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Accelerated British Nationalization

By PAUL EINZIG

London Observer Points Out Political Reasons Why Labor Party Is Accelerating Its Program of Nationalization, and Notes Change in Tactics of the Opposition From Outright Opposition to Nationalization to Attack on Motives and Methods. Sees Difficulties Arising in Plan to Compensate Coal Mine Owners With Non-Marketable Bonds and Calls Attention to Material Increases in Proposed Social Security Benefits Which Go Even Beyond Beveridge Plan.

Paul Einzig

LONDON, ENG.—Since it reassembled after the Christmas recess, Parliament was flooded with new legislative measures. Apart from the Coal Industry Nationalization Bill and other Bills brought forward from last year, it received within the brief space of three days two major Bills, the Investment Control and Guaran-

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Index of Regular Features on page 755.

Inflation, Debt and Post-War Economy

By JOHN A. ZELLERS*

Vice-President, Remington Rand, Inc.
Past President, Sales Executive Club

Leading Business Executive, Who Closely Observed Postwar Inflation in Europe After Last War, Asserts It Is Time We "Aired" the Problem of Inflation and Face the Facts of Debt and Currency Expansion. Calls for an End of Government Deficits, Curtailment of Foreign Loans and a Sane Policy as to Wage Adjustments and Prices. Holds Higher Wages Lead to Higher Prices and Lower Employment, and Makes It Difficult "for the Fellow Underneath." Advocates Getting Washington "Off Our Backs" and Recommends Getting Into Full Swing Production and Stopping Inflation.

Because we like to indulge our imagination—and I have been doing some thinking about this—of what was going to happen to us in connection with all this vast government debt which—we will call it—is going to be three hundred billion dollars.

John A. Zellers

We have approximately 278 billions, I think, out in bonds. We have something like 28 billions in print paper, money. So we have printed over three hundred billions of dollars worth of dollars, and it's a very new experience for us.

I don't think we have begun to feel the effects of it. I happened to handle the foreign business of our company for a number of

*An extemporaneous address by Mr. Zellers before the Associated Printing Salesmen, New York City, Feb. 5, 1946.

(Continued on page 749)

The Stock Market and Inflation

By EMIL SCHRAM*

President of the New York Stock Exchange

Asserting That Only the Government Can Preserve Confidence in the Currency, Mr. Schram Points Out That to Check Inflation We Must Attack and Remove Basic Causes, Which Are Far Removed From Reflections in Stock Market. Holds Resolute Fiscal and Labor Policies Are Essential to Prevent Further Inflation and Attacks Margin Action of Reserve Board as "Unblushing Discrimination" and so Merely Fanning Flames of Inflation. Sees Danger in Lower Interest Rates as Fostering Speculation and Destroying Thrift and Lays Down Five Requisites for the Establishment of a Sound and Healthy Economy.

Because of the renewed interest in the securities market, as evidenced by the revival of activity after a prolonged period of dullness, a number of questions are being raised today as to the significance of the increasing demand for the securities of our publicly-owned enterprises such as those listed on our Exchange. The question uppermost in the minds of most people today revolves around the problem of inflation. There appears to be a belief in the minds of some that

Emil Schram

*Informal remarks by Mr. Schram at the luncheon meeting of the Rotary Club at Tampa, Florida, Feb. 5, 1946.

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Democracy and Free Enterprise

By JOHN M. HANCOCK*

Partner, Lehman Brothers, New York

Prominent Banker Denounces National Planning as Destructive of Democracy and as Leading to Fascism. Sees Oppressive Economic Controls and Work of Pressure Groups as Hampering Production and Full Employment and as Leading to Inflation. Holds Whenever Government Steps in, It Weakens Private Enterprise and Calls for a Competitive Economy, Free and Equal Opportunity, No Favors to Any Class and No Coercion by Anyone. Contends That as All Are Consumers, Government Should Look to Interest of Consumers and Not Merely Make Feather-Beds for Approved Groups.

John M. Hancock

Outside of purely personal reasons for being here, I am moved by one compelling reason which for purposes of presentation I present in four parts, three having to do with the long-range aspects, and the last one being related only to the short-range view. The first part of this reason is that for three years I have been convinced that our greatest need is widely spread faith in our form of government, and I must admit that for

*An address by Mr. Hancock at Victory meeting of the Association of Cotton Textile Merchants of New York, New York City, February 1, 1946.

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Labor's Place in the Economy

By A. W. ZELOMEK

President, International Statistical Bureau, Inc.

Economist Declares That Although the Present Strike Wave Will Soon Subside, Labor Relations Will Continue Unsettled for Many Years. He Predicts Marked Extension of Unionization, the Closed Shop, and the Areas of Collective Bargaining, Particularly in the South. Contending That Management Is Reluctant to Face the Issues, in Sharp Contrast to Labor Which Knows Exactly What It Wants, He Lists 18 Major Demands Which Will Confront Industry.

It would have been nice if the end of international hostilities had ushered in a period of domestic peace and tranquil relations between the various economic groups of the country. Instead, labor and management appear poles apart. Widespread labor unrest and strike action makes sensational headlines while management protests that its position is being undermined by price controls, tax policies and most of all, by unreasonable demands for wage increases and changes in working conditions.

A. W. Zelomek

The wave of strikes which is causing so much consternation—in business circles in particular—should not have been unexpected. After every great war there has been an upsurge in labor activity and agitation. This war was no exception. In 1919, more men were out on strike than at any other time in the economic history of this country. Maybe 1946 will set a new record, maybe not. At

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Investment Opportunities For Life Insurance Funds

By SHELBY CULLOM DAVIS*

Deputy Superintendent, State of New York Insurance Department

State Insurance Official Cites the Huge Fund Flowing Into the Life Insurance Companies as Suggesting the Possible Need for Basic Changes in Their Established Investment Policy. He Regrets Portfolio Dependence on "Convenient" Government Bonds in Lieu of More Resourceful Investment Leadership. Regarding the Foreign Field He Declares That Satisfactory Institutional Income From Obligations There Is Precluded by the Low Interest Rates Extended by the Export-Import Bank and That Many Imponderables Cast Doubt on the Safety of the International Bank's Prospective Obligations. He Concludes That the Best Opportunities Lie in Carefully-Made Loans to Medium-Sized Businesses, in Greater Investments in Canada, and in Preferred Stocks.

Life insurance companies have more than 8 million dollars of new monies, that is income less disbursements, coming in every day of the year, rain or shine, Christmas or Easter. In addition cash is flowing in for investment from other sources, such as bonds which have been called, mortgage principal repaid or reduction in policy loans and notes. Altogether our figures show that the companies had well over 6 billion dollars in the year 1944 for investment, including, of course, sales of bonds, stocks and real estate. That is more than 16 million dollars a day.

Shelby Cullom Davis

The magnitude of this sum is so great that it logically raises the question—but does not answer it—whether changes in old-established investment practices may not be necessary. The great problem in life insurance used to involve the sale of policies. Now the greater problem often seems to be what to do with the proceeds. If the life insurance industry tackles this problem of investment with the same spirit of imagination and enterprise that it tackled the problem of selling, one can be very confident that its investment problem will be just as successfully solved.

Of course, the favorable mortality experience in the past has helped. However, this cannot be counted upon indefinitely to absorb the loss of income from lower interest rates. I am reminded of the story of the man who asked one of his life insurance company friends how things were going in his company. "Oh, all right," replied the friend "we're buying a lot of pretty low coupons these days, but then a lot of customers who should be dying and collecting—are still alive and paying." Or, in financial terms, the bear market in money has been at least partially offset by the bull market in longevity.

The past several years have been emergency years, to be sure, but let us examine them to see how the life insurance industry has gone at this investment problem. Unfortunately we are in one of those in-between periods today and the 1945 annual statements are not due at our offices for another 4 weeks. Consequently I am forced to use the 1944 annual statements. From glancing through the 1045 quarterly reports which we have received, I do not believe the basic trends have been altered materially. Let us at the same

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*A talk delivered by Mr. Davis before a group of life insurance investment officers, New York City, Feb. 1, 1946.

Interest Rates Under Inflationary Conditions

By REV. BERNARD W. DEMPSEY, S. J.*

Regent of the School of Commerce and Finance, St. Louis University

Father Dempsey Analyzes the Principles on Which Interest Rates Are Based, and Points Out That These Principles Do Not Prevail Because Volume of Money Is Primarily Under Government Influence. Holds Interest Rate Is Affected by (1) the Productivity of the Use of the Loan, and (2) by Rising or Falling Prices, and That Under Present Inflationary Conditions, Tendency Would Be to Raise Interest Rates Because of Rising Prices. Sees No Stability in Interest Rates or Credit as Long as Government Controls Money Supply, and Points Out That Permitting Substantial Rise in Rates Would Render Banks Insolvent and Create Another Problem of Inflation. Describes the "100% Money Reserve System" and, Although Holding It Has Merits, Believes It Is Too Bold and Thorough-Going to Be Adopted. Predicts Interest Rates Will Increase on All Loans Other Than Governments When Prices Rise.

Rev. B. W. Dempsey

The discussion of the future course of interest rates is recognized as important by economists without exception. Such differences as exist among economists are not differences concerning the facts of the case or the present condition of the markets but differences based on their willingness or unwillingness to see the government in greater and greater control of money markets. This control is already large and com-

*An address by Father Dempsey before the American Association of Small Loan Companies, Chicago, Ill., Feb. 6, 1946.

(Continued on page 735)

Dealers in a Maze

Securities Dealers Confused by SEC Pronouncements on "Disclosure" and Non-Inventory Trading. Citation of the Oxford Case in Subsequent Decisions Only Adds to Confusion. Advice to Call in Lawyers, a Burden on Trading. A Clear Statement of the Commission's Position Would Make This Unnecessary. SEC Activities Require Curtailment.

In view of the avalanche of conflicting material which is enveloping him as a result of the Securities and Exchange Commission's dicta in the Oxford case, what is the dealer in securities to do?

Those who are members of the National Association of Securities Dealers have received its five page communication dated Jan. 31, 1946, in which it is made to appear that the determination of the Commission was pertinent only to the Oxford case.

Our readers will remember that in a previous editorial we emphasized the danger existing in the use that the Commission would make of its opinion in the Oxford case as precedent.

Since that time the Commission has in fact cited that opinion in the Matter of Investment Registry of America, Inc., and also in the matter of Norris & Hirshberg, Inc.

In the last case the Oxford Company, Inc. opinion was cited under the heading, "Non-position Trading."

Opinions drawn by the Securities and Exchange Commission, to technicians, may be excellent examples of crafts-

(Continued on page 740)

Wage-Price Policy And Employment

By SUMNER H. SLICHTER*

Lamont University Professor, Harvard University

Professor Slichter, Holding That During the Last 15 Years the Influence of Unions Upon Wages Has Increased Enormously, Argues That the Upward Pressure Upon Wages Will Be Stronger Than Ever and That, Unless Offset by Technological Improvements to Increase Labor Output, It May Have Greater Effect on Prices Than Heretofore. He Rejects the View That Prices Can Be Automatically Increased to Offset Increased Costs on Ground That Higher Costs Do Not Materially Expand Money Supply. Sees Impediment to Rise in Employment, When Wage Rates Are Forced Up and Profit Margins Decline. Doubts "Ability to Pay" Will Be a Practical Basis for Wage Bargaining but Contends That "the Great Rise of Unions Seems to Be Creating a New Kind of Economy," the Outcome of Which Is Yet Unpredictable.

I

Wage policies are made by business enterprises, trade unions, and government. Time does not permit a thorough discussion of the wage policies of all three. During the last 15 years the influence of unions upon wages has increased enormously. Consequently, this paper will be devoted in the main to examining the effect of union wage policies upon employment.

II

Let us look briefly at the behavior of wages and prices during the period when union organization was confined to a few industries. The last century

*Summary of a paper read by Professor Slichter before the American Economic Association at its recent annual meeting in Cleveland, Ohio.

(Continued on page 743)

Howard L. Newell Opens

DAYTON, OHIO — Howard L. Newell has formed Howard L. Newell & Co. with offices in the Third National Bank Building to engage in the securities business. In the past he was an officer of Feight-Yager & Co., Inc., of Dayton.

SEC Thrice Reversed

Corporate Officers and Directors Acting Honestly Are Not Debarred Under the Public Utility Holding Company Act From Purchasing Securities of Their Companies in Reorganization.

The United States Court of Appeals for the District of Columbia has just handed down its decision in the cases of Chenery Corporation and Federal Water and Gas Corporation against Securities and Exchange Commission.

The petition which was passed on by the Court was for the review of an order of the SEC issued Feb. 7, 1945 under the Public Utility Holding Company Act.

It appears that during the pendency of certain plans for reorganization, directors and officers acquired securities which, when exchanged and added together, would give to the petitioners 10.1% of the voting power of the reorganized corporation.

The Commission made formal findings on the basis of which it concluded that the plan would not be approved insofar as it provided participation of the petitioners' securities, acquired during the period reorganization plans were before the Commission, even though the purchases were made honestly, after full disclosure and at a fair price at public sale.

Prior Proceedings

This determination came up for review and was reversed by the United States Circuit Court of Appeals. It then by certiorari went to the Supreme Court of the United States, which handed down an opinion and directed the matter be remanded to the Commission for further action not inconsistent therewith.

On rehearing no new or additional evidence was adduced and despite the reversals, the Commission reaffirmed its former order.

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Postwar Money Supply And Its Significance

By WALTER E. SPAHR*

Professor of Economics, New York University

Secretary, Economists' National Committee on Monetary Policy

Professor Spahr, While Refraining From Offering Any Positive Statements Regarding the Future Monetary Supply and Its Effects, Maintains That There Is Much Confusion and Guesswork Regarding the Factors Which Determine the Volume of the Circulating Medium. He Stressses the Need of Including Velocity of Monetary Circulation, Government Deficits and Other Unpredictable Factors in Any Estimate of Future Monetary Supply and Characterizes as "a New Disease" the Guessing and Prophesying Regarding the Relationships Between "Money Supply" and "National Income." Criticizes Current Laxity in Definitions of "Inflation," "National Income," "National Product" and Other Economic Terms and Warns Against America "Going to Hell on Statistical Curves."

The words "money supply" call for definition. Here the term will be used to include the paper and metallic money in circulation —that is, outside the Treasury and Federal Reserve banks—and total bank deposits—that is, deposit currency.

Dr. Walter E. Spahr

But consideration of the supply of money and deposit currency probably cannot go far, or have much significance, or escape error unless the velocity of currency is taken into account. Currency is a two-dimensional thing involving both supply and velocity, and often velocity is the more important factor of the two.

Still further, there is usually little good reason for considering the supply and velocity of currency alone. The goods and services which money and deposits buy, and often a variety of other factors and forces relating to exchange and purchasing power, usually must be brought into any picture in which money is a part, if the significance of money is to be appraised accurately.

There is, therefore, little point in discussing the postwar supply of money, assuming that we can guess rather accurately at what the supply of money and deposit currency may be for any selected postwar year or years, unless in our generalizations, we take into consideration the many other factors and forces which are pertinent.

To raise the question of the significance of this possible supply of money and deposit currency during any selected postwar year (Continued on page 734)

*An address by Dr. Spahr before a session of the National Industrial Conference Board, New York City, Jan. 17, 1946.

Forecasting Economic Weather

By MARCUS NADLER*

Professor of Finance, New York University

Dr. Nadler, Noting the Difficulties in Making Predictions Under Present Confused Conditions, Points Out That From a Physical Aspect, the Economic Outlook for the Immediate Future Is "as Good as Possible," but From the View of Human Relations, the Outlook Is Not So Rosy. Holds There Is Confusion Regarding Policies for Settling Industrial Disturbances, for Prevention of Serious Price Increases and for a Sound Debt Management Procedure. Holds if OPA Were Abolished We Would Repeat the Business Pattern of 1919, and Advocates Its Retention Until There Is a Better Balance Between Supply and Demand. Says Handling of Fiscal Affairs Does Not Inspire Confidence and Urges Conversion of Short-Term Obligations Into Long-Term Bonds.

It is always difficult to predict what the future has in store for us; it is particularly difficult to make any predictions at present. The world at large is in turmoil, endeavoring to recover from the greatest war in history. Wealth accumulated for centuries in Europe, as well as in the Far East, has been destroyed and old historic cities are in ruin. Industrial nations which hitherto played an important role in the economic life of many countries have distintegrated and have ceased to perform their former functions. All over the world we see hunger, want and depair, conditions which breed discontent and which, unless checked, lead to great social and economic changes.

Dr. Marcus Nadler

Physical conditions in Europe are clearly reflected in the spiritual turmoil that prevails in many of the countries. There is a strong movement to the left. In England the Labor Party is committed to a policy of nationalizing not only the Bank of England, international communications, and inland transportation, but also the coal and iron industry. In France and Czechslovakia, as well as in a number of other Continental European countries, the trend toward government ownership of the principal means of production is very pronounced. What the ultimate outcome will be in Germany and Italy is anybody's guess. In this period of flux when a new order is struggling to be born, how can an individual stand before his fellow citizens and tell of things to come? What is in store for the United States? Notwithstanding the many great difficulties that confront the world, including the United States, if one takes into account the known facts one is able to draw certain definite conclusions. The best approach would be to consider first the physical and then the human aspect of the problem.

Physical Aspect of Economic Conditions

The physical aspect of our economy, briefly, is as follows: In contrast to that of the rest of the world the wealth of the United States was not destroyed during the war. On the contrary, the productive capacity of the nation is by far greater today than it ever was before. The industrial and managerial know-how has increased materially as was conclusively proven during 1944 and 1945 when, despite the huge output of war materials, the United States was able to provide the civilian economy with more goods and services than at any previous time. The nation today (Continued on page 730)

*An address by Dr. Nadler before the 27th Mid-Winter Trust Conference of the Trust Division, American Bankers Association, New York City, Feb. 5, 1946.

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Tax Policies for Prosperity

By BEARDSLEY RUML*

Chairman of the Board, R. H. Macy & Co., Inc.
Chairman of the Federal Reserve Bank of New York

Mr. Ruml Enumerates as Requirements for Prosperity (1) the Basic Things on Which Production Depends; (2) Satisfactory Labor Relations Based Upon Law and Justice and Not Upon Force; (3) an Effective Demand for Goods and Services and (4) a Sound National Fiscal Policy for Maintaining High Prosperity. Holds Objectives of Fiscal Policy Are to Maintain a Sound Currency and Efficient Financial Institutions, Consistent With a High Level of Productive Employment and Prosperity. Says Taxes Should Be Only High Enough to Protect Stability of Currency and Contends Corporation Income Taxes Lead to Higher Prices and Lower Wages. Outlines a Super-Budget System.

Our first goal today, organization of a just and durable world peace, requires that world economic relationships be established on a humane and orderly basis. For the success of all these international plans a continuing high level of employment and production in the United States is everywhere conceded to be indispensable. With high prosperity, we shall require large imports of war materials, and we will find ways to obtain for ourselves the economic advantages of lower tariffs on foods and manufactured goods. With high prosperity, we shall be less greedy for foreign outlets to take up excess capacity and we shall be more willing to see our exports directed to the world's essential needs. With high prosperity, we shall more easily reduce restrictive practices and discriminatory prejudices that spring from fear and result in contempt and hate.

Beardsley Ruml

Requirements for Prosperity

The first requirements for prosperity are those basic things on which all production depends, namely, raw materials, cheap and widely available power, a reliable system of transportation, a sound currency, and an abundance and variety in human skills, sci-

(Continued on page 727)

*An address by Mr. Ruml before the American Finance Association, Cleveland, Ohio, Jan. 26, 1946.

Walter Engman Joins A. A. Tibbe & Company

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Walter C. Engman has become associated with A. A. Tibbe & Company, 506 Olive Street. Mr. Engman was formerly Manager of the Trading Department for White & Company. Prior thereto he was local Manager for Barrett Herrick & Co., and was with Murdoch, Dearth & White and Scherck, Richter Co.

Implications of Central Bank Nationalization

By FREDERIC E. LEE

Professor of Economics, University of Illinois

Pointing Out That Nationalization May Be Accomplished by Administrative Control as Well as by Actual Ownership, Dr. Lee Contends That French Government Has Had Complete Control Over the Bank of France Since 1936, and That Only Revolutionary Action Recently Taken Has Been the Proposed Nationalization of the Large Private Banks That Compete With Bank of France. Holds Real Purpose of Nationalization Is Obscure and That "Scrambling" of Financial and Industrial Institutions by Socialistic Governments Is Likely to Increase, so That We in U. S. Should Watch These Developments With Great Interest.

With the French Constituent Assembly having passed the act nationalizing the Bank of France and four of the large deposit or discount (*d'Escompte*) banks, and with Italy entering the new year undetermined as to whether the year 1946 may bring about "the socialization of industry and credit" in that country, it may be worth while to consider the methods and possible consequences of these developments, in comparison with what *is* happening to the Bank of England and what *has happened* to the Bank of Canada. At the outset it is apparent that France has gone farther in the nationalization process than any other country, in that so large a portion of the commercial banking structure has been included in the nationalization program. This is even more evident when, as is shown below, the Bank of France itself with its numerous branches and agencies is engaged to a large extent in commercial banking business.

Dr. Frederic E. Lee

In England, despite Professor Laski's earlier promised program, (See *Commercial and Financial Chronicle* for June 15, 1944, article by writer on "Our Post-War Banking Systems?"), the joint stock or commercial banks have not been included in the bill passed by Commons to completely nationalize the Bank of England. They have been given to understand, however, by spokesmen

(Continued on page 750)

Bonded Share Corporation

SALT LAKE CITY, UTAH—Bonded Share Corporation has been formed with offices in the Ness Building to engage in the securities business. Officers are Ruth P. Lyon, President; Paul C. Lyon, Vice-President, and B. M. Bushnell, Secretary-Treasurer. Mr. Lyon was formerly active as an individual dealer in Salt Lake City.

Central Bank Policy As an Inflation Curb

By ALLAN SPROUL*

President, Federal Reserve Bank of New York

Asserting that Economic Conditions Exist Which Initiate and Promote the Historic Process of Inflation, Mr. Sproul Urges Reassertion by Reserve System of Its Authority to Control Money Supply and Credit, Which Was Interrupted Under Stress of War Financing, When Two-Pronged Policy of Providing Banks With Sufficient Reserves to Be Residual Buyers of Governments and to Keep Interest Rates Steady Was Adopted. Cites Plethora of Money and Liquid Assets as Against a Universal Goods Shortage as Inflation Springboard. Cautions That Central Bank Policy Alone May Not Avoid Inflation. Favors Proposed Loan to Britain.

Allan Sproul

I became a central banker in the heyday of central banking, about 25 years ago. At least, so far as my experience goes, it was the heyday. At that time it had come to be widely believed that the central bank could control the volume of credit and that, by altering the volume of credit and its price, we could maintain economic stability at home and, in cooperation with foreign central banks, keep our economy in adjustment with the economies of other countries. It was recognized that we had a good deal to learn about working the levers and pushing the buttons; that timing and touch were important; that we probably had more influence in checking a boom than in combating a depression; but there was considerable confidence that we could master the technique.

Those rosy dreams were never fully realized Too much was

*Address by Mr. Sproul at the mid-winter meeting of the New York State Bankers Association, Jan. 21, 1946.

(Continued on page 738)

Healy Warns Against Reckless Speculation

SEC Commissioner Backs Stock Exchange in Its Efforts in Publicizing the Facts About Securities.

Robert E. Healy

In an interview with the "Chronicle" yesterday Judge Robert E. Healy, a member of the Securities and Exchange Commission, vigorously pointed out the need for holding down speculation. "With the rising tendency of the public to embark on a get-rich quick attitude in their investment management, and with the rise in volume and consequent excitement on the stock exchanges, it is extremely important," he said, "that the public be made to realize the inherent dangers in the situation. The New York Stock Exchange is performing constructive service," he continued, "in so apprising the public at large of the necessity for equipping themselves with all the available facts about the securities in which they wish to deal. In this work the press, investment counsel, analyst and financial commentators of all kinds, can be of inestimable help, Judge Healy believes. Individual losses as well as stimulants to general inflation can thus be importantly reduced," he feels.

Rolizan Bureau Reopens

LEXINGTON, KY. — Robert L. Zimmerman has resumed his investment business as Rolizan Research Bureau with offices at 434 East High Street. The firm has been inactive during the time Mr. Zimmerman was serving in the U. S. Army Air Forces.

Wants Advertising to Promote Sound Economy

Merryle Rukeyser Tells Advertising Club a Means Should Be Found to Dispel "Goofy" Economic Theories. Says Corporation Executives Have Obligation to Safeguard Corporate Assets By Developing a New Social Climate Reflecting Public Aspects of Industry.

The American people are raring to go into the promised land of postwar prosperity, which has been deferred by nothing except mental confusion.

Merryle S. Rukeyser

This observation was made on Jan. 30 by Merryle Stanley Rukeyser, financial columnist and editorial writer for the New York "Journal-American" in an address at the Advertising Club of New York.

"The strikes and political clashes," Mr. Rukeyser declared, "are the results of goofy economic theories, which run counter to the lessons of American experience. The postwar promise of American life will be achieved as we base policies on economic realities as disclosed by simple arithmetic in double entry form. The release of factors making for growth and progress will come as we turn our backs on panaceas based on manipulating money and robbing Peter to pay Paul.

"The directing executives of modern corporations have an obligation to safeguard corporate assets through developing a new social climate reflecting popular understanding of the public aspects of industry, which constitutes the services of supply of the American people in war and in peace.

"Informative advertising can be employed to merchandise sound concepts about the social uses of the private enterprise system. This should not be done sporadically in time of strikes or other crises, but unremittingly through the years.

"Modern industry," the economist said, "is a cooperative process by which men earn their living by making and exchanging goods and services. As management faces the problem of pricing items which are returning to civilian use, it must keep in mind the needs and desires of the customers, because businessmen constitute only an intermediary or a go-between, to bring the workers and the tools and the materials into contact with customers.

"This process is successful only if the customer approves the price, the quality, the style and the design of the product, and management's role is to attempt to anticipate the desire of customers."

Mr. Rukeyser declared, "You who are in business know that you are never 100% correct. You know there is a risk in business. You are aware that we live in a profit and loss economy. You don't have much faith in those who attempt to avoid risks and hazards through legislation.

"Management is not so much

(Continued on page 752)

William Jack Rejoins Wagenseller & Durst

LOS ANGELES, CALIF.—William H. Jack, member of the Los Angeles Stock Exchange, has rejoined the staff of Wagenseller & Durst, Inc., 626 South Spring St., members of the Los Angeles Stock Exchange, as assistant to the President. Mr. Jack has been in the Army for the past two and one-half years. Prior to entering the service he had been with Wagenseller & Durst for ten years.

N. J. Finch in Mobile

MOBILE, ALA. — Nathaniel J. Finch has opened offices in the Annex First National Bank Bldg., to engage in the investment business under the firm name of N. J. Finch & Co. In the past he was with Hancock, Brannan & Co.

Jack Siegman Joins Horan Grischy Staff

CLEVELAND, OHIO—Horan & Grischy, Union Trust Building, announce that Jack C. Siegman has been released from active duty in the U. S. Naval Reserve and is now associated with their firm as corporation trader. He was in the Pacific theater for 25 months. Before entering the Navy he was with Edward Brockhaus & Co. for ten years.

John Danner Is With Daniel F. Rice & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John N. Danner, Jr. has become associated with Daniel F. Rice and Company, Board of Trade Building, members of the New York and Chicago Stock Exchanges. Mr. Danner, who has recently been serving in the U. S. Navy, was formerly Manager of the Trading Department for Bond & Goodwin Incorporated of Illinois, and was with G. L. Ohrstrom & Co.

Alexander Securities Corp.

SAVANNAH, GA.—Earl Daniel Alexander, Jr., has formed Alexander Securities Corporation with offices at 15 Drayton Street, to engage in the investment business. For the past 13 years he has been associated with Merrill Lynch, Pierce, Fenner & Beane.

Hollander to Represent Ira Haupt in Cleveland

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Max E. Hollander has become associated with Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, as sales representative in Cleveland. Mr. Hollander was formerly Manager of the Cleveland office of Philadelphia Acceptance Corporation and prio thereto of E. H. Rollins & Sons, Inc.

The Stock Market Outlook

G. Y. Billard Contends That There Need Be No Post-war Profitless Prosperity. Holds Marked Expansion in Corporate Earnings Merely Awaits Termination of Strikes.

In a letter, issued Feb. 4, G. Y. Billard of J. R. Williston & Co., sees little likelihood of a postwar decline in profit-margins. Says Mr. Billard:

Gordon Y. Billard

"Cause for considerable temerity on the part of investors is to be found in fear of deterioration in corporate profit margins.

"This fear, we submit, will eventually prove to be unfounded. This is not to say that peacetime margins will be as high as those experienced in wartime, but rather that ultimate postwar profit margins will compare relatively well with prewar profit margins experienced during periods of relatively high business activity. In short, we do not believe that postwar profit margins will undergo any radical change for one very good reason at least, namely, that profit margins to corporate managements operating under a profits system are more or less akin to the sacred cow.

"We do not and never have subscribed to the theory widely advanced at times of postwar profitless prosperity. As we view the picture, either there will be fair and adequate profits for well managed corporations attending postwar boom prosperity or if there are inadequate profits then there will be no postwar boom prosperity.

"This, of course, is basic for if any one visualizes a much expanded production with little or no expansion in earnings or dividends, then cash at this time is certainly far preferable to equities because equities are already selling for all that they are worth on present earnings and dividends. On the other hand, granting that

(Continued on page 750)

Public Utility Securities

Progress With Holding Company Integration

The holding company integration program, as supervised by the SEC, continues to progress at a slow tempo, due largely to interruptions and obstacles resulting from court appeals, the corollary activities with other commissions, etc. Following is a brief sketch of some recent developments.

American Gas & Electric has finally received its orders to liquidate the Scranton and Atlantic City subsidiaries, retaining the rest of the system. It is attempting to take over Columbus & Southern Ohio from the United Light & Railways system. The bonds are being retired through a bank loan and the preferred stock might also be retired if sales funds are not employed to buy new properties.

American Light & Traction must retire its non-callable preferred stock before a distribution of assets to the common can be effected. One large holder of the preferred may claim $40 a share for the $25 par stock but it seems rather dubious whether the SEC would allow such a high figure, even on the basis of "intrinsic worth".

American Power & Light finally retired its bonds at the call price, deciding not to fight the SEC in the courts. Central Arizona Light & Power common stock was sold, but nothing further has developed regarding sale of other northwestern properties to a public power agency. The company's properties in Texas have been enlarged and strengthened by acquiring Dallas P. & L. from Electric P. & L. (the SEC wouldn't permit them to bid for Dallas Railway & Terminal, however). A new sub-holding company, Texas Utilities Company, was set up, but the stock of this company will either be sold or distributed to American's stockholders by next October. There has been considerable market interest in American P. & L. common in recent months.

American Water Works will, it is reported, dispose of its water properties, setting up a new subholding company for this purpose, but no official plan has yet been forthcoming. Meanwhile, the company has made progress with subsidiary refundings.

Central & Southwest Utilities is expected to file a new plan, revising its method of divorcement from the Middle West system. Subsidiary refundings and anticipated heavy system tax savings have considerably improved the market status of the common stock during the past year.

Cities Service continues to mark time on its integration plans, although sub-holding companies are gradually being "cleaned up" in preparation for an eventual program to recapitalize the top company.

Columbia Gas & Electric has also made prograss with system refunding operations, preparatory to sale of the Dayton and Cincinnati subsidiaries. The stock has continued to advance toward levels reflecting estimated eventual earning power, figured at $1 or better.

Commonwealth & Southern has been asked by the SEC to submit a new plan and the door has also been opened to other "interested parties" to submit their ideas to the Commission. Details of these plans may be available around the end of this month. A recent study prepared by H. Hentz & Co., estimated the eventual value of the common around 7½-9½.

Electric Bond and Share is awaiting the approval of the plan filed by its important subsidiary, American & Foreign Power. There are rumors that the plan may be amended however to favor junior stockholders.

Electric Power & Light plan to exchange its huge holdings of United Gas common for its own $7 and $6 preferred stocks is now before the SEC for hearings. The number of shares to be offered in exchange will be specified by a later amendment. This new-style method of making a plan flexible to suit market conditions may well be used by other holding companies in the future, since it helps avoid long disputes with various classes of security holders.

Illinois Power's claims against North American Light & Power and North American Company may be settled "out of court", it is thought in the Street, with the subsidiary obtaining a substantial part of its demands. There is,

(Continued on page 749)

The Program of Foreign Lending

By WAYNE CHATFIELD TAYLOR*

President, Export-Import Bank

Pointing Out That on American Production Depends Largely the Future Rehabilitation and Peace of the World, Mr. Taylor Describes Important Factors in the Operations and Policies of the Export-Import Bank. Says Bank's Credits Are Extended Only to Finance Purchases in the U. S. and to Aid Our Foreign Trade, and Do Not Compete With Private Banking. Expects Bretton Woods International Bank to Begin Operations in 1946, but on Restricted Scale and Until Its Activities Are Expanded, the Export-Import Bank Must Carry Burden. Foresees Larger Imports and Greater Private Investment Abroad as Means of Repayment of Dollar Credits.

I realize fully that you members of the banking profession expect me to talk about banking and more particularly about the operations of the Export-Import Bank. I must confess to you that I have a strong disinclination to do so, not because banking and international finance are unimportant but simply because neither can make much in the way of substantial contribution to domestic or international stability under existing conditions.

W. C. Taylor

The whole structure of world reconstruction, physical, mental, moral if you will, and certainly economic and financial, depends predominantly on United States production, on United States credit, and actually, on the example and general performance of the United States of America.

In evaluating our present sorry performance we simply cannot ignore the effect of this exhibition on the welfare if not the very existence of hundreds of millions of fellow human beings who have survived the real trials of long years of bombing, military occupation, puppet government treachery, and all the long list of horrors with which the press, the radio and all the many modern means of visual presentation have made us familiar.

I don't have to explain to this

*An address by Mr. Taylor before the Forty-second Annual Banquet of the American Institute of Banking, New York City, Feb. 2, 1946.

