faced an emergency, when people have to work together, the Anti-Trust Laws were put in cold storage. These laws put pressure on certain American businesses so that they are restrained from doing things which are in the interests of the American people. The fact is that today more than ever the American people must work together. The labor unions must work with management. There is a great field here for working together to solve many problems, especially through a whole industry. Most people in business, under certain circumstances, have no objection to raising wages as long as it is uniformly done. We are too big, too varied and too diversified to have every one go his own way.

The Government has recently brought a suit against the General Electric Company and others which, if successful, might mean that lamps would cost the American public considerably more than they do at present. The fact is that the cost of lamps in this country has been reduced from 60% to 90% in the last 20 years. The Government is suing so that marginal producers could be put back into business at not only a cost in money to the American producer but at a cost in working standards and in progress.

The great need in this country is for all the people to work together. These laws are used to keep the people from working together. I have suggested that the laws be amended in line with the decisions over the last 35 years, which would place the accent on whether a group was or was not violating the Anti-Trust Laws not on technical grounds but on the proposition as to whether the group was or was not serving the public interest. As a matter of fact, THE INVESTORS LEAGUE for which I am Vice-President and Counsel, is making it one of its policies to see that these Anti-Trust Laws are so amended as to avoid their further use for political purposes or for interference in the progress of mankind.

We know that there could not have been any atomic bomb produced if the Anti-Trust Laws had stood in the way. The whole world is full of atomic bombs of one kind or another. The wage problem, other labor problems, the pricing problem, the social security problems, problems of health, disease and nutrition—all of these and many more cannot be dealt with successfully unless all people can freely and fully work together to see how they can be solved. The present Anti-Trust Laws make no sense any longer, as the Government interprets them. They only make some sense as the courts have interpreted them—and this interpretation is on a case by case basis which makes it hard to get any one to venture on the outcome. They only make sense if they really promote competition. Certainly, it does not stand to reason that unit "A" in an industry which presently controls 1% of the business of an industry can successfully continue its method of operation against a company that has 50%. Businesses "A," "B," "C," etc., are now prevented from getting together if they represent 20% of the business so that they can really compete. Now this group of "A," "B" and "C" the Anti-Trust Laws condemn to death.

The small businessman is gradually being destroyed and he will be destroyed by the Anti-Trust Laws. We organized a Smaller War Plants Corporation and the press is constantly full of speeches by Senators and Congressmen to help the small businessman when the small businessman can only meet the competition of the big units by being able to get together with other similar units.

We have been and are going to pour out billions of dollars to help veterans to go into business. We have poured many millions into helping small business. All of this is taxpayers' money and the money of investors. Unless the small businessman has a chance on the basis of fair competition with his larger competitors by being able to work with his fellow small competitors, we are wasting a great deal of the taxpayers' money.

New York Stock Exchange Weekly Firm Changes

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

Marjorie L. Bratter will retire from limited partnership in Burnham & Co. on Dec. 31.

Arthur M. Nelson will retire from partnership in Cowen & Co. on Dec. 31.

Benjamin F. McGuckin, member of the Exchange, will retire from limited partnership, and Louis D. Froelick and Subhi M. Sadi from general partnership in De Coppet & Doremus, on Dec. 31.

Samuel W. West, member of the Exchange, retires from Filor, Bullard & Smyth on Dec. 31.

George A. Robinson will withdraw from partnership in Goodbody & Co. on Dec. 31. Interest of the late Edwin G. Colwell in the firm will cease on the same date.

Herbert H. Weitsman will retire from Gimbel & Co. on Dec. 31.

A. Pam Blumenthal, Rudolph Zenker and Daniel H. Silberberg will withdraw from H. Hentz & Co., effective Dec. 31.

Douglas C. MacCallum will retire from Holsapple & Co. on Dec. 31.

Richard E. Norton will withdraw from Hornblower & Weeks on Dec. 31; Edward O. McDonnell, limited partner in the firm, will become a general partner, effective Jan. 1; interest of the late Walter R. Herrick, limited partner in the firm, will cease on Dec. 31.

Theodore Weicker, Jr., retires from partnership in E. F. Hutton & Co. on Dec. 31.

Harold B. Blumenthal will withdraw from Robert J. Levy & Co. on Dec. 31.

Henry Siegbert will retire from Lewisohn & Co. on Dec. 31.

Edward M. Brown withdraws from partnership in D. T. Moore & Co. on Dec. 31.

Nicholas G. Roosevelt will withdraw from limited partnership in W. H. Newbold's Son & Co. on Dec. 31.

Henry Grabosky, member of the Exchange, will retire on Dec. 31 as a partner in Newburger & Hano.

Joseph H. Fauset retires from partnership in Singer, Deane & Scribner as of Jan. 1.

Samuel S. Lerner retires from A. L. Stamm & Co., effective Dec. 31.

Henry D. Talbot withdraws from Stern, Lauer & Co. as of Dec. 31, his privilege to act as alternate for Richard P. Limburg ceasing on the same date.

Howard J. Nammack, general partner, and Howard B. Dean and Floyd C. Noble, member of the Exchange, limited partners, will withdraw from Struthers & Dean as of Dec. 31.

Albert Ulmann retires from partnership in Sulzbacher, Granger & Co. on Dec. 31.

John R. Wechsler will retire from partnership in Wechsler & Co. Dec. 31.

Walter H. Laband will retire from partnership in Wertheim & Co. on Dec. 31.

William A. Barron, Jr., retires from partnership in White, Weld & Co. on Dec. 31.

Henry H. Silliman of Wilmington, a limited partner in Laird & Co., will become a general partner, effective Jan. 1.

Herbert R. Johnson, general partner in Orvis Brothers & Co., will become a limited partner as of Jan. 1.

Interest of the late Lewis H. Parsons in Graham, Parsons & Co. will cease Dec. 31.

John E. Scheffmeyer, partner in Scheffmeyer & Co., died on Dec. 16.

Privilege of Archibald Douglas, Jr., to act as alternate on the floor of the Exchange for Van Vechten Burger of Pershing & Co., will be withdrawn on Dec. 31. After Dec. 28, privilge of Harry R. Engeman to act as alternate for Louis B. Froelich will also be withdrawn.

Bilheimer Returns to Wahler, White & Co.

KANSAS CITY, MO.—William E. Bilheimer, Jr., has returned to Wahler, White & Company, Dwight Building, after serving with the U. S. Army. Prior to joining the armed forces he was a vice-president of the firm.

Interest Rates and Inflation

(Continued from first page)

Raising of discount rates—the interest rates applied by central banks—recommended itself as the classical and traditional policy of central banking developed for more than a century. It appeared also as the logical consequence of the monetary business cycle theories prevailing at that time. The theorists, and especially the followers of the eminent Swedish economist, Knut Wicksell, were of the opinion that in order to stabilize the price level, one had only to regulate the quantity of money; and, that this, in turn, could and should be achieved by making the supply of credits from the money issuing authorities more expensive.

Today, the recommendation or the mere mentioning of a restrictive discount and interest policy as a means of checking inflation, appears to the overwhelming majority of economists as well as businessmen in this country as almost ludicrous. This shows the extent to which ideas on this subject have changed and traditional views been replaced by what in the opinion of this author must be called a general confusion of minds.

Uncertainty of Diagnosis

This confusion begins even at an earlier stage when the existence of inflation is questioned. Besides much inflation talk, there is much deflation talk around; and the danger of the divergence of opinion is that it seems to be especially pronounced in the Government. The OPA is decidedly inflation-minded, whereas the Secretary of Commerce has frequently expressed his fear of deflation. Incidentally, this uncertainty of the Government in the inflation and deflation controversy supplies an early and conclusive confirmation of those skeptics who have doubted Governmental ability to stabilize the business cycle. It is clear that Governmental business cycle stabilization is only possible under the assumption: that private enterprise can err in regards to the future development and therefore be prone to indulge in over-optimism or over-pessimism, whereas the Government that must counteract the excessive expectation of private enterprise has a clear and certain vision of the future. Now, on the first occasion when cycle stabilization is put to a practical test, it turns out that Government officials are subject to errors and uncertainties like other human beings so that their ability to stabilize the cycle can not be relied upon.

Those in Government as well as in business that fear inflation base their diagnosis as is well known on the presence of a huge pent-up demand and purchasing power. This author considers this diagnosis basically correct. Pent-up purchasing power is nothing else than deferred inflation, as the history of almost all post-war periods proves.

Those who are deflation-minded base their opinion on the fear that lowering of the "bring-home pay" would create a deficit in effective demand. This argument is of course in many cases political rather than scientific. It is presented to show the necessity for raising hourly wages. Where it is seriously meant as an economic argument, it does not take into account that the demand pent up through many years of war, the credit expansion of the rehabilitation and reconstruction period ahead, and the usual waste of post-war years will add so much purchasing power to the wages of the production period itself that a deficit in the latter, even if it really occurred, would be compensated and over-compensated.

The "Cart Before the Horse" Therapy

As far as the actual policy is intended to be an anti-inflationary policy, it concentrates exclusively on the fight against the symptoms rather than the causes of inflation. It does not endeavor to reduce the quantity of money spendable at the markets, but to prevent the natural effects of the enlarged money quantity—the raising of the price level. It is generally not realized what fundamental changes from previous policies this implies. The laws of the market which formerly alone prevented price-raising are replaced by criminal laws which penalize the raising of prices according to the market laws. The smooth and inexpensive price-fixing by means of the market is replaced by a very expensive and complicated price-fixing and law-enforcing organization. This, incidentally, creates the very unwelcome phenomenon of hundreds of thousands of businessmen becoming offenders of the law who otherwise would have never come in contact with the courts; this, because of the paradoxical situation in which they are placed by a system of prices fixed contrary to the laws of the market.

The reasons why neither the OPA nor any other Governmental agency has not even considered fighting inflation by monetary measures are manifold:

First of all, it seems to be entirely forgotten that it is not only possible but natural for a currency to be held scarce in order to uphold its purchasing power over goods. Forgotten seems to be the method whereby under the gold standard the value of the currency was preserved, the so-called discount policy of the central banks. Nobody thinks any longer of reducing the quantity of money when the coverage of bills by gold deteriorates. One either reduces the coverage requirements or devaluates. The concept of a totally elastic currency seems to have replaced the concept of the currency of which the quantity is restricted in one way or the other. It is natural that in a world in which the supply of money is thus considered as unlimited, the feeling for the necessity of curtailment of the quantity of money is weakened.

Furthermore, fear that the low interest rates of the Federal Reserve Banks could lead to inflation has been abated by the experiences of the Thirties, when the supply of extremely cheap money did not lead to an inflationary but rather to a deflationary situation. One forgets, however, that this was the result of the abnormally low investment demand created by various, especially political, factors of that time. Today, expectation of unlimited markets due to pent-up demand must create a very strong requirement for money through withdrawals of bank deposits and requests for new credits from the side of business—not mentioning the demand from the side of the still entirely unbalanced Governmental budget. In such a situation on the demand side, low interest rates create inflation, whereas raising of interest rates could prevent inflation.

Finally, there seems to be a certain inclination to deny the effectiveness of higher interest rates on the grounds of an alleged inelasticity of the demand for credits. One argues that the interest rate is nowadays of such minor importance in the cost calculation of industry that even a very high rate would not deter demand, other conditions being favorable. To this it must be replied that this argument—beside being inapplicable in industries requiring vast amounts of capital as in the building industry—forgets entirely the indirect effects of low interest rates. Low interest rates, enduring over a period of time, raise the price of common stocks whose earnings seem reasonably assured because the public capitalizes these earnings at a much higher price-earning ratio. This means that venture capital can be raised through the issuance of new stocks at cheap rates and in practically unlimited amounts, at least by the big corporations of the country. Thus, during the boom of the Twenties in the period before the crash, an extremely high price-earning ratio — at that time created through crazy earning expectations—allowed industry to obtain any amount of money which, spent in one way or the other, strengthened the forces of inflation.

High Interest Rates Not Necessarily Coincident with Unemployment

The aversion to raising interest rates has of course its root also in the widely-held theory that easy money means high employment and tight money means low employment. If this theory were correct, high employment could in times of a strong demand for credits only be achieved at the price of inflation. However, the theory is basically wrong. If the supply of credit is kept scarce, it is true, enterprises requiring large amounts of capital are doomed. But enterprises requiring lesser amounts of capital but more labor can carry on provided only that too high wages do not render these enterprises unprofitable. Full employment can be achieved at any interest rate level as shown by experience in colonial countries. If low interest rates threaten to lead to inflation, the relief of business enterprises has to be sought through other means, especially through a reasonable tax and wage policy.

Fiscal Policy Versus Economic Policy

The appeal that low interest rates offer is derived, too, from the fact that they enable the Treasury to finance and refinance the Governmental debt on cheap terms. That the Government is, so to speak, creditor and debtor in one person, because it fixes the rediscount rates of the Federal Reserve System, leads indeed to large savings for the Government and thus for the tax payer. However, the artificially low interest rates on Government securities create an artificial abundance on the entire credit market. All other creditors—private as well as institutional—have to revise their interest claims downwards in order not to be excluded from a market where they are in competition with the cheap money coming directly or indirectly from the Federal Reserve Banks.

Without wanting to argue whether fiscal considerations should be taken at all into account when economic policy is discussed, it may incidentally be pointed out that the structure of the war debt would have to be changed before one could return to an orthodix interest policy. Substantial parts of the debt, especially those financed by the Savings Bonds A to G, represent practically what one used to call a floating debt. Therefore, in case of a marked rise in interest rates, necessitated for instance by an inflationary boom, billions in bonds would be presented for redemption in cash which would increase the forces of inflation. Obviously, this floating debt would have to be consolidated in the traditional way into a truly long-term debt through offering of higher interest rates for truly long-term bonds. This might not even mean an additional burden to the Treasury. For there would always remain a strong spread between long-term and short-term interest rates. So the Treasury could easily pay no interest at all, or relatively low interest, to those who wanted to retain for reasons of liquidity bonds payable at sight—and who, now, paradoxically receive interest equal to those on long-term bonds; whereas, on equally liquid bank accounts, no interest is received.

Needless to say, the return to orthodox financing methods would also result in serious difficulties for banks and other Government bond-holding institutions. The long-term bonds they hold would of course depreciate with higher interest rates, creating catastrophical losses which would have to be taken over by the Government in order to prevent socially and politically unbearable bankruptcies. The return to a sound way of financing is always as costly and difficult as the departure from this way seems easy and advantageous.

Summing up, we may say: the fight against inflation concentrates indeed on the suppression of the results rather than the causes of money abundance. The OPA and the law enforcement agencies have taken over responsibilities that formerly were the Federal Reserve Board's. Increase of the quantity of money is tolerated but its natural effect on prices in accordance with the "Quantity Theory of Money" is prevented. One is reminded that during the high days of the Nazis, the German President of the Reichsbank boasted that the National Socialists had won a victory even over the Quantity Theory. But it turned out to be a "Pyrrhic victory."

Price Stability with Wage Instability

The policy of fighting inflation with price ceilings is, however, not consistently carried through. The policy of ceiling prices must logically be combined with the policy of ceiling wages. Such a combination of policies was pursued and to a certain degree achieved during the war. It has now been replaced with a policy of fixing prices but not wages: wages are to be determined by collective bargaining according to the ability of the individual industry to absorb higher wages through increasing productivity. It has already been mentioned that a wage-boosting policy is unnecessary in so far as it is meant as an anti-deflation device. For whatever reasons it is advocated, it is obvious that it intermingles in a peculiar way with the otherwise anti-inflationary policy of the Government. It is true that it will not create inflation, at least not directly; however, if wages are no longer—as in a free labor market—fixed according to the productivity of the marginal but of the intermarginal enterprise, this must obviously lead to a stoppage of the former. For, if in the large enterprises, who derive high profits from gigantic turnover, labor is entitled to share these profits then workers will just leave the smaller enterprises and join the larger and largest ones. This must lead, at first, to unemployment and thus even to deflation and later to a concentration process that is surely highly undesirable for many reasons. If and as soon as prices are raised under pressure of small business so that they too can pay the high wages of their large competitors, then unemployment and the concentration process is, of course, halted, but an inflationary spiral is started.

The Piling Up of Purchasing Power

In spite of everything that has been said above and could be said further, one has to reckon with a continuation of the prevailing policy. Government as well as public opinion are too strongly committed to it. Nevertheless, our analysis is not just of theoretical but of highly practical importance, for it leads to the perception of what can be reasonably expected as results of this policy —if one cannot change a policy one should at least be prepared for its consequences.

The immediate consequence of the policy must be a huge and unprecedented piling up of spendable purchasing power in the economy through money and credit creation. For there will be a practically unlimited and undefended supply of money and credit facing a huge demand. Governmental expenditures financed by deficits will go on although on a smaller scale than during the war. Furthermore, private enterprise and the Government will proceed with huge investments in this country as well as abroad. They will believe they are entitled to make these investments because the huge amounts of idle funds held in the form of cash or short-term Government securities will create the illusion of a tremendous abundance of wealth. In reality, all these funds are already invested directly or indirectly in loans to the Government and to firms. The fact that they can actually be invested anew arises exclusively from the possibility that every owner of these funds can dispose of them without incurring losses. This again is caused by the preparedness of the Federal Reserve System to rediscount Government securities at negligible rates. The rate of interest that forms when demand and supply for credit are forced to balance without the additional money obtainable through the Federal Reserve System was formerly called in theory the "natural interest rate." There is no doubt that the "natural interest rate" is very high at this juncture. If one would allow it to become effective the illusion of the abundance of the capital markets would disappear. Nobody considers funds "idle" when he receives high interest on them.

Low interest rates are—at least partly—responsible for the boom on the stock market and could be responsible for additional strong price advances—especially if the interest-lowering is carried still further in accordance with the British precedent. These advances would not represent an inflationary boom in the ordinary sense where people anticipate higher earnings through inflated asset values. It would be a recapitalization boom, caused by the fact that earnings are capitalized by ever lower interest rates. It creates a situation in which venture capital too can be obtained abundantly and at low interest rates. This again means, of course, that dormant purchasing power is transferred into actual inflationary purchasing power.

Frustrated Inflation

In the ordinary course of events this would mean strong and general advances of all prices of goods and services. However, as mentioned above, such general price advances have been and will be forbidden. This is why many people believe that all the accumulation of purchasing power can do no harm, as long as the OPA remains in power. To this one has to reply: First, there is no doubt that for a certain time what can be called a "frustrated inflation" will work. And it must be admitted that as long as it works the ensuing prosperity is of an ideal character, inasmuch as it represents prosperity without price increases—a "turn-over prosperity" as one could call it. Not only does this prosperity lack the essential prerequisite for the development of the depression, the price inflation; but it would be of a comparatively long duration. The pent up purchasing power, being not able to spend itself in price increases, guarantees effective demand for goods over a much longer period of time than a purchasing power that is allowed to push prices upward.

However, this sort of "frustrated inflation" cannot go on forever—especially in peace times when the psychological and patriotic inhibitions against breaking the price ceiling no longer work as strongly as during the war. Price ceilings can never be applied universally. There are always realms—for example, the market for used furniture or certain services—which will not and practically cannot be controlled. On these markets the prices will show a slow but decisive increase. The resulting distortion of price and wages—the margin developing between those that are controlled and uncontrolled — will finally result in just that general raising of the price and wage level which one wished to avoid; and which will render the economy vulnerable and exposed to reverses.

But even where price rises are avoided the economy will prove increasingly vulnerable. Wages are under the permanent upward pressure. The ensuing wage increases—where they do not lead to unemployment—are bearable only because the huge turnover due to the enormous pent up demand cheapens and alleviates production and distribution. It is a very high strung system, in which the price-cost relationship remains tolerable only so long as everything works full blast and at high speed. As soon as the slightest slackening in demand will set in, many enterprises will have to shut down because of the losses they suffer. Exactly as at the onset of every depression, the boom will collapse through the losses that the marginal enterprises begin to undergo; only that, this time not the decline of prices, but the decline of turn-over will be the initiating cause.

Cycle as Usual

Our conclusion is: The prevailing monetary policy—and incidentally the prevailing fiscal policy, too—will prove to have been not contra-cyclical, but pro-cyclical and contra-stabilizing. There will develop a situation that will embrace, if not all, so many of the features that usually are called unhealthy, whereas the healthy aspects of the boom—increasing employment—may not necessarily be present. For it could be that labor during this boom would tend to be progressively replaced by labor saving capital investment if the policy is continued of making the use of labor more expensive and of making the use of capital cheaper.

Furthermore, there is bound to develop an additional upward movement on the stock markets, for it is the peculiarity of the aforementioned "victory over the quantity theory" (on the markets for goods and services) that more and more unspendable funds accumulate, of which at least parts are never converted into Government securities but seek to be exchanged into stocks of private corporations.

But after this boom will follow a collapse of serious proportions as soon as a slackening of demand sets in or is feared. For with this slackening of demand the cost-price relation and therewith the profit situation will deteriorate rapidly. Nor will the continuation of easy money give any protection against depression when the forces of this boom have exhausted themselves.

If one wants to prevent a deflationary depression, one must prevent an inflationary boom. If one wants to prevent an inflationary boom, one must prevent inflation in every form. If one wants to prevent inflation in times of strong need for credits—by the Government or by private industry—one must make money scarce. And, if one believes that this method is antiquated and can be replaced by other devices—an opinion which is not at all so original as their originators believe but has been held over and over again during the course of history—one will face disappointment. Interest rates are not as it seems to be assumed nowadays a vicious invention of creditors. They have the function of rationing a scarce supply of credit among those who need it. As long as one wants to avoid the step incompatible with a free economy, of having credits rationed through the Government, a revision of interest rates on the upward side remains the only method of keeping inflation in check.