(Continued on page 739)

SEC Thrice Reversed

(Continued from page 711)

Court Speaks of SEC Power Limitations

In holding that the Securities and Exchange Commission had not rightly construed and followed the opinion of the United States Supreme Court, the United States Court of Appeals for the District of Columbia, said among other things:

"The Commission's position actually amounts to neither more nor less than a definite holding that purchases of stock of a corporation in process of reorganization are unlawful, when made by officers or employees of the corporation,—and this without regard to any factor of good or bad faith, or any other factor which might impute special knowledge, secret information, or indeed anything tending to show a lack of **bona fides** in the transaction. * * * In practical effect, therefore, the Commission now insists upon doing precisely what the Supreme Court said it could not do; that is to say, in applying to this specific case a standard which has never been promulgated, either by the Commission in its regulations or by legislative act, and which the Commission says can not fairly be generally applied." * * *

"But it is also true that the Court recognized that the Commission, like the ocean, has its appointed bounds, and lest it break through its limits and engulf a continent,—spoke these words of caution: 'The Commission's action cannot be upheld merely because findings might have been made and considerations disclosed which would justify its order as an appropriate safeguard for the interests protected by the Act.' "

Court Criticism Emphatic

The United States Circuit Court of Appeals, in, for the second time, reversing the Commission on the same issue, also said:

" * * * In laying down, as it does, a rule of fiat unassociated with the facts in this case, the Commission has strayed from the course laid out and charted by the opinion of the Supreme Court, and accordingly we must refuse to give it effect."

* * *

"In nothing we have said do we wish to be understood as expressing any opinion as to the right of the Commission under its broad powers to promulgate a rule of general application forbidding officers and directors of a corporation in process of reorganization from buying—perhaps also from selling—securities of the corporation during the pendency of proceedings before the Commission. That question is not present in this case. What we do say is that, without such a rule, of which notice is given so that all may know of its existence, transactions in themselves fair and just and honest and in accord with traditional business practices, and which 'Congress itself did not proscribe,' and which 'judicial doctrines do not condemn,' may not properly be 'outlawed or denied' their ordinary effect."

Employment and Price Outlook

By CLAUDE L. BENNER*

Vice-President, Continental American Life Insurance Co.

Mr. Benner Lays the Errors of Government Forecasters in Predicting Heavy Postwar Unemployment to Their Belief in Our "Mature Economy" Which Fails to Take Account of Industrial Expansion and Increasing Consumers Demands. Contends That the Demand for Goods Will Exceed Supplies for Several Years and if There Is No Disorderly Rise in Prices, There Will Not Be a Collapse as After Last War. Holds Effect of Strikes Will Be Temporary and That Other Production Impediments, Such as OPA Rulings, Price Uncertainties and the Like, Will Disappear. Sees Less Rather Than More Interference of Government in Business.

A good reason for expecting that this year will be a prosperous one, is the failure of the forecasts so continuously made during the past two or three years by the left-wing prophets of doom, those believers in prosperity only through continuous government spending, that within a few months after the war was over the country would be faced with a serious unemployment problem. Even so late as a month or two ago they were still crying, "8 million unemployed by spring". One might almost think that all those who kept insisting during the past decade that our free enterprise system would never again be able to bring about prosperity were not only surprised, but even disappointed, at the turn events had taken. If they had been right, apple selling on corners would be a principal occupation of veterans today, and businessmen would once again be receiving a terrific beating from the "fellow-travelers."

Claude L. Benner

Happily, these doleful forecasts have not come to pass. Let us look at the present economic situation to see what has. Instead of unemployment and a failure of demand, we find that strikes for even higher wages than those paid during the war and a scarcity of materials are the only barriers to a first-class boom. In fact, many industries are suffering from real labor shortages.

* An address delivered by Mr. Benner before the Continental American Life Insurance Co., Claridge Hotel, Atlantic City, New Jersey, Jan. 26, 1046.

(Continued on page 744)

Tegtmeyer Is V.-P. of Allen, Swift & Co.

CHICAGO, ILL. — William H. Tegtmeyer has joined Allen, Swift & Co., Inc., 120 South La Salle Street, as vice-president in charge of the trading department, it is announced. Mr. Tegtmeyer has recently been released from active duty as a captain in the Army Air Corps. For fourteen years before the war Mr. Tegtmeyer was with the trading department of Paul H. Davis & Co.

Dealer-Broker Investment Recommendations and Literature

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

Bank Stock Evaluator—Comparative analysis of 38 banks—Butler-Huff & Co., 210 West Seventh Street, Los Angeles 14, Calif. Also a discussion of some of the outstanding features of the **Bank of America.**

Common Stock Issues with long dividend records which are dealt in on the **New York Curb Exchange**—Herbert E. Stern & Co., 30 Pine Street, New York 5, N. Y.

Convertible Issues—Discussion of some interesting convertible issues and their attractiveness—Arnhold and S. Bleichroeder, 30 Broad Street, New York 4, N. Y.

Investor—Current issue of monthly pamphlet discussing several interesting situations—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Leverage—Available for distribution to dealers interested in leverage issues is a detailed circular descriptive of the common stock of a successful general management investment trust of the closed end type which presently sells in the $6 range—Ask for circular ML—Blair F. Claybaugh & Co., 72 Wall Street, New York 5, N. Y.

New York Bank Stocks—Comparison and analysis of 19 New York Bank Stocks as of Dec. 31, 1945—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Nineteen New York City Bank Stocks—Comparison and analysis—White & Company, Mississippi Valley Trust Building, St. Louis, Missouri.

Philippine Gold Shares—Analysis of **United Paracale, Masbate Consolidated, San Mauricio, Benguet, Balatoc,** and **Mindanao Mother Lode**—F. Bleibtreu & Co., Inc., 79 Wall Street, New York 5, N. Y.

Post War Beneficiary—Descriptive analysis of companies which should benefit from the automobile, building, and frozen food industries—Raymond & Co., 148 State Street, Boston 9, Mass.

Railroad Equipment Certificates—Valuation and appraisal—Stroud & Company, Inc., 123 South Broad Street, Philadelphia, Pa.

Also available is a valuation and appraisal of **City of Philadelphia Bonds** and a compilation of **Pennsylvania Legal Bonds.**

Railroad Review and Forecast—Detailed study—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Retail Trade—Survey of sales and earnings of certain department and variety chain stores—Bache & Co., 36 Wall Street, New York City.

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. Also available is a recent circular on **E. & G. Brooke Iron Co.** and **Michigan Steel Casting Company.**

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

Also available is a study of **Consol. Electric & Gas.**

A. S. Campbell Co., Inc.—Current analysis—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Also available are memoranda on **Metal & Thermit Corporation** and **International Cellucotton Products Co.**

Commonwealth & Southern—Study of modified plan—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

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

Also available is a recent memorandum on **The Muter Co.**

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; New Jersey Worsted; General Tin;** and **Lenova Corp.**

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, Inc., 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.

Great American Industries—New report—J. F. Reilly & Co., Inc., 40 Exchange Place, New York 5, N. Y. Also available is a circular on **Lear, Inc.**

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 **Bishop & Babcock, York Corrugating.**

Lehigh Valley Railroad—Circular—McLaughlin, Reuss & Co., 1 Wall Street, New York 5, 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 Company—Descriptive circular—Dayton Haigney & Co., 75 Federal Street, Boston 10, Mass.

WE ANNOUNCE WITH PROFOUND SORROW
THE DEATH ON FEBRUARY 1, 1946
OF OUR
MID-WESTERN REPRESENTATIVE
ALBERT REYNOLDS
THE COMMERCIAL & FINANCIAL CHRONICLE

Oregon Portland Cement—Bulletin on recent developments — **Lerner & Co.**, 10 Post Office Square, Boston 9 Mass.

Pacific American Investors, Inc.—Memorandum—Kitchen & Co., 135 South La Salle Street, Chicago, 3, Ill.

Pacific American Investors—Analysis of high leverage common stock—Sills, Minton & Co., Inc., 209 South La Salle Street, Chicago 4, Ill.

Panama Coca Cola—Circular on interesting possibilities — Hoit, Rose & Troster, 74 Trinity Place, New York 6, N. Y.

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

Also for dealers only is an analysis of **National Radiator Co.**

Punta Alegre Sugar—Comparison of this corporation with other leading Cuban sugar producers—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Randall Company (B) — Descriptive circular—Hardy & Hardy 11 Broadway, New York 4, N. Y.

Also available are circulars on **Gulf Atlantic Transport Co.** and **Sports Products.**

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.

Sports Products, Inc. — Memorandum — Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Also available is a report on **Koehring Co.**

Standard Stoker—Memorandum —Buckley Bros., 1529 Walnut Street, Philadelphia 2, Pa. Also available are memoranda on **Gruem Watch** and **Gisholt Machine.**

Sunshine Consolidated Inc.—Memorandum for brokers and dealers—W. T. Bonn & Co., 120 Broadway, New York 5, N. Y.

Brown, Bennett Reopen Office in Chicago

CHICAGO, ILL.—Brown, Bennett & Johnson, New York, announce the reopening of their Chicago office under the management of Frederick F. Johnson, Lt. Commander in the U. S. Navy, recently released from active duty. The new office is located at 39 S. La Salle St.

Their former Chicago office was closed April 1, 1942 when Mr. Johnson entered the Navy. He was released from active service January 1, 1946. The firm will continue to do a general securities business, specializing in unlisted stocks and bonds.

Election of Officers of La Salle St. Women

CHICAGO, ILL.—La Salle St. Women will hold its annual election of officers on Monday, Feb. 11, at the Electric Club, 20 North Wacker Drive, Chicago. The business meeting will be followed by dinner at 6:30 p. m., with Dr. Melchior Palyi, internationally known economist, author and lecturer, as guest speaker. His subject will be "Balance of Power in an Unbalanced World."

Chesley & Co. Formed

CHICAGO, ILL. — Arthur Ritchie Sawers has formed Chesley & Co. with offices at 105 South La Salle Street, to engage in the investment business. He was formerly with Central Republic Co.

Utah Power & Light Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York City. Also available is a study of **North West Utilities Co.,** and **New England Public Service Co.**

Upson 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.; Kendall Co.**

Youngstown Sheet & Tube Company—Study of attractive position— H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF DETROIT AND MICHIGAN

Reginald MacArthur, Miller, Kenower & Co., Membership Chairman of the Security Traders Association of Detroit & Michigan, Inc. reports an all time high in its membership. The group now consists of 160 active members, two associate members and five who are still in the service; altogether a total of 167.

OXFORD CASE DECISION

Thomas Graham, Bankers Bond Company, Louisville, Ky., President of the National Security Traders Association, announces that the NSTA has just completed well attended meetings in Chicago, Kansas City, and St. Louis where the main topic of discussion and study was the now famous Oxford Case directly concerning the over-the-counter securities business and its Dealer-Broker relationship.

First of all, it is now believed that the release of the SEC in the Oxford Case was a specific one, applying to the Oxford Company alone, and is not a directive to the over-all securities business.

Second, the Traders Association is of the opinion that fundamentally the fair and honest business customs and relations built up over generations need not be changed.

GUESTS AT ANNUAL PARTY OF THE BOND TRADERS' CLUB OF CHICAGO, JAN. 29, 1946

Richard F. Abbe, Van Tuyl & Abbe, New York
Clifford Anderson, Fahnestock & Co., Chicago
Forest Arden, Betts, Borland & Co., Chicago.
Henry Arnold, Clair S. Hall & Co., Cincinnati
Tom Barry, Jr., Zippin & Co., Chicago.
Frank S. Bennett, Brown, Bennett & Johnson, New York
John W. Billings, Chicago Stock Exchange, Chicago.
Ed Blechschmidt, Stein & Roe, Chicago
Arthur Bothen, First Securities Corp., Chicago
J. W. Brady, J. W. Brady & Co., St. Louis
C. S. Brown, C. S. Brown & Co., Chicago
Wm. Perry Brown, Newman Brown & Co., New Orleans
Andrew Buchan, First Boston Corp., Chicago
Errol E. Buckner, National Bank of Commerce, New Orleans
R. E. Byrne, Dempsey Tegeler & Co., St. Louis
Mort Cayne, Cayne, Ralston & Co., Cleveland
David Cerf, Floyd D. Cerf Co., Chicago
Harry L. Coleman, H. O. Peet & Co., Kansas City, Mo.
P. T. Collins, Kneeland & Co., Chicago
D. F. Comstock, Comstock & Co., Chicago
Joseph P. Condon, McDougal & Condon, Chicago
P. M. Conway, Bankers Bond Co., Louisville
Peter Cooper, Loewi & Company, Milwaukee
Thomas L. Crabbe, Thomas L. Crabbe & Co., Cedar Rapids
Frank Cullen, Stifel Nicolaus & Co., Chicago

(Continued on page 745)

Cruttenden & Co. Opens New Omaha Branch

CHICAGO, ILL.—Cruttenden & Co., members of the New York, Chicago and Los Angeles Stock Exchanges, announce the opening of an Omaha office with complete board facilities in the Brandies Theatre Building, 2nd Floor, 204 South 17th St. John C. Stewart, the new resident manager of the Omaha office has returned to the investment business after being released recently from four years service in the Army Air Forces as Major.

Mulligan Partner in Morris Cohon & Co.

Edward J. Mulligan, who has been associated with Morris Cohon & Co., 42 Broadway, New York City, for over 12 years, has been admitted to general partnership in the firm as of Feb. 1.

R. D. Jacobson With Riter in Chicago

CHICAGO, ILL.—Robert Donald Jacobson has become associated with Riter & Company, 134 South La Salle Street. He has recently been with the Federal Deposit Insurance Corporation and prior thereto was in the Trading Department of Smith, Burris & Co.

Bendix, Luitweiler Opens Branch in Atlantic City

Bendix, Luitweiler & Co., members New York Stock Exchange, have opened a branch office in Atlantic City, under the joint management of Frederick A. Marcy and Joseph F. McGuirk.

Pennsylvania Brevities

Street rumor has it that Barium Steel Corp. has an option, good through February 15, to acquire a controlling interest in Central Iron & Steel Co. of Harrisburg, Pa. Barium stockholders have approved an increase in authorized capital stock from 1,000,000 to 2,500,000 shares "to be used for expansion and acquisition of additional companies."

Warner Company, subject to final audit, reports net profit for 1945 of $551,206 after depreciation, depletion, interest, ground rents and provision of $430,000 for income and excess profits taxes. This is equivalent to $1.16 on the 475,284 shares of outstanding common. The comparable amount for 1944 was $440,071, after provision of $245,000 for taxes.

For 1945, Giant Portland Cement Co. reports net income of $14,642 after taxes. To this is added a tax refund receivable of $28,759, bringing net credit to $43,401. President John A. Philbrick states "There is every indication of tremendous demand for all types of building materials during the next five years or more. The new grinding unit is now running satisfactorily and has greatly increased the output of our finish grinding department. We have already made substantial capital expenditures and commitments for additional machinery, equipment and plant improvements."

It is understood that Scranton-Springbrook Water Service Co. is contemplating a refinancing plan which will involve $23,500,000 new bonds and $10,000,000 new preferred to replace existing issues of higher interest and dividend rates. Groups headed by Morgan, Stanley & Co., Mellon Securities Corp., and Kuhn, Loeb & Co., Lee Higginson Corp. and Smith, Barney & Co. jointly will compete for the bonds and preferred. Halsey, Stuart & Co. will bid for the bonds only.

Pennsylvania Lumbermen's Mutual Fire Insurance Co. reports assets of $5,328,055 as of Dec. 31, 1945, compared with $5,029,469 a year ago.

Preliminary discussions are reported under way in respect to the refunding of $29,731,000 Philadelphia Electric Power 5½s and $12,000,000 8% preferred stock. These issues were sold originally to finance the Conowingo hydroelectric project and have long been in demand at prices in excess of their respective call prices. The company is a subsidiary of Philadelphia Electric Co.

The Federal Reserve Bank of Philadelphia reports that banks in the district, after gaining 95% in deposits during the war could look forward to an additional 10% gain through 1947.

Local officers of the Transport Workers Union (CIO) are proceeding with plans for a strike against Philadelphia Transportation Co. scheduled for Feb. 12. The union is demanding a wage increase of $2 per day. Thus far all attempts at mediation have failed. P. T. C. officials have stated that the workers' wage demands are "simply impossible."

John R. Grove, General Manager, has been elected a Vice-President of **Lehigh Valley RR. Walter A. Yates**, President **Lehigh Coal Co.**, has been elected a Director.

Raymond L. Hayman has been appointed Corporate Trust Officer and **Harry K. Loper** Assistant Secretary of **Land Title Bank & Trust Co.**

C. Kenneth Baxter, Vice-President and Treasurer, **Donner Estates**, and **Sidney S. Blake**, Vice-President, **H. M. Byllesby & Co.**, both of Philadelphia, have been elected directors of **Sterling Motor Truck Co.**, Milwaukee.

Albert A. Garthwaite, President and General Manager of **Lee Rubber & Tire Co.**, has been elected a Director of **Philadelphia Electric Co.**

Freiwald Elected Pres. Of Bankers Bond & Mtg.

PHILADELPHIA, PA.—Albert E. Freiwald has been elected President of Bankers Bond & Mortgage Co. of Pennsylvania, Bankers Securities Building. He was formerly a Vice-President of the firm.

Seeds and Bunch Join Staff of Marvin Co.

PHILADELPHIA, PA.—Joseph R. Seeds, Jr. and Robert Hillary Bunch are now associated with Marvin & Co., Lincoln-Liberty Building. Mr. Seeds was formerly active as a floor broker on the Philadelphia Stock Exchange.

W. H. Bell & Co. Opens N. Y. Office Under Jones

W. H. Bell & Co., 1500 Walnut Street, Philadelphia, announce the opening of a New York City retail sales and trading office at 50


Dr. T. C. Jones


C. Benj. Mitchell, Jr.


Wm. H. Boggs


Archibald K. Rose

Broadway, New York City, under the direction of Dr. Thatcher C. Jones. The firm also announces the opening of an unlisted trading department in the New York office under the direction of C. Benjamin Mitchell, William H. Boggs and Archibald (Jack) Rose are also with the new office.

Dr. Jones has most recently been investment supervisor for Lehman Brothers, New York. Prior thereto he was a directing economist, director and head of the economics and investment department of National Securities and Research Corporation. He is Associate Professor of Finance at the New York University Graduate School of Business Administration.

Mr. Mitchell has recently been released from the U. S. Coast Guard Reserve where he has served for the past three and one-half years as a Lieutenant Commander in the Air Sea Rescue Service in the North Atlantic. Prior to the war, he was a partner in the firm of Mitchell & Co., 120 Broadway.

Mr. Boggs has recently been released from the U. S. Marine Corps Reserve where he served as a major for the past three and one-half years in the Asiatic Theater and last saw service in the Okinawa campaign. Before the war he was manager of the trading department for Frank B. Cahn & Co., of Baltimore.

Mr. Rose was for many years in the trading department of Gilbert J. Postley & Co., New York.

White, Weld Opens Philadelphia Branch

PHILADELPHIA, PA.—White, Weld & Co., members of the New York Stock Exchange, have opened a Philadelphia branch office in the Land Title Building under the joint resident managership of Gerry W. Cox and H. Chace Tatnall. Mr. Cox in the past was Philadelphia manager for Hemphill, Noyes & Co.

Julius Eyring in Buffalo

BUFFALO, N. Y.—Julius J. Eyring will engage in an investment business from offices at 229 Oxford Avenue.

Albert Reynolds, Mid-West Representative Of Chronicle, Is Dead

Albert Reynolds, representative of the Commercial and Financial Chronicle in the Mid-West, with headquarters in Chicago, died suddenly on February 1. Mr. Reynolds, who had been with the Chronicle for a number of years, was well known and highly regarded in New York and the Mid-Western area.

J. E. W. Thomas in Dallas

DALLAS, TEX.—James E. W. Thomas is engaging in an investment business from offices at 7022 Tokalon Drive. He was formerly with Garrett & Co.

Pennsylvania Municipals

By EDWARD W. KLING

The situation in Pennsylvania at this time seems to be about on a par with the rest of the Nation, and if possible, a little more so. The Philadelphia Saving Fund Society sale early in January included slightly in excess of $5,000,000 City of Philadelphia Bonds. These were bought by a group headed by the National City Bank and went right out the window, with the result that the market in Philadelphia bonds has jumped to an all-time high.

Edward W. Kling

Another all-time high was reached with the sale of $1,300,000 Abington Township Sewer Bonds. As no reoffering was made, this sale did not get the usual amount of publicity. The facts are that the bonds, maturing serially until 1975, sold at an interest cost to the community of .86%. This must come very close to equalling the Louisville, Kentucky sale last May which went at a slight premium for .80% coupon, but only ran to 1965. In any case it was .07% higher than the Allentown, Pennsylvania School District had sold about two weeks earlier. Let us hope that the top has been reached. The poor, or rather rich investor, deserves something for lending his money.

The deluge of new financing which had been predicted after the Japanese capitulation has not materialized. Strikes have made priorities a more tangible fact and deterent to needed construction than any governmental action ever did. The prospects are anything but bright at this time. It is more and more apparent that any increase in the volume of new issues will be very gradual and, as a matter of fact, maintaining the present rate will depend more on refunding than on the financing of new projects.

Some years ago the relatively high premiums, at least for that time, on non-callable City of Philadelphia 5s and 5½s, was somewhat jokingly referred to as a boom to the investor, in that it gave him an opportunity to have a larger amount of his money working at a good rate of interest. At that time it was not a really vital factor as the supply of bonds was plentiful and the satisfactory coupon rate for low premium bonds insured the investor, and particularly the Trust Investor, of a good return without risk of shrinkage or loss of principal. The ensuing lowering of interest rates and compulsory amortization have brought this joking reference to a grim reality. Although the investor of trust funds, and this applies particularly to those of the larger trust companies, shy away from premiums, the individual and the buyer for the banks' portfolios are more and more turning to the higher coupon and therefore higher premium bonds, with the resulting increase in return and practically no more trouble, unless a bond is actually bought at par.

Revenue bonds still continue to hold the spotlight to a great extent. An issue of $1,650,000 Lewistown, Pennsylvania Water Authority 1¾% bonds was placed privately, and the issue of $6,200,000 Imperial Irrigation District Electric Revenue Bonds was a complete success and helped the whole revenue market, particularly the Consumers Public Power District Bonds. Incidently the long 1¾% bonds of the latter are the only "A" rated bonds we know of still selling at a discount.

When the labor situation gets straightened out and the pent-up volume of new issues are forthcoming, even though basic money rates do not change and taxes still are high, maybe the investor can hope for a little better return. Our theory on this is that a great many of the revenue bonds presently outstanding are such excellent credits, and are still selling well below high grade general obligations, that even though the revenues should go up to some degree, the relative credits between the two being so close, the gap would be shortened—Let us hope so.

In Montgomery, Scott Frank Hardt Partner

PHILADELPHIA, PA. — Montgomery, Scott & Co., 123 South Broad Street, members of the New York and Philadelphia Stock Exchanges and other leading stock and commodity exchanges, announces the admission of Frank M. Hardt as a general partner.

On Jan. 1, 1946, Mr. Hardt retired as a vice-president of the Fidelity-Philadelphia Trust Company. Among the companies of which he is a director are Warner Company, Philadelphia Life Insurance Company, John B. Stetson Company and Bellevue-Stratford Corporation.

Last October Mr. Hardt accepted the post of Comptroller of the United War Chest after previously serving as its general chairman. He served as treasurer for the Midday Club since its organization and is treasurer of the Philadelphia Country Club.

Mr. Hardt is a past president of the Union League of Philadelphia and was the first president of the Maryland Society of Pennsylvania of which he is still a director.

A golfing enthusiast, he is a past-president of the Golf Association of Philadelphia and secretary of the United States Golf Association. In the latter post, he has directed many famous national championship tournaments.

His admission to Montgomery, Scott & Co. was previously reported in the "Chronicle" of Jan. 17.

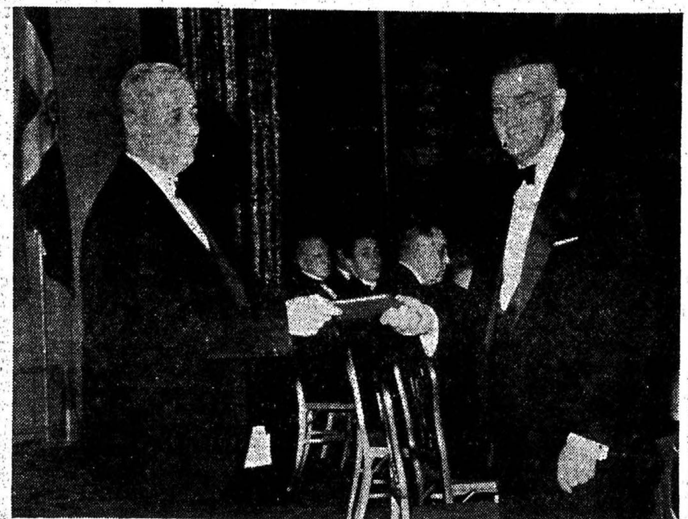
J. C. Graham Joins Allyn in Philadelphia

PHILADELPHIA, PA.—Jack C. Graham, former lieutenant, U. S. N. R., has been appointed to represent A. C. Allyn & Co. in their office at 1520 Locust Street.

Mr. Graham, who has been in the service for the past three and one-half years, was previously with the Omaha office of A. C. Allyn & Co.

Honorary Membership in AIB Conferred Upon Gordon S. Rentschler of National City Bank

Honorary Membership in the American Institute of Banking New York Chapter, was conferred upon Gordon S. Rentschler, Chairman of the Board, the National City Bank of New York and City Bank Farmers Trust Co. at the annual banquet of the Chapter, held at the Hotel Astor on Feb. 2. Presentation of the scroll was made by Edgar C. Egerton, Chapter President.



Gordon S. Rentschler, Chairman of the Board, The National City Bank of New York (right), receives scroll bearing Citation of Honorary Membership in New York Chapter, American Institute of Banking, from Edgar C. Egerton, Chapter President, at Annual Banquet, Hotel Astor, New York City, Feb. 2, 1946.

Only eleven previous awards of this signal honor have been made in the long history of New York Chapter. The citation "In recognition of Mr. Rentschler's leadership, accomplishment and public service" read as follows:

"He has rendered distinguished service to American banking and business, to education and science, to his country and his community. By his abilities and energies he became a leader of industry while still a young man. Called to the National City Bank of New York more than twenty years ago, he became President in 1929, and Chairman of the Board in 1940. He has led his own institution with conspicuous success; he has made invaluable contributions to the business life and welfare of the nation; and by inspiration, example, and generous sharing of his knowledge, he has honored and elevated the profession of banking.

"To his country and community his services have been many and devoted. He serves education as a life trustee of Princeton University and Massachusetts Institute of Technology, and gives active support to humanitarian causes and to progress in many fields. By force of character and quality of leadership he makes a strong and constructive impression on his time.

"We recall with grateful appreciation his aid and encouragement as Chairman of the Advisory Council, New York Chapter, and we are proud to record by this testimonial our respect and esteem.

"By unanimous resolution of the Board of Governors."

Bertram Crane With Bankers Securities

PHILADELPHIA, PA. — Albert M. Greenfield, Chairman of the board of Bankers Securities Corp., 1315 Walnut Street, announces that Bertram R. Crane is now affiliated with the organization in an executive capacity.

Mr. Crane is a graduate of Harvard Law School and subsequently attended Exeter College, Oxford University, England. In 1937-38 he was a member of the solicitor's office of the U. S. Department of Labor. He was subsequently a member of the office of the general counsel, Federal Works Agency, and also of the office of the chief counsel, Bureau of Reclamation, Department of the Interior.

During World War II he was Battalion Attorney for the 772nd Tank Battalion, AGF, and with the legal section of ATSC. He is co-author of "Wage Rate Laws on Public Works," published in 1939 by the U. S. Government.

Phila. Investment Cashiers Elect Brennan President

PHILADELPHIA, PA.—Thomas Brennan, C. C. Collings & Co., has been elected President of the Investment Cashiers' Association of Philadelphia. Other officers elected: Edward A. Abele, Reynolds & Co., Vice-President; C. Howard Umstead, Stroud & Co., Treasurer; E. Whelan Cramp, Brown Bros. Harriman & Co., Secretary.

Real Estate Securities

Increase in New York City Tax Values

On Feb. 1, 1946 the New York "Sun" contained a lengthy article in reference to the total tentative 1946-47 assessed values. Lack of space prevents a reprint of the whole, so certain interesting quotas follow:

NEW YORK CITY TAX VALUES ARE SET AT $15,975,847,166
Tentative Figure for Five Boroughs Is $72,869,470 Higher Than Final Total for 1945-46 Period.

With new construction still virtually at a standstill months after the end of the war, the worth of New York city property is increasing, the City Tax Commission indicated today in reporting the total tentative 1946-47 assessed valuation to be $15,975,847,166, which is $72,869,470 higher than the final 1945-46 valuations.

The Empire State Building regained first place as New York's most expensive individual property after being tied for the honor with the RCA Building this year and, before that, playing second fiddle for years to both RCA and the financial district's Equitable Building. Its valuation was increased $1,000,000 to $31,000,000, while RCA and Equitable remained unchanged at $30,000,000 and $28,000,000 respectively.

Gap Is Narrowed

The general holding of the line on assessments probably will serve to narrow the alleged gap existing between Tax Department values and actual prices paid in property sales. Using Manhattan transactions as a measuring stick, a recent report of the Real Estate Board of New York disclosed that prices averaged 80% of assessed values during 1945, and improvement of ten points over 1944. Practically all forecasts of 1946 activity by leaders in the industry agree that further price rises are indicated:

The assessments on some of the well-known properties which have mortgage bonds outstanding follows:

Beacon Hotel	$3,650,000
Hotel Drake	2,430,000
Hotel Governor Clinton	4,650,000
Hotel Lexington	3,700,000
Hotel Savoy Plaza	11,000,000
Hotel Sherry-Netherland	3,700,000
36-42 Broadway	4,000,000
2 Park Avenue	6,650,000
Textile Building	4,600,000

Forrest Tancer To Be Mgr. of Sutro Dept.

SAN FRANCISCO, CALIF.—Sutro & Company announced today that Lieut. Col. Forrest Tancer, who was recently released from the Air Corps, has become associated with the firm as Manager of its Industrial Department. Prior to his entry into the service, Col. Tancer was principal attorney for the Securities & Exchange Commission and chief of its registration division unit in the Commission's San Francisco regional office. He joined the Commission in Washington in 1934, and during his association with the agency in Washington and San Francisco, specialized in all types of corporate financing.

Col. Tancer was stationed at Headquarters, Air Technical Service Command, Wright Field, Dayton, Ohio, and served as Chief of Requirements for the Supply Division.

Jack Delehanty V.-P. Of Albert Frank Agency

Jack Delehanty has become associated with Albert Frank-Guenther Law, Inc., 131 Cedar St., New York advertising agency as vice-president in charge of general and commercial advertising, it was announced by Emmett Corrigan, chairman of the board.

Mr. Delehanty was formerly director of press, radio and advertising of the War Finance Division of the Treasury Department. He joined the Department one week after Pearl Harbor and was one of the organizers of the Treasury's War Bond promotion program. Mr. Delehanty helped develop the new peacetime program for the continuing sale of U. S. Savings Bonds.

Prior to the war he was associated with Geyer, Cornell & Newell, the Ralph H. Jones Company, and Batten, Barton, Durstine & Osborne. He brings to the agency a wide experience in the consumer advertising field, Mr. Corrigan added.

Caminez to Address B'klyn Chapter of Cost Accountants

David B. Caminez, Assistant Controller of Hyatt Bearings Division, General Motors Corporation, will address the Brooklyn Chapter of the National Association of Cost Accountants on Wednesday evening, Feb. 13, 1946, at the Central Branch of the YMCA, 55 Hanson Pl., Brooklyn, N. Y., at 6:30 P. M. on the subject "Physical Unit Budgets for Factory Control and Other Budgets for Management Control."

Mr. Caminez attended Fordham University where he received his LLB degree and is a member of the bar of the State of New York. He is a member of the National Association of Cost Accountants and addressed the last International Cost Conference held by the NACA in Chicago in June, 1944.

Jack Morris Rejoins Trading Dept. of Courts

ATLANTA, GA.—Jack C. Morris who has been with the Seventh Army in European operations for the past 18 months has been released from service and has resumed his position with the Trading Department of Courts & Co., 11 Marietta St., N. W., Members of the New York Stock Exchange and other exchanges.

Coming Real Estate Values

By ROBERT H. ARMSTRONG*

of Armstrong & Armstrong, New York City

Real Estate Appraiser Attributes Causes of the Rise in Values to (1) Increase in the Price Level; (2) Payments for Immediate Occupancy; and (3) Panic and "Scare Buying." Warns That the Cure for "High Prices Is More High Prices" and Holds That When Urgent Demand for Houses Is Satisfied, Values Will Decline Because of Disappearance of "Scare Buying." Says, However, That Because of Increase in Price Levels, Values Will Remain From 30% to 40% Above Prewar and That Because of "Dual Markets," Certain Types Will Sell Above Normal Level. Predicts a Mortgage Loan Business of $150 Billions in Next Decade, and Sees Mortgage Business Facing New Horizons.

It is not easy to talk with authority on many appraisal problems that confront us today. Changes in our whole economy are occurring with kaleidoscopic rapidity, and confusion and chaos would seem to be the rule rather than the exception.

Robt. H. Armstrong

Unfortunately we all perhaps want a little bit too much from life; and perhaps at this particular moment too much is wanted and expected from the appraiser.

Be that as it may, most of us have lived but little of our lives in a world of peace and tranquility; except for a few years now and then, the last thirty years have been, I believe, more like other times in the world's history than we are willing to admit. Would you listen to these words for just a moment? They have given me a bit more understanding than I have ever had before, and I think they might help you also:

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way—in short, the period

*An address by Mr. Armstrong before the Long Island Real Estate Appraisers Jan. 23, 1946.

(Continued on page 742)

Sees Unprecedented Business Ahead Despite Labor Disputes

John D. Small, Civilian Production Administrator, in Latest Monthly Report Notes That Strong Position of Stock Exchange Shows Confidence of Investors. Says Certain Hurdles, in Addition to Strikers, Are Still in Way of All-Out Peacetime Production.

Once current widespread labor-management differences are settled the businessmen of America anticipate peacetime activity of unprecedented proportion in 1946, John D. Small, Administrator of Civilian Production Administration declared in the agency's monthly report on December production, pointing to a "continued high production level of basic materials, semi-finished products, and capital goods during December."

J. D. Small

Nevertheless he warned that the continuance of the steel strike will cause great and increasing delays in the reconversion program since industry is now rapidly depleting its pipeline supplies of steel which were already too short.

"The output of steel, coal, and electric power, the amount of copper, lead, zinc, and aluminum purchased by consumers," Administrator Small said, "and the volume of building materials on order indicate that businessmen are expecting business to boom in 1946."

The strong position on the stock exchange, of merchandising and consumer durable goods industries, the report notes may be interpreted "as an indication of a high degree of confidence on the part of investors that despite all obstacles, sales and profits will be unprecedentedly high in the immediate future, at least"; while the demand for long-term Government issues "shows that investors now expect the level of interest rates to remain at 2½% for a considerable period, and that continued decline in long-term interest rates is more probable than a reversal of the trend."

Consumer goods shipments in December of vacuum cleaners, electric irons, refrigerators, electric ranges, washing machines,

(Continued on page 741)

Banking's Objective in 1946

By FRANK C. RATHJE*

President, American Bankers Association
President, Chicago City Bank & Trust Company, Chicago

Asserting That It Is Possible That We Will Enter Upon a Golden Era of Tremendous Markets and Productive Activity, if We Maintain a Sound Course of Action, ABA Executive Warns Against a Banking Policy Which Would Unduly Expand Consumer Credits and Thus Aggravate Inflationary Pressures. Renews Advocacy of Small Business Loans by Banks, and Urges That Advice and Counsel as Well as Credits Be Provided for Veterans. Says It Is Urgent That Banks in Extending Credit Should Not Add to Inflation Pressures, and Calls for a Balanced Budget, Lower Government Expenditures and Tax Reforms. Cautions Against Excessive Foreign Lending and Wants Banks to Use Their Funds in a Balanced Manner, for Stable Prosperity and Economic Welfare.

The postwar period gives great promise of a high level of business and industrial activity. Individuals and business units now hold currency and bank deposits of 150 billion dollars and 100 billion dollars of government bonds. Consumers' goods purchases which had been deferred during the war now represent a tremendous backlog of demand.

Frank C. Rathje

Private capital expenditures had been substantially reduced during the war. Private gross capital formation declined from almost 20 billion dollars in 1941 to less than two billion dollars in 1944. The major additions to plant and equipment during the war were, of course, made by the government in the war industries. However, according to plans for plant outlays and financing reported by business to the Department of Commerce, postwar private capital expenditures are likely to be considerably above the pre-war level. It is true that in some segments of business activity there was a tremendous expansion during the war. On the other hand, there exists a considerable need for facilities which could not be replaced during the war because of shortages and controls. Also, there will be a large demand for machinery and equipment to keep pace with the technological developments that have taken place.

All of these facts point to a period of high business and industrial activity. When the frictions of industrial strife have been eliminated, it is possible that we will enter upon a golden era of tremendous markets and productive activity. But we should not fail to heed the wisdom contained in the proverb, "It is not all gold that glitters." This golden era could sadly prove to be only a gilded one, if the cross currents of the complex forces which will have their impact upon us are permitted to divert us from a sound course of action. A grave responsibility will rest on bankers during the next few years to invest the deposits and trust funds of the banks wisely. It is because I am apprehensive of the mixed elements of strength and weakness in the situation that I wish at this time to attempt to appraise a few of the factors in the future that lies before us. New developments are rapidly taking place in connection with the lending policies of banks which must be prudently considered.

There is, for example, almost an epidemic of interest at this time among lending agencies in connection with consumer credit financing. The banks were slow

*An address by Mr. Rathje before the 27th Mid-Winter Trust Conference of the Trust Division, A. B. A. at the Waldorf-Astoria, New York City, Feb. 4, 1946.

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Southern Pacific Bonds Go to Kuhn Loeb Group—Issue Oversubscribed

An underwriting syndicate of 91 members, headed by Kuhn, Loeb & Co., was the successful bidder Feb. 4 for a new issue of $50,000,000 Southern Pacific RR., first mortgage, Series E, bonds, due Jan. 1, 1986, receiving the award on a bid of 100.6599 for a 2⅞% coupon. The bonds were immediately reoffered to the public at a price of 101½% and accrued interest, subject to approval of the Interstate Commerce Commission, and were quickly oversubscribed.

The sale attracted only one other syndicate bid. Halsey, Stuart & Co. Inc., and associates offered 100.2799 for the same interest rate.

Emphasizing the steady decline in interest rates and the ability of leading corporations to reduce fixed charges through refunding operations, proceeds from the sale of the new Series E bonds are to be used for the redemption of $50,000,000 of Series B 3¾% bonds, due Jan. 1, 1986, of the company which have been outstanding less than six months.

The Series B bonds, which will be redeemed at 103¼% and accrued interest, are part of three series, aggregating $125,000,000, which were offered to the public last September by a group headed by Kuhn, Loeb & Co.

The new Series E bonds are guaranteed unconditionally as to both principal and interest by the Southern Pacific Co. In the opinion of counsel, they are or will be legal investment for savings banks in California, Illinois, Massachusetts, New Hampshire, New York, Ohio, Pennsylvania and Rhode Island, and for fiduciaries in New Jersey.

Annual interest charges on the funded debt, including bank loans and equipment obligations, of the Southern Pacific Transportation System at Dec. 31, 1945, amounted to $21,284,405, a net reduction of $9,754,308, or 31.4%, from Dec. 31, 1939. Consolidated net income of the System for the eleven months ended Nov. 30, 1945, amounted to $29,876,907, compared with $34,018,038 in the corresponding period in 1944.

Railroad Securities

The market is obviously not too apprehensive over the possibility of a call for redemption of the approximately $21,000,000 outstanding Western Pacific Convertible 4½s, 2014. The bonds are callable at par but at the time of this writing are selling at 114½. The main reason for the current high price is, of course, general bullishness over the prospects for the road's common stock. The bonds are convertible at any time into 20 shares of common for each $1,000 bond, or at the rate of $50 a share. The common has been selling at 54½ giving a conversion value of 109 to the bonds. The five and a half point premium over the conversion value at which the bonds are selling is considered not too great a risk in this day when the supply of securities with a currently valuable conversion feature is at such a low ebb.

Aside from the current market value of the road's common stock it is generally expected in financial circles that its investment status will be improved materially in the current year by retirement of senior securities. In addition to equipments the company's debt is confined to $10,000,000 1st 4s, 1974 (callable at 102½) and the roughly $21,000,000 of Income 4½s. There is no question but that the 1st Mortgage bonds could be refunded at a considerably lower interest rate and such a step was proposed last year. However, the ICC voiced the opinion that the company was well able to pay off the bonds in full with treasury cash and there was no justification for replacing the bonds with another issue.

Stock capitalization consists of $31,850,200 of 5% cumulative preferred (callable at par) and 319,032 shares of common stock. Conversion of the Income bonds would materially dilute the earning power of the present common stock. As call for redemption of the bonds would naturally force conversion under present market conditions it is considered unlikely that any move along this line would be contemplated in the company's financial program. Rather, if the company contemplates any reduction in its outstanding capital obligations it is probable that the target will be either the 1st Mortgage 4s or the 5% preferred. The latter is callable in whole or in part. In view of Federal income tax considerations the call of part of the preferred stock issue would be far more advisable from an earnings standpoint. Redemption of the 1st Mortgage 4s would increase common stock earnings, after taxes, only $248,000 or $0.78 a share while redemption of a similar par value of the preferred would add $1.57, net, to common share earnings.

Western Pacific is in an exceptionally strong financial position and it is generally considered that the company could well afford to divert more than $10,000,000 to retirement of capital obligations. It is estimated that net working capital, allowing for tax reduction in line with accelerated amortization, as of the end of last year amounted at least to $20,000,000. Considering that total fixed and contingent charges amount to only about $2,000,000 it is obvious that this balance alone is much more than the company needs. However, this net working capital does not even include special reserves set up against possible tax liabilities for 1943 and part of 1944. This fund amounted to $10,100,000 at the end of March 1945 and was invested in Government bonds. Also, the net working capital does not include maintenance reserves ($1,998,649 at the 1944 year-end) invested in Government bonds.

Western Pacific is one of the few reorganization carriers with an outstandingly favorable long term trend of revenues. One important factor has been the extension in northern California to connect with Great Northern, completed in the early 1930s. The main line was virtually rebuilt during the trusteeship period which put the company in a position to compete for through transcontinental freight. Finally, there has been considerable industrial expansion in parts of the service area and this was accelerated for war purposes. In large measure the factors leading to the better-than-average traffic and revenue performance in the past have been of a permanent nature. Therefore, the road is considered as having bright prospects in the coming era of peacetime prosperity. Earnings in excess of $10 a share are not viewed as being too optimistic.

Direct Incentives for Labor the Key to Industrial Peace

Writer Maintains That Profit-Sharing and Incentive Wages, Rather Than "Repressive Legislation," Are Needed to Insure Labor's Interest in Production and Efficiency.

Editor, The Commercial and Financial Chronicle:

Dear Sir—Writers in the "Chronicle" have had a great deal to say about the necessity of preserving the incentives that keep the free enterprise system going. We must not unduly restrict profits or hamper business with too many restrictions, lest the risk-taker be discouraged from initiating new enterprises; and we must not discourage that spirit of initiative and pride of achievement which mean more to the enterprising businessman than the incidental profit he may win.

Wm. G. Lightbowne

The entrepreneur, in other words, is not just a cog in the economic machine—he is a human being who responds to certain definite stimuli, and if we want him to function at his best, for the general welfare, we must not destroy the incentives that activate him.

With all this it is possible to agree, and heartily. But while the professional economists and business protagonists are very insistent in upholding the necessity of proper incentives for the entrepreneur, they have little or nothing to say about incentives for the workers who man our industries. And yet these workers are human beings, too, and I venture to say that the lack of suitable incentives is responsible for much of the labor unrest that plagues us today.

There is a reason for this, of course—a reason that goes back to the days when all workers were either slaves or serfs. A slave was not expected to have any interest in his work. He had only one motive for exertion—fear of the whiplash in the hands of his master. And because work and slavery were associated in his mind, he did as little work as possible and considered success in malingering as a tribute to his cunning.

This slave attitude toward work has carried over into the present. Today the workers are free, in that they do not have to cringe beneath the master's whip. But fear is still the prime animating motive that makes most employees work—only now it is fear of unemployment. Under our highly mechanized, mass-production economy, the great majority of men must work for others, and the *sine qua non* of economic security is a job. A man without a job is a social outcast, an object of charity, eventually a bum. This is the whiplash that modern society holds over the workers, and that in "normal" times keeps them in line.

But when times are not "normal"—when war, for example, puts some of the workers in uniform and sets others to making munitions—the labor market becomes a "sellers' market," and the fear of unemployment loses most of its force. And since we have heretofore relied almost entirely upon fear to maintain social discipline, the absence of fear results in a breakdown of social controls and contributes toward industrial strife.

Instead of demanding repressive legislation, however, in the present disturbed labor situation, or allowing the situation to drift toward the point of open violence, would it not be wiser to take thought as to how we might furnish incentives to enlist the willing cooperation of labor, by giving the workers a direct interest in the efficiency and productiveness of industry?

What are some of the incentives that might be expected to have the most influence on labor in its relation to work? First, of course, is the hope of immediate gain—wage rates. And second comes the matter of job security, without which the worker cannot assume long-time responsibilities.

But I venture the assertion that general increases in wages, which come to all workers irrespective of individual merit, have little or no influence on productivity. And I might say further that job security which comes through the seniority rules of a trade union may even have a contrary effect, since the man so protected from discharge has less reason for exerting himself.

Unless wage rates and job security, therefore, are in some way directly hooked up with increased production, they will not conduce to anything but an uneasy truce in the relations between labor and management.

The key to many of the attitudes of labor to which the most exception is taken is to be found in the fear of unemployment. Slow down; don't work yourself out of a job; fight labor-saving machines and processes—they'll take away our jobs; don't train

(Continued on page 747)

What Is Back of the Strikes?*

By LUIGI CRISCUOLO

Writer Sees in Current Wave of Strikes, a Revolutionary Movement Away From Our Present System of Government to Socialism and Communism. Holds Labor Leaders Defy Laws and Are Forcing the Government to Take Over Industries and if They Have Their Way "We Will Soon Be Like the Russia of Lenin and Stalin," a Totalitarian State. Blames Situation on Roosevelt Regime and Radical Educators.

This does not seem like the old America any more, the land of opportunity where young men did not watch the clock but worked hard at school, learned a trade, advanced in a particular job, and one day became the head of the firm. Now many of our ambitious young men want to marry the "boss's daughter" (or the boss's son), and fall in soft.

Luigi Criscuolo

The pioneers who made this country what it is were pretty tough, we must admit, and they made fortunes, sometimes by irregular or unethical means. But in the final analysis, the sum total of everything has made this country the greatest nation in the world. Our systems and plans are not necessarily viewed with envy by everybody else, but our ideas are accepted and our methods imitated, and sometimes not without success.

These American methods have increased the standard of living of millions of underprivileged persons who came here from Europe; many of them have been enriched far beyond their wildest dreams when they were in the "old country." We are even passing along the higher standard of living to the peoples of every corner of the world, as a result of our part in the war.

Nowhere do men and women dress as they dress here, or enjoy themselves as they do here. Nor do they have educational facilities and means of amusement that they have here. Nor is public health taken care of as it is here.

For a long time, a career in business or in the professions was something for a young man to look forward to, in order to give him a place in our system of free enterprise.

A New System Demanded

But now, there are "wise men

(Continued on page 741)

*Reprinted from "The Rubicon," Criscuolo Newsletter, published in New York City, Feb. 1, 1946.

Carroll Ward Partner In Bartow, Leeds Co.

Bartow Leeds Co., 57 William St., New York City, dealers in U. S. Government and municipal securities, announce that Carroll J. Ward has been admitted as a general partner, and that Philip K. Bartow and Commander Guy O. Reynolds USNR, have become associated with the firm. Other partners of the firm are Francis D. Bartow, Jr., and Donald D. Leeds.

Mr. Ward first joined Bartow Leeds on June 1, 1945. He was formerly with Hoit, Rose & Troster, and previously with F. P. Lang & Co. and Barr Brothers & Co.

Mr. Bartow was associated with the Guaranty Trust Company until Sept. 1941 when he joined the Armed Forces. He rejoined that bank in Oct. 1945, upon his release from active duty as a lieutenant in the United States Navy.

Commander Reynolds first came to Wall Street in 1930 with Evans, Stillman & Co. He entered the United States Navy in Jan. 1942, and saw active service in the Pacific.

Floyd H. Johnson With Boland, Saffin & Co.

Boland, Saffin & Co., 52 William Street, New York City, announces that Floyd H. Johnson has become associated with them. Mr. Johnson has been active as an individual dealer in New York for many

Sees Way Open for Repeal Of Federal Tax Exemptions

Peter Guy Evans Tells Bridgeport Controllers That Supreme Court Decision Upholding Excise Tax on New York State Owned Mineral Waters Will Probably Lead Congress to Tax Municipal and State Owned Utilities as Well as Cooperative Organizations and Traders Unions.

The New York Saratoga Springs decision reveals that the majority of the Supreme Court Justices are strongly in favor of, and have given their cue for, legislative repeal and changes of the special tax exemption status now enjoyed by State and municipally owned utilities, stated Peter Guy Evans, C.P.A. and Attorney, and partner of Janis, Bruell & Evans of New York City, at a meeting of the Controllers Institute of America at the University Club, Bridgeport, Conn., on Feb. 5.

Peter Guy Evans

Mr. Evans, who is a Tax Lecturer at Columbia, Rutgers and New York Universities, pointed out that such stimulated action in Congress may also be concentrated on the elimination of the tax-free status of interest on State, Municipal and Authority bonds as well as subjection of co-operatives, labor unions, etc., to the Federal income tax.

On Jan. 14, the Supreme Court ruled that New York State is not immune from Federal tax on sales of its mineral waters. Despite the fact that the tax has been repealed, this decision is of paramount importance to investors and American business.

The State's claim that it was engaged in a usual traditional and essential governmental function was rejected by the courts. Four opinions were handed down by the Supreme Court. Six Justices concurred that New York State was not engaged in a strictly governmental function, and held that the tax was not imposed against the State as such, but rather against all bottlers and sellers of mineral waters.

Because of the widespread interest in the case, 45 State Attorneys General and a dozen City Attorneys filed briefs with the Court. Counsel for the Port of New York Authority also assisted in the case.

The quantity and the quality of legal and tax talent clearly show

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New York Security Dealers Association 20th Anniversary Dinner

Provision Being Made for Record Attendance

Because of an anticipated large attendance that may strain the exceptional capacity of the Grand Ballroom of the Waldorf-Astoria Hotel on the occasion of the 20th Anniversary Dinner of the New York Security Dealers Association, the Dinner Committee is already earnestly at work with the avowed objective of making this dinner the most enjoyable and successful one ever held by the Association. The date of the Dinner is Friday, March 8, 1946.

The Committee having charge of the Dinner to take place as above set forth consists of the following: J. Arthur Warner of J. Arthur Warner & Co., Chairman, Irvin Hood of Grimm & Co., Vice-Chairman; Hanns Kuehner of Joyce, Kuehner & Co., Vice-Chairman; Richard F. Abbe of Van Tuyl & Abbe, Herbert E. Allen of Allen & Co., Harry R. Amott of Amott, Baker & Co., Inc., Richard M. Barnes of A. M. Kidder & Co., George L. Collins of Geyer & Co., Inc., James Currie, Jr. of Troster, Currie & Summers, Vicent Fitzgerald of Fitzgerald & Co., Leo J. Goldwater of L. J. Goldwater & Co., Wellington Hunter of Hunter & Co., John J. O'Kane, Jr. of John J. O'Kane, Jr. & Co., T. Reid Rankin of R. H. Johnson & Co., John F. Sammon of J. F. Sammon & Co., Bertram Seligman of Ward & Co., Lee D. Sherman of L. D. Sherman & Co., Herbert Singer, of Luckhurst & Co., Otto H. Steindecker of the New York Hanseatic Corporation, Erwin Stugard of Bond & Goodwin, Inc., Stanley M. Waldron of Wertheim & Co., assisted by Alfred E. Loyd, Executive Secretary of the Association and R. Page Mason of Allen & Co., and Theodore J. Moynahan of J. Arthur Warner & Co., Advertising Manager.

Tickets now are available and these with reservations for entire tables comfortably seating 10 persons can be obtained from Irvin Hood of Grimm & Co., 44 Wall St.,—Hanover 2-8687, — Teletype, N. Y. 1-2603; from any member of the Committee, or from Alfred E. Loyd, Executive Secretary of the Association, 42 Broadway, New York 4, N. Y.,—Digby 4-1650.

Plans are under way to bring to the Dinner large groups of out-of-town Broker-Dealers from localities like Boston, Philadelphia, Baltimore, etc. The Committee has reserved a limited number of special accomodations at the Waldorf-Astoria and elsewhere for out - of - town guests and others. Accordingly it is suggested that those who desire to stay overnight should communicate without delay with Wellington Hunter of the Committee in charge of room reservations, at the office of Hunter & Co., 42 Broadway, New York 4, N. Y., Whitehall 4-2968, Teletype, N. Y. 1-110. In view of the fact that it is understood that there are to be several Conventions held in New York City on the same day as the Dinner it is obvious that in respect to room reservations it will have to be first come, first served.

Among those who will be invited as Guests of Honor of the Association at this Dinner will be as usual, leading important personages representing the Federal Government, top ranking officials and others connected with Banks, Stock Exchange Houses, Underwriters and Investment Banking Houses. In addition, arrangements are being perfected to provide entertainment that will be of such character that it will remain for a long time in the memories of all present as one of the most pleasing and delightful occasions they ever attended. And on top of this the proposed Menu of the Dinner itself is expected to give added joy and satisfaction to all concerned.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

Two weeks ago this column presented earnings of 17 prominent New York City commercial banks for 1945 compared with 1944. This week, a similar comparison is offered covering leading banks in Boston, Chicago, Philadelphia, Cleveland, and California. The figures given below are as reported by Moody's Investors Service.

	Reported Net Operating Earnings Per Share		Book Value Per Share Dec. 31	
	1944	1945	1944	1945
	$	$	$	$
BOSTON—				
*First National	3.79	3.76	44.49	45.59
†Merchants National	20.72	18.78	307.87	318.15
†National Shawmut	1.31	1.50	39.41	39.91
‡Second National	12.57	11.01	103.33	111.07
*Includes Old Colony Trust.				
†Indicated earnings.				
‡80,000 shares in 1944; 100,000 in 1945.				
CHICAGO—				
Continental Illinois Bank & Trust	8.96	7.94	77.48	81.93
*First National	17.31	14.74	207.69	189.47
Harris Trust	22.97	24.23	267.45	279.67
Northern Trust	37.66	41.37	626.93	650.30
*500,000 shares in 1944; 600,000 in 1945.				
PHILADELPHIA—				
*Corn Exchange	4.96	4.13	65.63	63.38
Fidelity-Philadelphia	25.37	24.32	339.94	352.45
First National	3.46	3.53	32.20	39.50
Girard Trust	5.54	5.51	41.55	42.99
Pennsylvania Company	2.93	3.25	28.55	30.16
Philadelphia National	8.46	7.99	74.23	77.78
*227,500 shares in 1944; 284,375 in 1945.				
PITTSBURGH—				
First National	2.50	2.97	50.84	52.18
CLEVELAND—				
National City	2.94	3.11	36.59	39.63
CALIFORNIA—				
*American Trust	6.16	5.62	54.91	58.93
†Bank of America	4.46	2.88	41.48	27.18
*Security First National	4.90	6.07	48.33	51.67
*Indicated earnings.				
†4,800,000 shares in 1944; 8,000,000 in 1945.				

Earnings of Boston's four banks shown above were generally lower in 1945 than in 1944. However, figures for Merchants and Shawmut are "indicated earnings," and therefore cannot be accepted as conclusive. It is of interest that Shawmut reported net earnings in 1945 as $2.69 as against $1.50 indicated, but unfortunately no comparable figure was reported in 1944. Second National's earnings of $11.01 on 100,000 shares in 1945 are equivalent to $13.76 on 80,000 shares, compared with $12.57 in 1944. All book values are up substantially.

Net operating earnings of Chicago's four banks as tabulated above, were higher in 1945 than in 1944, except in the case of Continental Illinois Bank & Trust. In the case of First National, the $14.74 on 600,000 shares in 1945 is equivalent to $17.69 on 500,000 shares, compared with $17.31 in 1944.

Philadelphia's banks show mixed results. Lower earnings are reported by Fidelity-Philadelphia, Girard Trust and Philadelphia National, while First National and the Pennsylvania Company report moderately better earnings in 1945 than in 1944. In the case of Corn Exchange National Bank & Trust Company, the $4.13 reported for 1945 on 284,375 shares is the equivalent of $5.16 on 227,500, compared with $4.96 in 1944.

Pittsburgh's First National and Cleveland's National City each report improved earnings in 1945 over 1944.

Bank of America National Trust & Savings Association of California increased its capitalization in 1945 from 4,800,000 shares to 8,000,000 shares. Its reported earnings in 1945 of $2.88 on the increased capital is equivalent to $4.80 on the former capitalization, which is approximately 7.5% better than the $4.46 reported in 1944.

Accelerated British Nationalization

(Continued from first page)

tees Bill and the National Insurance Bill, in addition to two less important Bills. The Government is doing its best to rush all these measures through Parliament. It allotted only two days for the debate of the highly important and involved Coal Bill on its first reading before the House of Commons. And in its Committee stage which would normally provide by far the best opportunity for close Parliamentary scrutiny, it will be dealt with by a Standing Committee instead of by the House as a whole. There is growing criticism, not confined to Opposition circles, of this forced pace of legislation.

It is not easy to understand the Government's motives in accelerating the application of its nationalization programme. The Labour Party, when returned with a large majority, received a five years' mandate during which to nationalize the Bank of England, the coal mining industry, transport and communications, gas and electricity, and the iron and steel industry. These were the industries mentioned in the Labour Party's much-quoted election pamphlet "Let's Face the Future." At the present pace of progress the program would be completed not in five years but in 18 months.

Conservative Party Tactics

The Conservative Party is beginning to recover from the demoralizing effect of the blow of its defeat at the general election. Until now its activities as Opposition were incredibly badly advised. It had spent its energy on attacking the principle of nationalization, even though that principle was endorsed by the electorate only a few months ago. During recent weeks, however, Conservative leaders appear to have reconsidered their position, and have changed their tactics. Their main attack is now no longer against the basic fact of nationalization, but against its methods. This was the line taken by Mr. Harold MacMillan, Air Minister in the late Government, during the debate on Civil Aviation. The Conservative Amendment to the Coal Bill moves its rejection, not on grounds of principle, but because, in the opinion of the Opposition, it contains no provisions that would be necessary to improve conditions in the industry, or to safeguard the interests of workers, consumers or taxpayers.

This new approach will make it much more difficult for the Government to deal with its critics. Until now it had an all-too-easy task in facing the bad-tempered frontal attacks of Conservatives who had refused to accept the verdict of the country which, for the time being, appears to favor nationalization. All that the Ministers had to do to reiterate their claim was:—"We have a mandate!" When they find themselves confronted, however, with constructive criticism, they will have to try to make out a convincing case in favor of **their** method of nationalization. During the recent debates on the Bank of England Bill the same criticisms and the same answers were repeated to boredom. Now, thanks to the new Opposition tactics, the debates promise to be more interesting. And the Government can no longer afford to maintain its complacent "we-have-our-majority-and-what-are-you-going-to-do-about-it?" attitude.

Vulnerable Spot in Coal Bill

One of the vulnerable spots of the Coal Bill is the clause under which compensation is paid in Government stocks which are not marketable. This is an innovation, for Bank of England stockholders are paid in marketable stocks. The reason for the difference is that, while there is little likelihood for Bank of England stockholders to sell out their Government stocks which secure them the same yield, the holders of coal mining shares may not be satisfied with the lower yield on the Government stocks they are to receive in exchange for their holdings. The Treasury fears that wholesale realizations would cause a relapse in the market which has been rising steadily for months. But the Government is by no means unanimous on this question. Some Ministers fear that, since the non-marketable stocks will be worth less than the corresponding marketable stocks, the Tribunal of Arbitration which is to fix the amount of compensation might decide on a correspondingly higher figure. And this would be a too high price to pay for the avoidance of a temporary setback in the market in Government loans.

The Opposition will find it more difficult to make out a convincing case against the Investment Control and Guarantees Bill. Impartial observers hold the view that it is hardly a Socialist measure. It merely maintains the existing controls on capital issues and creates an advisory body which will have no power beyond making recommendations which the Chancellor of the Exchequer may or may not accept. Nor is the provision under which the Government is entitled to guarantee loans to industries up to a limit of £50,000,000 per annum very revolutionary. The amount is much more moderate than was expected, and it can hardly make any material difference to the situation.

On the other hand, the National Insurance Bill provides more opportunity for criticism. It materially increases the cost of social security beyond the limits accepted by the Coalition Government, and even beyond the figures proposed by the Beveridge Plan. At a moment when the Government is not even in a position to give an approximate idea of the size of its normal postwar expenditure such commitments are likely to be regarded as excessive by many unbiased observers.

However this may be, this measure and the others will be rushed through without adequate opportunity for ironing out their imperfections. For the present, the Government's main concern is not the Opposition but its own supporters. It is presumably in order to keep them quiet that the pace of nationalizations has been accelerated. While Parliament is busily engaged on that task, the Socialist backbenchers are not likely to oppose actively the Government's foreign policy, however strongly they may disagree with it.

S. E. Firms Governors To Meet in April

The first meeting of the Board of Governors of the Association of Stock Exchange Firms to be held outside New York City since the beginning of the war will be held on April 13 and 14 at the Statler Hotel in St. Louis, Mo., it was announced.

John Coleman, Adler Coleman & Co., and Emil Schram, President of the New York Stock Exchange, will attend the meeting and on Friday evening, April 12th, Mr. Schram will address a dinner meeting of the St. Louis Chamber of Commerce, which officers and governors of the Association will attend.

On Saturday evening, April 13th partners and executives of St. Louis member firms and Association officials will gather at dinner for a discussion of trade problems.

The meeting of the Association Governors will take place Saturday and Sunday, it was pointed out, so that Governors who come from all parts of the country, will be away from their offices a minimum of time.

Sidney J. Adams, partner of Paul Brown & Co., St. Louis Regional Governor of the Association, is in charge of arrangements.

Schroeder Rockefeller Elects

Gustave Mahler, secretary of Schroder Rockefeller & Co., Inc., 48 Wall St., New York City, has been elected vice-president, it was announced by Mord M. Bogie, President.

Tax Policies for Prosperity

(Continued from page 713)

entific, mechanical, artistic, and managerial. The United States is well provided with these basic requirements for prosperity. We are not so completely provided with these elements that we can isolate ourselves from the rest of the world without economic and cultural loss, but we have enough, so that by trade with others we can have access to what we need and want.

The second requirement for prosperity is the organization of these basic elements into a working pattern of production and distribution. Today we see clearly that, even though all else can be organized, it is to no avail unless there is a harmonious and acceptable foundation in satisfactory labor relations. The conflicts that are now appearing are not as simple as they are sometimes described, namely, as a controversy between two adversaries, capital and labor. Today there are four parties directly at interest in the conflict—owners, managers, labor leaders and workers, with millions of unorganized workers and small businessman on the sidelines, but by no means outside the danger zone of minor injury or disaster. The basic objective in the field of labor relations is not unlike the basic objective in the field of international relations, that is, to eliminate the use of force in the settlement of disputes and to establish in its place a system of law and justice based on consent. We cannot expect to eliminate controversy and disputes, but we can reduce the number of them and see to it that settlements are arrived at in terms of recognized principles, justly applied and adequately enforced.

Throughout the present period of tension let us keep in mind that what we want fundamentally is to eliminate the use of force in the settlement of disputes between men in all areas, at home and abroad. Accordingly, we wish to bring into the area of labor relations, for the settlement of disputes when they arise, a system of recognized law and impartial justice administered in an atmosphere of consent. Only in this way can we attain the high level of productive prosperity under democracy which we have set as our goal.

The third requirement for prosperity is the maintenance of an adequate, effective demand for the goods and services which we are able to produce. Even though we have all the basic elements for production and have them organized so that abundant output can be realized, nevertheless without an effective demand that will move these products into consumption, the channels of distribution will become clogged, the means of production will be made idle, mass unemployment will appear, and prosperity will fade away.

Today we are experiencing an unprecedented demand for the products of business and agriculture. This demand is the result of many years of shortages and of enormous purchasing power in the hands of the people. The demand in fact is so great that many restraints are necesary to keep it from expressing itself in an inflationary price rise. In a period such as the present, when effective demand is so great that arbitrary regulations and controls are still needed to prevent inflation, it is easy to forget that all through the 30's, and perhaps in the 20's, too, effective demand was not sufficient to move the products which business and agriculture could produce. Nor have those corrections of past policies and practices been made which would give us confidence that such periods will not come again. It is for this reason that there is need to consider national fiscal policy as a principal means of helping us to maintain a condition of high prosperity.

A National Fiscal Policy For Prosperity

The importance of national fiscal policy in attaining and maintaining high prosperity is so great that there are some who overemphasize what fiscal policy can do, and who give the impression that a sound fiscal policy by itself would be a panacea for all our economic ills. This, of course, is far from the case. Measures of fiscal policy can clear the way and can facilitate; they cannot produce goods and services, they cannot give employment. They can create a situation in which high employment becomes possible as business, labor and agriculture find the way. But all the favorable conditions with respect to basic elements and to the organization of men and materials for work will be unavailing if effective demand is insufficient to keep the wheels turning.

We must recognize that the objective of national fiscal policy is above all to maintain a sound currency and efficient financial institutions; but consistent with this basic purpose, fiscal policy should and can contribute a great deal toward obtaining a high level of productive employment and prosperity.

If a constructive over-all fiscal policy is to be legislated and administered, corrective measures must be adopted by the government in both the legislative and executive branches. At this time, even if a fiscal and monetary policy to complement and supplement the activities of private business were generally agreed upon, there is no possibility under the present organization of the Federal government of its being made operative or effective.

Since taxation is one of the most important parts of fiscal policy, let us discuss basic policy for Federal taxation.

During the war we have learned many things about taxation in its relation to fiscal policy. If we look at the financial history of recent years it is apparent that nations have been able to pay their bills even though their tax revenues fell short of expenses. Those countries, whose expenses were greater than their receipts from taxes, paid their bills by borrowing the necessary money. The borrowing of money, therefore, is an alternative which governments use to supplement the revenues from taxation in order to obtain the necessary means for the payment of their bills.

A government which depends on loans and on the refunding of its loans to get the money it requires for its operations is necessarily dependent on the sources from which the money can be obtained. In the past, if a government persisted in borrowing heavily to cover its expenditures, interest rates would get higher and higher, and greater and greater inducements would have to be offered by the government to the lenders. These governments finally found that the only way they could maintain both their independence and their solvency was to tax heavily enough to meet a substantial part of their financial needs, and to be prepared—if placed under undue pressure—to tax to meet them all.

The necessity for a government to tax in order to maintain both its independence and its solvency is true for state and local governments, but it is no longer true for a national government. Two changes of the greatest consequence have occured in the last 25 years which have substantially altered the position of the national state with respect to the financing of its current requirements. The first of these changes is the gaining of vast new experience in the management of central banks. The second change is the elimination, for domestic purposes, of the convertibility of the currency into gold.

Effect of Central Banking

Final freedom from the domestic money market exists for every national state where there exists an institution which functions in the manner of a modern central bank, and whose currency is not convertible into gold or into some other commodity.

The United States is a national state which has a central banking system, the Federal Reserve System, and whose currency for domestic purposes, is not convertible into gold or into any other commodity. It follows that our Federal government has final freedom from the money market in meeting its financial requirements. Accordingly, the social and economic consequences of any and all taxes have now become the prime consideration in the imposition of taxes. National states no longer need taxes to get the wherewithal to meet their expenses. Therefore, since all taxes have consequences of a social and economic character, the government should look to these consequences in formulating its tax policy. All Federal taxes must meet the test of public policy and practical effect. The public purpose which is served should never be obscured in a tax program under the mask of raising revenue.