At the end of World War I, the above mentioned economist, Knut Wicksell, wrote an article "Put the Discount Rates Up," in which he warned that maintaining interest rate far below the natural interest rate would inevitably lead to worldwide inflation. The article was much praised, but nowhere heeded. Inflation ensued, also in those countries where the budgetary situation would have not necessitated it. In view of the prevailing state of mind, it is very probable, and it is to be feared, that history will repeat itself.

Very High Frequency Space Radio for Train Communication

(Continued from page 3142)

time when the need for communication may well be urgent.

These disadvantages do not exist with VHF space radio. Communication can be maintained wherever the engine happens to be located, whether delivering a string of empties to an isolated spur in the stockyards, or picking up a load from a coal mine five miles from the main line.

The range over which communication can be maintained between a fixed station and a train using VHF radio is relatively short, and depends almost entirely on the height of the antenna above the surrounding terrain. For reasonable antenna heights in more or less flat country this range will vary from 10 to perhaps 20 or 25 miles. This range can of course be extended by locating the antenna mast on a hill or tall building. The range of point-to-train communication using inductive carrier is considerably greater, with intelligible communication being obtained at distances of from 40 up to 60 miles. One manufacturer claims ranges up to 100 miles by the use of considerably higher power.

The greater range of the inductive system, which at first glance might seem to be advantageous, actually results in a reduction in the usefulness of the system, since the circuit becomes one great party-line, and a conversation between a conductor and engineer in one part of a 100-mile division can prevent the use of the circuit by trains anywhere along the line. With VHF radio, on the other hand, five or six conversations can be taking place at the same time in different sections of the line without interference.

This controlled range of VHF radio makes practicable the use of the Bendix "Slowtone," which is an emergency warning device that can be used with this system. In the event of a derailment or other emergency stop, the conductor or engineer can throw a switch which will cause the transmitter to broadcast automatically a series of high-pitched notes to warn other radio-equipped trains in the vicinity of the possibility of danger and permit them to bring their speed within safe limits at once. Since the train-to-train range of VHF radio is only about four to eight miles, because of the low antenna heights, the warning is received only by trains in the immediate vicinity, and does not interfere with normal operations in other parts of the division.

The advantages of a light, portable walkie-talkie for train crews while on the ground is apparent. So far, at least, no such device has appeared practical using the low frequencies and high powers required by the inductive carrier system, while with VHF radio these units are not only practical but in production.

A further advantage of VHF radio from the technical side is that at these high frequencies there is virtually no objectionable interference from atmospheric noises or man-made static. The heaviest thunderstorm does not disturb the clear transmission of messages and equipments can be operated directly under high voltage electric wires or on electric locomotives without interference.

The small antennas and low power requirements which characterize VHF radio make for extremely simple installations, with attendant economies. At the lower frequencies the equipment is much bulkier and often presents a real space problem, while the higher primary power needed for the operation of the inductive carrier system often requires additional generating capacity.

Aside from the technical advantages of VHF radio, however, there are operational problems connected with the use of inductive carrier which cannot be overlooked. The most serious is undoubtedly the lack of sufficient operating frequencies to permit the use of carrier by more than a few railroads without serious interference. The wave-lengths where inductive carrier operates are already crowded by other communications services, and while a few railroads could be squeezed in, there is simply not room enough to accommodate the necessary channels to permit its universal use.

The Federal Communications Commission has set aside 30 channels exclusively for VHF railroad radio, and has made provision for operating in other bands on a sharing basis with other services. These frequencies are being allocated among the various railroads in accordance with a plan worked out by the Association of American Railroads on a territorial basis. While I doubt if any railroad man will agree that these will eventually be enough, they at least provide all railroads with enough channels for the present, and there is some room for expansion.

Because of the controlled range of VHF radio, the same frequency used by a railroad in one part of the country can also be used by another railroad in a different location. This is not quite as easy with the inductive carrier system because of its greater range and particularly because of its disconcerting habit of being picked up by electric power lines, or by paralleling telegraph or telephone lines, and suddenly showing up 50 or 60 miles away on quite a different railroad, or possibly interfering with other communications services.

In the matter of cost, VHF radio again shows up more favorably. Because of its lower power requirements and simpler installation, the cost of equipping a locomotive or caboose with radio will average about two-thirds of the cost of a mobile carrier installation. The cost of a fixed point carrier installation, on the other hand, is somewhat less than that of a radio station, largely because of the cost of the antenna mast. However, because of the preponderance of mobile installations, the overall cost of equipping a division with radio is still well below that for carrier.

In a division a 100 miles long, for example, it might be possible to operate with only two carrier stations along the wayside to provide communication with trains anywhere on the main line, while with VHF radio perhaps four or five wayside stations would be required for the same service. The additional cost of these extra fixed installations, however, would be more than offset by the savings in equipping perhaps 20 cabooses and 30 engines on this division with the considerably less expensive radio equipment.

In yard and terminal operations, in end-to-end and in wayside to train, more train communication can be provided for a given capital investment by the use of VHF radio than with any system employing inductive carrier.

So far my remarks have been confined to a comparison of pure space radio and pure inductive carrier. I should perhaps mention that one manufacturer who formerly manufactured only carrier equipment for train communication, now is proposing a hybrid system using both carrier and space radio, the latter for engine-to-caboose or for yard and terminal operations, and the former, because of its greater range, for dispatcher to train. It is not necessary for me to point out that this proposed system requires almost twice the equipment necessary for a mobile installation, requires twice as many precious frequencies, increases the need for spare units and is still subject to the disabilities previously noted.

We at Bendix do not feel that any such compromise system is necessary or desirable. We feel that an integrated system using VHF space radio alone is the most logical and most economical manner in which a railroad can take advantage of the operating economies possible through the use of train communication. In the Bendix VHF Railroad Radio System, the same basic equipment is used on locomotives of all types, on cabooses and in the dispatcher's or yard-master's office. The requirements for spare equipments is thus greatly reduced, and the problems of maintenance are simplified. But further than this, the use of standard equipment in all locomotives permits complete flexibility of use of the engine itself. Engines normally used in humping operation can be transferred to terminal or transfer switching without any change in communication equipment. Engines can be used interchangeably in freight or passenger service, or can be detached from yard operations to work temporarily as helpers on the main line.

Train communication systems, whether of the inductive type or using VHF space radio, will provide speedier, more efficient and more economical railroad operations. With the increased competition from trucks and airlines, we feel that these benefits are of greater importance today than ever before, and we are confident that the coming year will see a great start towards the equipping of all railroads with some form of train communications. In view of the many advantages of VHF radio over systems employing inductive carrier, we are even more confident that the majority of new installations will use VHF space radio.

N. Y. Savs.-Loan Associations Assets

The total assets of the 243 savings and loan associations in New York State reached the $700,000,000 mark on Nov. 30, 1945, according to estimated figures issued on Dec. 21 by Z. V. Woodard, Executive Vice-President of the New York State League of Savings and Loan Associations. The announcement says:

"Savings by the general public in the associations increased 17.5%, or $91,315,227, during the first 11 months of 1945, bringing total assets up to $700,253,865 on Nov. 30th. Savings during November showed an increase of 0.3%, or $1,698,956, representing the lowest net gain for any month during 1945. Mr. Woodard stated that this slowing up in savings during November was due to the usual year-end and Christmas requirements of members as well as the Victory Loan Drive.

"Estimated mortgage loans made by the associations during November, 1945, showed an increase of 58%, or $4,404,179, over November, 1944, when total loans amounted to $7,652,261. Of the $12,056,440 loans granted during November, 1945, $8,990,912 were for the purchase of homes and $1,442,712 for the refinancing of previous mortgages. Construction, repair and miscellaneous loans amounted to $1,622,816."

Bitting in North Carolina

ST. LOUIS, MO.—Bitting & Co. have announced the removal of their office in St. Louis to Biltmore, N. C., and the withdrawal from the partnership of Randolph H. Dyer.

William C. Bitting, Jr., and Bern Norpoth will be resident partners in North Carolina.

The Menace of Declining Profits

(Continued from first page)

been pointed out. But, the progressive whittling down of entrepreneurs' gains (i. e., profits) has been generally looked upon as an augury of economic justice and social progress, while rising wages at the expense of profits has been likewise hailed as a general blessing and a portent of continuing and expanding prosperity.

No one, with a proper sense of justice, would decry the tendency toward higher wages and better living standards for wage-earners. The portion of labor in the national dividend should be maintained and increased, and profits should not be obtained at the expense of labor. No economy could long endure and make progress under such a system. But when wages and other production costs, such as taxes and unwarranted restraints of regimentation, are artificially boosted so as to steadily lower profit margins, labor, capital and management alike will suffer. The boat in which all are travelling will be submerged. One cannot exist without the others.

A century or more ago, economists and statesmen preached the necessity of a high profit margin as a means of promoting and maintaining national prosperity. The average rate of profit or return on capital investment was regarded as a standard of prosperity, which could be used to ascertain the comparative state of different countries or of the same country at different periods. True, many, like Sir William Petty and the late Sir Robert Giffen, stressed the presence of physical wealth and natural resources as a comparative gauge of economic power and prosperity, and neglected the importance of the effectiveness of productivity and earning power. And there were those, like Ricardo and his school, who held that wage increases were generally at the expense of profits, or to state it differently, a rise in general wages (other things being equal) can come about only through a reduction in the rate of profit. Yet, it had been long recognized that falling rates of profit in any country, whatever the cause, impeded or reduced capital accumulation and was an augury of industrial and commercial decay. This was pointed out as early as 1675 by Sir William Temple, in his "Observations on the Netherlands" when he states that Holland was then passing the peak of its greatness, because the rate of profit was declining and was tending to a level which did not induce men to engage in commerce or industry at home, but rather to seek investment elsewhere. Similarly, British writers and economists have pointed out from time to time that the rapid progress of America was due mainly to the high return on capital invested in business enterprise. The comparative average rate of profit was therefore considered as a real barometer and an infallible criterion of national prosperity, shared in by all classes alike.

Progressive Profit Rate Decline

As a nation develops and becomes more mature there is a natural tendency for the rate of profit to decline. But this tendency is offset by more steadiness, and certainty of profit, and, with an expansion of total profits that accompanies the growth of capital. Thus, it is not surprising that the average turnover profits of department stores is less than 3% or that the United States Steel Corporation maintains its profit rates have been progressively declining to the vanishing point. The railroads have been showing this tendency for more than a generation, and only recently, Leroy A. Wilson, Vice President of the American Telephone and Telegraph Company, after a completion of a study of the System's capital structure and earnings during the last twenty-five years, reported that, whereas the earnings on stock in 1920-1926 was 9.5%, it has fallen to 7.8%, despite a reduction in relative fixed charges and a better relationship between debt and capital stock.

"There is no certainty today that the system necessarily has to earn as much as it did in the Twenties in order to get the new money it needs for further expansion," Mr. Wilson stated. Looking to the future, he continued, "while some uncertainty exists, it looks as though earnings somewhere between those for the period when the system sold most of the stock (9.5%) and the average for the long (1920 - 1944) period (7.8%), may be sufficient to induce equity investors to entrust more money to it in the future."

Comparing the telephone systems with a 20-year earnings record of 1,300 leading manufacturing corporations, Mr. Wilson said that their earnings on money invested in them averaged 8.2%, compared with 7.7% earned in the same period by the telephone company. He offered the twenty-year record as a means of judging what its earnings on stock money need to be. In contrast with the earnings record of these corporations since 1925, Mr. Wilson cited a "quite different picture in the last three years," which showed that average earnings of the group of companies rose to 9.9%, while A.T.&T.'s earnings on its stockholders' investment were only 6.7%. But this can be ascribed to war time operations and cannot be taken as a situation that will exist under peacetime conditions.

Britain's Socialism and Declining Profits

Great Britain furnishes, perhaps, the best example of the effects of progressive declining rate of return on capital investment. British rail earnings over the last century have shown an almost steady decline compared with the amount of capital invested in them. And this is undoubtedly true of earnings and investment in other leading British industries, notably coal and textiles. The situation has not gone without notice by British statisticians and economists. It is just as much responsible for the economic plight of the United Kingdom as the set-backs due to wars and loss of foreign investment holdings. The complaint that British capitalists have not been as alert as Americans and Germans in introducing modern equipment and efficient methods to make her industries more productive may seem fair, yet, it should be borne in mind that British capitalists, as shrewd intelligent beings, have sensed the trend of declining gains in their capital commitments at home and preferred not to risk funds in sinking ventures, when capital could be more lucratively employed abroad. Thus, the old prewar question of a "mature economy" preventing rapid progress and prosperity crops up again!

A "mature economy" is taken to be a static and decadent economy, unless enterprisers are given an incentive to maintain its youth and add to its growth. The fact that there has been so little political and economic disturbance in Great Britain because the Labor Party has come into power with a program of "nationalization" may undoubtedly be ascribed to the feeling that inasmuch as private operation of industry has become unprofitable, government operation is inevitable. It is not surprising, therefore, that the so called "middle class" and certain capitalistic groups are found in the ranks of the Labor Party. The same condition prevails, to a considerable extent, in France, where nationalization of leading industries is the inevitable outcome of progressive profitless private capitalist operations. This has been indicated since the last war, when several of the railroads of France reverted to Government operation, because they could not be profitably operated by stockholders even under the plan of a government guarantee. They have become a burden on the French Treasury. A similar situation developed in New York, in connection with private operation of city transportation. The taking over of the transit system by the municipal authorities was not regarded as a socialist experiment. It was more in the nature of an essential expedient to keep the facilities in operation. The same sort of thing would happen in the case of banking and insurance, if these essential activities in our economic life could not be operated profitably by private enterprise. It is not the problem of monopoly control or of concentration of capital which is the main motivating agent toward adherence to collectivism. It is more a case of progressive decline in profits, arising in part from competition itself, and in part, from public policies, which restrict and diminish profits, that this transition which is now taking place in many parts of the world is regarded as non-revolutionary or as a natural metamorphosis.

What Policy Shall We Pursue?

If all this is true, what is the outlook in our own economy? Must we inevitably effect the same transition? Or can we regulate and readjust our system of competitive private enterprise and free economy, so as to continue to progress along the lines that have, in a period of a few centuries, made our nation the richest and most productive on earth? Must we accept the former New Deal principle of a "mature economy", a theory of limited growth or a nascent decadence, and fortify ourselves against it by a policy of stagnation and statism? Or can we by sane government and economic policies, continue to grow and expand in both material power and individual welfare?

The answer appears plain! Briefly, everything should be done within the limits of equity and physical possibility and under a condition of democratic opportunity to foster the profit incentive. This does not mean that entrepreneurs and speculators are to be given a free hand. It does not mean a return to complete "laissez-faire". But it does mean a modification of restraints, regulations, regimentation and all the other handicaps to enterprise and risk that have come out of the war, or have resulted from political action taken under the false theory that a particular group in the economic processes, by which the community lives and supplies its wants, should be unduly favored at the expense of the other groups.

It has long been an economic maxim that high wages cannot be paid when business is profitless, and that higher profits inevitably result in higher wages under conditions of competition. High profits and high wages should go together. A policy of "costs up-profits down" cannot long endure. Permanent prosperity can come only from a continuation of capital accumulation and improvement in the productiveness of its use. Certainly, capital will cease to accumulate under a private enterprise system when profits approach the vanishing point.

Let Mr. Wallace and others of his ilk, who offer the political bait of "Sixty-Million Jobs", and "Jobs for All", regardless of costs and taxes, take heed of these words. Or we will be next on line to an enforced adoption of socialism under a static or decadent economy.

Public Utility Securities

(Continued from page 3134)

11 over-counter, reported earnings last year of $2.96 a share (interim figures not available). A dividend of $1.60 was paid Jan. 3, 1944, and $1.20 Jan. 2, 1945; the next payment has not been indicated.

Cincinnati Street Railway (around 15½ over-counter) has paid $1.40 in the past two years, giving the stock a yield around 9%. Earnings in 1944 were $1.54 a share—and in the previous year $1.58, after the bond sinking fund.

National City Lines is an aggressively-managed holding company controlling a number of bus lines in separate local systems over a wide territory, principally in the middle west. The stock offers a fair dividend yield and the price-earnings ratio seems reasonable. The company should have substantial system tax savings, estimated at around $5.38 based on 1944 figures. The company has a conservative capital structure and dividends have been paid since 1937 (the company was formed in previous year).

Chicago South Shore & South Bend is an electric interurban railroad reorganized in 1938. At the current over-counter price around 15 the stock yields about 8% and the dividend appears fairly well protected.

Market Street Railway Prior Preferred, last remaining issue of that company on the Big Board, is purely a liquidating issue, the property having been sold to the City of San Francisco some time ago.

Bache & Co. Reopen Miami Beach Office

Bache & Co., the New York Stock Exchange firm, has reopened its Miami Beach office at 2469 Collins Avenue. Ben Richard is manager. Also associated with the new office is Sam V. Silsbee.

The previous Miami Beach office of the firm was closed in 1942 when the Army Air Forces required the space for training purposes.

Graefe & Co. Resumes

DES MOINES, IOWA — Harry B. Graefe is resuming the investment business after his release from service in the U. S. Army. Until March, 1946, the firm will be located in the Securities Building and thereafter will be in the Equitable Building. Mr. Graefe will conduct his business under the name of Graefe and Company as in the past.

Approves Anglo-U. S. Financial Agreement

(Continued from page 3137)

of the Council on Oct. 22, 1945 relating to "Restrictions of the Sterling Area Affecting American Foreign Trade."

Cooperation between the two Governments along the lines laid down is a prerequisite to restoration of a healthy world economy and the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development. All of these developments will have an important bearing on the stabilization of exchange rates. Further study should be given by the Congress of the effect on our gold position of all the proposed credits to foreign countries now under consideration.

The Executive Committee emphasizes, however, that the granting of this credit must not be viewed, here or abroad, as tantamount to a lien on American production. World economic recovery is contingent upon prompt reconversion in the United States and the maintenance of our economy at a high level.

Reiteration is given to an applicable statement contained in the Final Declaration of the Thirty-Second National Foreign Trade Convention:

"During the temporary period of short supply of goods in this country, the Convention recommends to American industrial management the provision for export of a fair portion of their output, in order to lay a solid foundation for a permanent foreign trade. In no event, however, should control over exports be exercised, under agreements or commitments for American financial or other aid to foreign countries, which would compel the exportation of any commodity or product in quantities sufficient to jeopardize the American economy."

The Executive Committee, during preliminary consideration of the "Proposals for Expansion of World Trade and Employment," referred to in the joint statement reached by the United States and the United Kingdom on commercial policy, notes with satisfaction the incorporation in these proposals of most of the elements of the National Foreign Trade Council's Declaration of Principles endorsed by the Thirty-Second National Foreign Trade Convention.

The Executive Committee specifically commends the intent of the two Governments to submit the proposals to representatives of other countries and to the contemplated International Conference on Trade and Employment. It is believed that world agreement on the adoption and implementation of policies to break down world trade barriers and to develop a Code of International Commercial Conduct is necessary to insure restoration and expansion of world trade.

Dearmont In Post at St. Louis Federal Reserve

The Board of Governors of the Federal Reserve System has appointed Russell L. Dearmont as a Class C director of the Federal Reserve Bank of St. Louis for the unexpired portion of term ending Dec. 31, 1946, according to an announcement Dec. 10 of William T. Nardin, Chairman of the board of the St. Louis bank.

Mr. Dearmont was born at Mound City, Mo., received his A. B. Degree from the Southeast Missouri State Teachers College, Cape Girardeau, 1911, and his LL. B. Degree from the University of Missouri, Columbia, 1914. He began the practice of law at Cape Girardeau in 1914, and was a member of the Missouri Senate from 1929 to 1932. Since April, 1936, he has been General Counsel for Trustee, Missouri-Pacific Lines, St. Louis. Mr. Dearmont is a member of the Board of Trustees of Westminister College at Fulton, and of Lindenwood College at St. Charles, Mo.

Securities Salesman's Corner

By JOHN DUTTON

Peak Savings Offer Greatest Marketing Opportunity for Securities Dealers and Salesmen in History.

That's the way it looks to us from here. Here are some of the reasons we feel this way. (Federal Reserve Bulletin, November, 1945.) Bank deposits and currency held by INDIVIDUALS and BUSINESSES expanded by almost 70 BILLION dollars as a result of financing the war and are now more than double the 1941 level. In addition, holdings by these groups of United States Government securities, which may readily be converted into money, have increased an additional 70 billion dollars. There will be further increases as a result of the last Victory Loan. (We are not advocating the sale of governments and the purchase of corporate securities, but this huge total of government securities will add its weight to purchasing power and will eventually show up, partially at least, in the securities markets.)

McFadden Publications, (Nov. 20th issue of "Marketing Memos") further went on to state: Savings in the hands of those with incomes below $2,000 are estimated at 11 BILLIONS, with the group earning between $2,000 and $5,000 annually having about 48 BILLIONS.

Elmo Roper, who conducts the regular "Fortune" survey, made a special survey for the Savings Bank Association of the State of New York in the summer of 1945. Because the sample has been limited to a cross-section of New York State the results cannot be applied to the entire U. S., but they may be taken as fairly representative of a large portion of the country. The people of New York State were asked: "Do you at present happen to have any money in war bonds? In life insurance policies? . . ." and so on through a list of nine forms of savings. The percentage answering "yes" to each item was as follows:

	%
War bonds	84.3
Life insurance policies	74.2
A savings bank	60.3
A checking account	39.8
SECURITIES (STOCKS OR BONDS)	22.3
Pension or saving fund (employer)	16.8
Thrift account in commercial bank	14.3
Savings and loan association	11.3
Employees credit union	4.8
Other savings	5.0

Only 7.9% said they had no savings.

(The foregoing information has been taken from the Inter-Office Memorandum of "This Week Magazine," issue of Dec. 20, 1945.

When we look at this vast backlog of investing power that lies ahead of us, there should be no doubt in the minds of anyone engaged in the securities business regarding the potential volume of business which lies ahead as we look into 1946 and beyond. If further proof is needed of this huge pent-up purchasing and investing power, Federal Reserve statements indicate that liquid assets of individuals in the U. S. rose from $48.4 billion at the end of 1939 to $127.6 billion at the end of 1944. For the last two years individuals in the United States have been saving at the rate of *almost 25% of their income.* The fact referred to before, regarding these savings now resting in the amount of 60% of the total, *in the hands of individuals with incomes of less than $5,000,* means two things. First, the small investor must be taken care of properly. He must have good service and sound advice. This time it is up to the securities industry to help the little fellow to become a better and more successful investor than his father proved to be 20 years ago. History is repeating itself just as it did after the last war, only on a vastly greater scale. All the problems of huge surplus funds in the hands of the public, shortages of goods, reconversion headaches, strikes, unrest, and inflationary potentials, were with us then as they are now. The security dealer cannot halt inflation but he can help to keep people who never knew much about the investment of their savings, from becoming "get rich quick" gamblers overnight.

The second thing that should be apparent, is that there is more need than ever before, for well-trained men in the securities business. There is also a definite need for more small retail dealers, and for more assistance and helpfulness on the part of everyone concerned with the welfare and the future of this country, toward the existing small dealers who are now in business. This means less attempts to strangle the small fellow by cutting mark-ups through coercion and intimidation by governmental and semi-governmental bodies such as the SEC and the NASD. It means that the large investment banking firm, the members of the Exchanges, and the larger houses should assist the small retail firms instead of trying to undercut them and force them out of business. There is a place for the large firm, the medium-sized organization, and the one-man sole proprietorship. They all serve a purpose and a clientele particularly their own.

The way it looks from here there is a big job ahead in the securities business—and plenty of business for all.

A Foreign Reaction to American Full Employment Aims

(Continued from page 3130)

crats, unnecessary bishops and priests and all sorts of budget parasites. From 1924 to 1929, Spain tried the most modern form of "deficit financing." However, it paid a high price: economic and political disruption.

Every country, large and small, knows that any solid and durable raising of the standard of living must be obtained through its own efforts; however, it also knows that the much boasted industrialization sooner or later will hit a deadlock—the narrowness of the domestic market.

How shall the small countries manage to hold prices and reduce costs, if the small turnover cannot pay for scientific research, nor support a reasonable division of labor, nor earn a return for investments indispensable to efficiency?

The Importance of International Trade

The only alternative for the chronic poverty of small countries (full employment on a miserable level or permanent high unemployment) is **international trade.**

Let me quote my country again. Under an effective multilateral trade, we would easily be in a position to pay for $150 and perhaps $200 million of American goods per year and we could use them to normalize the employment basis of over 400,000 agricultural laborers and over 200,000 industrial laborers. The general standard of life would rise and we would be an active factor in the economy of the world.

But we cannot count on permanent American purchases of over $25 million. How shall we pay for the balance? I would not insist on this example if I would not know that the world is full of countries in a similar situation.

The Quest for Import Surpluses

Multilateral trade — insistently recommended by the U. S. A. and everywhere else as the only possible means to stabilize world employment in an atmosphere of progressing prosperity — requires the driving force of import surpluses from rich countries. After the present confused transitory period, where can such surpluses be found?

Under the economic leadership of Great Britain, multilateral trade was vivified by its enormous import surpluses. I am afraid that many people have forgotten this essential fact. From 1901 to 1939, Great Britain had an **import** surplus of £11.6 sterling; during this same period the United States had an **export** surplus of $37.5 billions.

The world is aware of the tragic domestic complications imposed upon the U. S. A. by the economic leadership it has to assume. The tragedy is not that the U. S. A. is very large, very rich and almost self sufficient; it is that U. S. A., being at present the only large and rich country, is almost self sufficient.

America preaches for "free trade," "multilateral agreements," "lowering of trade barriers," "freedom of monetary exchanges," etc., etc. The campaign is doomed to failure. The U. S. A. should read a warning behind the general reluctance to accept the most generous form of financial aid, except for urgent reconstruction work and machinery required to speed industrialization.

In some years, most of the American agricultural products and manufactured goods will not be accepted, even as a gift. Over 5,000,000 American jobs would be endangered. America would then have to give up its export illusions and absorb those jobs in the domestic market . . . or in a "full employment"—fostering inflation. The world, of course, heartily hopes that this will not be the case. It expects that the large American purchases will keep running the mill of international trade and employment. Otherwise, it knows—as American economists and business men do, too—that the foreign investments, short and long, will be a tremendous failure and America will again get tired of them. Santa Claus, after starting off in luxurious apparel, would return in Cinderella's rags.

In debates on "full employment" we are constantly told that prosperity in America is the basis of economic stability and full employment abroad. This half truth does not exhaust the argument; it does not take care of the possible international consequences of American self-sufficiency and high standard of life. American depressions have done and can still do great harm to the world. American prosperity, on the contrary, does not necessarily mean prosperity abroad . . ., a discrepancy that could not last very long because prolonged world misery would destroy—with or without atomic bombs — your splendid prosperity and with it all our hopes for a better life.

Nov. Freight Traffic Off

The volume of freight traffic, handled by Class I railroads in November, 1945, measured in ton-miles of revenue freight, amounted to 50,000,000,000 ton-miles, according to a preliminary estimate based on reports received from the railroads by the Association of American Railroads. The decrease under November, 1944, was 17.7%.

Revenue ton-miles of service performed by Class I railroads in the first eleven months of 1945 was 6.8% under 1944, and 5% less than the corresponding period two years ago. However, compared with 1939 the 1945 total was slightly more than twice as much.

The following tables summarizes revenue ton-miles for the first eleven months of 1945 and 1944 (000 omitted):

	1945	1944	% Dec.
1st 9 mos.	534,826,036	556,424,186	3.9
Mo. of Oct.	*50,000,000	63,875,263	21.7
Mo. of Nov.	†49,000,000	59,554,815	17.7
Tot. 11 mos.	633,826,036	679,854,264	6.8

*Revised estimate. †Preliminary estimate.

Railroads: Fifty Years Past and to Come

(Continued from page 3137)

ically near. Distance has a new meaning to us. A hundred years ago the next village was a far trip. It was a journey. Fifty years ago the next county or the next State were journeys and made a man a traveler. Today all of us, but especially the youngsters, think of Moscow, Shanghai, Cairo, London, Paris, as near at hand.

We cannot afford to underestimate the revolutionary impact of that point of view. Never before have the people of the world, the millions of ordinary everyday people, felt so surely that travel is a normal, natural thing like breathing. Never before have so many people so readily accepted the notion that necessities and luxuries can and should be brought great distances to the modern consumer. Never before have the world and the people of the world so readily accepted the notion that millions of tons of things can be transported easily, in normal course.

Growing Needs for Transportation

It seems clear that we are in a period of a rising standard of living. Men can produce more goods. The war years have seen an increase in the nation's population of 5%, and the next few years will see an even greater addition. In the period that lies ahead, more goods will be consumed per person, and there will be more people to consume them.

All this means an increase in the volume of transportation. It all adds up to a bright future for the American railroads. Some of the increased peacetime traffic will go to the trucks, and a small amount of high-value cargo will go to the airlines, but the bulk of it will move in freight cars.

Travel, too, should increase with the rising standard of living. The railroads are ready as they have never been in any recent decade to vie for the patronage. The fast streamlined train with reclining chairs, and the "coach-sleeper," which afford the ordinary passenger a chance for a good night's rest with little increase in fare, give the railroads new opportunity to compete with the automobile and the bus.

For years before the war we had listened to taunts that the railroads were overbuilt and that about half the mileage should be scrapped. We had heard these insults so long that even some railroad men were coming to believe them. But between 1941 and 1945 it was pretty clearly shown that we have no excess railroad capacity either for the demands of war or of a fully functioning peacetime economy. The research foundations tell us that in the next ten years five times as much will be spent in improving roadbed and trackage and building multiple tracks as will be sacrificed by the abandonment of lines.

So if I were an even younger man than I am, I would be drawn again to the railroad and locomotive industries. For it seems to me that we—all of us here this evening, and the host of young men who have not yet come to us from the scientific schools—have before us the most exciting of all things—a challenge and an opportunity. It is a field of great spirit and high tradition. A U. S. sergeant-engineer running a little steam locomotive on the line from Teheran toward the Russian border, came very close to defining the true professional feeling of a railroad man when he said: "Many's the time back home on the B. & O. I've seen millionaires look up at me from their limousines with envy in their eyes."

More Transportation Progress Needed

The accomplishments and the traditions of the locomotive and railroad fields justify a certain confidence and cockiness. Yet if I were going to give some advice, which I am not, it would run something like this:

"We haven't made enough progress. We have done amazing things, yes, but let us look upon them only as a beginning, not nearly so stimulating as what is to come after. Certainly we should not think there are no more worlds to conquer. Very far from it."

I want to report a conversation to you, a conversation which until now I have never reported to a soul.

Fifty years ago, slowly rolling out of the erecting shop of the Rogers Locomotive Works, one of Alco's corporate ancestors, came the 376, a high-stepping young lady who was destined to make history on a Mid-Western railroad. She came slowly and humbly; slowly because she was being pulled out by horses and humbly because this was so. Every pound of material that had gone into her making had been hauled by horses nearly a mile from the nearest railroad tracks to the locomotive shop. And now she, like more than *5,000* of her sisters and brothers that had been built in that plant over a period of about 60 years, was to undergo the humiliation of being hauled by horses the same distance to the railroad tracks before she could leap forward under her own power.

Once on the tracks of the railroad that purchased her, she quickly showed her mettle and caused some of the oldtimers to realize their age. She did her job and did it well. She survived one World War, but could not quite see the end of another. Now she has passed on.

After being a main-liner for many years, she realized one day not so long ago that the load was getting to be too much for her. The traffic was too heavy, the intensive work-day too long; so she asked to be shifted to a less arduous task on a branch line. In view of her long and satisfactory record, the management granted her wish. Between assignments she found time for meditation.

I happened on her one day when she was in one of these meditative moods and engaged her in conversation. I told her about the great work that our *modern* motive power was doing, the long-distance, high-speed passenger runs, the new streamliners, the heavy-tonnage freight trains, the great availability of steam, electric and Diesel locomotives, the better utilization, the greater safety and comfort of our passenger trains and, in general, the wonderful records that our railroads were making, and the great contribution to the country's welfare.

She listened to me carefully with an occasional sigh. Then she said:

"Well, I won't be called for an hour and I have time to tell you a few things. First, have you forgotten that many of the early attempts at improvements in the steam locomotive even before *my* time, after being tried out and discarded, have come back in your latest designs?" And she mentioned feedwater heaters in 1859, roller bearings in 1891, combustion chambers in 1860, brick arches in 1880, syphons and reverse gears about the same time, and in her *younger* days even turbo-electric locomotives.

"Now," she went on, "you have talked about the improvements you have made and of your high-speed passenger train record runs. It doesn't seem to me that you have got so much to brag about, considering that these records represent the progress of nearly half a century."

She reminded me of a run made in 1876, from New York to San Francisco, on the Pennsylvania Railroad to Chicago; then over the Chicago and North Western to Council Bluffs; from there to Ogden, Utah, on the Union Pacific, and from Ogden to the Oakland Wharf on the old Central Pacific —a total distance of over 3,313 miles. One little 8-wheeler ran the entire 440 miles from Jersey City to Pittsburgh and another one the 879 miles from Ogden to Oakland Wharf. This train arrived in San Francisco in just one minute less than 84 hours from the time it left New York, and this time included all stops, the one at Chicago taking 31 minutes.

"That was 69 years ago," she reminded me, "when roadbed and equipment were not what they are today. Now let me ask you just how many *through* transcontinental trains the railroads are running today?"

Then Old 376 referred to some fast running in 1898 on the Philadelphia and Reading, between Camden and Atlantic City, a distance of 55½ miles, which called for a start-to-stop time of 50 minutes and which in actual practice was sometimes under-cut by five minutes—an average speed of better than 73 miles an hour! And she spoke of the fastest of all fast runs in 1895 on the Lake Shore & Michigan Southern when a little 17" 10-wheeler ran with its train from Erie to Buffalo 86 miles in 70 minutes, 40 seconds.

Here Old 376 paused for breath. Then, like any other lady, she was ready to resume her story. But at this moment the hostler climbed up in the cab, and she bade me adieu.

After she had pulled out with her local train, I sat down and pondered what she had told me. I confess I felt somewhat deflated. It is true that most steam locomotives in operation today are built on the basic principles of Stephenson's "Rocket." They are still the reciprocating engine with a firetube boiler.

Record of Locomotive Improvement

But this in itself is no condemnation. The test lies in how much we have increased efficiency in applying Stephenson's principles. Here the record is good.

Consider the progress made in only the last 40 years. At the St. Louis Exposition in 1904 the Pennsylvania Railroad built a locomotive testing plant, the most modern of its kind up to that time. Of all the freight locomotives tested the most powerful produced 280 maximum indicated horsepower per axle. Today we have steam locomotives that produce 1,500 horsepower per axle, an increase of more than 400%. The weight per driving axle of that 1904 model was 43,000 pounds, compared to 70,000 pounds for the 1,500 horsepower per axle locomotive, an increase of only 63%.

The maximum evaporation of any locomotive boiler tested at St. Louis was about 20 tons per hour. Today, we have steam locomotives that evaporate 70 tons of water an hour at 300 pounds pressure and 750 degrees temperature.

It is true, as Old 376 stated, that we had a great many special high-speed runs back of the turn of the last century, but we have never had the number of regular scheduled high-speed runs in steam, Diesel and electric that we have had during the past ten years.

During 1942, we had 44 passenger schedules in this country running between points from 50 to 202 miles apart at speeds of 70 to 84 miles per hour. Locomotives, steam, electric and Diesel, have all reached or exceeded speeds of 120 miles per hour. There is no question but that motive power units are available that can maintain any speeds that are considered safe from the standpoint of signals, roadbed and curvature of track.

But speed means power and power costs money. A modern air-conditioned 1,000-ton passenger train traveling on a fairly level road at 70 miles per hour requires about 1,850 horsepower at the drawbar. To maintain a speed of 80 miles per hour for that same train on the same track requires an additional 500 horsepower. At 90 miles an hour a further addition of 550 horsepower must be furnished. One hundred miles an hour requires twice the power needed at 70. But speed requirements in freight operations can be met with ease, as far as locomotive power is concerned. In passenger service, the railroads obviously will pitch their battle with the airlines on other grounds than speed.

The Future Prospects

I have said that the best decades for the railroads lie ahead, and you may ask me what type of locomotives will pull those heavy trains. To me it seems that the future holds an expanding role for both the steam locomotive and the Diesel. More electric locomotives will be used also, but they will be confined chiefly to areas of congested traffic.

At the moment the trend toward the Diesel is strong. The past year, 1944, saw the Diesel for the first time forge ahead of the steam locomotive in orders for road engines. In the switch-engine classification, of course, it has been leading for years. In 1944 the American railroads ordered 426 Diesel switchers, and not one steam switcher.

The Diesel has won its place alongside the steam locomotive the hard way, by sound service on the road and by constant improvement on the drafting boards and in the experimental models. There are Diesel engines in stationary service—and not old ones at that—where weight per horsepower is over 300 pounds and the rotative speed 100 revolutions per minute. Contrast this with the comparable figures for Diesel engines in locomotive units today. We have the weight per horsepower down to 18 pounds and the rotative speed up to 1,000 revolutions. Then remember that we are looking forward to still lighter weight, higher rotative speeds, higher mean effective pressures, and greater output per cubic inch of cylinder volume.

While the Diesel has been stepping out, however, the steam locomotive has not been standing still. I need merely mention the use of stokers, poppet valves, unit castings for bed frames of both tenders and locomotives; high-temperature superheating, feedwater heating, the use of roller bearings, the dividing of power into two systems with two cylinders each, and the replacement of the riveted with the welded boiler.

Under the spur of competition, the steam locomotive is reaching new records of availability. During the past few months, one locomotive of the conventional reciprocating type made 26,928 miles in passenger service in one month and followed the next month with the same daily average. Steam still has the advantage of much lower initial cost than the Diesel, and this advantage can be heightened whenever the railroads see their way to accepting the same degree of standardization in the steam locomotive that they have accepted in the Diesel.

Steam engineers are justly proud of the technical refinements and increased efficiency they are building into the reciprocating steam locomotive, but they are far from resting their case there. They are pushing toward the perfection of a coal-burning locomotive propelled by a steam turbine geared directly to the driving wheels or used to power an electric drive.

Experiments with the steam turbine for rail power began nearly 40 years ago in Europe, where the high cost of fuel makes the low thermal efficiency of the reciprocating engine a greater [illegible] than it is in this country. As long ago as 1908 a company in Scotland built a steam-turbine locomotive with an electric drive, but it got little further than the testing stage. Neither did another Scotch model of the same general type, built in 1922. Sweden and Germany tried their hands at direct-drive, steam-turbine condensing locomotives and built one model that used 40% less coal than the reciprocating locomotive. But availability was lower and first cost and maintenance were higher; the net advantage still lay with the reciprocating engine.

The Steam Turbine Locomotive

Just before the outbreak of the war, this country took the initiative with the steam-turbine locomotive. In 1938 a condensing steam-turbine locomotive with an electric drive was completed and tested out in service. Equipped with a high pressure watertube boiler and generating 5,000 horsepower, it undoubtedly showed the highest thermal efficiency of any turbo-electric locomotive ever built. But availability was too low to permit its continued operation.

Now other turbo-electric locomotives are on their way. One, designed to burn pulverized coal, is to be equipped with a non-condensing watertube boiler with a working pressure of approximately 600 pounds.

One of the great coal-carrying railroads has placed an order for three coal-burning steam turbo-electric locomotives with a stoker-fired, non-condensing conventional boiler operating at 310 pounds pressure.

A locomotive with a steam turbine geared directly to the driving wheels was placed in service early in the present year, but test figures are not yet available. This model, like the one I have just mentioned, has a conventional type boiler with a working pressure of 310 pounds and is non-condensing. In the various models, enough progress has been made to indicate that the American turbine-driven locomotive is some form or other will be a success.

Recent technological improvements in materials, design and manufacture promise as much. And there is still another good reason for having faith in the continued evolution of the coalburning locomotive. About 22% of the total freight tonnage of American railroads consists of coal, and the railroads—particularly those operating to and from the coal fields—are anxious to give their best customer a break.

Even newer in principle than the steam-turbine locomotive is one propelled by a gas turbine—simply a geared turbine revolved by hot gases. The coal-burning railroads of this country are exploring the possibility of burning pulverized coal in a gas turbine locomotive.

The only gas-turbine locomotive in use in the world today, however, burns oil. This locomotive, of 2,000 horsepower, runs on the Federal Railways of Switzerland. Its thermal efficiency is only about half that of the Diesel, but its builders claim it can operate on crude oil, which would make its fuel cost about the same as that of a Diesel of the same power.

Finally, beyond all these experimental forms of power now being tried out, we stand—terrified, but committed and a little hopeful—on the brink of the atomic age. Just as resourceful and inventive men have found ways to harness steam electricity and gas, they eventually will find ways to harness atomic energy. And when this happens it will profoundly affect the type of power used in transportation and in all forms of industry.

Meanwhile it is our task to develop to the utmost the sources of power that we have and to use the particular type that is most economic for the job to be done. *This we can do and will.*

American Railroads Revitalized

So such for the outdook for railway locomotive power. In conclusion I return to the theme that I voices at the outset—the war has revitalized the American railroads. Let us compare 1918 with 1943. In 1918, at the peak of World War I, our railways had a total inventory of more than 63,000 locomotives with an aggregate tractive power of more than two billion pounds. And 57% of this inventory was in locomotives ten years old or less. In 1943 we had an inventory of only 42,000 locomotives, having an aggregate tractive power about the same as in 1918; but with only 5½% of the locomotives less than 14 years old.

With this aged inventory the railroads had a war job to do. How well did they do it with these handicaps? In this war the railroads of this country handled 97% of all troops, 93% of all Army equipment and supplies; 90% of all Navy equipment and supplies, and in the first 40 months of this war troop movements by rail were four times as great as in World War I. The increase in ton-miles was 82%; in passenger miles 124%; the average freight train load increased 67%, and the average miles per car day 99%.

And these records were achieved with 23% fewer employes, 33% fewer locomotives by number, 24% fewer freight cars, 30% fewer passenger cars—and in the 10-year period ending in 1944 there was only one passenger fatality for every 700,000,000 miles of service performed.