Federal taxes can be made to serve four principal purposes of a social and economic character. These purposes are:

1. As an instrument of fiscal policy to help stabilize the purchasing power of the dollar.
2. To express public policy in the distribution of wealth and of income, as in the case of the progressive income and estate taxes.
3. To express public policy in subsidizing or in penalizing various industries and economic groups.
4. To isolate and assess directly the costs of certain national benefits, such as highways and social security.

In the recent past, we have used our Federal tax program consciously for each of these purposes. In serving these purposes, the tax program is a means to an end. The purposes themselves are matters of basic national policy which should be established, in the first instance, independently of any national tax program.

By all odds, the most important single purpose to be served by the imposition of Federal taxes is the maintenance of a dollar which has stable purchasing power over the years. Sometimes this purpose is stated as "the avoidance of inflation"; and without the use of Federal taxation all other means of stabilization, such as monetary policy and price controls and subsidies, are unavailing. All other means, in any case, must be integrated with Federal tax policy if we are to have tomorrow a dollar which has a value near to what it has today.

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Mutual Funds

Spotlight on Steel Stocks

Since the first of the year steel stocks have come increasingly into the limelight. **Distributors Group** quoted the New York "Herald Tribune" last week as follows:

"Stock trade volume soars; steels, motors lead list . . . Steels and motors led a general advance and the market as a whole, judged by the composite average, went to a new high for the last fifteen years."

In an accompanying memorandum Distributors Group compares the percentage price advances of the various steel consumer stock groups with the price advance of the steel group itself from the beginning of 1942 up to Jan. 1, 1946. The record shows that stocks of the household products' companies were up 198%, automobile stocks up 160%, construction stocks up 134% and railway equipment up 118% as compared with a gain of only 63% for the steel stocks.

"Selected steel stocks appear undervalued," concludes Distributors Group and adds that through **Steel Shares of Group Securities, Inc.** "you can obtain a carefully selected, continuously supervised list of steel stocks currently considered most undervalued."

Steels Added to Selected Groups

National Securities & Research Corp. announced last week that "the steel and iron industry has been added to **Selected Groups Series.** Representation in this basic industry has now been included, believing that the strike will be settled shortly and that the industry will receive the much needed price adjustments."

The four industries previously represented in **Selected Groups Series** are Automotive, Building, Household & Office Equipment and Railroad Equipment. These four groups are still retained in the Series.

Fundamental Investors

The annual report of **Fundamental Investors** for the calendar year 1945 reveals an increase in net assets from $12,420,423 at the beginning of the year to $19,264,606 as of Dec. 31, 1945. During the year the per-share net asset value of Fundamental Investors, adjusted for capital gains dividends, rose 42.2%. This compares with an advance of 30.6% for the stock market as measured by the Standard & Poor's 90-Stock Index. Thus, another year is added to the excellent, long-term management record of Fundamental Investors.

Higher Eearnings Promised

Keystone Co. devotes the current issue of Keynotes to an analysis of the higher earnings which may be expected from tax relief during 1946. "For the first year since 1939 American corporations in 1946 will not be subject to an excess profits tax on earnings," writes this sponsor.

"The importance of this change in corporate taxation can be demonstrated by applying the two tax rates (last year's and this year's) to the 1944 earnings of the issues currently included in the four **Keystone Common Stock Funds.**"

	1944 Average Earnings Per Share		
Keystone	Before Taxes	After Taxes	Adjusted for 38% Tax
S-1	$13.07	$4.68	$8.10
S-2	11.86	3.99	7.35
S-3	17.23	4.35	10.68
S-4	8 24	2.07	5.11

"It is obvious from the above figures that net earnings for stockholders in 1944 would have been approximately 100% higher if the present tax rate were then in effect."

Growth

Lord, Abbett in the current issue of Abstracts analyzes the growth figures recently published by the National Association of Investment Companies. The analysis highlights some startling facts with respect to mutual funds. For example: "1942 vs. 1941 showed increased investor interest of 38%; 1943 vs. 1942 recorded a gain of 59%, and 1944 vs. 1943 brought a 46% improvement. The 1945 increase over 1944 was 73%, in spite of the fact that the higher the amount being compared with, the greater the volume necessary to show the same percentage gains."

With net assets now of $1,283,978,000 owned by approximately 500,000 shareholders, mutual funds are rapidly becoming a factor of considerable importance in American finance. The extraordinary rate of growth is clearly evidenced by the fact that between 1941 and 1945 purchases of investment company shares increased by 450%, while activity on the New York Stock Exchange during the same period increased 121%.

Is the Bull Market Over?

National Securities & Research Corp.'s current National Notes presents an interesting chart comparing the percentage rise achieved in the 1923-29 and 1932-37 bull markets with the rise to date in the current bull market. Stocks advanced an average of 345% in the 1923-29 bull market and 382% in the 1932-37. So far in the current bull market they have advanced 121%, indicating that "it is not at all unreasonable to presume that the current bull market swing is still in its beginnings and should approach, or even surpass, the marks set by previous upswings."

Tax Policies for Prosperity

(Continued from page 727)

The war has taught the government, and the government has taught the people, that Federal taxation has much to do with inflation and deflation, with the prices which have to be paid for the things that are bought and sold. If Federal taxes are insufficient or of the wrong kind, the purchasing power in the hands of the public is likely to be greater than the output of goods and services with which this purchasing demand can be satisfied. If the demand becomes too great, the result will be a rise in prices, and there will be no proportionate increase in the quantity of things for sale. This will mean that the dollar is worth less than it was before—that is inflation. On the other hand, if Federal taxes are too heavy or are of the wrong kind, effective purchasing power in the hands of the public will be insufficient to take from the producers of goods and services all the things these producers would like to make. This will mean widespread unemployment.

Briefly the idea behind our tax policy should be this: that our taxes should be high enough to protect the stability of our currency, and no higher. Putting it another way, our taxes should be as low as they possibly can be without putting the value of our money in danger of inflation. The lower our taxes are, the more purchasing power will be left at home in the hands of the people—money that can be spent by them for the things they want to buy, or than can be saved and invested in whatever manner they choose.

Now it follows from this principle that our tax rates can and should be lowered to the point where the Federal budget will be balanced at what we would consider a satisfactory level of high employment. If we set our tax rates any higher than this, we are reducing unnecessarily the money that private individuals will have to spend and to invest; and therefore, we make it more difficult for ourselves to get to high employment and to stay there. There is wide agreement that a satisfactory high level of post-war employment in the United States means a national income at present price levels of at least $140 billion, and so we should set our tax rates to balance the budget at a national income of $140 billion, and not at $120 billion or some lesser figure. We do not want our tax system to work against us all the way up to high employment—in fact, we may never reach high employment if we set our tax rates too high.

Obviously, taxes should be reduced where reduction will do the most good in creating consumer demand and in encouraging private investment.

The first taxes that should be eliminated are taxes on consumption—except when these are imposed for regulatory purposes. If it is true that our prime objective is to increase the standard of living of the masses of the people, what better way can be devised than leaving with the people the income which is already in their hands? What method of getting purchasing power back to the people is politically as acceptable as leaving it with them in the first place?

Abolish Corporation Income Tax

Next, and to some this seems a curious conclusion, the corporation income tax should be abolished. At the same time measures must be adopted so that the corporate form of doing business will not be used as a device to avoid payment of individual income taxes or as a means of building up unneeded and unused corporate surpluses, or to secure tax advantages over unincorporated businesses.

As a matter of fact, after sales taxes and excises, the corporation income tax weighs most heavily on the standard of living of the people; and at the same time it obstructs the flow of savings to investment.

It is impossible to know exactly who pays how much of the tax on corporation profits. The stockholder pays some of it, to the extent that the return on his investment is less than it would be if there were no tax. But, it is equally certain that the stockholder does not pay all of the tax on corporate income—indeed, he may pay very little of it. After a period of time, the corporation income tax is figured as one of the costs of production and it gets passed on in higher prices charged for the company's goods and services, and in lower wages, including conditions of work which are inferior to what they otherwise might be.

The reasons why the corporation tax is passed on must be clearly understood. In the operations of a company, the management of the business, directed by the profit motive, keeps its eye on what is left over as profit on its invested capital. Since the corporation must pay its Federal income taxes before there are any net profits, taxes are thought of—the same as any other uncontrollable expense—as an outlay to be covered by higher prices or lower costs. Since all competition in the same line of business is thinking the same way, prices and costs will tend to stabilize at a point which will produce a profit, after taxes, sufficient to give the industry access to new capital at a reasonable price. When this finally happens, as it must if the industry is to hold its own, the Federal income tax on corporations will have been largely absorbed in higher prices and in lower wages. The effect of the corporation income tax is, therefore, to raise prices and to lower wages by an undeterminable amount. Both tendencies are in the wrong direction and are harmful to the public welfare.

Can the government afford to give up the corporation income tax? This really is not the question. The question is this: Is the corporation income tax a favorable way of assessing taxes on the people—on the consumer, the workers and investors—who after all are the only real taxpayers? It is clear from any point of view that the effects of the corporation income tax are bad effects. The public purposes to be served by taxation are not thereby well served. The tax is uncertain in its effect with respect to the stabilization of the dollar, and it is inequitable as part of a progressive levy on individual income. It tends to raise the prices of goods and services. It tends to keep wages lower than they otherwise might be. It reduces the yield on investment and obstructs the flow of savings into business enterprise. The elimination of the corporation income tax from the tax system will increase the effectiveness of our fiscal and monetary policies and, by broadening markets for goods and services, will strengthen business for its task of producing goods, providing employment, and giving the people a place where their savings can be invested.

Favors Simple Tax System

Once the tax machine is remodeled in the post-war period, every effort should be made to keep the tax system simple and understandable. Constant tinkering with the tax structure only serves to produce confusion, uncertainty, and expensive administration.

Although we must accept the existence of deficits in times of unemployment, they will be only in proportion to the emergency.

The tax policies suggested do not contemplate permanent budget deficits as a necessary element in the economy. On the contrary, they allow for the possible over-expansion of private business activity which would be checked by public debt retirement. These policies do not require, nor do they justify, spending for its own sake, nor do they approve wasteful expenditure.

I have stated as basic tax policy the proposition, "Reduce taxes to balance the budget at high employment." This simple statement requires some clarification if it is to be applied properly in policy making. The fact is, and I confess it shamelessly, the term "budget" is highly ambiguous; and I would not use it at all if another term, which I shall presently define, were popularly understood and generally acceptable.

First of all, we must reconsider what we are to mean by the term "budget." In the interest of clarity, I propose that we confine the term budget to those financial arrangements that from time to time fall under the jurisdiction of the Director of the Federal Budget. This conception, although clear and precise, limits the significance of the budget for fiscal and monetary policy to a subordinate, though important, position.

It is apparent that the "budget" in this sense has neither economic, monetary, nor financial significance except as it is a part of a larger whole. Its significance is of an *administrative* character and the balancing of this budget is nothing but the balancing of accounts which have been associated for administrative convenience. There are, therefore, no intelligible issues of a financial or economic character associated with the budget as here defined.

It is possible, however, to extend the concept of the budget, that is, of financial planning, to include all the financial transactions of the Federal government. Let us term this comprehensive concept the "super-budget." The super-budget would include not only the budget as we have defined it, but also social security and other trust accounts, including the current operations of the several Federal corporations such as the Export-Import Bank and the Commodity Credit Corporation, which are not part of the budget today. The term "super-budget" should not be taken to imply anything with respect to its absolute magnitude, but only to its comprehensiveness.

The Federal government has the power to associate the totality of its financial transactions in a single schema, and accordingly it has the ability to judge one item against another item and each item against the whole. The Federal government may then have a *policy* with respect to the super-budget and this policy, when it exists, may be termed the fiscal policy of the Federal government. The fiscal policy, since it would apply to the super-budget, would thus include, as parts, the budget policy, the tax policy, the lending policy at home and abroad, the borrowing policy, and so forth, and would transcend these particular policies in associating them within the super-budget as a whole.

In order to understand how the super-budget is related to the financial and economic activity of the national community, it is necessary to make an additional distinction between what may be termed (a) the "dollar" and (b) the "income" super-budgets. The dollar super-budget is what we see if we look at a piece of paper which has the super-budget written on it. It would consist of the items of receipts and disbursements together with the dollar amounts associated with each item. This dollar super-budget is thus a projection of planned financial transactions and as such its significance is primarily financial.

But in addition to being a projection of financial transactions, below the surface the super-budget is also a projection of impacts affecting the national income. The character of this projection is not apparent on the surface figures of the super-budget, and can be judged only by an estimate of what lies beneath, that is, by the development of an "income" super-budget. The income super-budget, being a projection of intended impacts affecting the national income, has a significance which is primarily economic.

The dollar super-budget may be stated precisely; the income super-budget can only be approximated within wide margins of error. Yet in spite of the approximate character of the income super-budget, fiscal policy must take both into account, because they are different in kind and cannot be used interchangeably.

The size of the income effect for any category of receipts or disbursements will differ from time to time; it may indeed be positive or negative with respect to certain financial transactions. Obviously, the selection of a particular coefficient for a particular financial transaction at a particular time must be based on judgment flowing from examination and analysis of such statistical and nonquantitative evidence as may be or may become available.

Scepticism exists in many quarters as to the possibility of income super-budget construction on the ground that the income effects are not precisely known and can never be known. This scepticism is justified if it is intended as a warning against treating the income super-budget with the same certainty as the dollar super-budget, or anywhere near it; the scepticism is not warranted if it discourages a study of the logical consequences of financial decisions made manifest in the dollar super-budget, or if it prevents us from drawing broad conclusions as to desirable fiscal policy within wide margins of estimate.

As a final answer to those who object to the use of the income super-budget because of its necessarily approximate character, it should be pointed out that the income effects of financial transactions exist whether they have been estimated or not, and the economic realities, disclosed by the income super-budget exist, whether it has been set up or not. It should also be pointed out that only the income super-budget has relevance to over-all economic analyses affecting fiscal policy and national income, accordingly inferences with respect to fiscal policy and national income which are drawn from the figures of the dollar super-budget are in fact based on a most improbable assumption, namely, that the dollar and the income super-budgets are identical and can be used interchangeably; or to put it another way, that for all classifications of receipts and expenditures the income effects are equal. This, I submit, is obviously not true.

Summary

The definitions, distinctions and inferences we have made so far may be summed up as follows:

(1) The term "budget" has been limited to the projected financial transactions under the jurisdiction of the Bureau of the Budget, and the term "super-budget" has been introduced to refer to the totality of financial transactions under the control of the Federal government.

(2) Questions of fiscal policy are related not to the budget, but to the super-budget, since here the total financial impact of the Federal government on the economy is projected; from this impact economic consequences may be inferred, and in the power to vary the impact, and the economic consequences, national fiscal policy can be expressed.

(3) With respect to the super-budget, we have distinguished between the dollar super-budget and the income super-budget. (a) The dollar super-budget is a projection of planned financial transactions and as such its significance is primarily financial. (b) The income super-budget, flowing from the dollar super-budget, is a projection of impacts in their effect on the national income and as such its significance is primarily economic.

(4) Because of the varying income effects of the several financial items of the super-budget, the dollar and the income super-budgets are not the same and cannot be used interchangeably.

(5) Accordingly, questions of fiscal policy must be separately considered as they affect the one super-budget or the other.

Much of the controversy with respect to national fiscal policy arises from a failure to distinguish between (a) the *dollar* and (b) the *income* super-budgets and to separate the issues that are relevant to the one from those that are relevant to the other.

We can now restate our basic tax policy precisely as follows: *"Tax rates should be set to balance the income super-budget at at high employment at high employment."*

Let me repeat, our preoccupation with fiscal policy in these remarks should not cause us to over-rate these problems of policy, important as they are. Fiscal and monetary measures are primarily facilitating mechanisms that help us to perform or to prevent actions, the merit of which should be judged in other terms of reference. Decisions as to the sources of Federal revenues, the objects of Federal expenditures, the magnitude of the super-budget itself, these involve questions of public policy that transcend fiscal policy. But we should be sure—and here fiscal policy is important—that defective fiscal policy and practice no longer obstruct us in accomplishing the purposes which we, as a nation, have set for ourselves.

It seems to me that great promise for the future may lie in the consideration of these dollar and income super-budgets, for they provide a clue as to how a positive fiscal program can produce desirable economic effects within a framework of financial prudence.

It is clear, for example, that a fiscal program should arise from an explicit fiscal policy, the various parts of which are internally consistent. It is clear that decisions as to program will have to be based partly on fact and partly on judgment. It is clear that the administration of the program will require the action of several agencies working together as a team.

Here, at the point of fiscal and monetary policy, where the relations between government and business are of the greatest importance for the working out of peace time employment and production problems, business may properly be apprehensive. It may be apprehensive, not that the intentions of government will be hostile or even indifferent, but that, unless the preparatory organization work is done now, the Federal government will be helpless in executing even the most elementary collaborative program.

Business wants a Federal fiscal policy that will help it create good products, good jobs, and good investments. Business does not expect a national fiscal policy to do the work of business for it. It does ask for cooperation in maintaining a flow of purchasing demand that will have some general correspondence to what agriculture, labor, an business are able to produce and to distribute.

With such a flow of purchasing demand, we can avoid regimentation, maintain a high level of employment, and raise the standard of living to new heights for all the people.

Securities Salesman's Corner

By JOHN DUTTON

Don't Waste Your Valuable Time and Efforts On Undesirable Customers.

On several occasions in the past, we have expressed the opinion that salesmen should devote their energies toward the development of the most profitable type of account. Times have changed. Today a salesman should choose the customers with whom he desires to transact business. No longer is it necessary to take any kind of business in order to make a living. Thanks to the New Deal a new crop of suckers, all eager to "get something for nothing," has been created. They are hammering on brokerage office doors trying to buy any kind of stock. Now they like Wall Street once again. They think they can buy 'em today and sell 'em tomorrow, make a profit, and that's all there is to it.

We've got inflation—real money inflation, and piles of nice green, new, dollar bills are being spewed forth by an ever willing federal treasury every day, as the debt goes higher and higher, the deficits greater and greater, and the great mass of economic illiterates who have been voting for this sort of thing ever since 1932 have at last found themselves in a position where they have more money than brains; and the only thing that they can buy with all this paper is some stocks, or some tickets at the race track. The way we see it is that they would be better off at the race track, and anyone connected with the selling of investment securities would be well advised to tell them to go there rather than to do business with them.

These people don't want to invest money. It's really laughable to anyone who has had any practical experience in the securities business to read that the SEC is in favor of arms length bargaining between a dealer in securities and his customers, when you have to deal with the type of individual to whom we are referring. It's not the poor, uninformed stock buyer who needs protection today—it's the dealer and the salesman—and the only place that he can find it is to discriminate carefully in the choice of the accounts he has on his books. In the recent SEC release in the Norris Hirschberg case, several paragraphs were devoted to the SEC's viewpoint regarding customer and dealer relations. The point was stressed that these dealers had enjoyed the confidence of their customers, (for some reason the little juvenile lawyers who wrote this masterpiece of logic and learned deliberation don't like the word client). The way we interpreted this section of the opinion, ruling, or what ever it is, is that it's almost a crime in the eyes of the SEC for a salesman to enjoy such confidence. We are in a bad fix in this business today. On one side we are hemmed in by a lot of zealots, self appointed saviors of the world, and tin horn lawyers in the SEC who are trying to write new law every day in the week, and on the other side we've got a crazy public who are going to run stock prices through the roof unless the inflationary spiral now in progress is halted.

The answer to the first problem is organization and resistance to the SEC's continued grasping for power. The second problem, that of soaring stock prices and a public wildly eager to gamble, is not solvable by the investment and brokerage fraternity. That answer lies in Washington. Balanced budgets, higher interest rates on the Federal debt, and an economy freed from the governmental restraints which are now imposed upon it, are remedies that none of us who are in the securities business can accomplish. But we can keep the "quick money boys" out of our office. We can turn down the little fellows with a couple hundred dollars who want to double it—not next year, not next month, but tomorrow. We can refuse to do business with the chiseler and the bargainer—the follow who takes all our sincere efforts in his behalf, our hard earned experience, and the information regarding a certain situation that we placed before him, and then calls up some other broker, or dealer, AND MAKES THE PURCHASE FROM THEM BECAUSE HE CAN GET IT AN EIGHTH OF A POINT CHEAPER. The SEC can advocate that the public shop around from one dealer to another, but there is one thing you can do —YOU CAN LET THAT KIND OF CUSTOMER GO SOMEWHERE ELSE TO DO BUSINESS. YOU'LL BE MONEY AHEAD AND SAVE YOURSELF A LOT OF WEAR AND TEAR ON BOTH YOUR LARYNX, AND YOUR DIGESTIVE SYSTEM.

Canadian Securities

By BRUCE WILLIAMS

As was anticipated, the Dominion Government met the challenge of the Ottawa proposals last week by offering the provinces a substantially better deal than that proposed last August. In the case of British Columbia and Prince Edward Island, additional special concessions were offered.

As reported in the "Financial Post": "The new 'floor' of federal grant for all provinces is said to be about $180 millions. This compares with $138 millions in the original federal proposition. This is the sum which Ottawa would offer as an irreducible minimum grant in return for the provinces giving up the right to levy succession duties, income and corporation taxes.

"It compares with about $125 millions received by the provinces in 1940-41 on the basis of succession duty collections, statutory subsidies and their own tax revenues as calculated for the purpose of wartime tax agreements.

"The $138 millions minimum was calculated at $12 per capita based on 1941 population. The new basis is $15 per capita based on 1942 population.

"In addition, the Dominion Government is reported as now prepared to offer special concessions to meet particular claims of British Columbia and Prince Edward Island. These concessions would be in the form of alternate proposals so couched that they would be of interest only to these two provinces. In the case of B. C. it is thought that the new proposal would guarantee that province a minimum payment of about $19 per capita or an annual payment of not less than $18 millions. This compares with only about $10 millions offered to that province under the original plan. P. E. I. is offered an irreducible minimum of $2 millions compared with an original offer which would have worked out at only $1.1 millions.

"Assuming these two alternate plans are of the order indicated, the following table indicates just how each province would fare under the new plan as compared with the old."

Minimum Federal Grant
(in millions of dollars)

Provinces	Original Dominion Proposal	Revised Proposal
P. E. I.	1.1	2.0
N. S.	6.9	8.9
N. B.	5.5	7.0
Que.	40.0	50.9
Ont.	45.5	58.3
Man.	8.8	10.9
Sask.	10.8	12.7
Alta.	9.6	11.6
B. C.	9.8	18.0
Total	188.0	180.3

The outcome of the conference even with these new liberalized Dominion offers is still completely in doubt. However, the hope of most Canadians that a sane, clear, workable division of taxing powers be developed at this time appears to have a better than even chance of being fulfilled.

Continued strength in Canadian securities markets remained the keynote last week. In fact, the lack of supply is still the outstanding characteristic of the bond market. While temporary soft spots may appear from time to time, there is frankly nothing in prospect which we can visualize as seriously challenging the long-term upward trend. Both money factors and general economic factors appear too strong to cause any serious or extended weakening of the demand for Canadian bonds and good Canadian equities.

Forecasting Economic Weather

(Continued from page 712)

has a large number of skilled workers and the financial position of industry as well as of the banks is stronger than perhaps at any time in the history of the country. Economic conditions of the United States, therefore, are as sound as they can be.

The immediate outlook for business is dominated by the following factors. There is a huge pent-up demand for all kinds of commodities and there is the ability to pay for these products. These conditions also prevail in Europe, but in the United States there is another element which prevails nowhere else to the same degree and that is that we are able to produce the commodities wanted by the people. As soon as labor returns to work the output of civilian goods is bound to increase at a fast rate.

The United States is less dependent on foreign trade than any other major nation of the world. Not that foreign trade is not important; on the contrary, it is of great significance, but even in this respect measures have already been taken to assure that foreign nations will be able to pay for the commodities which they will buy in the near future in this country. The resources of the Export-Import Bank have been increased and substantial loans have already been granted to a number of countries. The Anglo-American Economic Agreement, if ratified, will be of considerable assistance to Great Britain, will alleviate the shortage of dollar exchange and will enable the sterling area gradually to remove the existing foreign exchange restrictions. The establishment of the Bretton Woods institutions will further tend to stimulate a return to more normal currency conditions throughout the world. Thus will our industry be called upon to meet not only the domestic demand but also the almost insatiable demand for all kinds of commodities from abroad.

As a result of the war and the increase in wages that has taken place and that will take place in the near future, a new middle class has arisen which in turn means that there will be new demand for all kinds of commodities which did not exist before. All this augurs well for the future of the nation. From the purely physical aspect, therefore, and looking at the immediate future primarily from the economic point of view, the outlook for the United States is as good as possible.

The Human Aspect

The picture, however, would not be complete if one were to stress merely the physical aspect of the problem. Looked at from the point of view of human relations the outlook is not as rosy. There is a conflict between capital and labor not only over wages but also over the degree to which labor should have a voice in the management of business. A conflict seems to have developed between the legislative and executive branches of the government which has made impossible the passage of much needed legislation. There does not seem to be any unanimity of thought as to how the pressing problems should be solved, how to induce the men to return to work, how to produce goods as fast as possible and how to place the finances of the Government in order. In other words, there does not yet seem to be an agreement on how to utilize the abundant resources and manpower of the nation to produce what the people want and to safeguard the savings of the nation. However, these problems will undoubtedly be solved in the not distant future and within a short period of time one may expect with a fair degree of reasonableness that the production of civilian goods will increase.

Problems to Be Solved

The principal problems that will have to be solved during the present year are: (1) the prevention of a serious increase in prices of commodities, (2) the adoption of a sound debt management policy and (3) an adequate handling of the labor problem.

The pressure of inflation at present is great and is of particular interest to trust companies which administer the accumulated wealth of a great many individuals, invested, as it is to a large extent, in fixed-income-bearing securities. The principal causes of inflation at present briefly are: the huge supply of purchasing power in the hands of the people and the scarcity of commodities. To this should be added the fiscal policy of the Government during the war which has contributed to the sharp increase in the volume of deposits in the country.

While for the present the shortage of commodities seems to be the greatest concern, this is not likely to last; as soon as the people return to work and the increased productive capacity of the country is utilized, the supply of commodities is bound to increase. As soon as the people at large see increased stocks of good quality merchandise in the stores, their appetite to buy will decrease and they will become more keenly aware of competition than is the case at the present time. Furthermore, the national income cannot be maintained at the level which prevailed in 1944 and 1945 and the decrease in the number of members of the same family gainfully employed is bound to have an effect on buying. The recent strikes have already led to a moderate reduction in the savings of some people. The great shortage of commodities, therefore, is only a temporary situation.

It would be unfortunate if during this period the OPA were to be abolished and demand and supply factors were permitted to take their course. If all price controls were removed in the immediate future, the effects would be as follows: There would be, first, a sharp increase in prices of all kinds of commodities, undoubtedly followed by a corresponding increase in production of goods. For a short while, therefore, one would witness a race between wages, prices and production. This situation, however, could last only a relatively short period of time because production would soon outrun consumption, particularly since a considerable portion of the savings of the people would be absorbed by higher prices. As soon, however, as production exceeds consumption there is bound to be a sharp decline in business activity accompanied by declining prices as well as considerable unemployment. In other words, if the OPA were to be removed in the immediate future we would repeat the business pattern of 1919 and the early part of 1920.

If, on the other hand, the OPA is retained, undoubtedly a material increase in prices will be prevented. It is certain that because of the price controls, production would not increase as fast as would otherwise be the case and, therefore, the supply of commodities available for consumption would not appear in the market as rapidly and in such quantities. However, through this method the savings of the people would be safeguarded and sooner or later supply and demand would be more or less in balance. It is my opinion that it is of the utmost importance that the OPA be retained until there is a better balance between demand and supply of goods, not only in order to protect the savings of the people, but also to prevent a sharp decline in business activity within a relatively short period of time, a situation which is bound to have serious economic as well as political consequences. To judge from the attitude of the people at large, one may assume with a fair degree of accuracy that the OPA will be retained and that therefore price control will be maintained and the scarcity of commodities will not be permitted to bring about a spiral between prices and wages.

Fiscal Affairs

While one may assume an optimistic view that the shortages of commodities in the face of the huge supply of purchasing power in the hands of the people will not lead to inflation, one cannot be as optimistic as regards the fiscal affairs of the Government. In fact, the handling of the fiscal affairs of the country since V-J Day does not inspire a great deal of confidence. Shortly after V-J Day the Secretary of the Treasury announced that the deficit for the fiscal year 1945-1946 would be between $28 and $30 billion, an amount greater than the total public debt of the United States at the end of the last war. In spite of this staggering deficit and the huge accumulated public debt, the Congress voted to repeal the excess profit staxes, to reduce corporate taxes and to take 10 to 12 million people off the tax rolls. It is highly questionable whether this action on the part of the Congress was wise and sound.

A reduction in the excess profits taxes obviously was necessary in order to facilitate the reconversion from wartime to peacetime production. But by repealing the excess profits taxes in their entirety and by lowering corporate taxes, the Congress not only had to take a large number of the people off the taxrolls but also indirectly contributed to the demand on the part of labor for substantially higher wages. People who do not pay taxes as a rule are not tax-conscious and care very little whether the budget of the Federal Government is balanced or not.

Furthermore, while the deficit for the fiscal year 1946-1947 has been reduced to about $4,300,000,000, yet it is one of the largest deficits in peacetime. This deficit is particularly discouraging since it is to occur during a year when everybody expects business activity to be at a very high level. Hence, one may reach the conclusion that the Government is not as yet fully aware of the necessity of balancing the budget.

Of equal importance is the question of how to handle the huge public debt, a large portion of which has been monetized. In other words, the refunding operations of the Treasury during the next few years are bound to exercise a considerable influence on the economy of the country.

In his budget message the President of the United States stated as follows:

> "The $275 billion debt poses a problem that requires careful consideration in the determination of financial and economic policies. We have learned that the problem, serious as it is, can be managed. Its management will require determined action to keep our Federal budget in order and to relate our fiscal policies to the requirements of an expanding economy."

The President has stated clearly the need for sound public debt management, but will the necessary policies be adopted? At present the volume of bank deposits is very large, due primarily to the fact that the banks were called upon to acquire a substantial amount of Government securities. As the President stated in his budget message, the banks of the country, including the Federal Reserve banks, today hold about $100 billion of Government obligations. The principal reason why the banks have bought these bonds is that the people of the country did not buy as many bonds as they could. That this is so is evidenced by the huge volume of currency in circulation is very large. The volume of bank deposits is bound to increase during 1946 partly because of the return flow of currency from circulation, partly because of the inflow of gold and partly because the banks will make loans as well as acquire additional Government securities, all of which leads to an increase in the volume of deposits. This increase in the volume of deposits will occur at a time when there is still bound to be a scarcity of commodities available for consumption, thus further accentuating the inflationary forces in the country.

Under these circumstances sound management of the public debt would dictate a conversion of short-term Government obligations now held by the banks into long-term bonds which would be suitable for investment by large institutional investors such as insurance companies, savings banks, etc. The net effects of such a development would be: (1) a reduction in bank holdings of Government securities, (2) a decline in the volume of bank deposits, and (3) the Government would bring to an end the constant decline in long-term rates of interest. Once it becomes known that the Treasury will again offer 2½% long-term bonds the large institutional investors of the country will be less eager to buy outstanding obligations. Such a development is particularly desirable at present when it is known that the supply of funds seeking investment is bound to exceed the demand. Obviously, a conversion of a portion of the outstanding certificates of indebtedness into long-term bonds would increase the interest burden of the Government, though the amount involved would be only small. For example, if the Treasury were to convert $10 billion of certificates of indebtedness into long-term 2½% bonds the annual additional cost to the Treasury would be only about $162,500,000. Such an operation seems to be desirable because under existing conditions the Board of Governors of the Federal Reserve System has practically no means at its disposal to influence the money market. The Federal Reserve banks could, of course, sell Government obligations, thereby narrowing the credit base of the country. The net effect would be an increase in money rates. However, under conditions as they exist today, an increase in money rates could not stem the inflationary forces or exercise any influence on the equity market. This is due to the fact that the people have a great deal of money at their disposal and therefore are not borrowers. Only through a conversion of short-term Government obligations held by the banks into long-term bonds to be acquired by non-banks can the Treasury bring about a reduction in the volume of deposits without at the same time upsetting the money market as well as the Government bond market.

The Banks and Government Bonds

Another phase of the refunding operations deals with Government obligations which commercial banks can acquire. At present the feeling seems to exist that the lower the rate of interest is on Government obligations held by the banks the better off the country will be. Thus, for example, in his budget message the President stated that since the Government securities held by the banks "have been purchased out of newly created bank funds, continuance of the present low rates of interest is entirely appropriate. To do otherwise would merely increase bank profits at the expense of the taxpayer." Apparently the banks fear that no new securities will be offered which they could acquire. They have, therefore, competed with one another in the acquisition of outstanding obligations with the result that prices have increased and there is no Government obligation sold in the market today which yields to a bank 2% before taxes. If this tendency continues for any length of time the small commercial banks operating to a considerable extent with savings deposits will be compelled to buy corporate bonds, resulting in a further decline in their yield. Such a development is bound to affect yields of credit obligations and may lead to the acquisition by small commercial banks of considerable amounts of credit bonds.

So long as business activity is at a high level no danger will arise out of the holding of such securities. Once business activity turns downward, however, considerable fluctuation may take place in these obligations with adverse effects on their holders. The problem which confronts the Treasury today, therefore, is whether to follow the present policy and offer the banks only certificates of indebtedness and Treasury bills or to change its policy and afford banks, particularly those with savings deposits, a suitable outlet for their funds in the Government bond market. The final decision by the Treasury in this respect is bound to exercise a considerable influence on the investing and lending policies of the commercial banks.

The Wage Situation

The labor situation is too complex and involved to be discussed here. Analyzed from the purely economic point of view, the principal question is whether the increase in wages that has been granted and that will be granted in the future will be followed by an increase in productivity. If so, the economic effects on the country, as a whole are bound to be highly favorable. An increase in the cost of production will be prevented and therefore an increase in prices of manufactured goods. At the same time the real income of many people will increase, thus enabling them to buy more commodities and services. High wages accompanied by high productivity and relatively low prices are the foundation on which the high standard of living of the American people rests.