Under Government operation in World War I the railroads wound up with a deficit of just under two billion dollars. During World War II, with private operation, the railroads paid into the Federal Treasury four and a quarter billion dollars in taxes—exclusive of the payroll levy—and still earned net profits of almost three billion dollars.

These figures speak for themselves. The railroads did a stupendous job. And the best thing is that the public realizes this fact. A survey made in 1941, and quite recently repeated, indicates that only a little more than half the American people thought the railroads did a good job in *preparation* for the war in 1941. But 89% of the public think the railroads did a good job **during** the war.

Yet the railroads cannot and will not stand on these accomplishments and this recognition. Airplane and truck competition are back in full force. Both types of competition are ambitious and dynamic. Railroad travel and transportation have their own special values and potentialities, but they must be exploited.

For one thing we must appeal to the youth of today, who are the traveling public and the shippers of freight tomorrow. We must increase the number of young people in our own ranks—and give them a chance to do some constructive thinking and make the forward-ranging suggestions that come to young minds.

I, for one, have no doubt that the railroads—and their suppliers—will meet the challenge and the opportunity of postwar mass transportation. *I confidently predict that in the ten years following the war the American railroads will handle the greatest volume of passenger as well as freight traffic they have hauled in any peacetime decade in history.*

It has been my pleasure to work for 50 years in helping build this great transportation machine. As long as I live, I shall watch with absorbing and *affectionate* interest as the job of building it and rebuilding it, and using it ever more efficiently in the satisfaction of human wants, goes on.

British Reaction to American Loan

(Continued from first page)

to be the smaller of the two evils. The Agreement is so unpopular that, had it not been for the skillfully devised Parliamentary strategy with the aid of which it was rushed through in 2½ days, it would never have been passed. As it was, most Members had no time to study its details properly, and since they did not feel capable of forming an opinion of their own they gave the Government the benefit of the doubt. They did so after much hesitation, many of them changing sides several times during the debate. Had the Conservative leaders come out strongly against the loan, in accordance with the wishes of the majority of their followers, and had they not antagonized their Labor opponents by stating that the harshness of the terms was due to a Labor Government being in office, it seems certain that the majority in favor of the loan would have been very small.

The attitude of the Conservatives can best be characterized by the concluding sentence of Mr. Boothby's speech, in which he accused the Government of having "sold the Empire for a packet of cigarettes"—a remark which, it is thought, will be taught in schools even in a thousand years' time. The abandonment of the commercial links within the Empire is strongly resented by Conservatives, and also by many Socialists who, during their brief period of rule, have become distinctly Empire-conscious.

Fear Interference With Economic Planning

The main reason why some two dozen Socialists voted against their Government is not, however, the effect of the Agreement on the Empire, but the fear that the terms agreed upon will gravely interfere with economic planning in Britain, and will completely upset the Government's plan to establish a Socialist State. On the other hand, the majority of Labor Members who voted for the plan did so because they believed that reduction of food rations and delay in reconstruction through lack of dollars would handicap the execution of the Socialist program even more that the system of free trade imposed on the country against its wish.

The number of those who welcomed multilateral free trade for its own sake was negligible. Even the Chairman of the diminutive Liberal Party, Mr. Clement Davies, was far from happy about giving up regional and bilateral pacts as a means of safeguarding the country's trade balance, in return for a loan which barely suffices to cover one year's trade deficit. The Government was particularly criticised for agreeing to reduce the transition period under the Bretton Woods Agreement from five years to one year. If the proceeds of the loan will be spent by the time the convertibility of sterling is restored, the problem of how to defend sterling is expected to be most difficult to solve.

The Free Trade Policy

Many Socialists strongly criticise the Government for the way in which it was over-persuaded by Lord Keynes to adopt a policy of free trade. Although the Socialist economists produced by the London School of Economics firmly uphold 19th century free trade traditions — these Socialists are sometimes referred to as "side-whiskered Gladstonian Liberals" or "Cobdenites in disguise"—the majority agrees with the Lord President of the Council, Mr. Herbert Morrison, who at a recent Party Conference declared that "free trade is not Socialism; it is the negation of Socialism."

One of the remarkable moments of the debate was the frigid silence with which the House received the high compliments paid to the British negotiators by the Chancellor of the Exchequer in his opening speech. There was one solitary Member who cheered: he was Mr. Dalton's own Parliamentary Private Secretary. It is widely felt that if only Lord Keynes used his persuasive power half as effectively in dealing with the American negotiators as he did in bringing the Government round to his point of view, Britain might have got a tolerably good agreement. As it is, the result of his work will be, according to many people, the coversion of Brtain into the 49th State—without the rights attached to that status. "If we did become the 49th State," one of the bitter critics exclaimed in private conversation, "we could send two Senators to Washington who would at any rate represent British interests."

Not a Tonic to Stimulate British Efforts

A by no means inconsiderable section of Parliamentary opinion, while unwilling to assume responsibility for the rejection of the Agreement, would be overjoyed if Congress rejected it. The view is held that in that case the Washington Administration would have no objection to the raising of dollar loans from private interests on commercial terms, and that instead of a spectacular transaction there would be many smaller transactions reaching an impressive total. What is considered even more important, rejection of the Agreement would give the British people a much-needed tonic to stimulate its economic effort, and would induce the Empire to rally round the mother-country and assist it with all the resources at their disposal.

Opinion in the country is as sharply divided as in Westminster. Those concerned with the supply of food and cigarettes in the immediate future are all for accepting the dollars at no matter what sacrifices. But others feel it would be well worth while to tighten our belts for a while and work out our own salvation eventually. However, most people will be greatly relieved if the matter was settled, so that we could know how we stand. Critics are inclined to hold their fire, now that the House of Commons has passed the Agreement, until its anticipated disastrous consequences begin to show themselves after the proceeds have been spent.

House of Lords Debate

The House of Lord debate on the Loan Agreement brought some additional information concerning the negotiations. Both Lord Pethick-Lawrence, who opened the debate for the Government, and Lord Keynes himself, admitted that it would have been possible to obtain a smaller loan on slightly more expensive terms but without any conditions attached to it, beyond the necessity of spending the proceeds in the United States. This information was withheld from the Housce of Commons, notwithstanding pressing questions by Members of Parliament. And since the Government's case rested mainly on the claim that there was no alternative to the agreement accepted, the chances are that, had the possibility of a commercial loan been admitted, many more Members on both sides of the House would have voted against the Government. It was considered safe, however, to admit the truth in the House of Lords, since it was obvious that the Conservative Peers would not date to risk a constitutional crisis by coming into conflict with the House of Commons over this issue.

This is one of the reasons why the Loan debates has left behind a widespread feeling of bitter resentment. The defeated opponents feel that the aim of the "indecent haste"—to quote Mr. Churchill's words—with which the Government rushed through the highly important and complicated measures was to give no time for Members to study the documents sufficiently. Indeed, on more than one occasion the answers given by Government spokesmen evidently relied on the impossibility for critics to master the immense mass of technical details in such a short time.

But the majority of the victorious supporters of the Agreement is not much happier than their defeated opponents. In many instances the Government's assurances were accepted merely because the alternative to pretending to be satisfied would have been to vote against the Loan. This is particularly the case of many Conservatives in both Houses of Parliament, who refrained from voting against the Loan, owing to the assurances that the Government is not committed to the elimination of Imperial Preference. Most of them are vaguely aware that Congress would never ratify the Agreement unless and until the Government did commit itself in that respect, whether or not adequate compensation will be forthcoming in the form of a reduction of the American tariff wall.

Is It An "Economic Munich"?

A feature of the controversy over the Loan is the parallel drawn, consciously or otherwise, with the Munich surrender in 1938. Mr. Boothby actually called the Agreement "an economic Munich." The line adopted by several supporters of the loan was that the terms, harsh as they were, had to be accepted, in order to gain time for the recovery of our industrial productive capacity—which again sounded very much like the defense put up by apologists of Munich: that the surrender gained for us a brething space during which to rearm. The way in which Lord Keynes and, to a less extent, other Government spokesmen, tried to make virtue of necessity by claiming that the free trade system to be established would introduce a new era of collaboration and international goodwill was considered in many quarters to be strongly reminiscent of Mr. Chamberlain's enthusiasm, with which he declared on his return from Munich: "This is peace in our time!" And, finally, just as many critics of Mr. Chamberlain resented his enthusiasm over a disadvantageous and humiliating bargain, so some of the leading critics of the Washington Agreement, including Mr. Churchill, stated that the Government's case would have commanded more sympathy if instead of "welcoming" the deal the Government spokesmen had presented it as an unmitigated but necesary evil.

A Breakdown Expected

The overwhelming majority of the opponents of the scheme are fully as keen on close collaboration with the United States as the supporters of the scheme. That in spite of this they took a line that risked antagonizing American opinion was due, not so much to the view that the price paid for that collaboration was too high and one-sided, as to the fear that the sacrifices involved would not buy "peace in our time," any more than did the Munich surrender. For, practically everybody, from Ministers downward, is firmly convinced that the system will not work for any length of time, and that it is doomed to break down owing to the unwillingness of the United States to accept an import surplus. Indeed, many opponents within the Government acquiesced on the assumption that, since the breakdown of the system is only a question of time, it would be possible sooner or later to revert to the system of bilateral and regional agreements once it has become evident that the multilateral system could not be worked. Those who have Anglo-American friendship at heart fear, however, that Britain in that case would be accused of bad faith, even if the breakdown of the system is obviously due to the unwillingness of the United States to import on a sufficient scale, or to moderate her export drive. It is felt that the friction that might have arisen if the American proposals had been refused now would have positively mild in comparison with the bitter feeling that will arise when, under the force of circumstances, Britain will revert to the system discarded in return for the temporary assistance afforded by the loan. And even though it is believed that the economic peace bought in Washington in 1945 will last longer than the political peace bought in Munich in 1938, few people give it much more than two or three years. For it is expected that the premature restoration of the convertibility of sterling, together with the loss of export markets and admission of indiscriminate imports resulting from the Washington Agreement, will exhaust the proceeds of the loan in less than two years. And then we shall enter the danger zone. By that time the post-war boom will be over, and Britain will have to face the effects of a slump in the United States without any means of defending her balance of payments other than orthodox deflation—which is politically impossible to apply to any large extent. The only question is, with what degree of deflation and unemployment will the Labor Government put up before declaring the situation intolerable and claiming that the Washington Agreement has reduced itself to absurdity. Neither the Government nor Parliament nor the British public consider themselves morally bound to sacrifice their prosperity for the sake of carrying out an agreement "accepted under duress," as was openly claimed during the debate. They will put up with a great deal for the sake of American friendship. But a stage is expected to be reached sooner or later when considerations of internal policy and economy will prevail.

Results of Election of Directors of St. Louis Federal Reserve

The results of the election of directors of the Federal Reserve Bank of St. Louis, which ended Dec. 18, were as follows, it was announced by William T. Nardin, Chairman of the Board:

"A. Wessel Shapleigh, President of Shapleigh Hardware Co., St. Louis, was reelected by member banks in Group 1 as a Class B director;

"Phil E. Chappell, President of Planters Bank & Trust Co., Hopkinsville, Ky., was elected by member banks in Group 2 as a Class A director, and

"K. August Engel, President of the Arkansas Democrat Co., Little Rock, Ark., was elected by the Group 2 banks as a Class B director."

Mr. Shapleigh and Mr. Chappell were chosen for terms of three years beginning Jan. 1, 1946, and Mr. Engel was elected for the unexpired portion of term ending Dec. 31, 1946.

The Federal Reserve Bank has nine directors, of whom three are Class A, three Class B, and three Class C. Those of the first two classes are elected by the member banks. The Class A directors represent banking, and the Class B directors, commerce, agriculture, or some other industrial pursuit. The Class C directors are designated by the Board of Governors in Washington.

Municipal News and Notes

While the close of the Victory loan was the signal for the resumption of large-scale corporate undertakings, it also marked the beginning of a substantial boom in the new issue municipal field, which has continued to date and very likely will prevail for some weeks to come.

Indeed, it is quite possible that a real "bull" market in the new financing department is now under way, with the prospect that the supply of offerings throughout the coming year will be pretty much in line with the rather general belief that 1946 will witness an uninterrupted flow of bond issues from all sections of the country.

In any event, there is no question that the output in the past several weeks has been such as to enliven the market to a degree that has not been in evidence for many months. Of perhaps greater significance is the fact that the large outpouring of bonds has been accompanied by an increasing upward trend of the price level.

This development, it may be added, unquestionably has come as a distinct surprise to many dealers, not to mention investors, as the opinion has been rather widespread that the price structure is bound to sag in direct proportion to the stepping up in the volume of issues reaching the market.

That a firming tendency, rather than a reaction, has been a by-product of the large volume of business negotiated in recent weeks is clearly seen in the terms received by borrowers, also in the degree of success achieved by underwriters in distributing their purchases among investors. With few exceptions, and despite the large amount of bonds involved in each instance, or the overall magnitude of the grand total, the various offerings have received a commendable response from investment interests.

It may be of interest to review the results of the particular offerings which have contributed so importantly to the market activity in recent weeks. The period got off to a flying start on Dec. 11, with the principal performers being the State of California, the City of Tulsa and Tulsa County, Okla.

The California issue, comprising $15,000,000 1¼% veterans' aid bonds, maturing from 1947 to 1964 incl., was sold at public auction to a First National Bank of Chicago syndicate at a price of 102.79. Naturally, a number of syndicates were identified at the auction, with an account headed by Halsey, Stuart & Co., finally withdrawing after the bidding had reached a level of 102.78.

The First National Bank of Chicago and associated underwriters re-offered the bonds at prices to yield from 0.40% to 1%, and succeeded in placing about half of the issue in a single day. The bonds are part of an authorized issue of $30,000,000 and marked California's entrance in the new capital market after a protracted absence.

The City of Tulsa financing involved a total of $7,000,000 bonds, of which $6,400,000 were taken by a syndicate managed by the Northern Trust Co., Chicago. The account bought $6,000,000 limited access facilities and water works improvement bonds, due from 1949 to 1966 inclusive, as 3s and 1.10s, for a net interest cost of 1.207% and $400,000 sewer extension bonds, due 1944-1966, also as 3s and 1.10s, and at a net cost of 1.205%. The re-offering was from 0.65% to 1.25%, depending on coupon rate and date of maturity.

The remaining $600,000 bonds offered by the city were taken by Halsey, Stuart & Co., and others, which bid various prices and interest rates on the five issues adding up to the foregoing total. The overall maturity dates are from 1949 to 1961.

A Halsey, Stuart group purchased the $2,750,000 bonds sold by Tulsa County, naming interest rates of 1¼% and 1% on the respective issues of $1,750,000 road and bridge, and $1,000,000 county separate school. Each loan is due serially from 1949 to 1966 inclusive, and the county effected the financing at a net cost of about 1.18%. The group re-offered the 1¼s, maturing from 1949 to 1963 incl., to yield from 0.65% to 1.20%, and priced the 1s, due 1964-1966, at 96.75. The account was rapidly closed.

The West Virginia Sale

On Wednesday, Dec. 18, interest was centered on the portfolio sales conducted by the State of New York and the Massachusetts Mutual Life Insurance Co., and the new issue sale of $1,000,000 road bonds by the State of West Virginia. The latter was of particular interest as it provided a striking illustration of the changed market trend since V-J day.

Thus we find that while the State was able to dispose of that issue at a net cost of only 1.051% to a Chase Bank syndicate, the best price obtainable for an identical issue (maturity 1946-1970 in each instance) at the previous sale on Aug. 21 was based on a net cost of 1.261%. In April, 1945, the State disposed of $2,000,000 bonds of 1946-1970 at the record low net basis of 0.904%, the previous low of 1.05 having been obtained at a sale conducted in January. It should be pointed out that the successful bidders for the current issue did not exercise an option to purchase an additional $1,000,000 bonds on the same terms.

The State, it may be added, was prevented from securing even better terms on the latest emission as a result of weather interference with telegraphic communications. Because of this fact, an offer by Shields & Co., and associates, based on a net cost of 1.0423%, was not received until after the hour set for consideration of bids. A similar mishap occurred in the case of the sale of $500,000 Prince George's County Metropolitan District, Md., bonds, maturing from 1946 to 1970 inclusive. In this instance the bonds were sold as 1½s, at 100.166, although the two bids delayed in transit offered terms of 100.0799 for 1.30s, and 100.1576 for 1⅜s.

The earlier week's activity was climaxed by the sale of $1,055,000 City of Stamford, Conn., bonds to a syndicate headed by Harriman Ripley & Co., Inc. The bonds, due serially from 1946 to 1965 inclusive, were sold as 1s, at a price of 100.64, and re-offered from a yield of 0.40% to a dollar price of 100.50. The issue was speedily absorbed by investors.

* * *

Repeat Performance

The week ending Dec. 22 was nothing less than a repetition of the high-level activity that characterized the earlier period, as is seen in the following review of the principal awards:

The $2,500,000 bonds of **Stockton Unified School District** which were sold by **San Joaquin County, Calif.**, on Dec. 17 were awarded to a group headed by the **Chase National Bank of New York**, which bid par for a combination of $660,000 1s, due 1946 to 1948, and $1,840,000 0.75s, maturing from 1948 to 1955 inclusive. Net interest cost to issuer was 0.951%.

City of Stockton, Calif., issue of $1,750,000 sewer system bonds went to the **Stockton Savings & Loan Bank**, which bid 100.027 for $350,000 0.50s, due 1946 and 1947; $525,000 0.75s, due 1948 to 1950, and $875,000 1s, maturing from 1951 to 1955 inclusive. Bid figured out to a net interest cost of 0.914%.

A syndicate headed by the **First National Bank of Chicago** won the $15,432,000 of **Oakland School Districts** bonds offered for sale by **Alameda County, Calif.**, paying a price of 100.16 for the bonds as 3s, 1s, and 1¼s, making a net interest cost of 1.212%. The bonds mature serially from 1947 to 1970 inclusive, and the successful bid proved just a shade better than the runnerup offer entered by the **Harris Trust & Savings Bank of Chicago** syndicate. This group's tender figured out to a net cost to the issuer of 1.226%.

The **State of Louisiana** issue of $2,900,000 highways, maturing 1947 to 1964 inclusive, also encouraged sharp competition, with the successful account of **Halsey, Stuart & Co.**, taking the bonds at a net cost of 1.469% to the State as against a net cost of 1.488% contained in the second high tender, sponsored by a group headed by the **Equitable Securities Corp.**

Mellon Securities Corp., Pittsburgh, and associates emerged as winner of the $2,840,000 **Richmond, Va.**, improvement issue, paying 100.951 for 1s, a net interest cost of 0.88%. The bonds mature serially from 1947 to 1966 inclusive and an account headed by **Estabrook & Co., of New York**, was second high bidder, offering 100.729 for 1s.

The **Elyria, Ohio**, bonds in the amount of $1,325,000 were bought by a group managed by **Stranahan, Harris & Co., Toledo**, taking $1,175,000 water works improvement, due 1947 to 1976, and optional in 1956, as 1¼s, at 100.634, a 1.18% basis, and $150,000 limited tax sewer bonds, due 1947 to 1956, as 1s, at 100.291, a basis of about 0.95%.

* * *

Coming now to the present week, we find that virtually all of the main business is scheduled for today (Thursday), when Alexandria, Va., will open bids on an issue of $1,500,000; San Antonio Independent School District, Texas, on an offering of $2,186,000; and Galveston, Texas, will award an issue of $1,368,000.

Closing the Books

These three substantial undertakings will ring down the curtain for 1945, a year which was replete with both thrills and tremors for the municipal trade.

Probably the event of greatest significance was the momentous victory achieved by those who have consistently resisted attempts of the Federal government to eliminate the tax-exempt feature of local government obligations.

This latest, and perhaps most conclusive defeat suffered by the government, came in the form of the refusal of the United States Supreme Court, on Jan. 2, to consider decisions of lower courts which held that bonds of both the Port of New York Authority and the Triborough Bridge Authority were entitled to immunity from Federal taxation.

As the questions raised in the litigation were such as to cover the infinitely broader question involving the constitutional tax-exempt status of all State and municipal bonds, the court's refusal to take jurisdiction in the matter was interpreted as signifying its opinion that such immunity was mandated by the constitution and could not be disturbed via other than an amendment thereto.

Also highlighting the municipal market of 1945 was the record high price level attained in May and the precipitate decline that developed coincident with V-J day. The bulk of the loss (about 30 basis points) was of temporary duration and, at this writing, prices are pretty close to the peak levels established earlier in the year.

Whether the standings will be adversely affected should the expected mounting supply of bonds materialize in the coming year is a question that undoubtedly still dominates conversation in trade circles. This much is evident, namely that the new year will usher in a rather substantial flow of offerings.

The calendar of impending events already lists the following actual and potential deals: $3,025,000 Minneapolis, Minn., and $3,216,000 by Commonwealth of Massachusetts, both on Jan. 3; $1,900,000 Franklin County, Ohio, Jan. 4; $3,976,000 Oklahoma City, Okla., Jan. 8; $2,350,000 Oklahoma County, Okla., and $1,500,000 Oklahoma City School District, Okla., both tentatively scheduled for Jan. 8; $3,000,000 Allentown School District, Pa., and $9,000,000 San Francisco, Calif., both on Jan. 9.

It will thus be observed that the opening month of 1946 promises to be an extremely busy period in the local tax-exempt field and may well be the forerunner of the most active year since the war.

Mosher Attacks President's Wage-Earnings Policy

(Continued from page 3137)

cease to be that constant creation and growth of new and small enterprises which is essential to progress and the provision of jobs for all who want to work.

The traditional policy in this country has been to base wages upon ability to pay as measured by productivity. Under that system wages have quadrupled during the past 50 years and the hours of work have been reduced by a third. This record of progress can and should be continued, but it will be stopped dead in its tracks if President Truman's formula is adopted as the national wage policy of this nation.

In addressing the National Association of Cost Accountants at Providence, R. I., on Dec. 13, Mr. Mosher fired a blast at the statistical reports issued by the Department of Commerce, which upheld the contention that a general wage increase could be granted without affecting prices. Public confidence in government is being badly shaken by this "statistical folderol," Mr. Mosher contended.

Two documents—"Facts Relating to Wage-Price Policy," and a "confidential" memorandum "Domestic Economic Development," prepared by the Department of Commerce, particularly drew Mr. Mosher's censure.

"These two documents were allowed to 'leak out' in a most unusual fashion when the wage question got hot," Mr. Mosher said. "The general assumption of both is that industry can pay liberal wage increases, from 10 to 25%, without raising prices. The government economists who conjured up these startling formulas made liberal use of conjectural phrases about probable sales, assumptions, hopes, expectations—in fact, everything a statistical document should not be."

Expressing astonishment that the Business Advisory Council to the Department of Commerce had "either passed on this foul formula" or "gave tacit approval to such an important matter by their silence," Mr. Mosher said "these government forecasters deal with direct wage increases in their estimates, and ignore the pyramiding effects which are bound to occur eventually throughout industry.

"The confidence of the public in the government is badly shaken by such statistical folderol," Mr. Mosher stated. "Our government's veracity and statistical dependability must be such as to be used with confidence that they're not loaded to prove anybody's case.

"It seems to me that management, labor and the general public has an explanation coming to them of this high and handsome misuse of the prestige of government. I honestly believe that high violence is being done to our business system by the promiscuous and fallacious insistence that wages should be raised to help the purchasing power."

Speaking subsequently to the Bridgeport Manufacturers Association on Dec. 19, Mr. Mosher reiterated his warning that the Department of Commerce will lose the respect of business if it keeps producing "conjectural jingoism" to support CIO wage demands. Mr. Mosher again denounced the two governmental documents recently used by supporters of the CIO position. The documents of the Commerce Department he said were allowed to "leak out" when the wage question grew hot.

"The general assumption of both documents is that wage increases of 10 to 25% can be granted without price rises," Mr. Mosher said. "These startling formulas were fabricated by use of conjectural jingoism worthy of a top-flight bucket shop operator of the twenties."

Stating that unions refused to consider "take-home" as a measure of pay when the war upset normal economic relationships, Mr. Mosher declared that now, with the war over, labor leaders no longer want to base wage scales on the cost of living but on "take-home" pay.

"In every instance, the government, or certain CIO-dominated and infiltrated parts of it, has backed up the union claims," Mr. Mosher added. "Even the figures of take-home pay don't follow the Bureau of Labor Statistics' own figures. This country never did work a 48-hour week. And what's more important, it will be a long time before it goes to a 40-hour week."

The Labor-Management Conference in Washington was no flop, although it failed to achieve agreement on many pressing problems of union-employer relations, Mr. Mosher said. The record leaves the door open for further progress, he explained.

"Each side attained a far better understanding of the nature of the problems and of the reasons for the other side's positions," he said. "For 26 days, labor and management representatives discussed the issues with tolerance and respect that some might consider phenomenal.

"In brief, the position of the

Full Production and Sound Fiscal Policy Can Prevent Inflation

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which they would buy Government Bills, and there have been other rates, less well defined, at which they have in fact been buying Government Certificates of Indebtedness. The chief reason why this technique has been so important is that these buying rates, involving yields of from ⅜% to ⅞%, have made it possible for the commercial banks, acting on their own initiative in the sale of Bills and Certificates, to create their own reserves at the Federal Reserve Banks, largely without recourse to borrowing, and thus, as a whole, to maintain their supplies of reserve balances at all times greater than their reserve requirements.

All through the war, then, we have had the Federal Reserve Banks buying Bills and Certificates, thereby maintaining in existence a supply of reserve balances more than adequate to meet the commercial bank requirements for these reserves. Furthermore, in an attempt to improve the yield on their assets, we have had the commercial banks buying other Government securities of somewhat higher yield and longer term than the 90 day Bills or the one year Certificates of Indebtedness, and thus creating supplies of commercial bank deposits at least adequate to meet the Government's and the public's rapidly increasing requirements for cash. This process has, of course, led to an expansion of the whole monetary and banking system, but, as a result, the supplies of reserve balances in the hands of the commercial banks and of deposits in the hands of the public have at least kept pace with wartime demands, and interest rates have tended to decline rather than to rise.

The Interest Rate Problem

The pros and cons of a low or lower money rate policy are far too intricate for a full discussion here. It should be pointed out, however, that the technique described above, so effectively used in this country during World War II for keeping interest rates low, was adopted as a war measure. If, in spite of the Government's tremendous wartime borrowings, this technique has actually had the effect of causing interest rates to decline, then surely the technique should be most carefully reexamined before it is applied to the presumably more moderate money requirements of peace. Of course, there are some writers and speakers on the subject of interest rates who agree with the extremist view of the British economist, Sir William Beveridge, that a slow decline to a zero interest rate would be desirable. As opposed to this, however, there is a considerable weight of thoughtful opinion in this country which takes the position that an excessively low and declining interest rate, besides crippling endowed institutions and reducing the "nest egg incomes" of millions of individuals, will tend to discourage future savings, will thereby slow up capital formation, hinder technological improvements, impede economic progress, and may eventually lead to unrestrained spending and a runaway inflation. How this question will be answered and, in particular, what will be done with the Government's new found technique for controlling interest rates cannot now be foreseen. However, for what the remark may be worth, we can probably say that, as a group, those who want interest rates to decline are more vocal in the presentation of their arguments than are those who feel that savings are entitled to a reasonable interest return.

The Inflation Threat

There is another phase of the Government's wartime financial operations which is viewed by many people as constituting a threat to future economic stability. Dissatisfaction has been widely expressed with the fact that the Government's method of financing the war has led to so rapid an expansion of the monetary and banking system. Some 40% of the Government's increase in debt has found its way into either the Federal Reserve Banks or the commercial banks. And this rise in bank assets has, of course, been largely balanced among the liabilities of these institutions either by currency or commercial bank deposits. For example, in the six years from June 30, 1939 to June 30, 1945, while the Government's entire debt expanded $213 billion, the Government securities held as assets by the Federal Reserve Banks and the commercial banks increased $87 billion and the public's total money supply of commercial bank deposits and currency, represented, for the most part, by the liabilities of these banking institutions, increased $73 billion (152%) to a total of $121 billion by the middle of 1945.

It is this repid expansion of our monetary and banking system that has been rather generally deplored both in and out of Government circles. It has been thought to be dangerously inflationary in that it constituted, perhaps, a dilution of the value of the individual monetary unit, the dollar. It seems possible, however, that the inflationary aspects of this situation may have been over-emphasized. After all, money is the vehicle by which nearly all goods and services are passed from hand to hand on the national production line. Therefore, as the economy of the country expands, the money supply (currency and commercial bank deposits) should, it seems, very properly expand with it. We have already seen that from before the war to early in 1945 there was an expansion in industrial production, wages and salaries, farm income from marketings, and the gross national product of anywhere from 111% to 151%. Under the circumstances, the 152% expansion of the money supply would not seem to have done much more than to keep pace with the wartime growth of other major economic factors, nor would it seem to have involved, per se, any very serious dilution of the monetary and banking system.

This thought is particularly interesting in that the wartime rise in the cost of living appears to be very adequately explained, from a statistical viewpoint, solely by the increase in the overall cost of production that we have witnessed during the war years. Consequently, we do not have to involve ourselves in the quantity theory of money in order to understand how it is that, by the middle of 1945 at the cessation of hostilities, our dollar had suffered a material loss of purchasing power.

It is hoped that the foreging remarks constitute a reasonably clear presentation of the warboom conditions that existed in the United States during the first half of 1945. Then, on May 8, Germany collapsed; four months lated, on Sept. 2, Japan surrendered unconditionally. Thus, the much talked of reconversion period was upon us before we realized it and the very thoroughness of the defeat of our enemies made possible a more rapid demilitarization than most of us had thought possible.

Here was the turning point the country had so long awaited. The great economic question was, were we in for a post-war boom and inflation as predicted by one school of thought, or was the curtailment of Government spending to bring about a serious depression as predicted by another school. It appears to this writer that neither of these two extremes was a likely contingency. I had felt, and I still feel, that if a civilian buying spree develops, its effects should be tempered by the tremendous reserves of productive capacity that are being released by a reduction in the Government's war effort. Or, if the Government's withdrawal as customer for half of the nation's output should be so rapid as to constitute a strong deflationary force, the civilian population has ample reserves of purchasing power, coupled with vast unfilled needs, with which to take up at least some of the slack. I have felt, therefore, that if the country exercises only reasonable intelligence, with pressure groups exercising only reasonable moderation in their conflicting demands, good business and prosperity should lie ahead for a considerable period of time.

Immediately after the collapse of Japan, the outlook was perhaps even more encouraging: We made good progress in the elimination of some of our Government controls; we were prompt in taking a first step towards a return to a peacetime tax system; we enjoyed an abundance of money available for investment; individuals throughout the country possessed tremendous amounts of liquid funds apparently available for spending; there existed an unprecedented demand for many of the things whose production had been curtailed during wartime, factories and their equipment, automobiles and clathes, to mention only a few, and, of course, the shortage of residential buildings was so great as to suggest the possibility of many years of capacity operation in the building industry. Finally—and this is a point which would seem to offset whatever inflationary pressures may be inherent in the various considerations just mentioned—we had a demonstrated productive capacity able, under war-boom conditions, to produce something like a twothirds greater volume of goods and services than the country had ever consumed in peacetime. If, then, management and labor could only work together so that our new capacities, new products and new techniques could be applied to the production of the fruits of peace, industry should be able to produce all the goods and services that an affluent public will demand. Furthermore, under these conditions, with management and labor cooperating to increase production and production efficiency, it might be expected that, in the not too distant future, prices would decline to the advantage of management, labor and capital.

Into this situation which which seemed to favor a high degree of prosperity has come an impasse between management and labor which is in danger of shutting down a large portion of the nation's great industrial plant. What will come of our present industrial strife, it is impossible to foretell. But as 1945 goes into history, we appear likely, in the near future, to make decisions regarding wages, rules and hours of work, the use of modern laborsaving devices, labor efficiency and labor-management-Government relationships in general which will have a far-reaching effect upon our level of business, our volume of employment, our cost of living, and our standard of living, for many years to come. Let us hope that these decisions are made wisely.

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labor delegates at the labor-management conference was that they do not choose to become responsible. They preferred to hold fast to government favoritism and special privileges. But in my opinion, organized labor must get out, or it soon will be pushed out, of its childish stage of irresponsibility

"Much remedial legislation is needed to establish legal equality between labor and management, and I am sure it will be provided by Congress, backed by overwhelming public opinion. Until such actions take place, labor will not be the constructive force in the nation that it should and can be."

Our Reporter's Report

As the old year fades away there is a tendency toward conservatism in underwriting circles in attempting to forecast what may be ahead for the new year. Indications point to a fairly busy January.

But thereafter it is generally felt that the new issue market, at least so far as bonds are concerned, will settle back following the tremendous activity of the last year and one-half.

It is a foregone conclusion that with the need for war financing now definitely out of the way, new corporate business will be spread out over a greater period of time rather than being concentrated in brief intervals as it has been for several years.

Moreover, it is widely recognized that much of the refinancing that has been made possible by progressive contraction in money rates, has been carried through. It will require considerable study and work to project any such new undertakings, since it must be admitted that the money market is at or close to the irreducible minimums.

There is a tendency, at the same time, to look forward to a swing over to the new capital financing which may afford investors a bit better yield by way of higher coupons. And, since many companies are in strong position, it is felt that in seeking new capital, they may utilize the medium of new equities rather than incurring new debts.

Watching Money Market

Although the consensus is that the Treasury will maintain a cheap money policy, as indicated by Secretary Vinson in a recent speech, there is a tendency to keep an eye on the short-term money market.

It is recognized that there could be, now that the need for heavy war financing is past, some reversal of the elements which made for extreme ease in that direction. Deficit financing, it is hoped, will be curtailed as much as possible, thus tending to prevent any further marked expansion in bank deposits.

Again, the termination of hostilities and the slashing of war industry activities could reasonably bring about some contraction in the volume of currency in circulation. The first few weeks of the new year should give some idea of the trend in that direction. But all things considered, it is recognized that the Treasury must maintain its easy money policy in order to help it in carrying the enormous Federal debt.

Real Estate Bonds

The recovery in real estate bonds has kept pace with the revival trend in other sections of the investment market over a period of years. In fact it has been more aggressive than in some other directions.

A glance at the Amott, Baker price average affords a clear picture of what has been taking place in that quarter of the investment market. For example, on Nov. 30, last, the average price of a $1,000 bond was $644 against $622 a month earlier and $521 at the end of 1944.

The scope of the recovery is the more impressive if comparison is made with the average price prevailing on June 30, 1942. At that time the average for a $1,000 bond was $307, indicating a recovery to the end of November, this year, of 109%.

Bates Manufacturing

Bankers handling the Bates Manufacturing Co. offering of 256,000 shares of common stock reported the deal more than 90% completed on Saturday, after having encountered delay growing out of litigation.

A potential buyer, who sought to obtain a large block of the stock, went into court to seek to keep the books open on the offering to existing holders. But the court dismissed his plea and the underwriting group opened its books late on Friday.

A real "quickie," in the parlance of the trade. The stock was being quoted around $33 compared with the offering price of $25 a share.

Broker-Dealer Personnel Items

(Continued from page 3136)

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Christopher T. G. Manners** has been added to the staff of **Herrick, Waddell & Co., Inc.,** 1012 Baltimore Avenue.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**J. W. Neighbor is with Herrick, Waddell & Company, Inc.,** 1012 Baltimore Avenue.

(Special to THE FINANCIAL CHRONICLE)

LANSING, MICH.—**Everett V. Eschbach** has rejoined **Merrill Lynch, Pierce, Fenner & Beane,** 121 West Michigan Avenue, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—**Charles G. Crump** has become associated with **Chas. W. Scranton & Co.,** 209 Church Street.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—**John H. Fellman** has become affiliated with **Merrill Lynch, Pierce, Fenner & Beane,** 818 Gravier Street.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—**Travis T. Hailey** is with **Weil & Co.,** Richards Building.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—**Virden Adair Clark** is with **Smith, Landeryou & Co.,** Farnam Building.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—**Benjamin F. Houser** is with **Coburn & Middlebrook,** 465 Congress Street.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND MAINE—**George H. Bangs, Jr.** and **George MacLennan** have joined the staff of **Chas. A. Day & Co.,** of Boston.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—**John A. Carrick** is with **John Galbraith & Co.,** Porter Building.

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—**Jesse F. Higgins** is with **Southeastern Securities,** Independence Building, Charlotte, N. C.

Agricultural Question Mark of 1946

(Continued from page 3133)

ers in all parts of agriculture. However, I am particularly pleased to have the opportunity of talking with you at this time because of your deep interest in maintaining proper balance between agricultural and industrial production and income. For I believe that we are now face to face with some serious, far-reaching questions and decisions, dealing with that very philosophy of interlocking economic interests. I believe we all need to take a fresh look, right now, at recent developments in farming, industry, labor, and Government, which call for thorough understanding, give-and-take planning, and broad scale action by all parts of our economy.

Agricultural Outlook for 1946

The Department of Agriculture and the Extension Service recently completed its annual Outlook for 1946. To me that Outlook is the most significant of many years, because it marks the definite transition from a war to a peacetime farming. Charts and tables in that report are far more than lifeless statistics. If you use them to trace through the stirring, crucial period we are now ending, those economic curves become a cardiogram of the heart-beat of the Nation's business and agriculture. They mirror the drama of the man in the field and the man in the factory turning out more food and fiber, more machinery of war, and more goods for American living than ever before in history. It is symbolic that these charted curves, depicting farm and factory output, wages, profits, farm income, taxes, and other measures of our great effort, surge steeply up to 1945—and end with a big black question mark.

Where are we going now? That's the question.

Let us go back to those charts a moment. They demonstrate with undeniable clarity that when we gear all parts of our productive machinery together, as we did after Pearl Harbor, we can size up the job to be done, set our goals, and deliver the goods on schedule. They show that everybody benefits in measurable, dollars-and-cents terms when our factories and farms are busy. As industrial productivity rose, so did the income of workers, and the cash receipts from farm marketings—right up together, as always. It is no accident that in 1945, with the largest national income in history, farmers also have the largest net income they have ever earned. That net income is $13 billion. It is *seven* times the net farm income of 1932, when our productive machinery was badly out of balance. Furthermore, I believe that farmers can well be proud that this all-time record net income was earned by large, efficient output of food and fiber for the nation at very reasonable prices; it was the reward of genuine service to our country and not from gouging the public in its time of need.

Mechanical Power in Agriculture

Perhaps the key piece in the jig-saw puzzle of the future is the rapid change in farming. The farmer has been riding a definite upward curve for more than a century—and that curve is mechanical power. Power has swept like a tidal wave across our farms, and has changed them beyond recognition. The farmer in the United States has become one of the most lavish users of power in the world, and is increasing his sources of power faster and faster.

Let us go back to the early days in the United States. The phrase "embattled farmers" was more than poetic expression, at the time of the Revolution. It was the literal truth that farmers made up the bulk of Washington's armies. How could it be otherwise, when 19 out of 20 people in the Colonies were farmers? In those days agriculture was a crude, low-efficiency handicraft. A farmer was fortunate if he had a yoke of oxen or a team of horses to pull his wooden plow. Many had only their human strength and mattocks and flails that had changed little in several thousand years. Nineteen out of 20 people were needed on the land to raise enough to supply their own needs, plus a little extra to trade the twentieth for manufactured goods.

With the industrial revolution in industry came the start of a revolution on the land—one that is still going on. As mechanical power replaced horsepower, fewer and fewer people were required to grow food and could go into manufacturing and trade and professions. Before World War I, farming had progressed so far in technology and mechanization that one-third of our population could do all the farming necessary for the other two-thirds, and could do it better. By 1929, one-fourth of the population could handle the farming end of our economy. And now we have just come through a period of greatest farm output of all time, with less than *one-fifth* of our people on the land

One doesn't have to be a seventh son of a seventh son to forecast the future of this trend. It is too sustained and powerful for any doubt. It isn't too much to expect that before many years one man on the farm will be able to produce all the food and other farm products needed for 10 in the cities.

New Farm Skills

What has brought about these astounding gains in productivity? How did farmers manage to forge ahead in wartime, turning out a third more production, with at least 15% less effective labor than in prewar years? The answers encompass thousands of items of research, invention, and development of new farm skills. Under broad headings they include such things as increased mechanization, greater use of fertilizer and lime, a good start in conservation-type farming, improved control of pests and disease, better feeding of livestock. Outstanding is power. It is estimated that in 1940 our farms had in one form or another more than 174 million mechanical horsepower, including 1½ million tractors.

Today farmers have about 2 million tractors—a gain of more than 40% during the war. Probably the most comprehensive measure of the farmer's technological progress along all lines is *output per worker*. Today farmers are producing *twice* as much per worker as they did in 1910. They are turning out *two-fifths* more per worker than they did in the years just before World War II.

The future is clear. More of the same!

Increase in Industrial Capacity

The meaning of the march of technology in agriculture would be incomplete without taking into account the fast-rising production capacity of industry. By 1942 the average industrial worker was turning out twice as much as he had in 1910. At the end of World War II his productivity was two-and-a-third times greater than in 1910.

But keep this difference in mind: Where farm population has gone down, the number in nonfarm work has more than doubled. So has industrial capacity. We have more workers, more factories. Each unit can produce more than ever before. Each farmer, then, has more potential customers.

Economic Interdependence

Now to get back to my original theme. Interdependence between farmers and city folks now is a far different and far more serious matter than it was a century ago, a generation ago, or even a few years ago. We are operating, each group of us, as part of a terrifically high-powered economy, one which moves by steam, electricity, and gasoline, and which is on the threshold of harnessing the power of the atom. It is a world of science, in which we tear mechanical structures down and put them together again in new and strange forms, such as synthetic rubber and plastics. Such an age brings great new opportunities, but it also imposes the need for careful planning and self-discipline on all groups. If the power in one part of this complex economy is turned off, or the machinery stalls, the reaction spreads rapidly through all parts, and everybody suffers. Conversely, when all parts are synchronized, everybody prospers.

It may be pleasant to dream about the nostalgic days when the farm was self-sufficient, and some arm-chair philsophers may advocate back-to-the-land movements when unemployment threatens, but the actual fact is that the farm never has been 100% self-sufficient. Even in Colonial days the farmer had to trade some of his corn and tobacco for a musket and powder, buckets, lamps, clothing, tools, and other manufactured goods. Now the farm is less than 10% self-sufficient and is becoming even less so. A farmer must have markets and customers with buying power—or he will rapidly go bankrupt. The absolute truth is that the interests of each group is so interwoven with the interests of others that none can consider its welfare as separate from the welfare of the whole nation. "Me First" programs can bring only ultimate disaster to the group that launches them, and disruption and loss to the rest of us. The ideal—the kind of philosophy that took us so successfully through the war—is for all groups, acting together in the freedom that democracy gives them, to plan and coordinate their policies and programs for the welfare of the whole great society in which we live.