An entirely different situation will prevail if the increase in wages is not followed by an increase in productivity. In that case, the consequences will be as follows: The cost of production will increase, followed by an increase in prices. This, in turn, will undoubtedly set in motion a demand for still higher wages. However, there are many people in the country whose income will not have increased, such as the large number of teachers, public servants and those who live on pensions or on fixed-income-bearing securities and others. Higher prices will reduce their real income. To be sure, the effect of this development will not be felt immediately, particularly so long as there exists a pent-up demand for all kinds of commodities and people have large accumulated savings. High prices will accelerate the absorption of the savings of the people and once production reaches peak the falling off in demand on the part of those whose income has not increased will be materially felt. This, in turn, will undoubtedly lead to a decline in production and an increase in unemployment. Furthermore, if the productivity of labor is not increased it is highly doubtful whether a building boom will develop on which the prosperity of the country wll depend to a considerable extent. Moreover, if the cost of production continues to rise it is doubtful whether many manufacturers will proceed with their plans for enlarging the productive capacity of their enterprises. They know that mass production in the United States is based on mass consumption and that if prices are too high many people will not be able to buy the commodities to which they are accustomed. While there are many other aspects to the labor problem, from the economic point of view the principal one is whether an increase in productivity of labor will follow increased compensation.

Where do we go from here? The answer to this question will depend primarily on how we solve the problems arising out of the danger of inflation, the management of the public debt and labor. If these problems are solved along sound lines the result will be a prolonged period of prosperity accompanied by a constant rise in the standard of living of the people. While a moderate increase in commodity prices is to be expected, particularly during the first half of the present year and until production is in full swing, there will be no danger of serious inflation and the purchasing power of the dollar will remain high. A prosperous United States will have a beneficial effect on the economies of most other countries and will contribute a great deal toward the restoration of sound economic and financial conditions throughout the world.

If, on the other hand, the problems confronting the nation are not solved promptly or along sound economic lines, if each individual group works only for its own interests irrespective of the consequences to the nation as a whole, the result will be entirely different. Under those circumstances the catch-up period is bound to be of short duration. A large portion of the accumulated savings of the people will be consumed by higher prices and there is bound to develop a spiral between wages and prices. Ultimately all this will lead to a sharp decline in business activity accompanied by a great deal of unemployment with all the political consequences that such a situation would entail.

Conclusion

The year 1946 is the year of decision. Upon the decisions made by the Congress and by the people of the United States during the present year will depend the future economic and political course of American history. The economy of the United States is sound. The productive capacity today is larger than ever before. The managerial know-how and the skill to produce are greater than prior to the outbreak of hostilities. There is a great pent-up demand for all kinds of commodities and the accumulated savings of the nation are tremendous. From the economic angle, therefore, there is nothing to fear; on the contrary, one can be optimistic indeed. The principal question is whether the nation as a whole, and particularly the political economic, labor and farm leaders, will have the courage to ask the people for the necessary sacrifices in order to overcome the immediate difficulties. There can be no question that a nation which was willing and able to mobilize all its resources and manpower to defeat an external enemy will be willing to make the smaller sacrifices to overcome the present difficulties and thus lay the solid foundation for a happy future.

Raymond Fish With Paine, Webber Firm

Paine, Webber, Jackson & Curtis, 25 Broad St., New York City, members of the New York Stock Exchange, announce that Raymond T. Fish has become associated with the firm. Formerly senior partner in the Stock Exchange house of Kohler, Fish & Co., Mr. Fish retired from that firm in 1941 to join the Navy, in which he served as a commander.

Townsend Director of Banking & Inv. Section Of U. S. Savings Bonds

WASHINGTON, D. C. — Appointment of Morris M. Townsend of New York City as director of Banking & Investment Section, U. S. Savings Bonds Division, Treasury Department, to succeed Stanley W. Prenosil was announced by Vernon L. Clark, national director. Mr. Prenosil has resigned to return to private business.

Mr. Townend will promote the sale of U. S. Savings Bonds through the 15,000 commercial and savings banks, the security dealers and brokers, the savings and loan associations and the insurance companies of the nation.

Mr. Townsend has 20 years of financial background and has served the Treasury in three of the seven War Loans and the Victory Loan. He was Executive Secretary of War Finance in New York City and Long Island before volunteering for the Army in December, 1943, where he was attached to the Army Courier Service in Washington. By request of the Treasury Department he was loaned to the Army to the District of Columbia War Finance Committee and served as liaison between the Committee and the financial institutions of the Capital.

Upon his discharge from the Army, Aug. 20, 1945, Mr. Townsend was invited to join the national organization as special consultant for the Investment Bankers Association of America and as assistant director of the Banking and Investment Section.

The new director was formerly with the Wall Street firm of W. E. Hutton & Co. and is well known in banking and investment circles. He is holder of a citation for distinguished services rendered in the Seventh War Loan in the District of Columbia. He was associated at various times with the International Harvester Co., the Cadillac Motor Co., and the Aetna and Prudential Life Insurance Companies before entering Wall Street in 1927.

Drexel & Co. Names Steel N. Y. Manager

Drexel & Co., announce that Walter H. Steel has become associated with them as resident manager of their New York office, 14 Wall St. Mr. Steel has been engaged in the securities business for the past 20 years, and for the last seven years has been associated with Lazard, Freres & Co., in New York.

Democracy and Free Enterprise

(Continued from first page)

the ten years prior to these three years, I wondered whether that wasn't our greatest need. The second part of my reason is that at the base of this form of government is the free enterprise system, so we must think whether any action proposed by government comes within the proper scope of government and whether it handicaps the free enterprise system. The third part of my reason is that I never like to lose an opportunity to be a crusader for my beliefs as to these national problems, and I hope to get others to do all they can and likewise become crusaders themselves, particularly in their own organizations. I call myself a crusader because once in Washington Mr. Byrnes told me that one cannot compromise with a crusader. I don't surmise that any of you will want to compromise with me, but please don't attempt it. The last portion of my reason for being here arises from a short-range view—my belief that our immediate job is to get wide employment and a large volume of business. To get this job done we must measure the plans and efforts of government, not only as to their probable effectiveness but as to whether the acts are within the delegated powers of the Federal Government, and whether the assumption of powers does not tear down our faith in our form of government, at the base of which is individual liberty, personal responsibility and our free enterprise system.

What Is the Free Enterprise System?

Let me try to describe this free enterprise system as it appears to me. It is a philosophy, a faith, a thing of the spirit and soul of America. It is not the product of a brain-truster. It represents the strivings of our people and the evolutionary development of the last thousand years. It is an entirely practical idea for it has worked in America. It produced a standard of living and a national prosperity not matched elsewhere in the world. While it can be improved, one need not apologize for its minor weaknesses.

The American Way of Life has prospered in the idea that "man is both too weak to wield unlimited power and, thank God, too strong to submit to it." No one has found "ringing words" for expressing the ideas wrapped up in the concept of the American Way of Life, but to me it certainly means all these ideas—equal opportunity for all, personal liberty consistent with full personal responsibility, no leaning on a beneficent or a bankrupt government (the only difference being one of time), no coercion by any one, no favors or benefits by government to one class of its people because of political pressures or with the purpose of gaining votes, no interference with the economic life of the nation, except when clearly in keeping with the national interest—the interests of all the people—no taking from one group for giving to another, or, in even simpler terms, the Golden Rule from the Sermon on the Mount.

It is a system based on the idea of a "fair field and no favors," a "profit and loss" system in which the citizen backs his own judgment with his efforts. If the two combine to produce a result pleasing to the public, the citizen gets his rightful reward. On the other hand, if he doesn't do what the public wants, he pays for his own mistakes. This American Way does not expect to have the mistakes of management buried in a Federal Budget of 35 billion dollars. It is a system of rigid discipline which develops a sense of responsibility, for it provides an adequate incentive for a wise effort and an adequate penalty for an unwise undertaking. It is all these and more too but they seem the essential elements.

National Planning

That is what we had in America until imported ideas jumped over our tariff wall. So let's look at what is offered us to replace it—usually some form of national planning or some steps toward a strongly centralized Federal Government with trimmings of State Socialism.

As to national planning, have you thought what happens when some national planner gets the idea that men in Washington, comprising the government for the moment, can do a better job than the people can do for themselves? Every one who advocates extensive planning on a national basis should first stop to inquire how his plan can be made effective, for a necessary part of any plan is the method for making it effective. There seem to me only three ways, and they represent sharply conflicting points of view:

First—Government can require people to carry out the master plan. That is regimentation, Fascism, or whatever you wish to call it, and we have been fighting a war in opposition to that idea. Wouldn't it be altogether strange if, having fought a war about the idea of a strongly centralized government, we should adopt the idea for ourselves?

The second course would be for the Federal Government to take on the job itself. That is State Socialism and we have been fighting a war in opposition to that idea as well, for State Socialism is regimentation in the end. Wouldn't it be strange if we were to adopt State Socialism for ourselves while we have been fighting the war to destroy it elsewhere in the world? Don't we also recognize that the idea of a strongly centralized Federal Government is contrary to the entire history of our nation and the philosophy of life of our people? Aren't we insisting that our forces occupying enemy countries stamp out these ideas? Are we sincere in insisting that these enemy countries become truly democratic unless we are determined to remain so ourselves? One looking at the recent domestic situation has plenty of ground for being skeptical about our sincerity.

A brief look at some of the results of national planning in the field of national economics will be interesting. These planners spent six years at heavy expense trying to create inflation while their acts were in fact deflationary. Their successors are trying now to stop inflation but their acts seem clearly to be in fact inflationary. It seems strange that planners cannot effect their plans. Could it be that politics in a democracy and economics don't mix? Could it be that the planners have such a faith in their ability as to amount to arrogance? Didn't any of them ever hear the words of Cowper: "When men of judgment creep and feel their way, the positive pronounce without dismay."

It wasn't many years ago that the planners were concerned about the alleged fact that we have a matured economy, with no more frontiers and no more great advances possible. That was the keystone of a whole structure of governmental planning of the last decade. These planners did not foresee, and they are not to be blamed for their failure, the development of the atomic bomb, radar, and many other developments of recent years. Atomic fission may have opened up great fields for power production over the years ahead. So if there is any trace left of the silly idea of a matured economy, it seems like a good place to use a small bit of an atomic bomb.

Another dream of the planners was that prosperity could be created through large spending. These planners forgot, if they ever knew, that such spending would destroy more confidence than it created. The preachers of the purchasing power theory of economics seem to have found an idea which has taken root in this country, though it didn't take root in their home countries. This theory is one of the greatest political tools adopted by a demagogue who can gain votes by promising its benefits when he knows that he isn't going to be held to account for the longe-range effects of his promises. These promises of immediate benefits will always be more powerful than the threat of distant dangers and far-removed risks. There isn't anything glamorous about balanced budgets, sound money policies, the competitive system, a large volume of production, hard work, or selling one's services at the price the buyer is willing to pay—certainly nothing so glamorous as the promise to provide jobs for all.

State Socialism?

I don't believe America will go knowingly to State Socialism. It might conceivably slip into it unwittingly, or go into it a step at a time, but the pressure to do so will not arise from the people generally on their own intiative. It will come from those who will make promises of its benefits for the sake of winning votes.

I think I can safely assume that there isn't a man in this room who doesn't want a higher standard of living for our people and who doesn't also know that the only advance in the standard of living can be attained through the production of more things—things of the kind that people are willing to buy and are able to enjoy. Quite aside from any question involved in the buying power of money, the advance can be secured only by the production and employment in use of more goods and services. Surely today, in general terms, we have more manufacturing plants than we need for meeting the demands and wishes of our people. We have every kind of needed material in ample supply. The one remaining step to insure full production is to supply the elements of labor. We do not add to our standard of living by contemplating legislation that will encourage men not to work, encourage them not to produce, encourage them to remain in idleness by making the reward for idleness almost equal to the reward for working.

Men will jump at the chance to create wide employment and a large volume of business if they can have a foundation for faith in the government. That confidence will exist if there is a hope, and merely a hope, on the part of the individual that he will get an adequate return for his work, or a fair profit if he is going to create jobs for others. That should provide the test of every action which government may propose to take in the field of economics. We need only ask two questions: Does the proposed Act add to the requisite confidence and maintain the hope of a fair return or a fair profit? Will it add to the volume of jobs? If it does these two things, the proposed Act is sound. If it doesn't, then the proposed action should not be taken. Won't you put the legislation now before Congress up before these two questions? If you do, you will know whether it is good or bad.

Economic Controls and Pressure Groups

We realize that government has entered the field of economic controls, with the inevitable result that it yields to pressures from groups interested primarily in their own immediate economic welfare, forgetting their own long-range good and the national interest as well. It is absolutely impossible to eliminate pressure groups and their influence, if government is going to deal with economic problems as intensively as it has.

It is time to ascertain what is in the national interest, and to stop yielding to class and territorial pressures. The granting of an advantage to one pressure group only becomes the basis for more demands by every other group, equally right in demanding equal consideration from government, and, in fact, for further demands by the same group—and note that appeasements in the economic field do not appease any more than they did at Munich. The operation of these pressure groups can only create an artificial topsy-turvy situation that will destroy all of the plans of government and may go even further to undermine our whole economy. As one example, we will all recall the advocacy of a large foreign trade as an important factor in postwar employment, and yet government is silent when a large part of our producers insist upon pricing themselves out of all foreign trade. As another, we see the handling of the pricing policy by government as applied to goods whose manufacture was stopped in the war. Honest men will differ over matters of policy in that field, but none will differ over the need of quick, fair and clear decisions which will not only permit but also encourage manufacturers to provide more jobs quickly, to turn out goods, and so prevent price rises in the only way they can be prevented in a democracy, unless we want to force a cheapening of product in order to maintain a price ticket. Even if the policies were sound and well executed, they are not applied equitably nor in a manner that removes uncertainties.

Manufacturers are currently expected to keep on producing goods and selling them at a net loss provided only their over-all earnings are reasonable. To expect that they will do it is perfectly fútile. To go a bit farther, if any concern is operating at a loss because of price ceilings, it apparently makes very little difference that its competitors are making and selling poorer goods at higher prices. This concern which is operating at a loss has the option to go on for six months and trust to the future, and of course it always has the right to close its doors and still trust to the future. Presumably if its losses are less through operating than through closing its plants, it has the freedom of choice left to make that decision on its own. Back of that idea that that is a fair and wise action by government must lie the concept of an all-wise regimentation by the Federal Government, or the paternal view that "Papa knows best," but whatever its source it is not in keeping with any idea of American democracy. In general, the free market is the only device that tackles the supply problem from both ends by limiting consumption and increasing production. The only lasting cure for limited supply is increased production. Even if it should not appear wise to cancel all price controls with the ending of war, and though price controls don't maintain quality, industry should, and I think it would, heartily support a program arrived at by agreement between industry and government, and thus largely self-operating, to build production of short-supply items. The present policy of regimentation is admittedly effective in holding down the figures on the price tags when there are any goods to which to affix the tags.

These are only examples of governmental ineptness aggravated by the tugs of war between pressure groups when Washington goes into the field of managing the economy.

Inflation or Deflation

One of the great tugs of war in Washington now is between those who say we are going to have inflation and those who with equal firmness insist the course will be deflationary. I recall so well the cynical remark of Elbert Hubbard: "Some people claim to have foresight—it's a wonder they don't use it." So I understand why it isn't going to be possible for any one to know in advance what the people are going to do with their great accumulation of personal savings. Some fear that people will want to spend the money foolishly and in a hurry, or that the money will burn a hole in their pockets. My belief is that we can trust the American people to do the wise thing. I think our people will start spending their money foolishly in only one event and that is entirely within the control of government. If the government doesn't modify its price controls so as to get production, if it doesn't reduce its expenditures and also the tax levy and produce a budget in balance after paying some of its debt, people will have a reason to fear the value of their money, and if that kind of fear once develops, no control of prices can be effective.

As long as pressure groups are allowed to feed at the public trough, their pressures will create instability in public policy and the resulting uncertainties will hamper all long-range planning by industry and individuals. Some may think that the government may step in when private planning has not produced as many jobs as somebody wishes. My difficulty in accepting this idea is that whenever the government steps in it weakens private enterprise and, in the end, the process destroys private enterprise.

These pressure groups exist because we have gotten to think of ourselves only as elements in the production process. We fail to think of ourselves as consumers. It is only as consumers that we are a united people. Our interests as consumers are identical. That should be a clue to the field of government, the field where it can serve the interests of all the people.

Government Responsibility for Jobs

It is surprisingly strange to me that any man believing in democratic principles would have so little faith in the people and their composite wisdom as to believe that a few are competent to manage the entire national economy, and that if competent men could be found, they should be entrusted with that responsibility. I fear that if government attempts to underwrite the wishes of all our people, government will succeed only in destroying itself.

I know that business men have uncertainty in their minds about the possibility of desirable employment ranging from 52,000,000 to 60,000,000 workers in this country. The impression seems to have been created that business is going to provide some such number of jobs—or else. The implication in this "or else" is that if business does not provide jobs, government will take over. I think if we resign ourselves to that philosophy, the certain result is that government will take over. That means State Socialism net. I don't believe that is the only "or else." I believe the best "or else" is to go back as far as is possible to the principles of the American Way of Life—a competitive economy, free and equal opportunity, no favors to any class and no coercion by any one. That means that the consumers of America will decide these problems. It is far safer to trust the joint wisdom of all of our people than to trust any official in government.

We in production and distribution know that the consumers are our bosses and that we fail if we don't do what they want. They won't argue the question with us, they won't try to reform us or to make us do what they want. They will let us go our own way and they will go their way. If we insist on hitting ourselves over the head with our follies, they will still go by on their way.

It never takes a producer or distributor long to learn that he gives the public what it wants or he goes out of business. The producers and distributors have known that this has been a "rule of the game" for centuries. They think the rule is fair. The concern or the man who can give the public what it wants at the price it is willing to pay doesn't see any sense in any plan that in effect says to the consumer that he must buy what the producer or distributor wants him to buy and must pay the price demanded. The man who thinks he can make the consumer buy at all or pay a high price is going to round out his education on this point before very long. Higher costs and higher prices are not going to add to consumption, and unless there is higher consumption there will be too little production to mean reasonably full employment among producers or their sales organizations.

Now, the over-all question is: What is going to happen in this field of governmental policy? How far is the government going to attempt to make a feather-bed for approved groups? How far is it going to go in attempting to control the whole economy? That is what I suppose most of us are concerned about. The ticket isn't written yet. No one knows what the answer is going to be. We are going to help make the answer ourselves. We are going to help make it if men in business get hold of the idea of doing the best job they know how in their own business, recognizing the consumers are the bosses in America—and recognizing that the consumers are the ones who provide employment in America.

Emerson never knew the fact of regimentation, the loss of liberty, the fact of a leveling down as well as a leveling up policy when carried out by government, but on this point of the right of men in government to manage the whole economy he used these lines: "I never could believe that Providence had sent a few men into the world ready, booted and spurred, to ride, and millions ready, saddled and bridled, to be ridden."

I am ready to adopt any better plan but I hesitate to think of abolishing the American system. I readily admit there have been weaknesses in the profit and loss system, but it would seem to me far wiser to proceed to make improvements in it rather than to attempt a reckless change in the economic basis of the country. It is unbelievable to me that we will trend toward State Socialism, but if we should do it, we must remember that we will be no less slaves because we set up a government to make us slaves.

Also, I think that every man in business owes the obligation to his own conscience, his own company, and his own country to understand the common sense of this situation and to explain it in the simplest terms he can to every worker in his business and to every man representing him in the national capitol.

As I approach my closing, may I invite your attention to a parallel from the lines of Lowell, who said there is no place ten miles square on this globe where a man can live in decency, comfort and security unless the Gospel has gone there first and cleared the way and laid the foundation which made decency and security possible. Just as we have taken for granted the benefits of the Gospel, so we have taken for granted the benefits of the American Way of Life which has provided a standard of living so high that there is no place ten miles square on this globe where a centralized government, either Fascist or Socialist, has been able to do as much for all the people. Our present system needs no justification, for it has produced results matched nowhere else in the world in its entire history.

Modestly, may I state my belief that America is going to muddle through on the way back toward the free enterprise system, because that is the way it wants to go. America wants to go that way because it believes in that way of life—the competitive economy, with free and equal opportunity to all, favors to no one, and coercion by no one.

Stanley Prenosil Is With J. B. Roll & Co.

Stanley W. Prenosil has resigned as Director of the Banking and Investment Section, U. S. Savings Bond Division of the Treasury Department to accept a vice-presidency in J. B. Roll & Co., Inc., 1 Wall St., New York City, government securities dealers of New York. Mr Prenosil joined the Treasury in May 1942 at the invitation of Secretary Morgenthau to assist in the formation of the Victory Fund Committee which, with the War Savings Staff, conducted the first two war loans. Later when the Victory Fund Committee and the War Savings Staff were merged into the War Finance Division at the beginning of the Third War Loan, he continued as a member of the new organization and was assigned as liaison between the Treasury and the American Bankers Association.

Prior to the opening of the Seventh War Loan, Ted R. Gamble, National Director of the War Finance Division, created the Banking and Investment Section to direct war bond sales by the commercial and savings banks, security dealers and brokers and the savings and loan associations, and appointed Mr. Prenosil as Director in charge of this operation.

Before entering government service, Mr. Prenosil spent 12 years in the investment banking business with the firms of Sutro & Co., Redmond & Co., and W. C. Langley & Co. Previously, he had served for eight years as financial editor of the Associated Press in charge of its Wall Street Bureau.

Stone Webster Reopen Rochester Office

Stone & Webster Securities Corporation, 90 Broad Street, New York City, announce the reopening of its western New York State office in the Lincoln-Alliance Bank Building, Rochester, under the management of Joseph F. Dryer. A major in the U. S. Marine Corps Reserve during the war, Mr. Dryer has been associated with the organization since 1921 and for many years prior to the war served as manager of the Rochester office.

The corporation recently changed its name from Stone & Webster and Blodget, Incorporated, in order to reflect more accurately its relationship with Stone & Webster, Inc., of which it is a subsidiary.

L. G. Miller Retires

L. Gordon Miller, one of the organizers of MacBride, Miller & Co., Inc., in Jan., 1940 and the predecessor partnership in Sept., 1932, has retired from MacBride, Miller & Co., 744 Broad St., Newark, N. J., to enter another line of business.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Further advance likely even though market gaps point to nearby reaction. Sell off to about 199 would not be bearish, but holding at that region is imperative for further strength.

In the summer of 1929 anybody who could use a pin made money in the market. It was simple. You just took the stock market page, shut your eyes and jabbed. The one the pin hit is the one you bought.

* * *

Something of the sort is going on today. Even the same stories (with 1946 twists) are repeated today. This one is beginning to make the rounds: For seven days in a row a custmer picked a stock which went up at least three points. And one day he bought four stocks which went up five to ten points each. Needless to say, his opinion was sought after even by the senior partner. Everybody agreed he had a system, but how to get him to tell it was something else.

One day, after the close, he was taken out and wined and dined by the partners in an attempt to get him to tell his secret.

* * *

"But I haven't a system," he protested. "All I do is use a pin. And the stock the pin hits is the one I buy."

* * *

The listeners laughed appreciatively at what they considered his sense of humor. "Sure, sure," they said, "we know all about that one. But what about yesterday when you bought four stocks and they all closed way up?"

* * *

"Oh, that day," said the "expert" naively, "that day I used a fork."

* * *

The point of the story is that when the public is in up to its midriffs it doesn't require any stock market sagacity to make money. In fact, the more one thinks the less chance there is of making money.

* * *

Years of accumulated experience yell "Look out!" But, just as in 1929, there were danger signals all through the Fall of that year, it wasn't until October of that year that the deluge came.

* * *

I'm aware that many of the basic conditions that were present then are not here today. But if the same conditions do not obtain the same symptoms of mass hysteria are present. How soon this hysteria will run its course or what form it will take is something for a crystal gazer to figure out.

* * *

If you want some evidence reminiscent of 1929, take a look at the action of the averages for just one week. On Jan. 26 the industrials closed at 199.56. That was a Saturday. Monday they opened at 202.79. Offhand this doesn't mean anything to the boardroom trader. So they opened up. So what? The answer is that in opening up about three points they left a gap. Nine times out of ten a gap opening is the result of public response to news, or anticipation of it. It's no secret that the expected news was a price rise in steel tonnage. That it hasn't developed at this writing doesn't matter. What does matter is that the market has formed what is called a gap. The market, like nature, abhors vacuums, and that's what a gap is. The 1929 market was full of these gaps or vacuums, and everyone of them were eventually closed by the subsequent reaction.

* * *

Basically, a gap is a weak spot. It indicates a kind of buying that lacks staying power. The fact that this one was caused on cash buying (remember it's 100% margin today) doesn't change the picture. When the desire to sell comes along and fear of losses takes the place of hope for profits the action of the public will be the same.

* * *

This pessimistic interpretation doesn't mean that the stocks will start tumbling right away. The timing element is obviously important. My guess is that when the break comes it won't go under the 199 level and may come between columns. How the market behaves when, as, and if it comes will be vital. It is even likely that before a reaction takes place the price level may lift to about 210. But whichever takes place first the careful trader will stick close to shore.

* * *

Meanwhile hold on to the stocks recommended here, but keep in mind the stops. Stocks in the list are: Baldwin at 34 (now 38), stop 33; Flintkote at 35½ (now 39), stop 35; and Waukesha Motors at 32½ (now 32½), stop 29.

* * *

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.]

Postwar Money Supply and Its Significance

(Continued from page 712)

or years is no different from raising the question of the significance of the supply of money and credit at any time. The answer is the same in all cases: One does not deal with supply alone, since there is no way to state with accuracy that it has any particular bearing upon any question involving values, exchanges, and prices.

For example, if one should compare the supply of money and deposit currency with the indexes of wholesale prices from, say, 1920 to date, he would find that the data in general reveal that when the supply has been least prices have been highest, and when the supply has been greatest prices have been lowest or at least much lower. It apparently is fortunate for all concerned that these statistical data happen to be of this sort.

But it is equally true that we should have some reliable data on the supply of money and deposits before we attempt to go on to the various other factors and forces which should be treated along with the supply at any given time. For this reason, it is quite defensible to give some thought to what the postwar supply of money and deposits may be—assuming, always, that we stay within the limits of our knowledge and do not restrict our analysis to supply alone.

Future Money Supply Unpredictable

Considering all the factors that can determine what the postwar supply of money and deposits in a selected future period will be, it seems reasonably clear that no scientist can escape the fact that he is operating in the area of guessing. In short, there appears to be no way in which anyone can possibly estimate with any great assurance of accuracy, except in the very near future, what this supply is to be, either absolutely or relatively, say, next year or the year or years after.

Money Supply and Government Deficits

A large proportion of our supply of money and deposits has grown out of Federal deficit financing. But who can offer any convincing information as to when expansion of this type will end? Even the President, who has the veto power over acts of Congress, has not been able to estimate with any accuracy in recent peacetime years what the Federal deficit would be in any year. During six of the seven peacetime years of the period 1934-1941, if Henry Hazlitt of *The New York Times* is accurate, his average error was 150%, with his range of error reaching from 9 to 422%.

Who can estimate what our loans to foreign countries will be and the extent to which these will affect the supply of our currency in any year or set of years? To what extent will government securities be sold to banks for deposits or cash? How can one know with any accuracy what business activity is to be like this year or in the years immediately ahead, or what the net effects of this activity will be on our supply of money and deposits? Should the Federal government continue its policies of attempting to favor the holders and seekers of jobs while discouraging and hampering those who would supply jobs, who can say what the net effect will be on our currency supply? Should business expansion become pronounced, to what extent will bank credit expand? Should prices rise or fall, to what extent will the currency supply rise or fall?

These are samples of the various reasons why it would appear that no one can possibly know what the supply of our currency in the months and years ahead is to be. Indulging in the widespread indoor sport of extending trend lines beyond our evidence adds nothing to our knowledge as to what our supply of currency is to be in the future. Though these statistcial fakeries belong to some realm other than that of science, there seem to be many today who are able to sell them at a profit.

Velocity of Money Circulation Unpredictable

If it be true that we cannot know what our supply of currency is to be in the future, can we know what the velocity of this unknown supply of currency is likely to be? That, too, seems doubtful. One can easily conjure up frightening pictures as to what could happen if the present very low velocity of deposits should rise rapidly because of a fear of the future value of our currency, or because of a great expansion of confidence in prospects for good business, or because of a great rise in speculation due to a variety of inviting factors. But how is one to know now what is to happen to this velocity?

If these observations are accurate, then should we not say, simply, and as often and as widely as possible, that we do not know and cannot know what the supply and velocity of our currency in the months and years ahead are likely to be? Instead of wrestling with the endless number of combinations of factors which could affect the supply, velocity, and value of our currency one way or another, it would seem to be much more profitable to watch developments as they unfold, to point out possibilities or probabilities of certain governmental or other policies, to analyze and to expose the fallacies in important unscientific and dangerous notions as to relationships which are improperly alleged to exist among our various economic and related forces, making sure, all the while, that we are remaining strictly within the limits of our knowledge.

This is a big field, and we do not seem to be doing much with it. Rather, the widespread tendency seems to be to reach beyond the bounds of knowledge—to palm off guessing as scientific inference based upon reliable evidence.

A New Disease of Economics

Much of our serious literature in the field of currency, prices, and production is saturated with this disease. For example, one finds the words "will" and "must" used in article after article, intended to pass as scientific, in connection with propositions regarding which the authors of the studies could not possibly know that so and so "will" happen and regarding which it does not necessarily follow that so and so "must" happen.

In addition to the common practice of overlooking the factor of velocity in discussions of the supply of currency, there seems to be an increasing tendency, amounting to a fad, to relate the supply of currency to national income or national product. For example, the article on "Wartime Monetary Expansion and Postwar Needs" in the *Federal Reserve Bulletin* for November, 1945, illustrates both practices. Though the article is relatively long, it says nothing about the velocity of currency in connection with wartime expansion of, and postwar needs for, currency. And in harmony with the current fad, the author, in a chart and in his discussion, relates what he calls "individual and corporate holdings of deposits and currency" to gross national product. Why that should be done is not clear considering the great importance at any time of the factor of velocity, and all that it represents, in connection with the supply of currency in people's spending for any selected period. While the author's statistics and estimates show that there is no close relationship—and he really points that out—he does not explain why he should attempt to relate them.

Misconceptions in "National Income" Analyses

Anyone with any reasonable amount of background in economics and money should know in advance of any testing that the supply of deposit currency and money cannot be related in any significant way to national income or national product in the light of the importance of velocity of deposits in any given situation. If one has to have this point demonstrated to him all he need do is to compare total deposits, or total deposits and money, with estimates of national income or national product for a period of years—say, from 1929 up to date. No hint is given by the author of the article in the *Federal Reserve Bulletin* for November, 1945, as to why he did not attempt to relate bank debits to national income or national product figures, since, logically, the relationship should be more significant than any relationship between national product and the supply of money and deposits.

Mary S. Painter, in an article, "Estimates of Gross National Product, 1919-1928," *Federal Reserve Bulletin*, September, 1945, illustrates the current fad in the use of national product in economic analysis in the first paragraph of the article which reads:

"The concept of gross national product has recently become of increasing importance as a measure of total economic activity. Together with its component series—consumer expenditures, government expenditures, and private gross capital formation—it has been used in a number of postwar studies to measure the volume of total production necessary for full employment, and to estimate potential markets, tax yields, volume of imports, etc."

The supposed relationships between currency supply and gross national product or national income emerge in such a variety of ways today in our literature on these matters that it seems impossible to say anything particularly constructive beyond pointing out that a considerable proportion of such discussions will not stand up under careful analysis. In some instances there is no logical opening for a business recession so long as national income is rising; and yet the fact is that we do go into slumps from these high points.

One frequently finds high national income of one year regarded as a basis for prosperity in the next, and a low or a lower national income regarded as ominous or disastrous. Yet, the simple facts of the matter are that sharp slumps follow years of large national income, and business recoveries and expansions follow years of relatively low income. It can be asserted with assurance that the national income of one year bears no ascertainable or predictable relationship to the spending of the people the next.

Writers today seem to have become hipped on national income and national product figures. They, and inferences regarding them, are tossed about in a manner that reflects badly upon our economic and statistical sense. The concepts themselves need more careful handling than they often if not generally receive. But when, in addition, one sees notions of people's spending and the supply of the nation's money and bank deposits related to these concepts it is highly probable that one will find himself confronted with some amazing inferences.

The nation is like the individual in these matters. An individual may receive $25,000 in income this year. That will appear as part of the national income figure. What will that individual spend next year? He may have saved $5,000 in the form of cash, he may borrow $60,000 against his property, he may sell $10,000 of his government securities to his bank and spend $75,000 next year if business prospects are bright or if he thinks his money is going to depreciate rapidly in value. This is three times his income of this year and fifteen times his saved income. Or next year, if business prospects are bad, and if he is not controlled by fear of currency depreciation, he may, out of the same income, spend only $20,000, keeping his living expenses and rate of saving the same. It is for reasons of this type that it is sheer nonsense to attempt to relate national income of one year with the spending, national income, and currency supply of the next.

National income figures are generally laid out in yearly blocks. But of what significance is such a block considering the fact that income and spending flow like a never-ending stream? Is there any more reason for supposing that a person's income for a year is any more significant in his plans than his average monthly or weekly income combined with his past savings and capacity for borrowing? We say again and again that a great proportion of our business is done on credit, and we know that the volume of credit can expand and contract greatly, yet there is a widespread closing of eyes to this fact when that currently favorite plaything, our national income, is dragged into the picture.

Laxity in Definitions of "National Income"

It probably is reasonably accurate to say that the words "national income" and "national product," as they are commonly thrown around today, have little, if any, better standing from the point of view of science than does the word "inflation" which is bandied about in all sorts of ways usually without so much as an attempt being made to tie a tag to it for purposes of scientific identification.

The solemn-faced pontification that takes place today in the economic field regarding concepts such as these, and these in particular, is a pretty sorry exhibition, and it is time that some effective upsetting of this brand of foolishness or fooling, as the case may be, is undertaken.