I stress this point because one of our most urgent needs, as we look into the doorway of the dynamic age ahead, is unity. The great question mark, and one that must be answered democratically, is "How are we going to use the tremendous production capacity we have built up?" That can't be answered by one group alone—it takes a combined, sincere and intelligent answer by all groups who work, trade or manage in the nation.

Problem of Balance in Production

We actually have only two main choices: One is a highly defensive, "frozen" economy, the kind that seeks unduly high prices per unit at the expense of output, efficiency and jobs. We know what that involves. It's a road we've been down before, with various segments of our economy trying to shut themselves into protected compartments, setting up trade barriers, and struggling for special advantage. We saw this kind of an economy evolve after the first World War. Farmers kept producing, but the rest of our productive force retreated into reduced output and reduced jobs to maintain prices. For example, from 1929 to 1932, the years leading into the Great Depression, steel prices declined hardly at all, but output was cut by more than *four-fifths*. Aluminum prices slumped less than 5% but production was slashed by 40%. Automobile prices fell only a little over 10%, but assembly lines were throttled down by 75%.

How did farmers get along? You remember painfully well. Farmers kept producing full blast, operating in free markets, and saw the prices of their products sink right to the bottom. Corn, wheat, cotton, livestock, milk, eggs—and the whole list of farm products—soon had only a third or fourth of their normal buying power.

Consumers *needed* that food as much as before. But they couldn't buy as much as they needed, no matter how cheap it was. For millions of consumers had no jobs. So great surpluses accumulated.

There is the lesson of a defensive, lop-sided, restricted economy. It's a simple one. We can all remember it: Industrial prices stayed up—production went downhill. Farm production stayed up—farm prices went downhill. Unemployment went up—consumption of all goods went down.

There's where we put our question mark. Is it going to happen again? Are we going to let it happen again?

No More Drift to Scarcity

Today we have another, a far better choice. We don't have to drift aimlessly down the road to scarcity. We can, if we get together, bring all parts of our national production machinery into an aggressive, well-balanced program of production, employment, and consumption. We can maintain a full-scale output of farm products alongside a full-scale output of industrial goods. A balanced expansion of all parts of our economy would automatically solve most of our supply and demand problems—indeed we might have to scratch around to turn out enough of some foods that are in great demand when workers have good jobs. It is the only system under which everybody can have a fair chance to share in the abundance the United States is capable of producing.

We know from recent experience what this kind of an economy involves. For one thing, it means that city workers have plenty of food dollars to spend, and they spend those dollars right over the farmer's counter. Last year the public spent more than $30 billion for food, nearly one-third of their total consumer outlay. Contrast that with 1933 when consumers had only $11½ billion food dollars—one-fourth of consumer outlay—and after the middleman took his charges there was mighty little left for the farmer.

We haven't known, until recent years, just how hungry the families of this country have been at times, or how much they could eat when there were plenty of food dollars in the pay envelope. We know now that the human stomach is far more elastic than we had supposed; and *it* shrinks and expands as our economy shrinks and expands. Families with low incomes subsist mainly on flour, beans and potatoes. As they get higher on the income scale they eat more eggs and vegetables. Still higher they add dairy products and meats. And only when they get near a high-level income do they eat lots of fruit and fancy vegetables. What stands out in the last few years in consumer demand? Meat and more meat! Milk! Butter! Fruit! There is no question about it, the farmer's greatest opportunity for enlarging his market—and a high-return market, at that—is not abroad, but right at home in the great food needs of a fully-employed, well-fed United States.

Agricultural Production Goals

Agriculture, among all economic groups, has made the first tangible move since the end of the war toward a full-production schedule—in other words for a meat-milk-and-fruit sort of economy. The national farm production goals for next year, recently suggested to States, call for 356 million acres of crops—14½ million more acres than the average pre-war plantings. Farmers are ready, eager, and able to tackle their primary mission of supplying all the food, and all kinds of food, the Nation needs.

However, as we well know, farmers cannot go down the road toward high-level production all alone. They are but a small part of the total economy. If the rest of the country drifts aimlessly into defensive position, if they permit the assembly lines to run in slow motion, if they allow the economy to spiral into inflation, then agriculture will be forced inevitably to revise its plans. We'll have to sound "retreat" instead of "advance."

It comes down to this: If we want the people of this country to go back to eating mostly flour, beans, and potatoes, then all we have to do is to let a low-level economy develop. Then farmers won't have the good markets for good beef, high-grade milk, and high quality fruits and vegetables.

If we want people in this country to have a high-level diet—one with plenty of the protective vitamins, minerals, and proteins—then we've got to develop a full-production, full-employment economy, with lots of food dollars going into paychecks. And those dollars have got to reach down to the large—the shockingly large—proportion of families who even during the war boom haven't been able to earn enough to afford a decent American diet. These low-income families, whether in that bracket from lack of education, lack of opportunity, underemployment, or unemployment, are a drag on the future. They are low-level producers and low-level consumers, and from a practical business viewpoint, without regard to the humanitarian and social aspects of their plight, are mighty poor customers of both farmers and business. The challenge of underconsumption certainly is not going to be less in the immediate years ahead; it is one that we must meet with effective action if we expect to build a strong, productive United States.

The Right Kind of Economic Standards

We know what we ought to do, and what we want to do, in the years ahead. But we can't get anywhere just by planning now. We *can* get started by setting the right kind of economic standards and organizing our combined efforts to reach and surpass them—by intelligent, efficient production, by sound price policies, and generally keeping our eye on the ball.

Farmers can do much to write their own ticket in the kind of farming they develop. If they want to plant only wheat and potatoes, that's the easiest thing in the world to do. Just have widespread unemployment and there would be little doubt we'd be heading for a wheat and potato kind of economy. The results would be hard on the markets for fat steers from the Corn Belt, dairy products from the Lake States, and citrus fruits from California and Florida.

If farmers want people to eat lots of meat, milk, poultry, fruits, and vegetables, they can help write the ticket for that kind of consumption. They can do it by driving for full employment and full production, which will make possible a better balanced, diversified agriculture—one that is easy on the land and produces the kind of foods the country needs. It's the kind of agriculture which, in the long run, will bring farmers the most stability and the most opportunity.

That is why it is vital at this time to do some serious thinking about such economic standards as the parity price formulas, which can affect the pattern of future production. These economic standards are fundamental to equality for agriculture. The farmer should hold firmly to the parity principle, which is his first and to date his best measure of the balance of agriculture in the whole economy. If parity needs to be changed, I believe the farmer and his friends should make the changes.

Parity Formulas Out of Date

But I must frankly admit that our present parity formulas, based on a period of a generation ago, produce some strange results when applied to the high-powered modern agriculture we have in 1945. In brief, price supports at 90% of parity on the present basis, might well cause production of some much-needed crops or products to decline, while over-encouraging some of the less-needed. For example, milk is now about 109% of parity, and we haven't been getting all we need. At 90% of parity many dairy farmers would slaughter their cows for beef to cut their losses. Soybeans are well over the comparable figure for parity, and we've had difficulty in holding the acreage up. What would happen to this crop at 90%? On the other hand, the price support of 90% of present parity on eggs may give us more eggs than consumers will buy.

What agriculture really wants and needs for the long pull, is *parity income*. That is, farmers should have a fair share of the national income, proportionate to the percentage of the national population on farms, adjusted for the relative costs of producing and living on the farm under modern conditions. That could be the over-all goal—and I might add that it is one agriculture has never reached except when producing all-out for war. Then, within this big goal, the parity prices of given commodities should be flexible enough to reflect changing conditions, increased efficiency, and changing needs. They should make a pattern of prices, which multiplied by output, would yield a fair share of the national income. Further, parity prices in any case should be such as would promote the most efficient use of our agricultural resources—and "efficient use" means production of needed crops and livestock, and stimulation of conservation-type farming.

I am not committed to any particular formula. I do believe we should consider various possibilities with extreme care, taking into account the many great changes taking place today.

As farmers study the big questionmark of 1946, there is no doubt as to the direction they want to go. The farmer likes to produce. His main aim in life, his contribution to the welfare of the country, is to harvest bumper crops, turn out well-finished livestock, send floods of milk and trainloads of eggs to market, and otherwise provide a bountiful food supply.

How can we drive for high production and for full employment? Farmers have their part of the answer. They could get together right now with industry and with labor, and talk about national goals and national policies and unified planning toward all-out prosperity.

A Conference on Production Needs

Farmers have their guide books already written. They are willing to be the lead horse in trying to pull our whole economy together on the proper paths. You know how the production goal machinery works. The goals for 1946, crop by crop, and almost acre by acre, throughout the entire farm economy, point the way toward what we should do to achieve full production. We know exactly how many acres of sugar beets, how many acres of early potatoes, how much of other crops and livestock we need to feed this country on a decent basis and take care of our obligations abroad. Farmers could walk into a conference now and indicate to industry exactly what they are ready to produce and, by the same token, about what they would be ready to consume. They know how many tractors, how many trucks, how many milking machines, and how many hay balers they would like to have. They could present concrete, specific examples of what lies ahead, both for industry and agriculture.

Now why wouldn't the same principle work all the way around? Can industry tell how many radios, how many suits of clothing, and how many automobiles this country is ready to produce in 1946? We believe that the farmers of this country are ready to lead the way into a new period of economic cooperation aiming toward full production and full employment on farms and in factories. Agriculture is willing to be the lead horse. It is not, however, willing that the rest of the team shall lag in the traces and expect the farm to carry the whole load. Farmers have tried it before with disastrous results to themselves and to the nation. If we are going to use the great productive capacity of America we must have a well-matched team with agriculture, labor and industry pulling together to achieve the high standard of American living we are so capable of producing.

Federal Corporation Control Bill Signed

A bill designed to strengthen the control of Congress over Government corporations with assets estimated at $20,000,000,000 was signed by President Truman on Dec. 6, the Associated Press reported from Washington, adding that the President took the occasion to make this statement:

"In requiring these corporations to submit their budgetary programs to the Bureau of the Budget and their expenditures to an audit by the general accounting office, the Congress has made a forward step in furthering the business-like management of Government."

Later, expressing "much satisfaction" in signing the measure, "for I have long believed in the principle it embodies," the President said that because of the lateness of the time it would not be possible to include budget programs for the corporations in the budget he submits to Congress in January, but he added, according to the Associated Press:

"I shall, however, submit by next Spring these corporations' budgets for the fiscal year beginning July 1, 1946."

In its advices the Associated Press said: Among other things, the bill requires approval of the Secretary of the Treasury of financial plans of the corporations including the issuance of securities, as well as his approval of the depositories of their funds.

The legislation also prohibits the setting up of additional corporations without congressional authority and the Federal reincorporation of those now operating under state charters.

The Congressional Economy Committee which had been campaigning for ten years for tighter financial control of the corporations is headed by Senator Byrd (D.Va.), one of the bill's sponsors.

From the Associated Press accounts of Dec. 6 we take the following:

Present at the signing were the measure's sponsors, Senators Harry F. Byrd, Democrat, of Virginia, and Hugh Butler, Republican of Nebraska, and Representatives William M. Whittington, Democrat, of Mississippi, and Francis Case, Republican, of South Dakota. The Congressional Economy Committee which Senator Byrd heads had been campaigning for ten years for tighter financial control of the corporations. It was Senator Byrd who estimated their assets at more than $20,000,000,000.

Wood Returns to N. Y. Banking Dept.

John Frank Wood, who has been on leave from the New York State Banking Department serving as 1st Lt. in the U. S. Marine Corps Reserve, has been released from active duty and has resumed his position as Deputy Superintendent and Counsel of the Department, Elliott V. Bell, Superintendent of Banks, said on Dec. 15. William Mertens, Jr., who has been Deputy Superintendent and Counsel in Mr. Wood's absence, has resigned from the Department's staff to accept a partnership in the firm of McLaughlin & Stickles of 36 West 44th Street, New York, N. Y., with which he was associated from 1934 to 1938. Mr. Mertens was formerly Law Secretary to Justice Isidor Wasservogel of the Supreme Court, and was a Deputy Assistant District Attorney of New York County.

Tomorrow's Markets Walter Whyte Says —

By WALTER WHYTE

A minor rally now indicated. Suggest using it to pare long position to the bones. Technical rally is as bad as technical reaction — both spell further unsettlement.

* * *

The end of the old year and the beginning of the new has always been a signal for the rumors to start. Not that the stock market ever needs a change of years, months or days to start one of those "I-hear-they're-gonna" things. But a year-end lends some sort of authenticity to the usual stories that make them hard to resist. There is something about the change of the annual cipher on a calendar that carries with it a kind of magic to set imaginations soaring. And nowhere has it so much space and breadth to move around in as in the stock market. There is little reason to assume that with the coming of 1946 this condition will change. On the contrary, with all the real things awaiting to be done there is plenty grist for the rumor mill to start grinding.

* * *

Most of the stories you will hear will have to do with higher prices. Some may deal with lower prices. But as people seldom pay attention to what they don't want to hear, the bearish stories will find small audiences, if they find any at all. In addition to stock market forecasts you will shortly begin reading splendidly conceived, and well presented prognostications, on the state of future business. All of these will make interesting reading for the long winter evenings. They also will be excellent to start fires with when the piles they make in the corner begin toppling over.

* * *

In order to keep up with the parade of annual forecasters this column should also make like a pundit and say what to expect of the market for 1946. In order to do this it would be best to go back to the last column of 1944 and pick sentences out of text to prove my infallibility. Luckily I am too lazy to do this. And besides I never knew anybody who made money out of pointing to the past and offering it as a guarantee of the future. So, this year-end, I'll leave the annual forecasts to those who enjoy doing it. Me? I'd rather have another drink. Besides I don't know what will happen 12 months away. I have all I can do trying to figure them a week ahead.

* * *

To get back to the immediate past and the immediate future: A few weeks ago I suggested the purchase of about four stocks at specific prices with equally specific stops. Two weeks ago I didn't like the complexion of the market and warned that some kind of storm was ahead. Last week the storm came and the reasons for it were as varied as they were fantastic. But whatever these were they created a situation which did not bode well for the next few weeks. So last week I advised the stocks be sold on any minor advance or be disposed of if the stops were violated.

* * *

After the break, the rally came. But according to my interpretation this rally no longer had the strength to point to still higher prices. So I advised that:

American Steel Founders bought at 41, was to be sold at 42 (currently about 41½) though stop of 39 was still in effect.

Flintkote bought at 36, stop 35, was to be gotten out of about 37. Stock is now about 36¼.

N. Y. Central acquired at 31½, stop 28, was to be sold anywhere across 32. It's now about 34½.

There were two old stocks, Lockheed bought at 32½, stop 39, get out about 42. It's now about 41½. Last one was Western Union bought at 52, stop 50, which was to be sold across 53. (It's now about 53.)

* * *

Before the end of this week you may sell them all. With the exception of Lockheed the profit won't buy you yachts. But frankly I'm as much concerned with preventing losses, or cutting them, as I am in making profits.

* * *

If you get out of the entire position you will have all cash which may not be an ideal condition in today's markets. But unless, and until, I can see higher prices, or at least a maintenance of trend, I see no reason to advise others doing what I would not do myself. If the situation should turn for the better I'll have no hesitation in saying so. Until then let the other man worry.

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.]

Problems of the Justice Department

(Continued from page 3135)

control every possible aspect of the induction process.

In addition to the grant of rule-making power, the Selective Training and Service Act makes provision for the performance of quasi-judicial functions within the administrative framework.

Registrants who are dissatisfied with their classification may ask for a hearing to obtain a deferment, or a different classification. The local Selective Service Board hears and decides such complaints.

Should the registrant be dissatisfied with the decision of the local board, he has recourse to a local board of appeal and, in exceptional circumstances, to the President of the United States.

Such are the manifold administrative remedies which the act provides.

Opposition to Growth of Administrative Process

Many members of the Bar have vigorously opposed the growth of the administrative process.

This opposition, to quote Chief Justice Stone, is "reminiscent of the distrust of equity displayed by the Common Law judges and of their resistance to its expansion." Instead of resisting its growth, the Chief Justice said, the legal profession should seek "to adopt the undoubted advantages of the new agencies as efficient working implements of government, surrounded, at the same time, with every needful guarantee against abuse."

Your association's special committee on administrative law, since its formation in 1933, has steadily sought to have Congress enact regulatory legislation in this field.

And I think it is fair to say that we, in the Government, have also worked hard in the same general field in an effort to improve our procedures.

As defects have been pointed out, we have tried to correct them. We have tried to make of the administrative process an efficient and withal, fair implement for the proper functioning of government.

For the past several months your special committee on administrative law and the Department of Justice have collaborated with the judiciary committees of both houses, at their specific request, in seeking to arrive at a final draft of the McCarran-Summers Bill which would be acceptable to all interests concerned.

I think the hard work which has thus been carried on has been rewarded with success.

The McCarran-Summers Bill

The final draft of the McCarran-Summers Bill, recently reported favorably by the Senate Judiciary Committee, may be described as a restatement of the law of due process for administrative agencies.

It establishes minimum procedural requirements in terms applicable to all administrative agencies of the Federal Government.

Broad general principles are laid down with a sufficient degree of definiteness to protect the public in its dealings with Government.

Recognition has been given to the fact that not every function of Governmental agencies can be regulated uniformly.

Their functions are far too varied for an over-generalized approach.

Accordingly, appropriate exceptions have been made, not of agencies as such, but of certain of their functions.

The paramount public interest is appropriately recognized.

Courts are not to set aside agency findings unless they are found to be "arbitrary, capricious, or otherwise not in accordance with law," or "unsupported by substantial evidence."

Due account is to be taken of the rule of "prejudicial error."

Asks Labor and Management to Cooperate With Government

The time has come for business, in its two great subdivisions of labor and management, to cooperate with Government.

We need the sort of three-horse hitch that we had during the war, to get the wagon moving.

Labor is big business in our national life, as well as management, and must be considered as such.

Business in this day of our development has far more responsibility than just making money for its own members.

It must cooperate to create high levels of employment and production.

We are bickering and squabbling like back-fence cats, where if we get into production the present problems of wages and prices will tend to settle themselves.

How foolish we are to try to settle decimal points when we have not given the forces of production and competition a free play, and before the inexorable laws of supply and demand can be applied.

Let's jump off the merry-go-round and into production.

Contempt-for-Law Attitude

On other phases of current problems that touch the Department of Justice, Attorney General Clark said:

There is abroad in the land a cynical attitude of contempt for law when law interferes with our sense of comfort and privilege. It is this psychological attitude of contempt for a law that is distasteful to us which is a basic factor in the whole story of the ills that hamper the progress of reconversion and keep us up to now from enjoying the fruits of the greatest military victory of all time. Perhaps if you trace this poison of contempt for the law you will find its source, partly at least, in the old prohibition law which made disrespect for all law axiomatic.

Today slight and seemingly innocent and occasional violations have a pay-off more serious than we think. Of course the solid citizen of today does not have to violate the prohibition law. But the habit to violate law and to rationalize the violation, so that it squares with one's conscience, seems to have survived. The solid citizen finds that judicious,—or shall I say clever,—expenditure of money, — here and there, — over and above the standard of customary trade,—brings him special consideration.

In the days of shortages, meats and cigarettes and possibly Nylon stockings, came by this route. Today to avoid delays in personal services, tips are given for apartments, for clothing, for even repairs to automobiles and shoes. Sometimes these "tips" are so large they are called "bonuses." Thus we are setting the stage for a really tremendous drama of conflict which eats right to the heart of the reconversion problem. For as you study the facts what is it that is happening and what is the cumulative effect of the large and petty, but in the aggregate, disastrous violations of which I speak?

Simply this:

That here on the one hand the Government is striving against the biggest, the most vociferous and the most powerful lobbies in all history, to hold prices down, and thereby, to stop the flood-gates of a runaway inflation. I think it is fair to say that the Government's success with this most unwieldy problem has to this hour, while not complete, certainly been phenomenal. Its continued success, so important to our economic life, to our savings, to our future, rests with all of us. The solution rests simply in obedience to the law, in a cooperative, a patriotic eagerness for all of us, to check inflation, and keep our money values intact, by putting a damper on our own greed.

No black market can survive one hour if we refuse to patronize it. They exist because people are willing to pay anything for what they want and can get. Such a money-lure is irresistible to the racketeer.

It all comes under the head of unwillingness to abide by normal and sensible regulation. It comes under the head of contempt for the law. And it may not sound like a serious matter,—as we talk here among ourselves,—that some of us are "smart" enough to obtain scarce articles or services, by extra-legal means. But disrespect for any law on the part of all classes, especially those who can afford special privileges, has its harvest.

It is one of the arresting ironies of our time that the very man who may have sent his son to die overseas, or given of his own blood, by the pint, again and again to the Red Cross, is now imperilling the great victory this helped to win, by undermining the nation's economic strength. Domestically there can be no greater economic catastrophe than a runaway inflation. The problem seems to have been licked. But the office of the Attorney General is a kind of periscope that unfailingly sees violations of the law when they occur in any part of the land. And I can tell you right here and now that the evil of the black market, the evil of sly overpayment on ceiling prices, is no extinct volcano.

The Department of Justice is now fighting the black market in textiles in New York and no quarter will be given, because these violations are destroying the very breath of our economic life. And wherever violations occur there will be a crack-down with all the force and fury of the Federal prosecuting arm. But in the last analysis it is upon the average citizen that the nation must depend for success in this reconversion fight against inflation. For it is upon the respect—the deep respect—of the man in the street for the law of the land that the road to reconversion can be made safe so that a dollar will still be a full dollar when the end of the road is reached.

Growth of Law Violations

Now what is the harvest of which I speak that comes in the wake of disrespect for the law?

Well, I have some figures here, prepared for me by my famous assistant, J. Edgar Hoover, of the Federal Bureau of Investigation, which show the pay-off—the harvest, as it were—of the widespread disrespect for law in America.

Your imaginations may be startled by the figures which follow. But they have been carefully gathered, and then checked and rechecked. None of us—I repeat—not one of us, is free from complicity in them, and none of us is free from contributing to the delinquency of those who have fallen into the toils of the law.

Here is reality—let the blame fall where it may. This is the arithmetic of the nation's crime story. This hits us where we live, in our cities, in our homes. It is an attack on the American family itself. And I can tell you, it has already compromised no negligible portion of the nation's future.

Consider:

In October of this year serious crimes increased 19% over the same month last year.

There were 32% more murders.

There were 38% more auto thefts.

There were 38% more robberies.

There were 11% more larcenies and 26% more burglaries.

And now hold in your memories for an instant these even more appalling facts:

In the classification under 21 years of age—I said *under* 21 years of age—we find 15% of all the murderers; 36% of all the robbers; 51% of all the burglars; 34% of all the thieves; 26% of all the arsonists; 62% of all car thieves and 30% of all rapists. And that is as ugly a word as there is in the English language.

More boys and girls aged 17 are arrested than any other age group.

Of course where girls of tender years are concerned our consciences are especially sensitive.

Well, consider these figures:

The arrests of girls under 18 have increased 198% since 1939.

Arrests of boys under 18 have increased 48% for homicide alone; 70% for rape; 39% for robbery; 72% for assault; 55% for auto thefts; and 101% for drunkenness.

No one of us can honestly plead "not guilty" to some share in this tragic picture told in the hard statistics of the nation's crime.

That's the harvest of disrespect for the law. And no one, I say, who has heard these figures can disdain a responsibility of some sort for them.

We have contributed, all of us, in the older generation, to this delinquency. We have either set a bad example, or have not been interested enough to furnish adequate leadership. We have not taken the trouble and we have not been on the job. American youth has seen its elders take the easiest way. It has seen the "smart" and the "clever" amongst us, get those things which were scarce by violating the law. And youth has followed suit and piled up such a catalogue of crime as makes all previous records for juvenile offenders seem a mere list of childish pranks by comparison.

A powerful and concerted effort on a national scale which has its center in the Department of Justice is now operating to attack this evil. Its plan is a practical one and reaches into every community in the country. Its policy is to save the reputation of American youth by being sympathetic but firm and avoiding the stigma of a court record for a first offender when that is possible and practicable and the intelligent course to follow. In any event the nation is being alerted to the situation and the campaign against juvenile crime is now in full swing. But again, as in the case of the black market, nine-tenths of the effort can be discounted, unless all of us, the average citizen that is, and epecially men like you in positions of leadership, take hold and give us your support.

But the picture is not all black. And the silver lining in this cloud is to be found in the returning veteran in whom we have the test of our stewardship. In my judgment there is not a man or a woman who has served in our armed forces in the late war who potentially is not a better citizen because of the experience. God works in wondrous ways. His miracles to perform, and one of the by-products of the incalculable agony of the last war is that they who fought it for us have come out of it stronger and tougher in their conception of citizenship. However, if they turn out wrong—and they have not done so as yet—it is directly our fault in not being wise enough or interested enough in taking care of them.

Our figures up to now show that the veteran is the most law abiding of all of us—and that is one of the most comforting reflections of our time. I, for one, hope that we do nothing to muddle this now cheerful aspect of the American scene as we have so badly mismanaged some of the other phases of it. For it is not unlikely if we examine into causes we shall find that one of the reasons for juvenile delinquency is that the school teacher and the policeman are the most underpaid of all our public servants. And I know I do not have to pause here to tell you the vital role the school-teacher plays in the moulding of the mind of young America in the classroom, and the almost equally vital role the neighborhood policeman plays in influencing American youth on the street. You do not always win when you prune the budget too close, for the money you save in the class room you spend 20 times over in your penal institutions.

The Anti-Trust Laws

We all know that production will cure many ills. We in Washington know the state of honest uncertainty that sometimes assails the American business man in determining his status under the anti-trust laws. It is my policy *not* to adopt a punitive attitude where no punitive attitude is called for. Rather I invite you to come to the Department of Justice with your anti-trust problems and we shall show you where you stand in danger of making the wrong turning. The Department of Justice is not going to solve your legal problems for you, because that's your lawyer's job, but where it can it will show him the red or the green light with respect to your business operations.

The purpose, of course, is to lubricate the machinery of post-war business and put the process of reconversion in high gear. The purpose is to give the free enterprise every break. It is in this spirit that the Department of Justice, in enforcing the Sherman law against what it believes to be monopolies, is seeking to establish competition in the aluminum industry, — and, I believe, with eventual success. It is an interesting commentary that in spite of Alcoa's claims to remarkable manufacturing efficiency there has been no substantial reduction in the price of aluminum since 1911. And we hold that Alcoa had a monopoly up to the hour that the Government, imperilled by the war, stepped in to expand production.

With Government-injected competition the price of aluminum was reduced. It is this competition which we are trying to establish in aluminum for good. The result, we believe will give the Nation lower prices for aluminum products, wider distribution, and a healthier industry.

In the antitrust suit against the Pullman Company we have shown the restrictive influence of monopoly, for it is one of our contentions that the Pullman Company has critically failed to meet sleeping car needs with anything like adequate replacements and new construction. No heavy-weight standard Pullman cars have been built since Feb. 2, 1931. The small number of light-weight cars that were built in that period failed even to begin to meet the needs of the national sleeping car problem. And along similar lines the paralyzing hand of monopoly and the tendency to monopoly has helped to give us a situation on our railroads so that we actually had more freight cars in World War I rather than in World War II.

I'll let the statistics tell their own story:

On Dec. 31, 1916, this country had 2,329,475 freight cars.

On Dec. 31, 1944, this country had 1,797,012 freight cars.

This means that while we were confronted with a global war we

Says Deflation Fear Far-Fetched

In the December issue of the "Monthly Bank Letter" of the National City Bank, the publication takes issue with the argument of labor leaders and President Truman that general use in the wage rate level is essential to avoid a deflation and a decline in general purchasing power and maintains that the fear of a post-war deflationary trend and inadequate purchasing power "is far fetched." In a discussion of the topic, the National City circular states:

In the discussion of union demands for 30% wage increases to compensate for return to the 40-hour week, with consequent elimination of overtime pay at premium rates, a central point is the claim that unless labor's take-home pay is maintained at the wartime peak, despite lessened hours of work, labor will suffer a decline in purchasing power which will have a deflationary effect upon the economy at large and prevent the expansion of peacetime employment and production so ardently desired by everyone.

Not only has this argument been repeated again and again by labor leaders and labor economists, but it has received strong support in highest government quarters. Thus in his wage-price speech on Oct. 30, President Truman referred to an estimated drop, unless checked, of over $20 billion in annual wage and salary payments in private industry, which he said "is not going to do anybody any good—labor, business, agriculture, or the general public." "It is," he declared, "a sure road to wide unemployment." Conceding that there will have to be a drop in take-home pay, the nation, he said, cannot afford to have that drop too drastic. "Wage increases," he continued, "are therefore imperative — to cushion the shock to our workers, to sustain adequate purchasing power and to raise the national income."

In similar vein was the statement by Reconversion Director John W. Snyder in a public address in October citing that "where the cut in the work week has been from 48 to 40 hours the reduction in take-home pay is 23%," and concluding that "this wide reduction of pay can mean only one thing, that the workers would have to reduce their standard of living."

This theory that wage increases are needed now to "sustain purchasing power" and "avert deflation" ought to be examined critically. Because of the importance of the wage factor in business costs we cannot afford to risk ill-considered judgments that may wreck the whole recovery program. Is it true that we face a problem of too little purchasing power in the hands of the public? And if true, would the proposed increase in wages be an effective method of sustaining general purchasing power and stimulating production and employment?

Is There a Shortage of Purchasing Power?

In considering this question, it is in order to point out, first, that government officials are talking on both sides of the fence. While the President is stressing the deflationary effect of an estimated shrinkage of $20 billion in annual wage and salary income and calling for wage increases as an offset, the Treasury is launched upon the Victory Loan drive, with emphasis upon individual subscriptions to mop up "excess purchasing power" and, as Secretary Vinson said, give inflation "the knockout punch." If our trouble is to be too little purchasing power and deflation why are we trying to sell bonds to the people who could otherwise keep their money for spending? Why are we endeavoring to keep the bonds out of the banks whose purchases would expand credit and purchasing power and thus exert a counter-deflationary influence?

And why, if our problem is deflation, did the President, in his Sept. 6 message to Congress, warn us as he did (and we think wisely) of the inflationary outburst that followed World War I?

"We must (he said) keep in mind the experience of the period immediately after the First World War. After a lull of a few months following the Armistice of 1918, prices turned upward, scrambling for inventory started, and prices soon got completely out of hand. We found ourselves in one of the worst inflations in our history, culminating in the crash of 1920."

And why, again, did Mr. Snyder, who has been quoted above as forecasting purchasing power deficiencies and deflation if labor take-home pay is permitted to decline, say to Congress in urging continuance of price control legislation beyond June 30 next that "as long as there are more dollars than goods in circulation, the Government must hold the line again inflation"? Why did Chester Bowles, the OPA director, testifying on the same bill, assert that such continuing price control was necessary because "there's more hot money around than most of us dreamed there would be"?

With such conflicting statements from government officials on the matter of available buying power, it is small wonder if the public becomes confused.

In our view, the answer to the question, is there any impending shortage of buying power? is—no, for three principal reasons:

1. The Federal Government is still spending far in excess of income, and is expected to show a deficit of some $30 billion this fiscal year. Despite the exclusion of the commercial banks from subscription to the war loans for their own account (except in limited amounts for saving deposits), a very substantial part of the deficit is being financed indirectly by expansion of commercial bank credit. This means that much more freshly created dollars of purchasing power turned loose in the markets, and is definitely inflationary.

2. People will undoubtedly spend a larger proportion of their currently received income than they did during the war. While the war was on people saved, both because of patriotic incentives and because many of the things they wanted to buy were not available. It was, indeed, thanks to this rise in the normal rate of saving that the "inflationary gap" between the total of disposable incomes and the supply of goods and services was bridged and the war financed without a terrific inflation of prices. Now, however, by the same token, there is room for a considerable decrease in the sum total of income payments to individuals without corresponding decrease in individual expenditures, and with the possibility even that such expenditures will increase. It would mean cutting down on the abnormal wartime rate of savings and devoting a more normal proportion of current income to spending.

3. People, in addition to spending more and saving less of their *current* income, may also dig into their *past* savings which have been accumulating by leaps and bounds during the war and now reach the enormous total of $140 billion of liquid resources, made up of readily marketable (or cashable) government bonds and other securities, bank deposits, and currency. To what extent people will be willing to invade this huge pile of past savings is a matter for conjecture, but certainly the existence of this great hoard of reserves ought to be taken into account in talking about future purchasing power and figuring the possibilities for inflation or deflation.

In addition to the foregoing three points there is still another and more fundamental reason for not taking a calamitous view of some fall in money income payments. It should be borne in mind that the reduction that is talked of would be from a highly inflated wartime level — inflated not only by overtime wage payments but also by employment of more than the normal labor force. Such conditions afford no sound criterion for more normal conditions. The thing that will count from now on is not the relation of money incomes to the inflated war levels, but rather the relation of money incomes to costs, prices, and profits. To the extent that we achieve a relationship between these various elements that promotes production and distribution, the question of purchasing power takes care of itself.

Fears of Deflation Far-Fetched

Taking all these factors together, it is difficult to see solid basis for fears of inadequate purchasing power and deflation. Rather the danger seems just the other way around—that we shall have more purchasing power seeking satisfaction in goods and services than there are goods and services available. There is, and will continue to be for some time, a shortage of the kind of things people will be wanting to buy. Meanwhile, the preoccupation appears to be all in the direction of piling up the financial claims against production rather than getting production itself going. There is the scramble for higher wages, the scramble for foreign loans, the pressure for larger unemployment relief payments, subsidies, and deficit spending, all on the theory that they add to purchasing power.

At the same time, many people seem to think they ought to have more and more time for leisure. They want a shorter work-week (of course at the same take-home wages as before). Production is hampered by strikes, slowdowns, absenteeism, and general carelessness about doing a good day's work. No one worries about losing a job, for there is always another to be had, most people have some financial resources tucked away, and in the background there are usually liberal unemployment relief allowances to fall back on. Industries are crying for labor, while workers "rest up" and go fishing, or look around choosily for jobs that will pay the war wages to which they have been accustomed.

The truth is that there can be no real gain in purchasing power or living standards, no matter how much money we give people, until we can get production moving ahead. Purchasing power exists in a meaningful sense only when there is something to purchase. Under any other condition, additions to "purchasing power" merely set the stage for inflation. The people of Europe are getting a fearful lesson in this, but in our more fortunate position the realization does not seem to sink in.

Actually, signs of inflation are present on every hand. We see them in the volume of retail trade moving. We see them in the amount of travel, in the congestion of the railroads and of the hotels. We see them in the difficulty in holding price ceilings, and in the readiness of people to resort to costly subterfuges to get the goods they want when they want them. We see the signs of inflation in real estate. We see them in the stock market, where prices have risen to the highest levels in eight years. And all this, be it noted, is without use of credit. People have the money and are paying down cash on the barrel. One needs but look around and see what is going on to wonder why people are worrying so much about deflation and so little about inflation.

Wages and Purchasing Power

But assuming for the sake of discussion that our problem is inadequate purchasing power, would anything be gained by jacking up wages all around? This is a very old argument, which keeps cropping up both because the idea that boosting wages will, ipso facto, create more purchasing power is superficially plausible. and because the groups advocating higher wages — usually for themselves—are easily persuaded that the increases are for the general good.

The fact is, of course, that an increase in wages may or may not mean more purchasing power, depending on the circumstances. An increase that comes about in reflection of increased productivity, without raising costs and prices, is one thing. But an increase that is forced or granted without regard to productivity is quite another matter.

Certainly wage increases do not mean more purchasing power if they squeeze profit margins to the point where business cannot go ahead and workers are thrown out of jobs. And it is usually the smaller concerns that feel the pinch most since these are generally operating on slenderer margins of resources and are less able to make adjustments. Wage increases may reduce employment to the extent that labor-saving devices, etc., are introduced.

Certainly wage increases do not mean more purchasing power if they force prices to a level where buyers strike and production and trade are stalled. Of what use, for example, to raise wages in the building trades to increase purchasing power if the result is to halt building?

Commenting recently in a radio broadcast on the obstructive effects of spiraling wages, costs, and prices on the New York City program for construction of 13 low-cost public housing projects, Mayor F. H. La Guardia revealed the city's inability to obtain bids on the first of these projects on a basis that would permit them to go ahead. Stating that the lowest bid would have run the final cost of the first project $810,000 above the New York City Housing Authority's estimate of $3,860,000, extension of such increases on the same scale to the other projects

(Continued on page 3167)

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had 532,463 less freight cars than we had in the war that preceded it more than a quarter century before.

This arrested production and retrogression strangles the national defense in time of emergency.

Our war for reconversion is along all these fronts. It is in the American home where the juvenile delinquency problem is centered, and we are fighting it there. It is in the strangle-hold that the black market is trying to get on legitimate business and we are fighting it there. It is in the tendency to monopoly and we are striking at that evil through the enforcement of the laws against it enacted by the Congress. Our country has the machinery of the law and it has the means of enforcement, and our people, I believe, have the will to see this post war period through as they saw the war itself through to victory!

If I succeed in my own estimation as Attorney General it will be because I have fulfilled my role as the people's lawyer which in my judgment is the highest praise that can come to me. That means that the Department of Justice is cooperative, with a set of affirmative and helpful principles, eager to assist business enterprise in America channel itself through legitimate paths to prosperity. That means that the acts of Congress will be enforced for the protection of the public. It means that to the limit of my capacity as a cabinet officer this administration will bring the full weight of Government authority to bear on the side of a lawfully prosperous nation.

Calendar of New Security Flottaions

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. 29

SOUTHERN UNION GAS CO. on Dec. 10 filed a registration statement for 27,000 shares of 4½% cumulative preferred stock, par $100.

Details—See issue of Dec. 20.

Offering—The price to the public will be filed by amendment.

Underwriters—E. H. Rollins & Sons, Inc., heads the underwriting group.

BERYLACA YELLOWKNIFE GOLD MINES, LTD., on Dec. 10 filed a registration statement for 5,720 shares common stock (par $5).

Details—See issue of Dec. 20.

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.

Underwriters—None named.

MONDAY, DEC. 31

CONSOLIDATED BISCUIT CO. on Dec. 12 filed a registration statement for 80,750 shares of common stock, par $1.

Details—See issue of Dec. 20.

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.

Underwriters—None mentioned.

AUTOMATIC CANTEEN CO. OF AMERICA on Dec. 12 filed a registration statement for 129,966 shares of common stock, par $5.

Details—See issue of Dec. 20.

Offering—Price to public will be filed by amendment.

Underwriters—Hornblower & Weeks and Central Republic Corp., Inc.

BUFFALO NIAGARA ELECTRIC CORP. on Dec. 12 filed a registration statement for 350,000 shares of preferred stock ($100 par). The dividend rate will be filed by amendment.

Details—See issue of Dec. 20.

Offering—The new stock will be offered for sale at competitive bidding and the offering price filed by amendment.

Underwriters—The names will be filed by amendment.

STERLING ENGINE CO. on Dec. 12 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).

Details—See issue of Dec. 20.

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.

Underwriters—Burr & Co., Inc., 57 William Street, New York 5, N. Y.

TUESDAY, JAN 1

DALLAS RAILWAY & TERMINAL CO. on Dec. 13 filed a registration statement for 162,500 shares of common stock (par $20).

Details—See issue of Dec. 20.

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.

Underwriters—To be sold at competitive bidding.

WEDNESDAY, JAN. 2

UNION ASBESTO & RUBBER CO. on Dec. 14 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.

Details—See issue of Dec. 20.

Offering—The price to the public will be filed by amendment.

Underwriters—Kuhn, Loeb & Co. heads the underwriting group.

CARRIER CORP. on Dec. 14 filed a registration statement for 120,000 shares of cumulative preferred stock. The dividend rate will be filed by amendment.

Details—See issue of Dec. 20.

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.

Underwriters—Harriman Ripley & Co., Inc. and Hemphill, Noyes & Co. head the underwriting group.

ATLANTIC REFINING CO. on Dec. 14 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.

Details—See issue of Dec. 20.

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.

Underwriters—Smith, Barney & Co. head the underwriting group.

BUFFALO BOLT CO. on Dec. 14 filed a registration statement for 58,386 shares of common stock, par $1.

Details—See issue of Dec. 20.

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.

Underwriters—Van Alstyne, Noel & Co. heads the underwriting group.

MONDAY, JAN. 7

THE VISKING CORP. has filed a registration statement for 150,000 shares of class A common stock, $5 par. The shares are issued and are being sold by certain stockholders.

Address—6733 West 65th Street, Chicago 38, Illinois.

Business—Manufactures extruded cellulose sausage casings, of which it is the largest producer.

Offering—The shares are being purchased from a group of stockholders. The largest block, 54,000 shares is being purchased from E. I. du Pont de Nemours & Co. Price to be received by the selling group and price to the public will be filed by amendment. Company's capitalization consists of 540,000 shares of class A, $5 par common and 54,000 shares of class B common stock, par $5.

Underwriters—A. G. Becker & Co., Inc. and Lehman Brothers.

Registration statement No. 2-6052 Form S-2 (12-19-45).

TUESDAY, JAN. 8

BROWN SHOE CO. INC., has filed a registration statement for 40,000 shares of cumulative preferred stock (no par). The dividend rate will be filed by amendment.

Address—1600 Washington Avenue, St. Louis, Mo.

Business—Women's, men's and children's shoes.

Offering—The price to the public will be filed by amendment.

Proceeds—The company will apply $3,000,000 of the net proceeds to the prepayment of its term bank loan evidenced by a 2¼% promissory note, maturing on April 1, 1955, in the amount of $3,000,000. The balance of the net proceeds will be added to the general funds of the company. In view of anticipated demands for its products and the outlook for its business generally, the company intends to apply portions of its general funds to the opening of factories, including two which now are under construction.

Underwriters—Goldman, Sachs & Co., and Lehman Brothers head the underwriting group.

Registration Statement No. 2-6053. Form A-2. (12-20-45).

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.

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.

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.

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.

EUREKA CORP., LTD., on Sept. 28 filed a registration statement for 2,595,000 shares of common, par $1.

Details—See issue of Oct. 4.

Offering—Toronto Mines Finance, Ltd., has entered into a firm commitment to purchase 480,000 shares at $1.23 per share, and has an option on 1,920,000 shares at the same price. The offering is to be made among the shareholders of Ventures, Ltd., Frobisher, Ltd., and La Luz Mines, Ltd. (Canadian companies) at $1.25 per share, and to Eureka stockholders. Price is expressed in terms of Canadian money. Shares not so acquired will be offered generally to the public. Should the option not be exercised by Toronto Mines Finance, Ltd., the company itself will make the offering, as aforesaid. The remaining 195,000 shares are to be purchased by the company geologist, officials and employees.