Were one so disposed he could marshall a rare collection of gems of misinformation offered today at a price as verified fact in the fields of money supply, national income, prosperity, and prices. For example, one of this city's investment management concerns recently published a study on money, prices, and production in which attention was devoted to what the author called "the friendly bit of economic wisdom that money spent equals money spent." The author of that study was never able to explain in any defensible manner what the relation of the amount of money spent at any period of time was to prices at that or any other period of time, but he was able to reach such a remarkable conclusion as this: ". . . one discovers that an estimate of the total amount of money spent divided by an estimate of the total physical volume of goods and services should give an indication of the average price at which those goods and services will be bought." It seems reasonable to suppose that any economist would enjoy watching that feat performed after which he would like to ask the author just what he thinks he has after he has performed this statistical miracle.

Elementary economics should teach anyone that money spent at any time has no ascertainable relation to the prices or the volume of goods and services produced or delivered at that time. When money is spent it is generally for goods (or services) that were priced days, weeks, months, or years earlier, or as partial payment for goods not yet priced or produced. The time or act of spending money does not ordinarily reveal when the contracts were made, or when the prices were agreed upon, or when the goods and services were, or are to be, produced and delivered. It reveals nothing about installment buying and selling, or about payments made in advance, or about payments deferred. When goods and services are delivered, some may have already been paid for, some may be paid for when delivered, some may be paid for later—and they could have been priced at any time agreed upon, a time far removed from that in which payment is made. And then there is the question as to what the author means by "the average price at which those goods and services might be bought."

The author of that remarkable article reached another striking conclusion regarding the application of his unique bit of wisdom "that money spent must equal money spent." It illustrates, among other things, how writers on these subjects today like to link the supply of currency to national income figures. He said that the reader's ". . . interpretation of the unfolding plot is not entirely erroneous if he concludes that the huge inventory of money actually in existence today contributes to the relative assurance of projecting a national income 40% above 1941." This conclusion, the author reminded us, was "a statistical conclusion virtually demanded by an unbiased scrutiny of certain economic facts," and one finds several statistical curves to illustrate what the author asserted he was demonstrating.

It has been said that "America loves to go to Hell on statistical curves." Many of our current publications in the fields of money, prices, and production, provide much supporting evidence on that point.

Being acutely aware of the largely negative character of any contribution which I may have been able to make to the subject under discussion, I particularly wish to say that I think the staff of the Conference Board deserves commendation for inviting the participants to cast such light as they can on these matters, which are of widespread interest and concern, and for opening the way for the adversely-critical comments which I believe should be made on the manner in which these issues are, in my opinion, too frequently dealt with today.

Carl L. Barnes Heads Morgan Brokerage Department

LOS ANGELES, CALIF.—Carl L. Barnes has become associated with Morgan & Co., 634 South Spring St., members of the Los Angeles Stock Exchange, as manager of the Brokerage Department.

Mr. Barnes, who is a member of the Los Angeles Exchange, has been active in financial circles in this community for the past seventeen years, recently being associated with Nelson Douglass & Co., and Wyth & Co. His association with Morgan & Co., gives this firm two seats on the Los Angeles Stock Exchange.

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bined with the tax policy represents a complete reversal of our traditional attitude toward government and its relation to money markets. Traditionally the volume of money was only remotely affected by government action and the tax policy was designed to determine how much money the citizen was willing to allow the government. Today the volume of money is primarily under government influence and the question to be decided in arriving at a tax policy is not how much money the citizen will allow the government to have but how much money the government will allow the citizen to keep.

The forces operating to raise the rate of interest are powerful but could be offset for a long time by sufficiently drastic government action. If they are not offset, your industry will be in exactly the position of many dealers in commodities under OPA. Money will be a commodity whose common price on loan is raising rapidly but the small loan business will be operating under a price fixed not by the market but by the law. In applying to your own affairs what I have to say concerning the probable course of interest rates this must be constantly borne in mind.

In normal times, custodians of loan funds went about their business with a certain large degree of routine. The essential problems of the trade were always present—the source of the funds, the status of the borrower, the appraisal of the rate of interest and the risk and other factors involved in the transaction—and always had to be solved. But this in itself was but another form of stability. The problems varied only in degree, not in kind and always yielded to the practiced hand and seasoned judgment.

In a period when the volume of money and its ultimate standard are subject to abrupt change, to shifting and obscure policies, when wants in far off countries strongly influence our banking system, when England, long the financial ballast of the world is begging for a loan at zero interest, then trade in money is a hazardous business. The lender has lost the familiar landmarks of his business map and the benchmarks of his daily measurements. Nowhere in the system is there anything final on which to rely. Dealers in money nowadays are actually like dealers in goods would be if the force of gravity went on a spree and 1,500 units of something weighed a ton today and 2,500 identical units weighed a ton tomorrow—with a remote but none the less real possibility that the day would come when nothing would weigh anything. Running a coal yard or a grain elevator under such conditions would be nothing but a gamble. Loaning money under inflationary conditions approaches very close to that.

Why Interest?

When we operate under such troubled conditions, it is very worth while to recall the simple basic notions which we take so much for granted that they may be forgotten. One such question is the simple one: Where does interest come from? How is it possible to borrow $100 today and pay back $106 a year from now and not inevitably lose on the transaction?

In the case of consumption loans, the question presents no analytical problem. The man who borrows $100 today to pay $106 a year from now and who spends the money on current consumption does not generate a new form of income. Though his payment is called interest because of the way in which the transaction is handled, the interest payment is simply a deduction from the other shares; it is paid out of income from wages or property. Interest on consumption loans does not bring into the economy a new type of economic share but simply causes a redistribution of the time sequence of the old shares.

This furnishes a convenient place to clarify an old source of confusion, namely, that interest on consumption loans is usurious and interest on production loans is not. the only moral and the final economic title to interest is cost to the lender. The lender performs a service, suffers a loss, assumes a risk, transfers something of value *to him*, in short incurs a cost and for this is *morally* entitled to compensation which *economically* must be paid to the lender in order that he undergo these economic costs. This principle is the same for loans for consumption and production purposes. The status of the individual borrower does not affect the rate of interest except as it changes the cost of the lender. Consumption loans may involve factors, important factors, which require that persons and communities exercise other virtues than strict justice in making them—charity, liberality, social justice. The obligation to lend or give with no return may in certain cases be serious. But if the other virtues are not concerned, then the cost to the lender, cost in the widest sense of the term, is the determinant of the rate of interest.

If loans for consumption purposes do not generate a new economic share not merely called interest but something actually different from wage and property income, we must look more closely at production loans. When a man borrows money to use for business purposes, industrial, agricultural, commercial, where does he get the $6 extra that he must pay back? If prices are steady, he can get that $6 only if the borrowing enables him to do something which reduces his costs below that of some competitor. He and his competitors are all buying similar materials and services in the same market; if prices are stable, after meeting all of these costs there should be no surplus left from which interest could be paid. Even if the payment were made it would not be made from true interest but would simply be a deduction and transfer from the earnings of property owned or of the earnings of management. It would not be interest.

I said if prices were steady. If prices are rising, of course, the problem is different and simpler. If the trend of prices is definitely and strongly upward, anyone can profit by borrowing money, exchanging it for goods, holding them for the rise, sell the goods, that is exchange them for money, pay off the debt and still have a surplus. But notice again that such a payment, though written in the form of an interest contract, is not true interest but a deduction from the appreciated price of the goods. It is not true interest.

The process though less pleasant is equally clear and important on a declining price level. A borrower can borrow money, buy goods, sell the goods at a loss, and if he is able to pay at all, the funds for payment must clearly come from some other source of income rather than true interest.

Consumption loans we may observe perform similarly. If money is borrowed when wages are low and employment bad, and repaid when wages are high and employment good, payment is easy because the price and volume of labor services has increased in the period concerned. But if money is borrowed and spent when prices, wages and employment rates are high and repaid when prices, wages and employment are low, the payment, if made at all, is doubly clearly not an interest payment.

These basic ideas are known to all in a general, practical way but it is necessary to emphasize them in a definite formal way to understand the course of interest rates under inflationary conditions.

Determinants of Rate of Interest

Given these principles, the rate of interest is determined by the demand and supply of loanable funds in a market which has distinct imperfections. The most obvious imperfection is that loans for greatly different periods of time do not compete with each other. Money may be plentiful in the short term market and scarce in the long term market.

Demand for funds is determined by investment opportunity, by the available number of cost reducing innovations and renovations that can be introduced with borrowed money and yield true interest. Such demand is strongly affected by the speculative prospects for price changes. If monetary conditions do not allow of reasonably accurate long term judgment of the value of money, long term commitments will not be made. Speculative borrowings on short term however will be numerous because movements of security and commodity prices will be strong and well defined.

Actually, however, independent movements originate much more readily in changes in the supply of funds. The number of persons who are willing to lend and the sums of money available for loan are much more subject to abrupt change than is the number of persons wishing to borrow. The number of persons able to lend, and the sums available for lending depend on the rate of saving. Yet changes originate here despite the fact that the rate of saving in the face of stable prices and incomes is not subject to rapid change. The rich and poor alike have fairly definite formulas in mind of the proportion of their incomes which they wish to save and these change only with definite changes in income.

Effect of Inflation

With stable prices and incomes earned and spent or saved in a stable price structure, a similarly stable combination of interest rates emerges. The problem begins and the change is initiated when inflation begins, that is, when there appears in the loan market a supply of funds that have never been earned, that never having been saved, can not represent a true cost to the lender in the first instance. Such funds in large quantities can totally obscure and confuse the economic forces that a rate of interest should measure and record. When we have notable increases in a short time of lawful money in circulation and of deposits against which checks can be written, then there are actually coming on to the market funds that in the first instance have not been earned and could not have been earned because they are just coming into being, and because they have not been earned by anybody they can not properly be called savings though when spent either in the investment market or in any other market they operate like saved funds. The presence of such funds in large quantities greatly disturbs all money markets.

The rate of interest is a price. It is the price of money *now* in term of money *then*. As a price it is peculiar, being a price for money in terms of money. Because the rate of interest is a price of money quoted in money, we quote it not like other prices, in dollars, but as a percentage and for that reason we do not think of it as it is—a price. Since the rate of interest is a price, it is subject to the same influences as any other price, changes in conditions of supply and demand with the added peculiarity that changes in supply can induce directly changes in demand much more quickly and definitely than is the case with most commodities.

Paper Money Supply Increases

Furthermore money is the only commodity sold at a price in modern economies which has no true cost of production and practically no cost at all. The accounting work and printing that is involved in the expansion of a modern credit economy is negligible in relation to the value which is called into being in the process. Under a true gold standard this was not the case. Money of ultimate redemption was made of a metal which it cost money to produce. Fractional reserves might enable this metal to expand the money supply by an amount greater than its own market value but nevertheless money still had a cost of production and its supply bore a definite though complex relationship to the cost of production of that supply. Gold production for coinage was not magic but carried a definite and limited margin of profit like any other metal.

But in an economy where monetary gold may not be privately owned and where the relation of gold to the volume of money, though still a legal fact, is so tenuous, remote and changeable that it can practically be ignored, then the cost of production of the metal has no effect on the supply of money and money, which is sold at a money price, the rate of interest, has no cost of production.

An increase in the supply of any commodity tends to lower its price. As you all know rates of interest have been at unbelievably low rates for many years. A principal factor in this is the increase in the supply of money.

This increase in the money supply is clear in the figures for all forms of money. Back in 1920, Americans did business with between 3 and 3.5 billions of legal money. This is the dollar bills, the fives and tens and the nickels, quarters and dimes that are daily going in and out of pockets and purses, cash registers and tellers windows settling minor payments. In 1933 after the bank holiday this increased to about 5.5 billions—representing in part at least money withdrawn from the banks in alarm and not returned. But even after the FDIC was well established the trend continued; by 1939, the figure was about 7.5 billions. With the war, the expansion exceeded all conceivable bounds; in 1942 it was 15.4 billions. In January, 1945 it was 25.2 billions and in October, 1945, 27.9 billions; in December, 1945, 28.4. In short, in comparison with 1920's, the American people have at least eight times as much legal money at ready command as they formerly had. There has been no increase in American population, productivity or volume of trade to offer any kind of justification for such a change.

The figures for bank deposits are every bit as impressive as those for currency. In June, 1929, demand deposits stood at what was regarded as an imposing and dangerous height, 55 billion dollars. Four years of depression reduced this by June, 1933, to 41.6 billion dollars. Since that time we have had an almost uninterrupted advance, 57 billions in 1937, 66 in 1940, 74 in 1941, 81 in 1942, 110 in 1943, 136 in 1944, 162 in June, 1945, and 168 billions in November, 1945, the last month for which we have complete and accurate figures. This means that from June, 1933 to November, 1945, the volume of funds against which the American people could write checks increased four-fold. This increase has been greater since we entered the war but the process was well along at the time the bombs were dropped on Pearl Harbor. And even war is not a sufficient excuse for such an expansion of the means of payment, 315 dollars per capita in 1933 and 1,240 dollars per capita in 1945, practically four times.

Source of Increase in Money Supply

Where did such funds come from? During the early 30's some of it came from gold that still poured into the country. But most of it came from the expansion of deposits to finance the government debt. On Sept. 30, 1945, 143.4 billion dollars of a 260 billion dollar debt, more than half was in the hands of some class of banks or of some government agency or fund. By and large this fact means that more than half of our vast national debt was financed by means which did not represent a direct deduction of purchasing power from any individual's budget. 106.8 billions came from the Reserve Banks and the commercial banks and in this case there was clearly no curtailment of the power of any individual to spend and little curtailment of the banks' further power to lend.

Another 23 billion dollars may be added to our total of 143.4 billions for bonds in the hands of insurance companies. This represents an allocation of funds arising from savings and does not therefore involve an expansion of the means of payment. But such savings are routine and while they do not represent expansion of deposits neither do they represent a curtailment of ordinary disposable consumer income.

The same set of important facts can be grasped if we turn the figures around. Out of our 260 billion dollar debt only 58 billions is in the hands of individuals and the classification "individuals" includes unincorporated businesses which in some cases are substantial enterprises. In other words, definitely less than one-fourth of our total debt was in a form which represented a real deduction of consumer purchasing power. The amount of the indebtedness in 1929 is so small a fraction of the present total that it may be neglected. Therefore, we may say that only one-fourth at most of our indebtedness was financed by means that were clearly anti-inflationary.

In this fact lies the explanation of the course of interest rates during the past 13 years. We have a vast increase in the supply of money; therefore we have a decrease in the value of money. The first effect of an increase in the volume of money is a decline in its value, that is, a rise in prices. We cannot emphasize too strongly that a rise in prices and a fall in the value of money are different ways of saying exactly the same thing.

Ordinarily, when we have an increase in the volume of money we have a fall in its value, that is prices rise. Before the war, except for a brief period in early 1937, we did not have any impressive price rise in spite of the increase in money. We have here a case of an economic cause ready to operate but with its effect suspended. The reason for the suspended effect was that the expansion of money was done in such a way as to cause general business apprehension and lack of activity in spite of the power of the monetary factor. The money was there but it was not used and the normally expected effects did not follow.

With the coming of war, the increase in the volume of money was even more greatly accelerated and it became certain that the suspended effects would certainly develop. The Office of Price Administration was then set up with broad powers to prevent what prior to 1940 the government had been trying to induce, namely, a rise in general prices.

Normally a man is willing to pay a high rate of interest be-

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cause present goods, that is, immediately available resources, have a much greater value to him than future resources. Now in war time, resources in hand have enormous value and the real rate of interest, the value of goods and materials which are saved instead of being consumed, is very high indeed. If we had not expanded the volume of money in war but had taxed the people at levels which actually represented the costs of war which were inevitably being incurred and if what borrowing was necessary was done by selling bonds to individuals, then OPA would have had little to do. Ration coupons might still have been necessary but price control would have been easy because people simply would not have had the money to spend. The rate of money interest would have been high as it should be but national debt would have been very low and the derangement of the price structure reduced to the minimum inescapable in war. Instead of this, the rate of interest was kept extremely low; the volume of money expanded enormously, the public debt correspondingly increased and pressure on the price structure became almost irresistible.

The effect of this in normal times should have been a shift from borrowings based on stable prices. We may call these loans "efficiency borrowings" because a man takes the price of his product as given by the market, borrows money and figures that through efficiency he can meet the market price, pay his interest charge and still have enough to make it worth the effort. The shift should have been to what we may call "speculative borrowings" because a man borrows and expects to be able to make his interest payment because prices have increased in the meantime. Even an inefficient producer can operate on borrowed money successfully if prices are rising.

Present Price Control

At the present moment, the patriotic motive for observing price control is gone. The sense of common effort in a common peril that produced cooperation during the war has departed. All the accumulated inflationary pressure of 13 years is now ready to go, nothing whatever needs to be added. For anyone who is willing to use his eyes and ears, there is no need to quote figures to prove the existence of inflationary pressure. You see and hear it all about you. Every salesman expects to be able to sell any goods he can get, every house owner is sure he could get higher rent. Every job holder is expecting a raise. The bars, hotels and resorts are full. Luxury items that couldn't be given away are now selling at big figure prices. This does not spell goods shortage; this spells easy money which is the layman's phrase for inflation. The money is already existent, ready to operate. All that is needed is a more rapid use of the funds we have to have an unmanagable situation.

The price level that can be supported by a given sum of money depends in great part on the rate at which money goes from hand to hand, and checks go from bank to bank. A small sum moving fast enough can support a large volume of trade. In the last stages of inflation, this velocity becomes visible. When the mark was going to pieces in Germany, on pay day the youngest and fastest member of the family met father at the factory gate and ran with the money as fast as he could to mother stationed at the grocery store so that the money could be spent at once before it declined further in value. Velocity gets into big figures when money is handled like that. In the United States, for the reason given above, velocity is very low at present. Back in 1936, as close to normal as we have in the past decade, the "average dollar" changed hands 22 times a year in business transactions: now average velocity is about 13. All that is needed to give us an acute inflationary problem is to increase the average velocity; no new money, no spending program, no new policy, no new legislation is needed.

Proposed Remedies

Our problem is to prevent further inflation without inducing a deflationary spiral. This is extremely difficult to do. Only two serious proposals have been made concerning it. The first is good but inadequate — let the government stop making its own market for its own bonds, let the rate of interest rise and again become a significant and reliable price. This would have a terrific effect on the banks which are loaded with government bonds at rates on interest less than 1%. This price adjustment would wipe out the capital of many banks. Fortunately, these are mostly securities that have not far to go to maturity and the proposal would allow the banks to carry these securities at par until maturity. This has the merit of putting an end to the source of further inflation but it does not reduce the size of the present problem.

The other proposal is adequate and sound and no more drastic than the situation requires but too drastic to be accepted. In brief, the present situation would be utilized to introduce a system of 100% reserves. The government securities in the banks would be retired and the banks simply given a credit in paper money at the Federal Reserve. This would reduce the public debt by 119 billion dollars. This would with the lawful money in circulation give us a supply of lawful money very closely equal to the volume of deposits. That sum of money would be fixed and not allowed to expand or contract. Against demand deposits the banks would be required to carry 100% reserves and would become simply money warehouses, charging for their services. With time deposits the legal requirement of notice would be strictly enforced. Money would no longer do double duty as invested funds and still be available to the investor as though they were liquid funds. These simple devices would prevent markets from going to pieces for purely monetary reasons.

The chief defect of such a plan is that it attempts to keep the volume of money from fluctuating but leaves the possibility of political changes. This is a serious matter but it is no worse than what we have at present. The objective restraints of the old gold standard have been gone so long that we have nothing further to lose in that respect. However, in spite of its positive merits I doubt if this program will receive serious consideration. It is too bold and thorough-going. Monetary evils arise slowly, at first, almost imperceptibly. The cure must be put in effect at a definite time. Many people go to their graves as a result of chronic diseases slowly developing because they never set a date for the necessary surgery.

From these considerations, the meaning of interest rates under our inflationary conditions should be clear.

The expansion of the total means of payment means a reduction in the value of money.

The increased supply of money *under conditions which discouraged demand for business loans* had led to an extremely low price of money, i.e., low rates of interest.

The greatly increased volume of funds has put an enormous pressure on the price structure. This pressure cannot be withstood much longer.

When prices begin to rise, demand for loans will be strong, not for "efficiency borrowings" but for "speculative borrowings" because on a rising price level, interest payments are easy to meet out of appreciation even by borrowers who could not meet them out of efficiency earnings.

Despite the announced policy of the Treasury of keeping the rate of interest down, which simply means a cheap money policy, as soon as prices rise, money rates of interest on all classes of loans except governments will rise.

The lender for the future must remember that he is dealing in a commodity, money, which will steadily decline in value. We must never forget that when we buy goods with money the other fellow is buying money with goods, and money will buy less and less goods and goods will buy more and more money. The lender is further dealing in a commodity whose supply has been and can be increased without reference to a cost of production. Each loan can and will be paid off with money representing less goods.

One final warning: When the volume of money and the level of prices are not governed by economic factors, the economist is at the mercy of the politician. While the forces I have described are now existing and at work, they could be reversed by a vigorous government policy, which however we have no reason to expect. But in any case, while these forces cannot be denied, their timing and direction can be greatly conditioned by political action.

F. D. Roosevelt Birthday Honored

On Jan. 30, the 64th birthday of the late President Franklin D. Roosevelt, his memory was honored by the issuance of the first sheets of commemorative postage stamps bearing his likeness, and by a radio address to the nation by his successor, President Harry S. Truman, opening the March of Dimes campaign to fight infantile paralysis, a movement long associated with Mr. Roosevelt, who suffered from the disease for many years.

The late President's birthday was celebrated in New York by a concert at the Waldorf-Astoria Hotel, which replaced the annual Birthday Ball of former years. Proceeds of the concert were to be turned over to the Greater New York Chapter of the National Foundation for Infantile Paralysis for care and treatment of patients, and to the national organization for research, education and emergency aid in infantile paralysis epidemics.

In his radio address, President Truman had the following to say in the concluding portion of his remarks:

"I am confident of the eventual outcome of this fight against infantile paralysis. I look forward to the day when we shall have a decisive victory over this disease. That's what Franklin Roosevelt wanted. To join in the March of Dimes is to expedite that conquest.

"Our problems of government are chiefly the conflicts of growth and change. They are the ebb and flow of national existence. But despite these, we move toward tomorrow with the conviction that the spirit of our nation is best expressed in the improving standard of American life.

"By joining the March of Dimes you assume a share in the betterment of our civilization; a civilization that will one day insure a healthier, happier world for all mankind!"

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Given the necessary impetus, by way of reports from Washington that the March maturities would be taken care of by a low-coupon short-term issue and cash, the Government bond market on Tuesday resumed its upward surge to move on again to new alltime highs. . . . Also contributing to the renewed strength was the record low yields set for new offerings of long-term corporates. . . . Last week profit taking, coupled with the tendency to wait for tangible developments on the refunding program, tempered somewhat the rising market. . . . For several trading sessions the long-term obligations, particularly the restricted issues, failed to make new alltime highs. . . . In fact these bonds actually moved down slightly from their tops on light volume. . . .

It most certainly seems to be news these days when long-term Governments have a recession of as much as 1/4 of a point from their alltime highs. . . . Traders, speculators and even investors seem to be pretty well convinced that prices of Government obligations can go only in one direction, up. . . .

Predictions are again being made that sizable profits will be had by purchasing the restricted bonds even at these levels. . . . The Treasury by its policy of cutting debt charges, regardless of future consequences, has put more speculation into the Government bond market, and has made that trading place as appreciation minded as the equity market. . . .

POLICY AND PURPOSE

Evidently the Treasury by refunding the March matured and called obligations with 7/8% certificates and cash, as has been reported, is content to let the market rise to its own levels and then take its cue from the market itself for its next financial operation. . . . This has been the past history of our recent financing and if the long-term restricted bonds go through a 2.25% basis, as seems very likely now, there will again be a lowering of the interest rate. . . . There has been a feeling among certain institutional investors that long-term 2% and 2 1/4% bonds would be used in the future to replace the 2 1/4% and 2 1/2% obligations that have been used in the past. . . . There is no doubt about the power and control of the Treasury over the money markets, but it has been hoped in some quarters that the exercise of this authority would result in the stabilization of rates at about 2 1/2% for long term obligations. . . .

This does not seem to be the case now and the recently reported action of the Government certainly will lead to higher prices and lower long-term coupon rates. . . . It may be that the Treasury is now thinking in terms of a "perpetual 2% obligation." . . .

THE BRITISH MARKET

The recent sustained rise in the prices of British Government Bonds, forecasts the resumption in the near future of borrowings by the British Treasury at lower rates than have prevailed in the past. . . . Whether this will have any effect on the United States Government bond market is a matter of conjecture, but is being watched very carefully, since in the past, the trend to lower interest rates in England has had an important bearing on price movements here. . . .

There seems to be a feeling now among money market followers that new British financing at lower rates will not be as potent a force in our markets as formerly. . . . They point out that the most important factor to affect the course of our markets will be the type of issues offered by the Treasury in future refunding operations. . . .

THE DISCOUNT RATE

Considerable discussion still goes on about the preferential discount rate, as to whether it will be changed or eliminated and what effect these developments would have on the Government bond market. . . . There seems to be a rather general feeling now that the change or withdrawal of this rate has been fully discounted. . . .

This preferential rate was one factor in the narrowing of the spread in the yields between the long- and short-term securities, since the short-term issues were pledged as collateral for loans at 1/2% and the proceeds were invested in the longer-term obligations. . . .

Fear of no more long-term obligations and higher prices was the motivating force behind these loans. . . . The fears were justified since the Treasury carried out its financing in such a fashion as to bring about higher levels for these bonds. . . . Loans for such purposes were at their peaks during the Seventh War Loan and the Victory Drive, but have since declined to modest proportions. . . . With no more large public drives in the offing, new money needs limited, and low coupon short-term financing still in vogue, the Government bond market has moved up to very high levels. . . .

BANKS RISK CONSCIOUS

It has now reached prices where the banks will not be as large buyers as they were in the past of long-term bonds because the spread between long- and short-term obligations is too narrow and the element of risk is most certainly being considered in making purchases of obligations with large premiums. . . .

Even if the Treasury should continue to follow a program of refunding matured and callable issues, with only short-term low-coupon obligations, it is not considered likely that the deposit banks would make as much use of the preferential rate as in the past. (If it should still be in effect) because of the high prices for long-term eligible bonds. . . .

Labor's Place in the Economy

(Continued from page 710)

any rate, it is fairly safe to predict that an adjustment will be made. Strike action will subside and some semblance of normalcy will return to the economic scene within the next few weeks and months.

Nevertheless, labor relations will continue to be a major bone of contention for many years to come. Collective bargaining is firmly entrenched in the economic structure of the country. The issues coming under collective bargaining, however, are still subject to much controversy and difference of interpretation. It will take some time to digest the many changes which have taken place during the past few years—but they will have to be digested if prosperity and not stagnation is to charcterize the economy of the United States.

The question is **how**, not **whether** labor and managment should sit down together to discuss their **mutual** problems. Labor is prepared to present its case. It knows the issues and the precedents. It knows what it wants. There was no secret about labor's plans for the period to follow World War II. Labor leaders long have been outspoken and the trends are clearly defined for those who want to look.

Management, however, has been reluctant to face the facts and to act upon them. As far back as February, 1945, when I spoke to numerous labor leaders and business executives in connection with our Post-War Service, Labor Unions After the War, it became apparent that few businessmen were aware of the issues which unions were preparing to drive home after the war. Even where they were cognizant of them, few had any plan of action to meet them or knowledge of how others were meeting them.

At that time, I pointed out that:

(1) although labor unions would face a period of contraction after the war, loss of status and retarded activity would not accompany loss of membership;

(2) labor leadership would be agressive and well organized;

(3) competition between AFL and CIO for labor supremacy would galvanize the unions into action which they might ordinarily postpone;

(4) the unions would demand higher wages, shorter hours, closed shop or maintenance of membership, vacations with pay, severance pay, annual wages, industry-wide agreements, seniority rights and a tightening of work rules;

(5) although they would ask for many things, the unions would concentrate on wage and hour concessions, work rules and seniority and would try to stabilize take-home pay at high levels; they would strive to maintain real wages when overtime payments were eliminated and the work-week was shortened;

(6) labor and industry irritations, which had been subordinated during the war, probably would crystallize all at once and a wave of strikes and walkouts could be expected during the transition period.

All of these conclusions are being borne out. Many companies appear totally unprepared to meet the situation and are attempting to cope with labor demands as though the 1930's and the war period never had occurred. Whether or not he likes it, the realistic businessman has to recognize that the unions are "here to stay" and that it is necessary to decide upon a plan of action to deal with them satisfactorily. A new wave of unionization already has gotten under way. Industries and classes of personnel which remain unorganized at present are being appealed to by a great variety and number of unions— AFL, CIO and independent. Supervisors and foremen, white collar workers in every field, chemists and farm workers have top priority with union organizers. No section of the country will be immune to union drives. The south, traditionally open shop, will feel increasing pressure from all types of unions. Where unions already exist, new demands will be made. The areas of collective bargaining will be extended. Gains made by some unions during the war will be used as precedents for future action by those which have yet to obtain them.

In the belief that collective bargaining should be carried out with the full knowledge of the issues involved and their implications, how other companies and industries have coped with similar problems and what the trends are, my Bureau made a comprehensive study of union agreements in a wide variety of industries. They highlight the extremely important, but often obscure points, that most differences between labor and management are not settled through strike action but through collective bargaining; and that many of the demands which are causing strikes and making the headlines today have long been handled peacefully between labor and management.

1. World War II greatly widened the scope of collective bargaining, increasing the number and variety of issues to be included. Under the recent War Labor Board, the following issues became established as proper questions to be handled through collective bargaining. Many were written into union agreements, however, only at the behest of the War Labor Board: maintenance-of-membership, checkoff, vacations with pay, shift differentials, sick leave with pay, severance pay, unionization of foremen, job classification, merit increases and a host of other fringe demands.

2. Protection of management prerogatives in union contracts is nothing new. The stronger the union, the more explicit the protection usually afforded management. Despite management's desire to include such a provision in contracts, recent decisions indicate that it is not necessarily an unmitigated blessing. Rather, it has been interpreted as limiting management's prerogatives to those stated in the contract.

3. There is a growing trend toward recognition of the closed shop and union participation in spheres previously handled exclusively by management. Threats of jurisdictional disputes, attempts to increase union discipline and to rule out labor strife as a factor in production and profits have gradually led an increasing number of companies to accept the closed shop.

4. Maintenance-of-membership, which is a compromise between the open and closed shop, will be included in many contracts after the war despite the fact that neither labor nor management like it. Where it is eliminated, the closed or union shop will usually be introduced.

5. The checkoff system will be introduced in most agreements which provide for maintenance-of-membership, or closed shop status. Voluntary now in most cases, the unions will try to make it compulsory in the near future.

6. Severance pay will be one of the things which all unions will demand during the next few years, but this will not be a must demand. Both labor and management will use the point for bargaining purposes.

7. Sick leave and vacations with pay have become standard union demands. Attempts in the future will be to get more liberal vacation terms.

8. Most union contracts either contain a provision explicitly excluding supervisors from the jurisdiction of the unions or else do not mention them at all. A movement to unionize foremen and other supervisory personnel, however, is getting underway. Management will try to offer the ordinary supervisor sufficient compensation, prestige, and rights to forestall unionization. The unions, on the other hand, will offer the advantages of seniority, grievance procedure, and the other benefits of collective bargaining. Many strikes will be precipitated by this issue in the coming years.

9. Very few agreements currently in force contain a guarantee of employment. Most of those in effect are limited in scope. Although the guaranteed annual wage is a goal that unions are striving for, it is unlikely that such a provision will become popular within the next few years.

10. An increasing number of agreements contain provisions for technological improvements. Such a clause, however, is still relatively unusual in most union contracts. There is less resistance to technological changes from unions negotiating for workers in mass production industries than from those representing craft workers. Even the latter appear to realize now that they cannot permanently resist change except to their disadvantage. Where management's right to introduce technological improvements is provided for, however, the workers usually are protected through provisions for severance pay, training programs, or guarantee of past earnings for a transitional period.

11. A number of contracts, especially in the mass production industries which use a lot of machinery, provide for minimum reporting pay. The provision usually says that the employee is guaranteed pay for three or four hours if he is prevented from working through no fault of his own.

12. Almost, but not all, agreements provide for seniority. In the future, unions will attempt to make seniority rules tighter than ever before, reducing management's leeway in suspending seniority for any reason whatsoever. Foremen and supervisors will try to get seniority rights, which in most cases they do not have today. Special seniority rights for union leaders will be a cardinal aim of labor unions.

13. Most contracts contain machinery for the adjustment of disputes. Grievance procedure has come to be one of the most important provisions in the entire contract. The trend is towards working out detailed grievance procedure so that disputes can be handled peacefully and according to an unprejudiced plan. The unions are trying to strengthen their hand by providing that all grievances can be handled through the union representatives. with company compensation. This is not a major aim, but it is a demand that the unions will be making with increasing frequency.

14. At least 50% of the contracts which provide for the adjustments of disputes provide for arbitration as the final step in the grievance procedure. Arbitration is gaining wide acceptance as the logical outgrowth of collective bargaining in good faith. Arbitration, however, is limited to specified issues, disputes arising out of the contract. It is almost certain that more and more union contracts will contain arbitration provisions in the future.

15. Equal pay for equal work provisions are beginning to appear in union contracts. Textile, rubber and steel unions are out in front with this type of provision. Other unions are taking it up. It is designed to prevent discrimination between men and women and between departments, plants and areas.

16. Job analysis and classification schemes also have become accepted. Until recently the unions were bitterly opposed to such schemes but today many unions are volunteering or demanding to cooperate with management in analyzing employee functions, reorganizing more efficiently on the basis of studies and setting fair wage rates for each classification.

17. Wherever shifts are necessary, the demand for shift differentials will be made. This is one of the gains that labor made during the war period which it will fight to retain, despite widespread opposition.

18. More and more unions are trying to secure paid rest and eating periods for their workers. Not a must demand, it will find its way into many negotiations in the future.

These are the demands that management will have to face during the coming period. They can be settled either through strike action or through peaceful negotiation. There is no use in playing blind man's buff with them. They will have to be faced in the long run. The best way to handle them is to be prepared for them.

See Way Open for Repeal Of Federal Tax Exemptions

(Continued from page 725)

that the States were most eager to get a favorable decision. Possible effects of an adverse decision were also speculated upon.