GENERAL 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.

GRAHAM-NEWMAN CORP. on Dec. 7 filed a registration statement for 14,999 shares of capital stock, minimum stated value of $50 per share.

Details—See issue of Dec. 20.

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.

Underwriters—None named.

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.

MANUFACTURERS CREDIT CORP. on Nov. 13 filed a registration statement for 40,000 shares 6% preferred stock, $25 par, and 40,000 shares of common stock, $1 par, and 40,000 common stock purchase warrants and 40,000 shares of common reserved for issuance upon exercise of warrants.

Details—See issue of Nov. 22.

Offering—The offering price to the public will be $30 per unit, a unit consisting of one share of preferred and one share of common stock.

Underwriters—Walter F. Tellier, doing business under the firm name of Tellier & Co., New York, is named principal underwriter.

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.

NATIONAL LINEN SERVICE CORP. on Nov. 16 filed a registration statement for 30,000 shares of 4½% cumulative convertible preferred stock par $100 per share.

Details—See issue of Nov. 22.

Offering—The company is offering to holders of its $5 cumulative preferred stock and $7 cumulative preferred the opportunity to exchange their shares for the new shares on a share for share basis plus a cash payment. The price to the public is $103 per share.

Underwriters—Clement A. Evans & Co., Inc., Atlanta, Ga. heads the group.

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.

NICKEL CADMIUM BATTERY CORP. on Nov. 23 filed a registration statement for 35,000 shares of capital stock, par $10.

Details—See issue of Nov. 29.

Offering—The price to the public is $10 per share.

Underwriters—None. The securities are being offered by the corporation.

O'SULLIVAN RUBBER CORP. on Nov. 26 filed a registration statement for 63,000 shares of common without par value, 6,000 shares of 5% cumulative preferred, par $100 and $500,000 4% first mortgage bonds. Of the common stock registered, 58,000 shares are issued and outstanding and are being sold by Victor Products Corp.

Details—See issue of Nov. 29.

Offering—The price to the public will be filed by amendment. The underwriter will purchase the securities at the following prices: bonds at 95%, preferred stock at $92 per share and common stock at $4.50 per share.

Underwriters—The principal underwriter is C. F. Cassell & Co., Charlottesville, Va. The underwriter has agreed to purchase from the company 5,000 shares of common 6,000 shares of preferred and $500,000 of 4% first mortgage bonds, and has also entered into an agreement to purchase 58,000 shares of common from Victor Products Corp.

THE PANTASOTE CO. on Nov. 9 filed a registration statement for 100,000 shares of common stock, par $1. The shares are issued and outstanding and are being sold by certain stockholders.

Details—See issue of Nov. 22.

Offering—The price to the public is $5.75 per share.

Underwriters—Van Alstyne, Noel & Co. heads the underwriting group.

PARKS AIRCRAFT SALES & SERVICE, INC., on Nov. 30 filed a registration statement for 457,020 shares of common stock, par $1.

Details—See issue of Dec. 6.

Offering—The stock will be offered first to stockholders (except Parks Air College, Inc.), on a basis of three shares for each one then owned, and to the stockholders of Parks Air College, Inc., on the basis of 1.75 shares for each share of Parks Air College then owned. The offering price is $3.27 a share.

Underwriters — No underwriting — The stock is being offered solely by the company.

RED BANK OIL CO. on May 31 filed a registration statement for 990,793 shares of common stock (par $1).

Details—See issue of June 7.

Offering—Of the shares registered Bennett & Co., Inc., parent of Red Bank, will receive 209,970 shares in return for a like number of shares loaned to the registrant in connection with the acquisition of 54% of the outstanding stock of Seatex Oil Co., Inc. In addition, 150,000 of the shares registered will be issued to stockholders of Federal Steel Products Corp. in exchange for all of Federal's stock. Bennett & Co., Inc., is the sole underwriter as to an additional 100,000 shares of common registered. The balance of 530,823 shares of stock being registered have heretofore been issued to Bennett & Co., Inc., in exchange for various obligations of the registrant.

Underwriters — Principal underwriter Bennett & Co., Inc., Dallas, Texas.

Stop Order Hearings—Stop order hearings to determine whether the effectiveness of registration statement should be suspended now pending before the SEC.

ROBERTS TOWING COMPANY on July 11 filed a registration statement for $500,000 serial 4½% equipment trust certificates.

Details—See issue of July 19.

Offering—The price to the public of the different series ranges from 99 to 102. The average price to the public is given as 100.47.

Underwriters—S. K. Cunningham, Inc., Pittsburgh, and John Nordman Co., St. Louis, Mo.

SEATTLE GAS CO. on Nov. 28 filed a registration statement for $4,800,000 first mortgage bonds due Jan. 1, 1976. The interest rate will be filed by amendment.

Details—See issue of Dec. 6.

Offering—The price to the public will be filed by amendment.

Underwriters—The bonds will be offered for sale at competitive bidding and the names of the underwriters filed by amendment.

STATE STREET INVESTMENT CORP. on Nov. 26 filed a registration statement for 123,411 shares (additional) of no par common stock, and stock purchase warrants entitling the bearers to subscribe in the aggregate to said 123,411 shares of common stock, to be given to issuer's stockholders of record at the close of business on Dec. 15, 1945. In addition 34,113 shares already issued on Aug. 22, 1944, to be registered to permit the re-sale thereof when and as reacquired by issuer.

Details—See issue of Nov. 29.

Offering — Initial offering of 123,411 shares expected to be made on or about Dec. 24, 1945, through the issuance of stock purchase warrants to stockholders.

Underwriters—None.

UNITED STATES AIR CONDITIONING CORP. on Nov. 21 filed a registration statement for 500,000 shares of common stock, par 10 cents, of which 150,000 shares are to be offered through an underwriter.

Details—See issue of Nov. 29.

Offering—The price to the public is $4.50 per share. Application has been made by the corporation to list on the New York Curb Exchange 350,000 shares of its common stock which is presently issued and outstanding and application has been made to list on the Curb 150,000 additional shares to be sold under this prospectus.

Underwriter — George F. Breen, New York, is named underwriter.

VALLEY OSAGE OIL CO. on Aug. 13 filed a registration statement for 113,468 shares of class A stock (no par).

Details—See issue of Aug. 16.

Offering—The price to the public is $12.50 per share.

Underwriters—The underwriter is Gilcrease Oil Co. of Texas, 165 Broadway, New York, N. Y.

VIRGINIA RED LAKE MINES, LTD. on June 24 filed a registration statement for 220,000 shares of capital stock, par $1 (Canadian).

Details—See issue of Aug. 2.

Offering—The offering price to the public is 60½ cents Canadian or 55 cents United States funds.

Underwriters—Willis E. Burnside & Co., New York.

WELCH GRAPE JUICE CO. on Nov. 23 filed a registration statement for 20,392.8 shares of second preferred stock, par $100.

Details—See issue of Nov. 29.

Offering—The 20,392.8 shares of second preferred are being offered to the holders of common stock, at the rate of two shares of second preferred for each 15 shares of common held, at $100 per share. Navajo Corporation has agreed to purchase all of the unsubscribed shares at $100 without any discount or commission. Navajo states it will purchase the unsubscribed shares for investment, and not for distribution to the public.

Underwriters—None mentioned.

WESTERN AIR LINES, INC., on Oct. 29 filed a registration statement for 197,875 shares of common stock, par $1.

Offering—Company will offer warrants

Truman's Proposal No Remedy

(Continued from page 3136)

from the *Statistical Abstract of the U. S. for 1943*, pp. 455-457:

	Averages 1921-25	1936-40
Per Cent of Stock-Paying Dividends	62.0	35.8
Per Cent Dividends Paid on All Stock Outstanding	4.39	2.02
Return on Total Investment in R.R.'s (per cent)	4.12	2.30
Miles of Railway under Receivership or Trusteeship	13,687	73,963

Staggering Losses Resulted

The above figures show that what happened to the railway investors during the 15-year interim was that income per-dollar-invested was reduced almost half. At the close of the period, companies owning nearly a third of the entire railway mileage of the country were bankrupt.

These declines in earnings were, of course, reflected in the values of the railway securities. In the 1921-25 period, the average price per share of the 25 railroad stocks included in the New York Times Index was $65.08. In the period 1946-40, this average had dropped to $28.35, a decline of 56%.[1] In the first of the periods just mentioned the total par value of railway stock outstanding averaged slightly more than $9.13 billion. The indications are that the average price of the stocks in the New York Times list was not higher than the average market value of all shares outstanding. If this is true, the total market value of railway stocks outstanding in 1921-35 was probably around $6 billion and the shrinkage in this value between then and the 1936-40 period was at least $3 billion.[2]

Moreover, between the beginning of 1921 and the end of 1940 railway stocks and bonds having a par value of $7¾ billion were placed in the hands of receivers or trustees.[3]

Employees Did Not Benefit

While the average citizen might doubt that the Railway Labor Act had helped the railway investors, he would take it for granted that it had greatly benefited the employees. As a matter of fact, in this period of declining prices, hourly earnings of employees rose enough to lift real wages 42%.

	Averages 1921-25	1936-40
Average pay per hour[4]	$0.629	$0.730
"Cost of living" index[5] (1935-9 base)	123.4	100.4
Real pay per hour in in 1935-39 dollars	$0.509	$0.725
Real pay per hour (index)	100.	142.

This was, of course, fine for the man who kept his job, but higher pay per hour meant higher transportation expenses, especially when higher rates of pay were accompanied by "feather-bedding" practices instead of by increased efficiency on the part of the average worker. Higher operating expenses greatly hampered the railways in meeting the growing competition of ships, buses, trucks, pipe lines, and electric power lines. Therefore, despite marked improvements in tracks and equipment, traffic was lost to competitors, and net revenues shrunk. Fewer men were needed, hence the excess workers were laid off and had either to find work in other industries or become paupers. The total pay roll declined sharply. This meant that the usefulness of the railroads as a source of income for American workingmen was greatly diminished. The facts are shown by the following figures:[6]

	Averages 1921-25	1936-40
Revenue from Railway Operations (millions)	$6,004	$4,071
Number of Employees (thousands)	1,772	1,047
Total Pay of Employees (millions) (Cl. 1 Rds.)	$2,820	$1,882

Unemployment Will Spread

In the light of our experience with the Railway Labor Act, what can be expected in the automobile industry if President Truman appoints a fact-finding Mediation Board? The CIO demands a 30% wage rate increase. The Board will meet, listen to the evidence, and grant a 15% increase. The OPA will allow the manufacturers to advance prices enough to cover the higher wage costs. Since the income of the buying public will not stretch, higher prices for cars will mean fewer sales, smaller production, and less employment in automobile factories.

A few months hence, the CIO will again demand a 30% wage rate increase. The Mediation Board will allow a 15% increase. Again sales will fall off, and workers will lose their jobs.

More Inflation to Follow

What has been happening in the motor car field will, of course, be paralleled by events in other great industries. Unemployment will become the problem of the day. CIO will declare that free enterprise has failed and will demand that the Government take over the major industries.

In the meantime, the Government, in an endeavor to furnish employment, will be inflating the currency—thereby robbing the thrifty of their investments and paving the way for disaster.

No doubt, asking for legislation authorizing the appointment of fact-finding Mediation Boards, President Truman has been actuated by a most commendable desire to find a practical way to settle labor disputes. The crucial fact which he overlooks is that no Mediation Board, regardless of the ability, patriotism, and honesty of the men composing it, will be able to arrive at that particular wage rate which will balance the supply of labor and the demand for it. The balancing done by competition is the only way to arrive at such a wage rate and secure full employment while retaining individual freedom. The job is beyond the capacity of mediators.

Apply the Real Remedy

Therefore, the President would act more wisely if he would ask Congress to repeal the Wagner Act, and make labor subject to the anti-monopoly provisions of the Sherman Anti-Trust Law, thus restoring free competition in the labor market. If he secured such legislation, and then used all the powers of Government to prevent monopoly and to protect freedom of contract, the right to work where and when one pleased, and the right of owners to have their property protected from destruction or molestation, he would find it entirely unnecessary for Government officials to worry about wage rates. Competition would assure fair wages and far fuller employment than can ever be secured either under the rule of the CIO or AFL or under Governmental fixation of wage rates and working conditions.

1 Statistical Abstract for 1943, page 373.
2 Ibid. pages 455-56.
3 Ibid. pages 455-56.
4 Statistical Abstract of the U.S. for 1943, p. 454.
5 Ibid. pp. 404-5.
6 Statistical Abstract of the U.S. for 1943, pp. 454 and 462.

to shareholders for the purchase of 102,488½ shares at $20 a share. They will be permitted to buy one share for each four shares held. An additional 19,077 shares will be offered through options to employees and others at $20 a share.

An additional 76,310 shares will be offered to employees and officers at $16.50 per share.

Underwriters—It is not contemplated that the issue will be underwritten.

Offering Postponed—The company has postponed the offering.

Says Deflation Fear Is Far-Fetched

(Continued from page 3165)

planned in the Authority's $116,390,000 schedule would mean, the Mayor said, that "the whole program would be shattered to smithereens."

The question is, how many other worthwhile projects throughout the country may be "shattered to smithereens" if inflationary forces are allowed to get out of hand? Clearly, occurrences of this kind are not going to add anything to purchasing power, nor (to repeat the President's phrase) are they "going to do anybody any good—labor, business, agriculture, or the general public."

Lower Prices a Source of Purchasing Power

Finally, in all the talk about purchasing power, it should be remembered that purchasing power can be increased by lowering prices as well as by raising wages. Moreover, whereas the purchasing power advantages that flow from wage increases are limited to the groups affected, those which flow from price reductions are spread over the entire population wherever there is a buyer of the product.

What happened in the automobile industry in the '20s is the classic example. There the benefits of rapidly improving technology were shared both with labor and with the public. Though the industry was a leader in paying high wages to its workers, nevertheless a substantial part of the economies resulting from manufacturing progress was passed on to the motor vehicle buyer in the shape of a cheaper, better car.

Everyone recalls what happened to automobile prices and the quality of the product, and what it did for the country. It put America literally on wheels, and wrought tremendous changes in our way of living. And no group benefited more than labor. One has but to glance into the motor car parking lot of any great industrial establishment to see the evidence.

Never, however, could all this have come about under a labor program that recognizes increased purchasing power only in higher wages and would monopolize in wage advances the gains resulting from technical advance. Had the automobile industry been forced to operate on this principle over the past 50 years, we would still be driving around in horse and buggies.

Adjournment of First Session of 79th Congress; Legislation Enacted—Measures Pending

(Continued from page 3135)

and past year allotments that had not been used.

Extended the draft law until next May 15.

Raised the national debt limit to $300 billion.

Extended price controls until the middle of 1946.

Rewrote the G. I. Bill of Rights.

Cut income taxes and ordered repeal of the excess profits tax Jan. 1, 1946.

Approved a governmental reorganization plan in response to a request from President Truman.

Simplified administration of surplus property disposal in accord with another Presidential entreaty.

Compromised with the President on return of employment service offices to the states by ordering their return around next April 1 instead of retaining them under Federal control until middle of 1947 as Truman wanted.

Voted its 435 House members annual expense allowances of $2,500 each, which the Senate declined to approve for itself.

Pending Legislation

But Congress put off until next year action on:

The multi-billion British loan proposal.

Pensions and pay raises for Congressmen.

Universal military training.

Merger of the armed services—which Mr. Truman asked in his 10th message yesterday.

So-called "full employment" legislation.

Creation of fact-finding machinery to handle major labor disputes.

Liberalization of unemployment compensation rates.

Establishment of a permanent Fair Employment Practice Committee.

Increases in current statutory minimum wages.

Disposal of war-created merchant shipping surpluses, and legislation setting up domestic control over atomic energy.

Many of those matters were the subjects of specific recommendations in one or more of Mr. Truman's 10 messages.

The lawmakers rejected the President's bid for new labor legislation by Christmas; months earlier they refused to enact a work-or-fight law despite White House insistence, and they didn't get out of committees a Truman request for repeal of the Johnson act restricting loans to foreign nations in default of their debts.

The House passed but the Senate shelved a proposal that both branches of Congress, rather than two-thirds of the Senate only, ratify treaties.

The same fate befell a suggestion of Mr. Truman that the Speaker of the House rather than the Secretary of State become President should both the President and Vice-President die.

The House refused to go along with the Senate and with the President on unemployment compensation law revisions, and it toned down sharply the so-called full-employment bill the Senate passed. A final verdict was left until next year, when conferees will write a compromise version.

On Paine, Webber Staff

MINNEAPOLIS, MINN.—**David J. Hanscom** and **John F. Steele** have rejoined **Paine, Webber, Jackson & Curtis**, Rand Tower, after returning from service in the armed forces.

Market Outlook

(Continued from page 3131)

To visualize the situation we're heading into all one has to do is to read the papers. Already stories of alleged torture and murder in the business world come from far and near and from all different kinds of firms turning out everything from paint brushes to popsicles, to the effect that price ceilings are ruining trade. One victim this past week, for instance, testified that price ceilings brought production in his plant down to 51% of capacity. The testimony will become more rather than less vociferous. All of which merely tends to emphasize the inflationary aspects of the present situation.

Debt and Money

Basic factor in the picture is the rise in debt which, in turn, accounts for the vast available money supply.

Take, for instance, this country's public and private debt which now stands at nearly $400 billions. This is double that of 1941. As shocking as this may seem it hardly presents the true picture since total private debt today, standing at $141 billions, is practically unchanged from $136 billions in 1941. Actually, were it not for an increase in the short term private debt to finance swollen war inventories, private debt would be lower than before the war. The more significant fact, however, is that public debt, which was $28 billions in 1929 and $64 billions in 1941, stands at present around $252 billions. This creation of huge Government debt has resulted in the creation of a huge supply of money.

Large scale debt retirement is not in sight. Today we are faced with financing the world. The $3¾ billions credit to Britain is merely the beginning. Next in line will be Russia, reportedly asking for $6 billions, Italy $1½ billions, France and Netherlands $1 billion each, to say nothing of huge credits slated for China. Even if this money isn't spent directly in this country by the direct beneficiaries, a large part of it will eventually be spent here by the indirect recipients. These large foreign loans will require a special approval by Congress but there are other agencies with ready dollars to spend, such as the Export-Import Bank with $3½ billions, the monetary fund (Bretton Woods) with about $8 billions.

Clearly, U. S. exports seem bound to achieve a record peacetime volume once reconversion and labor bottlenecks are eliminated. Surely the implication of the debt situation and the expanded money supply with the prospect of a further substantial increase makes the potential deflationary aspects of the present situation seem quite unrealistic.

Supply and Demand

Look, for instance, at the following figures if you want to see one reason why stock prices have been moving up rather consistently:

ANNUAL AVERAGE
(Millions of Dollars)

October	Millions N.Y.S.E. Listed Shrs.	Money in Circulation	Time & Demand Deposits	Mkt. Value Listed Stocks	Mkt. Value per Listed Sh.
1945	1,573	28,030	48,530	69,560	$44.10
1944	1,491	22,770	41,610	51,650	34.65
1943	1,478	17,840	37,700	46,600	31.60
1942	1,470	12,880	31,540	35,080	23.90
1941	1,462	9,647	29,290	39,280	26.60
1940	1,450	7,926	25,820	42,430	29.20
1939	1,429	7,088	22,560	44,180	30.80
1938	1,425	6,521	20,230	41,420	29.10
1937	1,394	6,471	20,430	53,840	38.60
1929	979.8	4,773	20,180	74,410	76.00

No particular explanation is required as to the figures in the foregoing table as they are self-explanatory. Briefly, the number of shares listed on the New York Stock Exchange has remained fairly constant for a long period of time, increasing from only 1,394 millions in 1937 to 1,573 millions (12.8%) in October 1945, but money in circulation in the same period increased from $6,471 millions to $28,030 millions (334%) and time and demand deposits from $20,430 millions to $48,530 millions (137%) and market value of listed securities from $53,840 millions to about $69,560 millions (29.2%). Contrasting this situation with 1929, it is interesting to observe in that year the total number of shares listed on the Stock Exchange was 979.8 millions and money in circulation was $4,773 millions and total time and demand deposits $20,180 millions and market value of securities $74,410 millions. It should be pointed out in this respect that prices today are not as close to 1929 levels as the total market value of listed securities would indicate. There are, it will be noted, many more shares outstanding today than in 1929. Making allowance for this, it will be observed that the value of a listed share on the New York Stock Exchange in 1929 was around $76.00. In October 1945 it was $44.10 and in 1937 at the top of the market it was $45.60.

The stock market thus far has been a rather tame affair in struggling back to around the highs of 1937 but the figures, if they mean anything, certainly indicate there is plenty of dynamite in the market situation—and 100% margins or upping the capital gains tax rate or lengthening the holding period won't remove the dynamite—it'll simply mix in a little more TNT.

Expects 50% Gain in New Construction Dollar Volume in 1946

Even in the face of present retarding factors, F. W. Dodge Corporation, fact-finding organization for the construction industry, estimates total dollar volume of new construction next year as 50% greater than in 1945 in the 37 States east of the Rocky Mountains. The estimate for all construction in the 37 eastern States is $4,750,000,000 against $3,160,000,000 expected for 1945 on the basis of the record for the first ten months of this year.

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