The decison in confirming the Federal Government's power to levy taxes upon certain extra-governmental activities and functions, reveals a possible trend to future taxation.

For many years, public utility men have been complaining, and rightfully so, of competition from tax-exempt, publicly-owned utilities. They now feel that such future revenues will be subjected to taxation. But to accomplish this a further interpretation may be necessary. Growth of publicly-owned utilities has been greatly accelerated by this tax advantage.

This decision may quite likely cause Congress to enact appropriate legislation to include in taxable income the interest from State and municipal bonds. This principle may be extended to the future taxation of instrumentalities of State governments.

Its constitutionality will eventually have to be decided by the Supreme Court. [Last year the Supreme Court refused to review the Port of New York Authority bond interest tax case.]

Prior cases permitted Federal taxation of State liquor stores, State operated railroads and athletic events of Government educational institutions.

The attitude of the Government's tax and legal experts, not as yet expressed, may very well be to question the tax-free status currently enjoyed by such governmental enterprises.

Just how far the States can invade the realm of private enterprise without subjecting themselves to Federal taxation is the $64 question.

Our country's progress has been founded upon private enterprise—the inherent right to start and build up a business. It is unfair for a governmental unit to possess a tax advantage over private business merely because it is engaged in a similar busines.

It is an incentive for a government to go into business; conversely, it is a deterrent for individuals and corporations.

Certain organizations enjoy a tax-exempt status under income tax laws. Consequently, there has been much agitation to tax cooperatives and others which operate in competition with private tax-paying enterprises. Why tax a business and allow a competitor to go scot-free of tax? Similarly, there has been agitation to tax the income of labor unions, even if only for the purpose of regulating and controlling their activities.

The 1943 Revenue Act requires certain tax-exempt organizations to file special fiscal reports showing receipts and legitimate expenses. The reports for 1943, released by the Commissioner of Internal Revenue, show overall receipts of over $5 billion, with cooperatives taking in over $2.2 billion, and labor unions nearly $1½ billion.

U. S. cooperatives own petroleum refineries, large oil acreage and hundreds of oil wells as well as 150 mills and factories. Now, when the Supreme Court goes so far as to tax a governmental enterprise, isn't this the cue for legislators to enact appropriate tax laws for the enterprises currently free from Federal income taxation?

The decision furnishes the impetus for such tax legislation. Seemingly remote before the Saratoga decision, taxation of certain publicly-owned enterprises as well as cooperatives, labor unions, etc., may be an imminent reality. Legislative tax action is ripe and may be stimulated.

Labor unions could be taxed very easily. The union activities could be split into: (1) its welfare, educational, etc., activities, and (2) its "regular activities." Only the latter could be taxed. Both groups, however, should be compelled to keep books and make periodic reports to the Treasury Department. The tax may also be applied to the income of the union from real estate, investments, etc., holdings.

Obviously this decision affords an excellent opportunity to renew vigorously the drive for new tax legislation. The preferential tax status of business enterprises operating under the veil of cooperatives, of usual, traditional and essential governmental functions, as well as of labor unions may soon be terminated. All these must contribute their fair share to the cost of running the Federal Government.

Otherwise, "the privilege to escape taxation, is the power to destroy free enterprise."

Olmsted Elected VP of Long Island Lighting

Robert G. Olmsted, former Long Island Lighting Company treasurer, has returned to the Company after serving over three and one-half years in the U. S. Army Air Forces. Starting as a First Lieutenant, he rose to the rank of Lt. Colonel.

Mr. Olmsted will assume the position of a Vice-President of the Long Island Lighting and Nassau and Suffolk Lighting Companies, and assist the President on all matters assigned to him. He will also be assistant to the President of the Queens Borough Gas and Electric Company and it is expected he will be elected a Vice-President of that Company at a later date.

Parker Harrison Opens Office

BOSTON, MASS.—Parker Harrison has opened offices at 31 State Street, to engage in the securities business under the firm name of Parker Harrison & Co. He was formerly with Thomas N. Perkins, Jr.

Central Bank Policy as an Inflation Curb

(Continued from page 714)

asked of one particular instrument of control, and too much reliance was placed on administration of the financial and credit aspects of our economy. Those dreams were one more manifestation of man's eternal search for some simple solution of the complex problems with which he is confronted in his economic life. I think no one will deny the need for and the usefulness of a central bank, or a central banking system, and I am certainly a champion of such institutions. They are a necessary and important part of our credit machinery, as has been demonstrated again and magnificently during the recent war. But they are not the bearers of the solution of our economic problems.

Fashions in Economics

No one needs to be told this now, of course. Fashions in economic thinking change, and many economists seem to change with the fashions. On the domestic front, fiscal policy has succeeded central banking in the role of key to our economic problems, and I predict that it will suffer the same fate as central banking—it will remain important and useful, but become dated. In international affairs, the cooperation of central bankers is being replaced by an international institution, the International Monetary Fund. It will find, as did the central bankers before it, that without the underpinnings of an exchange of goods and services, the facade of finance will not carry a very heavy load. We must relearn what must have been more obvious and apparent in a simpler economy—namely, that what we are seeking is a fair exchange of goods and services between nations, within nations, and between different groups in the community; and that credit control or fiscal administration or, I believe, *any other single device can only aid in achieving the objective; they cannot determine the result.*

This does not mean, of course, that these weapons are useless or valueless. In fact, with the great increase in the public debt during the war, the great increase in the proportion of government securities among the earning assets of the banking system, and the great increase in public holdings of liquid assets, a wise and integrated fiscal and monetary policy is a necessary part of any economic program. That is why it may be worth while, tonight, to explore briefly the monetary or credit aspects of our present situation.

Wartime credit policy stems from the statement of the Federal Reserve System, issued immediately after Pearl Harbor, that it would use its powers to assure an ample supply of funds at all times for financing the war effort, and would exert its influence toward maintaining conditions in the U. S. Government security market satisfactory from the standpoint of the Government's requirements.

In the beginning there was considerable discussion as to whether this commitment required the maintenance of a large volume of excess reserves—you will remember that we had gotten used to tremendous excess reserves in the thirties. The Federal Reserve System resisted this approach, holding that ready availability of credit, not an excessive supply, was needed, and that the latter would lead to an unnecessarily large amount of bank financing. Experience demonstrated the correctness of this view, but it must be admitted that our concern that the banks should be available as a market of last resort led us to sin on the side of monetary ease. The commercial banks of the country increased their holdings of government securities by approximately $70 billion between December 1941 and December 1945, and the Federal Reserve Banks enlarged their portfolios by $22 billion. Between them they purchased more than 43% of the total amount of government securities offered during the war, and now hold about that proportion of those outstanding.

There was also considerable discussion as to the level of interest rates to be maintained, it being generally agreed that the war should not be financed at rising rates of interest as in World War I. The level of interest rates at the beginning of the war was the product of a long period of very large excess reserves and of reduced demand for accommodation. Rates on 90-day Treasury bills were at or close to zero, and an issue of 2½% bonds had recently been sold with a maturity of 30 years. It was thought that those rates were low, given the tremendous demands for credit that would grow out of war needs. On the other hand, if the war was to be financed without rising rates of interest, the only place to begin was at the beginning. As you know, there evolved from this situation a so-called "pattern of rates," which allowed some slight increase in yields on the very shortest maturities, and slightly shortened the life of the longest term obligations. The range settled down between ⅜ of 1% on 90-day Treasury bills, and 2½% on long-term Treasury bonds, the latter not immediately available for purchase by commercial banks.

Effect of War Fiscal Policy

It was recognized that this two-pronged policy—(1) providing banks with sufficient reserves to enable them to act as residual buyers of government securities; and (2) maintaining stability or a pattern of rates in the government security market—largely or wholly deprived the Federal Reserve System of the initiative with respect to the supply of credit. The initiative passed over to the market, and particularly to the commercial banks, which, in effect, needed only to offer government securities for sale in order to obtain more Federal Reserve credit. And this policy and program led insidiously to an increase in the amount of war financing done through the banking system. Once the banks (and non-bank investors) became convinced that a "pattern of rates" was being maintained, demand naturally began to tend toward the longer term, higher coupon securities which could be bought with an assurance of yield and profit substantially in excess of those obtainable on short-term obligations, no matter what the period of investment. The amazing fact is that this playing of the pattern of rates took so long to develop in volume. It is a tribute to the conservatism, or lack of faith in official controls, of bankers. Eventually widespread playing of the pattern of rates did develop, however, and since then there has been a continuous triple-play going on in the Government securities market. Although this is not the exact sequence of events, the non-bank investor has bought long-term restricted issues in the war loan drives; to increase his capacity for absorbing these issues he has sold previously acquired bank eligible issues to the banks; and the banks have sold their shortest-term Governments to the Federal Reserve Banks in order to secure the funds with which to buy the higher coupon issues being sold by non-bank investors.

There have been two collateral and paradoxical results of this triple-play process in addition to the impetus which it gave to the already rapid growth of bank credit. There was a persistent downward pressure on longer-term interest rates, as demand concentrated there, which made the maintenance of the "pattern of rates" an impossibility. But this downward trend of rates did not itself produce a decline in the cost of Treasury borrowing. In fact, in the later war loan drives the cost of Treasury borrowing actually increased because of the considerable shift in demand to the longer term, higher coupon securities.

The completion of the Victory Loan drive brought to an end the war financing program, and an opportunity to resurvey the monetary and credit policy which accompanied it. It was a program and a policy which has tremendous achievements to its credit which I certainly would not belittle. But we cannot let its defects linger on. The underlying problem is to determine the relative importance of quantitative credit control in our economy (I am purposely excluding qualitative controls, such as the control of margin requirements for purchasing and carrying securities, from this discussion) and how it is to be reasserted to the extent that it has a role to play. We cannot expect or permit some fourteen thousand individual commercial banks to establish national credit policy for us in this reconversion period. We already have a redundant supply of money and liquid assets in the hands of the public, a presently restricted supply of goods and services, and a favorable business outlook for the next few years. It has been repeatedly demonstrated that, when we have this combination, the effects are felt in all markets and inflationary developments are likely. As gilt-edged securities, both public and private, rise in price under pressure of the abundant money supply, funds flow over increasingly into lower grade securities and into equities, and into commodity, real estate and other markets, under the pressure of rising expectation of profits and the apparent minimizing of risks. The stage was never better set for another demonstration of this character.

Monetary Controls As Anti-Inflation Weapon

To promote an inflationary boom at this time would be a poor prologue for the maintenance of full production and high production and high employment in the post-transition period. I do not suggest that monetary controls can cope single-handed with the inflationary aspects of the present situation, nor even that they can be used so vigorously as to constitute a major anti-inflation weapon. At the moment the development of a wage-price spiral seems our greatest danger, and monetary action is not the answer. But we must devise a monetary and credit policy which, taking due account of the appropriate requirements of the management of the public debt, will discharge our responsibliity for promoting economic stability, and support the measures taken by other agencies to curb inflationary tendencies, in the present temporary circumstances.

Now I want to switch over to an international problem. I refer to the Anglo-American financial and trade agreements recently recommended by representatives of our Government and the Government of the United Kingdom. This subject is not wholly unrelated to the domestic questions I have been discussing, if for no other reason than that foreign loans will almost inevitably result in an increase in the supply of liquid assets—of purchasing power—in domestic hands and in an increased demand for our goods and services. In the immediate transition period, foreign loans are quite likely to complicate the solution of problems of monetary and credit policy at home. But here there are broader considerations to be weighed.

The British Loan

The arrangements agreed upon by the British representatives and our representatives, after twelve weeks of negotiation during the latter part of last year, have been approved by the British Parliament, but they have not yet run the gauntlet of Congressional consideration and action. Meanwhile, it is important that there be public understanding of what has been accomplished so that Congress will not fail of prompt and wise action because of public misapprehension. It seems to me that the New York State Bankers Association might well express itself on these proposals, as it did with respect to the Bretton Woods Agreements. I can think of no international economic problem which, at the moment, so greatly deserves our attention.

Right at the start, I should admit to you that I approach the problem with a bias in favor of aid to Britain. I have long believed that we should attack the problem of the British balance of payments and the British pound sterling as an absolutely essential prerequisite to currency stabilization and to the development or revival of multilateral world trade. I conceived the solution of the problem as requiring a final wiping out of the debts of World War I, a liberal definitive settlement of the lend-lease obligations of World War II, agreement and perhaps help in a program of liquidating sterling balances accumulated during the war, and agreement *and* help in meeting the deficit in the British balance of payments in the immediate post-war years. With the exception of the World War I debts, which were probably not considered worth bothering about, but which I would still like to see wiped off the books, these are the principal financial problems with which the recent negotiations were concerned. I think that, on the whole, they were successfully resolved.

A loan of $3,750 million to Great Britain is proposed, which would be made available in the form of a line of credit to be drawn upon at any time between the effective date of the Agreement and Dec. 31, 1951. In addition, a further loan of $650 million was agreed upon to cover the final settlement of lend-lease and other claims arising directly out of the war. The combined credits of $4.4 billion require no payment of interest or principal during the period they are available as a line of credit. Beginning Dec. 31, 1951, they are to be repaid in equal annual instalments over a period of fifty years, the payments to include an interest charge of 2% on the outstanding principal amount in any given year. If the United Kingdom determines that its present and prospective position with respect to its international balance of payments and the level of its gold and foreign exchange reserves makes it necessary, and is supported by a certification of the International Monetary Fund as to its balance of payments position, the interest payment in any year may be waived. The greatest aid will thus be extended in the period of greatest need, the immediate post-war transition years, and in subsequent years an attempt has been made to temper the burden of servicing the loan.

As collateral consideration in fixing the loan terms, the United Kingdom has committed itself to a system of free exchange on current account. Aside from certain exceptions, the effect of the exchange arrangements will be to permit sterling area countries freely to convert into dollars any sterling they acquire, and to use without restriction any dollars they acquire directly, beginning not later than one year from the effective date of the Agreement. These arrangements will be in effect until Dec. 31, 1951, by which time it is hoped that the international situation will permit them to be made permanent. The broad outline of a method of disposing of the problem of abnormal sterling balances accumulated during the war was also made part of the Agreement. Such balances are to be considered in three parts: "(a) balances to be released at once, and convertible into any currency for current transactions; (b) balances to be similarly released by instalments over a period of years beginning in 1951; and (c) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness. . . ."

The negotiators did not confine themselves solely to financial problems, however, nor merely to the British loan. Quite properly and, of necessity, from our viewpoint they also concerned themselves with questions of world trade. The main purpose of seeking stability of the British pound sterling is that it is one of the principal currencies of international commerce, and the main economic purpose of seeking to help restore the British balance of payments position, is to open the way to international trade on a multilateral basis. It is clearly in our interest that there be the widest degree of freedom in world trade, so that multilateral exchanges of goods and services may take place with a minimum of restrictions and restraint and with a minimum of discrimination as between nations. That is the kind of trade to which our economy is supposed to be geared, and that is the kind of trade which permits the most efficient and effective use of the world's resources of men and materials. Unfortunately, while recognizing the ultimate all-around advantages of such a policy and such a program, the British economy is not immediately geared to its acceptance. Handicapped by the destruction and dislocations of war and by a certain amount of industrial stagnation, forced to use without stint her previously existing foreign assets in prosecuting her own and the Allied cause, and confronted with the necessity of greatly increasing her exports if she is to restore her own living standards and to participate in the creation of a more stable and prosperous world, Britain was faced with the temptation, if not the necessity of using, as an economic weapon, her position as one of the world's greatest customers. Without help, and very substantial help from us, she could not relinquish, in these immediate postwar years, those controls which limit the trade of the sterling area with this and other countries, and those aids to her export trade which are bilateral or discriminatory in character. And if her international position were restored with the aid of these devices it may be questioned if she then would have been willing or able to relinquish them.

It seems to me to be an imperative, that if the world is to be restored to full and robust health, both economically and politically, Great Britain, which is the heart and center of a great area of international trade, and whose currency is the medium of exchange in transacting a substantial part of the world's international commerce, must be able to play its full part in that restoration. Without our financial help in this period of transition from war to peace she could not do so. With our help, generously given, she may be able to do so. That is the promise of the "Proposals for Consideration by an International Conference on Trade and Employment," with all important points of which the United Kingdom has expressed full agreement.

British Loan Not a Pattern of Future Lending

This aid to Britain I hold to be something separate and apart from whatever loans we may make to other countries faced with the need of reconstructing their economies after the war. I know that it is argued that if we enter into this arrangement with Great Britain, it will become the model for similar demands for aid from other countries; that Russia will want $6 billion and so on and so on, until we shall have bankrupted ourselves trying to finance the world on easy terms. If this were a correct picture of the course of events, there would be something to the argument, because when we lend dollars we are really lending American goods and services, and we haven't an inexhaustible supply of either. Within the next two or three years we are going to be pressed to produce goods in adequate amounts to meet the demands of the domestic market as well as demands from abroad, and it would not do us, nor anyone else, any real good if we created additional purchasing power through foreign loans while the goods were not forthcoming in ample volume. For myself, however, I see no good reason why the loan to Britain should be considered to have set the pattern for other foreign loans either in terms or in amount. It is a unique undertaking. There is no other foreign country which occupies the international trading position occupied by Great Britain, and there is no other foreign currency which enjoys the international usage of the British pound sterling. To help rebuild these two pillars of what we hope will become a greatly expanded multilateral world trade, is an act of statesmanship in behalf of ourselves and the whole world. It is directed against no other nation or groups of nations. It establishes no tenable precedents for other credits or other loans.

Unfortunately, these proposals which it might have been expected would have been welcomed in England and in this country as a tangible evidence of desirable international cooperation, have been received and ratified in England with doubt and misgiving, and there are some indications that we may approve them with reluctance and recrimination. That is too bad, but we cannot abridge the right to criticize and dissent if we are to maintain a free society. The English appear to believe:

1. That, at least morally, they have had to commit themselves prematurely to a system of world trade which deprives them of the opportunities to exploit their strategic position and, in fact, may make it impossible for them to recover international equilibrium.

We can understand and sympathize with this feeling even though we do not agree. To expand British exports to approximately 150-175% of prewar volume in the next few years, which it is estimated will be required to restore such equilibrium, is a gigantic task.

2. That too short a time has been allowed for the removal of exchange controls and the restoration of free convertibility of sterling, and for the working out of special wartime financial and trade arrangements.

We can understand but not sympathize with this complaint; these commitments and the loan go hand-in-hand.

3. That the amount of the loan is not adequate to the need, and the terms are onerous.

I can only say that, for myself, a larger amount and more generous terms would have seemed appropriate to the circumstances.

On our side, while discussion thus far has been tentative and we have not yet had the benefit of Congressional hearings and debate, some of the objections have taken form:

1. That we have again been "out-traded" by the British, who have obtained a large loan on easy terms, which they will use to finance socialism at home and to compete with us abroad.

2. That the British loan will establish a pattern for a series of foreign loans which will place an unbearable burden on our productive resources, and which will further increase the burdens of the public debt and of taxation required for its service.

3. That despite its generous terms, the loan will not be repaid.

Where these fears and doubts are not foolish and unfounded, it seems to me that they betray a lack of comprehension of the tremendous enterprise on which we are embarked. We must keep always in mind the goal toward which we are pressing forward—world peace—which, among many other things, requires that a strong economically healthy Britain press forward at our side. Of course it is a tremendous gamble—for them and for us. Of course it means a modification of some of our previous practices and projected plans. For both of us it means that we shall have to seek high production and employment by means and methods which do not operate at the expense of other countries. The British will have to improve their competitive position by the relatively hard road of increased efficiency and productivity and ingenuity rather than by the relatively easy road of bilateral trade arrangements and discriminatory practices. The United States will have to place increasing emphasis on imports and do those things which will help to enable foreign countries to balance their accounts with us in goods and services. We shall have to face the problem of which industries and which workers are to meet this foreign competition, and how. There are and will be many difficult tasks and difficult decisions, but they are minute in comparison with the great task of our time and age, preserving the peace of the world. If we boggle at these minor attempts at international cooperation, assuming that they recommend themselves as well conceived and workable, what chance is there that we shall be successful in our major task of creating some form of world organization, that minimum form of world state, which can successfully control the forces of destruction which man now uneasily commands?

R. H. Johnson Co. Celebrates 19 Years

A dual celebration marking the 19th Anniversary of the founding of R. H. Johnson & Company, investment brokers, and paying tribute to John A. Kaye, who individually led all members in total sales of Government bonds throughout the Eight War Loan Drives participated in by the fourteen branches of the firm, was held at the Waldorf Astoria Hotel.

R. H. Johnson, senior partner, who as a graduate of West Point, served with distinction in the first World War, threw the entire manpower of his organization behind the various Victory Loan Drives, with the result that quotas in each campaign were not only met but consistently exceeded.

Prior to joining R. H. Johnson & Company in 1940, Mr. Kaye's varied experience included ten previous years in the brokerage business; President of a Motor Transport Corporation; President of De Witt Secretarial College in Bayonne, New Jersey, where in conjunction with the high school system he inaugurated the first courses in vocational guidance.

Assisting in the anniversary celebration, in addition to Mr. Johnson, will be Lester Pett, G. A. Dewey, R. H. Boardman and Penn Smith, executive members of the firm.

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audience that financial mechanisms are useful only if they aid production and consumption. If the mechanisms are good they materially aid in bringing producer and consumer quickly together; if they are poor they cause great inconvenience, but not much more than that caused by a faulty piece of plumbing. Without production neither financing nor consumption is possible.

Importance of American Production

This brings me back again to why I don't feel very much like talking about banking or international finance. With the exception of peace itself American production is the most important single factor in the peace and well-being of the world today. Actually this has been so ever since after the first World War as some of the excellent analyses of the inter-war period so clearly demonstrate. If this was true from 1919 to 1939, and I can assure you that it was true, you can well imagine the impact of our production or our failure to produce on the international situation of today.

When we fail to adjust the disputes which stop production in this country, we are not only letting our own countrymen down, but we are contributing to endless hours of misery throughout the world. In so doing, we are depriving our friends of the urgently needed tools for reconstruction, tools which they wish to buy for cash or on fair credit terms which they intend to honor.

I wonder how effective we can be in international affairs if it becomes fully evident that our own house is in such disorder that we can't or won't produce even for ourselves! However, the exigencies of this situation must be apparent to so many people, that we can somewhat hopefully assume that these crippling disputes will be settled quickly.

In comparing in its broadest aspects our position today with that of let us say early 1919, it is immediately apparent that as a nation we are far better prepared for peace than after the first World War. This must mean that we recognize fully the responsibilities and opportunities of one of the greatest, if not the greatest, nation in the world. Congress has passed with great majorities every piece of important legislation dealing with our effective cooperation in international organization. The next important step in this general pattern, but dealing with the urgent special problems of our staunchest ally, is the British program. Because the program is so specific, but is nevertheless not as yet fully understood by many of our citizens, it may encounter some difficulties. Nevertheless, I am satisfied that, when the merits of the program are explained as well as the unfortunate alternatives if prompt favorable action is not taken, Congress will continue its effective support of these constructive measures.

Other legislation may follow. For example, if private capital does not find conditions for private international investment attractive the Export-Import Bank will unquestionably need additional lending authority. But I can state without hesitation that if the British program is not adopted the effectiveness of American private capital and American Government lending will be materially narrowed, if not severely handicapped.

The Export-Import Bank

At this point I believe it is appropriate to describe briefly some factors which are important in the operations and policies of the Export-Import Bank itself.

The present program of the Export-Import Bank grows out of its varied experience since 1934, adopted and expanded to meet the urgent needs of the current situation. The Export-Import Bank Act of 1945 placed the management of the Bank in a board of directors consisting of the Secretary of State and four full-time directors appointed by the President of the United States by and with the advice and consent of the Senate. Participation by other Government agencies in shaping the policies of the Bank is provided through an Advisory Board consisting of the Chairman of the Board of Directors of the Bank, the Secretaries of State, Treasury, and Commerce, and the Chairman of the Board of Governors of the Federal Reserve System.

The National Advisory Council created by the Bretton Woods Agreements Act has the same membership as the Advisory Board of the Export-Import Bank, except that its Chairman is the Secretary of the Treasury. It is responsible for coordinating the policies of the Export-Import Bank with those of the United States representatives on the Bretton Woods organizations and with all other agencies of the Government to the extent that they make foreign loans or engage in foreign financial transactions.

As a general rule, the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and the technical services of American firms and individuals as distinguished from outlays for materials and labor in the borrowing country or purchases in third countries. The reasons for doing so are principally two: (1) The limited resources of the Bank should be used with rare exceptions solely for the purpose of directly financing and facilitating United States foreign trade; (2) foreign countries should not ordinarily assume external indebtedness to finance expenditures in local currency.

This policy has been the subject of considerable misunderstanding and has raised the issue of "tied" loans. In my opinion, this issue has neither practical nor theoretical significance as applied to the Bank's current operations. This is because the Export-Import Bank does not use its loans as a means of inducing purchases of goods and services in the United States which would otherwise have been made in other countries. On the contrary, the Export-Import Bank leaves the decision as to what will be purchased and where entirely to the discretion of the borrowers. Once a borrower has decided, on the basis of price, quality, and delivery considerations, to buy certain things in the United States, the Bank may then undertake to finance the purchases. In other words, the Bank stands ready in general to finance dollar requirements.

This is an entirely different approach from the "tied" loan approach which in the past frequently had the effect of diverting trade into uneconomical channels. This is the real objection to "tied" loans, and it applies only when a loan is dangled before a prospective borrower as an inducement to make his purchases in a given country or from a given supplier. By no stretch of the imagination could this be said of Export-Import Bank loans.

The alternatives to the Bank's present policy of financing only dollar requirements except under extraordinary circumstances would be for it to finance also (1) local currency requirements, or (2) requirements for currencies other than those of the United States and a borrowing country. The Bank's present policy does not preclude the financing of local currency requirements when it is desirable to do so. Recognition is given, however, to the obvious desirability of having disbursements for local materials and labor financed by the borrowing country itself in order to avoid the incurring by it of unnecessary external indebtedness and in order to force dependence upon local sources of capital — something which must be accomplished if underdeveloped countries are to proceed very far in their programs of economic development.

For the Export-Import Bank to finance trade between borrowing countries and third countries would seem to be wholly impractical and unnecessary, whatever its theoretical justification. It would be difficult, for example, to justify the financing through the Export-Import Bank of Brazilian purchases from the United Kingdom. If financing is required, sterling financing would certainly be forthcoming. Furthermore, it would be imprudent and unnecessary for Brazil to incur dollar indebtedness for such a purpose.

No Competition With Private Capital

In accordance with its own rule and the express instruction of Congress, the Bank does not compete with private capital but rather supplements and encourages it. The activities of the Bank are confined, therefore, to dealing with certain types of risks which private banks are not in a position to assume without government assistance and with other risks which they are not prepared to assume at all.

The principle of noncompetition with private lending institutions is further carried out by the readiness of the Export-Import Bank to sell paper which it has acquired and by arrangements under which the Export-Import Bank undertakes in advance to purchase from commercial banks notes arising out of specified transactions financed in the first instance by the commercial banks.

The Export-Import Bank is prepared to assist, under proper conditions, to aid in the purchase of engineering and other technical services in the United States. As a matter of practice, however, its assistance is required primarily in facilitating exports of tangible commodities the sale of which involves extended terms of credit.

Effect of Bretton Woods Agreements

An extremely important new factor in the international financial operations of our government is presented in the new legislation setting up the Bretton Woods organizations and our participation in their activities.

The Bretton Woods legislation and the Export-Import Bank Act of 1945, provide a means of top coordination in the international lending activities of this government, which to put it mildly was badly needed.

The National Advisory Council on International Monetary and Financial Problems, already known by us bureaucrats as NAC, and to which I referred earlier, is now fully organized and is meeting regularly.

It is expected that the International Bank will begin lending operations in the latter half of 1946 and that during the calendar year 1947 the Bank will assume the primary responsibility for meeting the world's international capital requirements that cannot be met from private sources. With its present membership, the Bank will be authorized to lend approximately $7.5 billion. The bulk of the funds for these loans probably will be raised in the private cap-

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ital market of this country. However, since this new institution will inevitably take considerable time to raise funds and develop a lending program, it is expected that loans made during 1946 will constitute only a small proportion of the total lending power of the Bank. Until the International Bank is in full operation the Export-Import Bank must carry the major burden. At that time the Export-Import Bank will be able to concentrate on matters of special American interest.

Operations of Export-Import Bank

I shall now describe roughly how proposals to the Export-Import Bank are handled in acutal practice. The representatives of a given country approach our Ambassador, our Department of State, or the Export-Import Bank directly. If the proposal covers new business with a country with which the Bank has already established satisfactory credit relationships, such as with practically every country in this Hemisphere, the new proposal is immediately assigned to the Bank staff for study and what you might describe as processing.

If, on the other hand, the proposal comes from the government of a recently liberated area, the proposal is first referred to the NAC for policy and other clearance. The representatives of the country in question are informed of the procedure and are likewise informed that while an exchange of necessary economic information is of course desirable, no serious negotiations will start until the NAC has given clearance and has likewise indicated to the Bank its views on the overall dimensions of the proposed credit.

At the same time there may be and usually are a number of other matters which are under active discussion with the other government. These matters naturally vary both in importance and urgency, but agreement on all major commercial policy questions at least in principle is obviously desirable, in fact, essential before important credit negotiations can be concluded. This might sound like pretty tough trading. Actually it represents very reasonable safeguards, as in the opinion of this government the commercial policies of all governments have a very direct influence on their ability to service their own external obligations, or the external obligations of their nationals.

I am confident that the NAC mechanism can work and work well and through the combined efforts of its members and the other agencies of this government, a solid foundation for private trade and finance can be established. Without such a foundation the immediate role of private trade will be indeed both limited and extremely hazardous.

But as I have said before, I believe Congress will act favorably on the British program and on any necessary additional lending power for the Export-Import Bank. When this occurs we will have enough financial tools to do an adequate job in the immediate future.

In fact, if international financial legislation were our only problem everyone except the comparative few who toil in that somewhat complicated field could take an indefinite vacation without fear of a troubled conscience.

In considering the impact of this loan program on the domestic economy, account must be taken not only of the fact that there is an inevitable delay in the spending of the loans of the Export-Import Bank but also that it is the policy of the Export-Import Bank to discourage the employment of loan proceeds for the purchase of commodities in scarce supply. Wherever possible the Bank encourages the use of these proceeds for the purchase of commodities in long supply such as cotton and many types of capital goods. As reconversion proceeds, this list of items will doubtless be expanded. It is also the policy of the Government to prevent the proceeds of loans from being used to purchase supplies in the United States market when similar supplies are available for sale as surplus property in the borrowing country. Furthermore, the use of loan proceeds in the purchase of capital goods for which plants are already tooled up will help to ease the problem of reconversion in the United States. For example, one of the principal items in demand by foreign borrowers is railroad equipment for which there is at this time productive capacity far in excess of United States demand.

A basic question to be considered is whether at a later period foreign countries will be able to service large American loans and investments. There is little doubt regarding the ability of debtor countries after their economies have been fully reconstructed to increase their national income sufficiently to handle the service charges on American loans and investments, providing an undue part of national income of borrowing countries is not diverted to military expenditures. This increase can be brought about through the modernization of economically backward areas, increased employment, and the utilization of new productive techniques, and well-directed foreign loans will make an important contribution to this development.

Future World Trade

The ability of borrowing countries to develop an export surplus sufficient to meet service charges on foreign loans will depend in large measure upon the level of world trade. A high level of world trade will in turn depend upon the maintenance of a high level of world income and a reduction of the barriers to international trade which have grown up in the past. A high level of world income, and of national income in the United States, will be greatly influenced by the domestic economic policies of the United States and of other major countries. It is expected that the proposed International Trade Organization will play an important role in securing the international economic environment necessary for the maintenance of high levels of world trade. The operation of the International Monetary Fund should assure the orderly functioning of a system of multilateral payments, and this will make it possible for debtor countries to convert their export surplus with any country into the currency in which their obligations must be discharged.

Fundamentally, however, the ability of foreign countries to transfer interest and amortization on foreign loans to the United States depends upon the extent to which we make dollars available to the world through imports of goods and services, including personal remittances and tourist expenditures, and through new investments abroad. As a last resort, the world outside of the United States has a current gold production of possibly $1 billion per year to add to their present foreign exchange reserves, which can be dipped into to ensure payment.

American Foreign Investments

As long as new American investment exceeds interest and amortization on outstanding foreign investment, the question of net repayment on our total foreign investment will not arise, although as individual investments are paid off the composition of our foreign investment may shift. It is impossible to prophesy when receipts on foreign investment will exceed new investment, as American investment abroad will depend on many future developments. In a world of peace, prosperity, and a liberal trade policy, there may well be a revival and continuation of American private investment on a large scale, including a reinvestment of the profits of industry, that will put the period of net repayment far in the future. Such an increase of investment is a natural and wholesome development for a wealthy community.

When net repayment begins, whether this be a few years or many decades from now, it will involve an excess of imports of goods and services (including foreign travel by Americans) over our total exports of goods and services. The growth in our population and the depletion of our natural resources and the increase in our standard of living will increase the need for imported products, and these developments together with the maintenance of a high and stable level of employment will facilitate this adjustment. The annual interest and amortization payment on the entire present and contemplated Export-Import Bank program, the British loan, and the International Bank loans floated in United States markets will be less than $1 billion. The normal growth in our commodity imports and in net expenditures by tourists has been estimated by the Department of Commerce at $1 billion every four years. The receipt of payments in our foreign loans in the form of goods and services is, therefore, entirely consistent with increased exports from this country and rising production at home, and will contribute to a rising living standard in the United States in the same way that a private individual's earnings on his investments make possible increase in his own living standard.

The lending program which I have briefly outlined is in full accord with the basic political and economic interests of the United States. This country is supporting the United Nations Organization wholeheartedly, and the success of the United Nations Organization depends not only on political agreement but also on economic improvement. These loans are for economic reconstruction and development. They will enable the borrowing countries to increase their own production, relieve their foreign trade from excessive regulation, and expand their trade with us. Economic reconstruction will foster political stability, and political stability will foster peace. This program of foreign lending is essential to the realization of the main objective of the foreign economic policy of the United States, which is to lay the economic foundations of the peace.

Stott & Frost Return To A. G. Edwards Co.; Adams Joins Staff

A. G. Edwards & Sons, members of the New York Stock Exchange, whose home office is in St. Louis, Mo., announce that Gordon D. Stott, resident partner, and F. Willoughby Frost, have resumed their places with the firm's New York office, 61 Broadway, after service in the armed forces, and that James B. Adams, Jr. has become associated with the firm. Mr. Adams was in government service during the war period and previously was associated with Eastman, Dillon & Co.

Dealers in a Maze

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manship, but to the ordinary dealer, they probably appear as excellent examples of circumlocution.

It is significant that the dealers are in a dither and are looking to their trade organizations, who in turn are looking to their counsel for some memoranda which will establish clarity out of chaos.

There would be no need for this jumpiness if the Commission attempted to do straightforwardly by rule, what it is injecting snidely in decisions.

In a recent editorial we, and in a letter of Jan. 31, 1946, the NASD, referred to an article in the Yale Law Journal of November, 1933, authored by a former chairman of the Securities and Exchange Commission, now an Associate Justice of the United States Supreme Court, William C. Douglas.

We quoted in part from that article as follows:

". . . but it is not true, . . . that the absence of an inventory makes him an agent."

There can be no doubt that Judge Douglas stated the law as of that date.

In what statutory provision does the SEC find justification for changing that law?

We remind the Commission that its rule making power is no such authority, since there exists therein no right to usurp the legislative function.

We quote the last sentence in the letter of the NASD of Jan. 31, 1946:

> "Each association member should be well advised to reexamine his business practices and his customer relationships to make certain that his selling organization understands and makes practical use of the principles outlined in this letter, and to consult and be guided by the advice of his counsel as applied to his individual situation."

We believe that the NASD has tried to be helpful in its communication. However, if the whole gamut of dealers consisted of Philadelphia lawyers who had every desire to conform with the advice contained in the paragraph last quoted, it is our considered judgment, in view of the entire contents of the letter, the job could not be properly done.

There should be facility and liquidity in business. Sales, commerce, should be simplified rather than hampered and circumscribed by difficult and unusual requirements.

If lawyers have to be called in to prescribe the conduct of ordinary business then it will be a sad day for the securities industry.

We have come to a sorry pass when the only national securities association which exists under the Maloney Act finds it necessary to tell its members to seek the advice of counsel as applied to each member's individual situation.

Such advice has become necessary because the SEC has made a bad job in its "riskless transaction" and "disclosure" activities.

Dealers are being whipped by the Commission with a barrage of nebulous words incapable of definite definition. Amongst these are such phrases as "explicit and informed consent," "explicit and informed ratification."

At the same time the SEC tells us that "non-action of the customer upon the receipt of a principal confirmation did not, in our opinion, constitute such ratification."

Is this need for lawyers the result of dressing the security dealers in a "professional tinge."

The citation of the Oxford case by the Commission in the other two cases has in our opinion only added more confusion to the already turbulent situation.

Where is the Securities and Exchange Commission heading?

Its philosophies concerning non-position trading and disclosure need immediate shearing.

THE COMMISSION SHOULD MAKE AN IMMEDIATE DIRECT STATEMENT — NOT OFF THE RECORD — FOR THE CONSIDERATION OF DEALERS.

Algyer, Miller & Mace With Goldman Sachs

Goldman, Sachs & Co., 30 Pine St., New York City, members of the New York Stock Exchange, announces that D. D. Algyer, formerly Lieutenant USNR, has returned to his duties as retail sales manager; Stanley R. Miller, formerly Commander USNR, is now associated with the firm; and that Robin G. Mace, formerly Lieutenant Commander USNR, will represent the firm in Detroit.

Stone & Youngberg Admit New Partners to Firm

SAN FRANCISCO, CALIF. — Stone & Youngberg, 235 Montgomery Street, have admitted Richard P. Gross to general partnership, and Fred H. Warren, Charles H. West and Frederick C. Youngberg to limited partnership in the firm. Mr. Gross was formerly a partner in Kanter & Gross. Other partners in the firm are Daniel Stone, J. Carlisle Youngberg and Benjamin Baum.

What Is Back of the Strikes?

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from the East" who tell us that we are all wrong, that they have a **better** system, that of dividing everything equally, under which there is no private property such as we have here, under which the Government is supreme. And the peculiar part of it is that not only do working people who came away from European misery to relative opulence, favor the systems known as Socialism or Communism, but they want us to adopt them!

We can sympathize with people who find some jobs depressing or crushing, and there are industries where men and women are made mere machines or trip hammers. There are factories where men and women are only a little above the level of the slaves whom we freed after the War of the Rebellion. We have seen women in factories do work which was not pretty to behold; but they had to live, and they worked in slime and grease and chemicals, because the rest of the family could not provide them with sufficient means for the most modest existence.

It was hoped that with our philanthropic-minded statesmen at Washington, those starry-eyed theorists of the "New Deal," some plans might have been evolved where Capital and Labor could have each worked in its own sphere to keep up the American tradition of a republican form of Government, where the voter decided for himself what kind of representative he wanted to send to Congress to make the laws of the land. It was hoped that the Government would be the balance-wheel which could have stepped in between corporate rapaciousness and the greed of unfair unionized labor which served only to aggrandize certain labor leaders of varying grades of corruption if not ignorance.

Laws Defied

But it seems that all of our laws which tended to improve the position of labor, while encouraging capital to continue the economic system that had done so much for this country, and is even now doing so much for the oppressed and starving and naked peoples of the world,—it seems that those laws have fallen down and simply place certain labor leaders in a position of power in which they can defy the laws. They can defy the President, they can defy the great mass of the public that must suffer every time there is a walkout in our major industries that affects all the public, in every great city and little town in the country.

Does anybody think that it is just an accident that these strikes take place at a time when the savings banks are bulging with the savings of these workers who were well paid during the recent war, many of whom have saved enough to take care of themselves for a while?

Does anybody think that it is not peculiar that these strikes come at a time when international discussions are being held in which the strongest advocates of Fascism of the Left, as promoted by various Government leaders who do not get their inspiration from God in what they are trying to do?

They want us to imitate an experiment which they have been tinkering with for nearly 20 years, but which was not that successful to permit them to win a war against the Germans without our technical advice, our raw materials, our loans in actual money and "lend lease."

Is there, **seriously**, any American workingman, even those who have lived in Russia, who would advocate changing places with Russian slaveworker who works under the most favorable conditions, as they exist in Russia?

But if there are workingmen who have believed that Communism or Socialism is for them the real road to happiness and prosperity, it can only be understood because some of them have not been making enough to make both ends meet, considering their large families and the obligations which that entails for sustenance, education, recreation, medical care, raiment and provision for old age.

These workingmen ought to have been educated by our public school system into believing that the ideals of George Washington, Thomas Jefferson and Abraham Lincoln were far better than what Lenin, Trotsky and Stalin have given to the Russian people.

Faults of Educators

But if one can censor the workingman who, after all, may not know any better, what must one say to educated people — school teachers, college professors and political leaders — who never worked at a machine, who never managed a business, who never had to meet a payroll, who are receiving sustenance from the public payroll which is derived from taxes which are paid by all of the people, including the industries which are the backbone of our nation?

And, what must one say to people who are rich, who cut coupons from bonds which are the result of the sweat of the brows of their parents or immediate ancestors, parlor pinks from Park Avenue, who flirt on the ragged edge of Communism because they think it is **smart** to do so? Not to mention the fact that the names of such people are seen frequently on "Leftist" advertisements inserted in the daily newspapers, for which they have contributed large sums.

What are these people going to do when the industries are taken away from corporations, as the Communists want, and then see them "socialized" as they are in Russia and similar countries?

Where will such people go to work when they have no coupons to cut, and no dividend checks to cash?

Do they think that the State will owe them a living?

Theoretical communists and anarchists had better begin to take inventory!

Where the Strikes Will Bring Us

The obvious result that those who lead the strikers today want to accomplish is the seizing of the factories by the Government. That is the first way to government operation. If the strikers can control enough votes, they can influence the permanent holding of the factories by the Government. The excuse would be "national emergency."

Anything can be done in a national emergency. The officials could even suspend certain provisions of the Constitution, as in war time. Then legislation could be enacted to provide for the acquisition of the plants from the owners (stockholders) on the basis of: "Give it to us, or else."

The compensation might be part of the appraised value, by appraisers selected by the Government, of course. Payment would be made in Government bonds which would yield about 2% until maturity, against sizable profits in dividends on the present stocks. Apart from that, if we have inflation in a greater degree than now in the offing, the bonds would go down while equities of all sorts would go up. So the Government would profit in such a deal.

But as those in control of the Government would be men like Philip Murray and Sidney Hillman, we would soon be like the Russia of Lenin and Stalin, and, of course, a totalitarian state. All of us would be given a number, and told where we could work, where we could live, what we could eat if we could find it, whom we could marry, when we could have children, etc.

The Romans blamed the Christian religion for the ruin of their empire, and we can thank Franklin D. Roosevelt and his Consort if what is said above will come true.

The name of this country in that case will be changed to Union of American Socialist States (UASS). See if you can pronounce the letters as a word, and see what you get!

Manila Stock Exchange Reopened Jan. 25

The Manila Stock Exchange was reopened on Jan. 25 with indications of a boom in Philippine mining shares, according to Associated Press advices from Manila, in which it was also stated:

Some issues were more than double values listed at the last trading, Dec. 3, 1941.

The bull market was attributed by brokers to a large supply of cash and the scarcity of share certificates. Many certificates and company records were lost during the battle for Manila.

Only three gold mines in the entire archipelago are reported intact. Production is months or years in the future.

Santiago Picornell, the only surviving partner of one of Manila's largest brokerage houses, said several Philippine mining issues currently are selling in the San Francisco Mining Exchange at prices four to five times Manila quotations because of difficulty in transferring shares.

Mr. Picornell said most transactions here are still over-the-counter. The Manila Exchange demands street certificates and deeds of sale for stock transactions.

Union Pacific Sells Debentures at Record Low—Issue All Sold

An all-time record low for railroad borrowing in the open market was established Feb. 6 when the Union Pacific RR. sold $44,493,000 of 2⅞% debentures to a group headed by Halsey, Stuart & Co., Inc. The successful bid of 107.789 for the bonds, maturing in 1972 represented an interest cost a shade less than 2½%. The coupon rate was fixed in the invitation for bids.

Kuhn, Loeb & Co., headed the only other competing group at the sale. This group named a price of 107.5399.

Subject to approval by the Interstate Commerce Commission, Halsey, Stuart & Co., Inc., reoffered the debentures immediately at 108½, for a yield of about 2.47%. Within a few minutes the issue was reported oversubscribed and the books closed.

Last September the road sold an issue of $81,602,000 of 45-year 3% refunding mortgage bonds Series B, to the same banking group at a price of 103.3599. These bonds were offered publicly at 104.

Now Partnership

SAN FRANCISCO, CALIF. — Heller, Bruce & Co., Mills Tower, is now doing business as a partnership, with Walter S. Heller, William H. Brown, Richard C. Van Houten, Eugene G. McMahon, and Shirley H. Baker as partners. All were with the corporation.

Rochester Clarke Partner

LAKE CHARLES, LA.—George W. Clarke, Jr. has been admitted to partnership in the investment business of Rochester Clarke, Weber Building.

Sees Unprecedented Business Ahead Despite Labor Disputes

(Continued from page 722)

sewing machines, and radios were running from 10 to 30% above November, and prewar levels for most consumer hard goods could be reached by June, Civilian Production Administrator Small reported.

However, Mr. Small noted certain hurdles still in the way of all-out peacetime production, saying:

"Important factors retarding the production of consumer and producer durable goods include: (1) work stoppages resulting from industrial disputes; (2) shortages of certain materials (such as sheet steel and castings) and shortages of certain components (such as ball bearings, fractional horsepower motors, and certain electrical parts)—many of these shortages in turn have resulted from strikes, and (3) uncertainties as to wage-cost factors. An additional factor preventing electrical appliances and other consumer goods from reaching the consumer earlier has been the necessity for filling distributor pipelines. These pipelines have been greatly extended by the substantial increase in the number of dealers."

Commenting on the disastrous price inflation that followed World War I when controls were lifted, Mr. Small went on to state in his report that "inflationary pressures and tendencies of the current situation are much greater today than those which existed in 1918 and that if the country is to avoid inflation it must have all-out sustained production, a flood of goods onto dealers' shelves, and adequate supplies of raw materials and component parts for industry."

The report gives automobile production as 30,022 units in December, compared with 34,612 in November. "Total car output in 1945 is listed at only 83,702. That was one-third authorized production, and one-fifth the production forecast by manufacturers shortly after all controls were removed following V-J Day.

The Civilian Production Administration's report also yields new details in other durable goods categories, as follows:

About 350,000 electric irons were shipped in December, or 92% of the prewar rate. This is 14% higher than November and nearly double the October rate. It is expected that the prewar monthly production rate of 380,000 will be reached speedily after solution of the labor-management problem in the electrical industry.

Some 30,000 electric ranges were shipped during December, as estimated by Civilian Production Administration. This is an increase by 12% over November and double the October rate. It is about two-thirds the 1941 average monthly rate which was 47,000.

About 90,000 vacuum cleaners were shipped in December which is an increase of 10% over November and nearly four times October shipments. It is 58% of the prewar base period monthly rate which was 156,000. Prewar levels of production could be attained by May.

December shipments of domestic mechanical refrigerators increased by 30% over November to an estimated level of 150,000, or about half the prewar rate. At this rate of increase, prewar production levels of 309,000 monthly could be reached by June.

December shipments of domestic washing machines and ironers are estimated at 65,000 units, a 9% increase over November, about 40% of 1941 monthly shipments of 158,000.

About 5,000 sewing machines were shipped during December, slightly more than in November, but only about 11% of the prewar rate. With enough available castings it may be possible to reach the monthly prewar production level of 48,000 by June.

About 900,000 alarm clocks, spring-wound and electric, were shipped during December, at 90% of prewar rate, which will be reached by March. December shipments of non-jewelled watches, up slightly from November, were equivalent to 27% of prewar rate, which will probably not be reached before September.

Shipments of domestic radio receiving sets during December, based on incomplete reports indicated about 100,000 sets, which is 8% of prewar figure of 1,100,000 sets per month, and only a fraction of earlier forecasts by the industry.

Shipments of warm air furnaces, November and December combined, were about 60,000 units, compared with 40,000 units in October, 35,000 in September, and average monthly production of 27,000 units in 1939. The industry estimates minimum requirements in 1946 at 710,000 units, but expects to produce only about 425,000. About 300,000 are needed for the Housing Program, 100,000 for other new private construction, and 310,000 for replacements—which may not be filled.

Production of residential oil burners rose steadily during 1945 and reached 16,000 units in October which is a 40% increase over September and is slightly above the 1939 average of 14,400 a month. Backlog of orders in October was: 137,000 burners or eight months' production; plus 45,000 more units needed to build up depleted inventories. The industry hopes to catch up with these requirements by late next summer.

Production of residential mechanical stokers is increasing steadily. Factory sales in November were 20,300 units, compared with 18,500 in October, 13,400 in September. Production in 1939 averaged 5,600 stokers a month.

The low-priced apparel program under Order M-328B is being continued, according to the report, during the first quarter 1946, and will be extended through the second quarter. Women's wool garments are deleted in the first quarter, for seasonal reasons.

The total first quarter cotton program, which embraces low-priced apparel, nurses' uniforms, work gloves, and piece goods, is about the same size as for the fourth quarter, the Civilian Production Administration monthly report states, excepting that 60 million yards for retail sale as piece goods over the counter are included for the first time.

Concerning the emergency housing program for veterans, the report states that special attention is being given to the number and location of proposed dwellings, so as to make possible introduction of geographic quotas if the indicated drain on building materials in any one region makes it probable that the ratings for materials will exceed the quantities anticipated.

Dwelling prices and rentals are being watched and quotas may be used if it appears that the majority of housing applications closely approach the $10,000 sales price or the $80 rent ceilings. It is hoped, the report says, that the average will finally fall somewhere under $6,500. The Civilian Production Administration and other Government agencies are studying, also, the proper relationship of prefabricated and precut housing and trailers to the reconversion housing program, and additional directions to the housing Priorities Regulation 33 may be written as a result of such study.

Coming Real Estate Values

(Continued from page 722)

was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."

Do these words describe the present moments in which we live most adequately? They certainly do, but you might be interested in knowing that they constitute the opening paragraph of Charles Dickens' "A Tale of Two Cities," concerning the year 1775 —in which that great novel opens. And please remember further, that Dickens wrote these words just about a century ago!

Factors of Real Estate Values

In the economic and emotional environment in which we are living today there is probably only one thing that we can do; that is to consider the basic principles which control the pattern of our lives—and have controlled the pattern of people's lives for centuries past.

Facts are always complicated; first principles are always simple. Without first principles the facts overwhelm us, and must continue to overwhelm us—for only too many facts are unknowable. The only things we can be certain about are principles and ideas. That is why, no doubt, men acting without principles must always be confused.

We are oft-times so busy laying the bricks on the third and fourth floors of our houses that we forget to think about the strength of the foundation—or the first principles which support these bricks. So I am going to stick to first principles as they pertain to real estate values and investment practice. Then it will be interesting to see if we can weed out some really concrete and helpful conclusions from this topsy turvy world we live in today.

Two primary factors, generally, determine realty values. The first is "supply and demand", and the second relates to "purchasing power"—both of the people and the dollar.

Inasmuch as "supply and demand" are definitely both affected by "purchasing power", I think we might relate these two factors together, and to simpilfy my illustration it might be well to talk about one class of property for the moment—that is, homes and residences.

Until the start of the present war, there were numerous dwellings and homes that were vacant in most communities throughout the country, and we had more dwellings for sale and for rent on the market at what we regarded as very low prices, than we thought could be absorbed for a decade or more. There was a "numerical demand" for housing. Probably as much of a "numerical demand" as there is today, but there was not an effective demand —effective by way of having enough purchasing power in the hands of the people so that they could make effective and satisfy their demand. So, resultantly, we said that there was little or no demand for houses. Builders proceeded very slowly, and I will not bore you by the statistics of how few new homes were erected in this area from 1930 to 1940; but suddenly two things occurred in the New York area between the years 1943 and 1944. We began to do a great deal of war work, and everyone who wanted to work could get a job for at least $30 a week—even as a soda-jerker. War contracts poured into every community throughout the country, and suddenly, instead of there being an over-supply of homes because of a lack of demand, we found ourselves with an under-supply because of great effective demand. The net result has been a booming residential realty market, wherein prices have risen all the way from 40 to 100%.

Causes of Real Estate Rise

Now I believe that we must examine most carefully the price increase in the dwelling market, and I would name as the causes of the increase the following factors:

1. The increase in the price level—or the cost of construction.

2. Payments made for "immediate occupancy." Col. Cowley, of Dallas, Texas, advises me that people in that locality are paying 50% more than a reasonably justified price for "immediate occupancy."

3. Panic and "scare buying."

Let us, for instance, place a price upon a small home, from three to five years of age, in the years 1940 or 1941, at $10,000. With a 35% increase in the price level and the cost of construction, I believe that over the long run the fair and reasonable market price for that house is about $13,500 today. You can shade that, perhaps, if you don't believe that the present price level will continue to climb upward or even hold, but for purposes of discussion I think 35% may well be used.

Now we all know that the house I am talking about will sell for more than $13,500; it may sell for sixteen or eighteen or twenty thousand dollars. And that is where an "immediate occupancy" price or a "scare price" must be considered.

The minute housing production starts—say next year, or a year or two hence—and the tremendous demand decreases, the "immediate occupancy" or the "scare" part of the purchase price will evaporate into thin air. But the 35% increase for the 1940-1941 level, or the price of $13,500, is likely to hold. Of course I should have mentioned depreciation here that occurs over the years, but that is not important at this particular moment.

So as I see our problem, despite the great abnormalities that exist in our present market, we must come back again to "supply and demand" and "purchasing power" —or the value of the dollar—if we are going to make sense in our valuation procedure.

Relation of Cost to Supply and Demand

I think it would be worth our while for a moment to consider the relation of cost to supply and demand. And to make the illustration simpler, let us consider for a moment the market for wheat or corn. This will also happen to be a discussion of cycles; it really is strange how one sound economic principle fits into and attaches itself to another sound economic principle.

Farmers may produce corn or wheat, for instance, and at a price of 50c a bushel they can make a profit of 5c a bushel. That being the case, the cost of production is 45c, the profit 5c—a total of 50c; and a fair profit should be included in cost.

In most of the times in which men live, the profit motive governs their economic actions fairly well, and if a profit of 5c appears to be good and stable for producing wheat and corn, and it appears likely that more can be sold, the natural thing is for more farmers to enter into the production of wheat and corn. Now the result is that if more wheat and corn is produced, and if the demand remains stable for that product, the increase of the supply will naturally force the price down. As the price falls, to say 48, 47, 46, and 45 cents a bushel (in fact, through a great overproduction the price may fall to 40c a bushel) many farmers will drop out, and they will not produce wheat or corn when there is a low profit, no profit, or even a loss.

Therefore, as farmers drop out of production, the supply decreases; conversely when there are more bidders than there are offers, the price will rise. When there isn't enough corn or wheat for the demand, the price may go to 60 or 70 cents a bushel—and there may be a 15 or 25 cent profit per bushel for the producers of these products.

Then when the price is getting higher, more farmers get on the profit band-wagon, raise wheat or corn to the point where there is an over-supply, and the price again tumbles.

Now you may say that as of any moment—any given moment —supply and demand controls the price—and you are absolutely right. But please note that over the course of years the price fluctuation, say from 40 to 60 or 70 cents a bushel, will hover more or less around the 50¢ mark (of course I am excluding at this moment such considerations as dollar devaluation, etc.) so therefore in the long run cost does determine value.

And it wasn't until the great economist, Alfred Marshall, pointed out that the time element was the important factor in the determination of value, or worth, or price, that the relationship of these two theories of value came to be understood.

Now I said in a debate with Ivan Carson that "the cure for high prices is more high prices, and the cure for low prices is more low prices." That is an economic principle, gentlemen, that I don't think you can get away from for very long. And if I were talking tonight about price and rent control for new housing, which I am not, I would say that the same principles apply to the construction of housing that apply to the production of corn, or wheat, or almost anything you might wish to consider.

A moment ago I mentioned the business cycle. The business cycle is a grand big cycle which is made up of lots of little cycles. There is a hog cycle, and a corn and a wheat and an automobile cycle. I suppose there is an onion cycle too. When all these various cycles are superimposed upon one another, they probably portray confusion. But they don't portray enough confusion so that sense cannot be made.

When you have, at any period in history, a great over-supply or a great under-supply of many things at one and the same time, and when a lot of these various individual cyclical movements meet at one time, either on the upward or downward beat, you either have a depression or a boom.

But so much for cycles. While many fine theories have been worked out as to their cause, nevertheless few economists have ever gotten far away from "supply and demand"; and "supply and demand" are part and parcel of every cyclical movement.

Influence of Price Level

A few moments ago I made mention of the price level. As we have seen since the beginning of the war, and as we are seeing very clearly today, the price level is climbing upward. Perhaps some prices are too high and out of line, and may recede after the next few years, but by and large, it seems that our overall postwar price level is going to be at least from 30 to 40% higher than the prewar level. Wages have gone up, costs of production have increased—and they are going to increase still further. In fact, an eminent American predicted just a few days ago that he believed that the prices of 1951 would be 50% higher than they are even today. That would mean that in a decade, from 1941 to 1951, the general overall cost of all goods and services would almost be doubled.

As appraisers I believe that we must predict—in fact we have got to predict—if we are going to value any real estate at all. But we must bear in mind that our predictions must be reasonable assumptions, and not in the realm of omniscience—though the omniscience of some may turn out to be true.

I think that one of the basic troubles confronting most of us (the wide divergence in values arrived at by many appraisers) comes from a disagreement in basic assumptions. So maybe it would be well if appraisers would, in the future, state in their appraisals what their basic economic assumptions are. Then the buyer of the appraisal can, if he is qualified, decide whether an assumption is reasonable or not.

The Problem of Capitalization

Even in the process of capitalization, we are all inclined, it seems to me, to make very hasty assumptions. For instance, we choose the income to be capitalized and we choose a capitalization rate. Now to date, except in the case of leaseholds, where income fluctuates, most appraisers stabilize an income in perpetuity, and at the same time use a stabilized rate. But as a matter of fact there are nine variables that can be made in the capitalization process.

In using the present income, interest rates can remain the same, or increase or decrease. If the income is increasing, the interest rate over the course of years may increase or decrease, or remain the same, while if the income decreases, the interest rate may decrease, increase, or remain constant. Now there are nine variables that you can work on if you have nothing else to do some rainy Sunday afternoon. You may find the results interesting.

Dual Markets

There is one thing that we are all going to have to be very careful of during the next five or even ten years. That is the matter of dual markets that have existed in the real estate field for some 20 or 30 years.

Within the fields of both theoretical and practical economics, only one price level can exist in a market for any good or commodity at a given moment. However, circumstances sometimes occur in the realty market which would seem to bring into existence a dual market—or, for comparable parcels, two simultaneous separate price levels.

These dual markets apparently arise under two sets of circumstances. The first dual market occurs when low types of improvements, such as dwellings, tenements, et cetera, are sold on the one hand to buyers who will maintain these properties in their present use and on the other hand when similar sales of these kinds of properties are made to buyers who intend to demolish the present improvements in order to place the land to a higher and better use. In many cities, particularly in their cores, it may be noted that over the course of several years' time, the prices which builders have paid have been one and one-half times, or twice that paid by other buyers. An example of this has existed in New York City for several years—on one of the main residential thoroughfares. Builders have paid, for old residences, an average price of from $3,000 to $4,000 per front foot for 25 foot by 100 foot dwellings (including improvements). At the same time residential buyers have paid an average of $1,000 to $2,000 per front foot for comparable properties. Of course, builders have bought at the residential market level when possible, but more often than not, in order to assemble plottage, they have paid the sellers' asking prices, and this has raised the average front foot price they have paid to about double the average residential market price. Also, it should be noted here that builders' purchases have been only about 25% of the number of residential sales.

The second dual market arises when low-use properties are sold, let us say, at a price level of $500 a front foot (for land including buildings) and high-type improvement sales indicate a land value of $1,000 per foot, if the building replacement cost is deducted from total sales prices.

In both of the dual markets defined above, the question may be posed, "What then is—and what can be—the fair and reasonable market value of land when sales which are different in character indicate what seems to be, to all intents and purposes, two price levels, or a dual market?"

The answer to this question hinges on two factors. One is the amount of vacant land, or land placed to a low use, compared to the amount of land placed to a high use within a given district or comparable area. The second is the current demand and the rate of demand for higher use structures within a given neighborhood.

For many years appraisers, as well as the general public, have been educated to the theory of "highest and best use." "Highest and best use" is perfectly all right in its place, but I think we are going to have to be extremely careful and cautious in projecting future use.

We Have a Real Estate Boom

As we all know, we are in the midst of what some people might call a boom. There is a great deal of real estate activity because we are moving from one price level to another price level. How much new building is going to occur in the city I frankly do not know—and neither does any one else. But I am willing to make one prediction, and that is that the most profitable new building will be done on the basis of competitive land value. And there is little likelihood of builders paying a thousand dollars a front foot, say on Third Avenue in New York, if they can find a better and healthier location on which to build apartments for $300 or $400 a front foot.

We often forget that, despite our mechanical age, things move rather slowly when we consider time as one given point. During the war everybody received a shot in the arm, and was told about the wonderful house that was going to be built. In fact the only thing that postwar houses would not be able to do would be to put on a pair of wings and fly! Well we all know what the story is. Pretty much the same kind of houses are going to be built, with some refinements here and there; and costs are going to be upwards from 25 to 50%. In other words, if you forget the price level, you are going to get about the same amount of house for the same price index number that existed in 1941—or less!

But coming back to the dual market, I would say that any appraiser of property in a case where the land represents the most substantial portion of value, must say to himself at the time of his appraisal: "What chance is there that during the next few years this land will be improved and placed to a higher use than exists at present?" The fact that some—or a few—builders can and will pay more at times for land on a front foot or square foot basis than many other sales indicate is no reason why all land throughout an area should be evaluated on the theory of highest and best use.

The "Highest Use" Factor

Regardless of what land might be worth by the land residual method of valuation, unless there is even more than a reasonable assurance that it will be placed to a high use within a comparatively short period of time, it does well seem that the method of valuation should be determined by either the land's present use or the current market value as indicated by the majority of sales which have occurred and are occurring.

In the matter of sales of highly improved sites, if there is a great supply of vacant or poorly improved land in the area in which the sales of the highly improved sites occasionally occur, then the land values derived by deducting the building value from the total purchase price should be declared to be illegitimate—that is, if such derived values vary greatly from land values shown by sales of less intensively improved or vacant parcels.

Because, particularly in multi-family residential structures, rentals the first few years are considerably higher than the average usually derived, say, over a five-year period, builders often figure that their improvement will justify a higher land cost than the long-term rental trend of the building will warrant. In this situation, it should be recognized that builders are not long-term investors, and a certain portion of the net income received during the first few years of a building's life might very justifiably be credited to the item "enterpreneurs profits."

So-called dual markets must always be examined with minute care. When any substantial portion of land in an area is placed to a low use, occasional sales at high prices should be used very infrequently as indices of value, for they are generally atypical, and not at all definite determinants of value.

The Inequality of Value

I don't wish to talk too long, but there is one subject that relates itself to dual markets, and that is the inequality of value.

Because one piece of land, say 100 ft x 100 ft. in size, improved by some type of structure, may show a land residual worth of $100,000, that does not mean that the adjacent parcel of land must be worth a similar amount. Indeed once a city or a community is approaching the peak of its development, and its pattern seems to be fairly well established, then uniformity of land value becomes the exception and disparity of land value becomes the rule.

Again the basis of land value depends upon "how and when can it be used." A leading example of this occurs on Wall Street, where a 25 foot parcel of land might be worth nothing, while a 100 foot parcel might be worth $1,500,000.

No Rigid Formulas of Valuation

If there is any thought that I would want to leave with you tonight, it would be that property can never be valued by rigid formulas. And no rule can ever be considered as being all-embracing.

Even if the present price level should stabilize; even if all our problems were solved tomorrow; we would still have lots of others the next day—because our society has been to date, competitive, and despite government restrictions I think it will remain competitive—at least as far as the appraiser is concerned.

Business in California will compete with business in New York, and we can be certain that the South is going to continue to endeavor to attract business from the Northeast.

Then we will always have invention, and new thoughts, and new ideas—and all of these will affect the value of real estate! The job for appraisers in the next 10 years will be tremendous.

The new loan mortgage business in the next decade will amount to from $100 to $150 billion. So there is going to be plenty of work for everybody. Of that there is no doubt.

While we cannot anticipate everything, nevertheless there are broad economic movements that still can be discerned. The jobs that confront us in the future are tremendous, and it is about time we realized, to quote the words of Lewis Mumford, that "our task is that of replacing an outworn civilization. The question is not how much of the super-structure should be replaced, but how much of the foundation can be used for a new set of purposes and a radically different mode of life."

In respect to appraising and mortgage lending, we must turn our faces to new horizons. It is **not** enough that we should be satisfied with any hermaphroditic compromise which would only leave us as Disraeli is said to have remarked about the mule—"without pride of ancestry or hope of posterity."

Wage-Price Policy And Employment

(Continued from page 711)

was a time of rapid technological progress. With unions on the whole quite weak one might have expected the adjustment of prices to rising productivity would take the form mainly of falling prices rather than rising wages. And yet this apparently did not happen. Between 1840 and 1930 the hourly earnings of non-agricultural workers rose seven-fold and the index of wholesale prices, instead of falling, rose over 20%. I concede that the index of wholesale prices has a marked upward bias and that the real movement of wholesale prices was undoubtedly downward during the period for which the index reports a rise.†

†The index of wholesale prices fails to reflect improvements in the quality of products. Furthermore, new products do not get included in the index until they have become fairly common. Consequently, they are excluded during the very years when most rapid progress is being made in improving their quality and in reducing their cost. No mere index of prices, of course, can satisfactorily reflect the gains of technological progress because the gains consist largely of new products.

Nevertheless, the very rapid rise in wages indicates that the adjustment of the wage-price structure to growing output per manhour was accomplished mainly by advances in wages rather than decreases in prices. In other words, competition of employers for labor seems to have affected wages more than competition of employers to sell goods affected prices.

III

Now that one out of three non-agricultural employees is a union member and that unions are stronger than ever, the upward pressure on wages will probably be far greater than ever before. The upward pressure on wages has been particularly strong since 1933. Between 1929 and 1939 hourly earnings of non-agricultural workers rose 17% while the prices of finished goods dropped nearly 20%. Real wages rose faster than in any decade since the seventies. The advance in wages was apparently too rapid for the demand, because private payrolls in 1939 were nearly $8 billion less than in 1929.

Suppose that technological progress is increasing output per manhour at the rate of 3% a year and that under the existing volume of unemployment (which we may assume to be the minimum amount produced by market frictions) unions are able and willing to push up wages 5% a year. One of three things or a combination of them may happen:

1. The rise in wages may produce an offsetting rise in prices;
2. The pressure on wages may accelerate the rate of technological research and discovery so that the output per manhour rises sufficiently to prevent an advance in labor costs;
3. Unemployment may increase until either the willingness or the ability of unions to push up wages has been reduced to the rate of technological progress—3% a year. At that level of unemployment, equilibrium will be established between the rate of technological progress on the one hand and the bargaining power of unions on the other hand.

Some economists have expressed the view that general changes in wages will not affect the volume of employment because these wage changes will produce offsetting changes in prices. Wages are said to be both a cost of production and a demand for goods. A general advance in wages, therefore, would simultaneously produce increases in costs and an offsetting rise in demand.

The view that prices can be counted upon more or less automatically to rise sufficiently to offset increases in costs must, I fear, be rejected. It presupposes that wage increases (1) either reduce the demand for cash balances (or their equivalent), or (2) increase the supply of money, or (3) do enough of each so that expenditures rise exactly in proportion to the advance in wages. Certainly there is no reason to assume that a rise in costs would materially increase the supply of money. And since the effect of the advance in costs upon profit margins is at the best uncertain, higher costs are more likely to raise rather than to diminish the demand for cash balances. Hence, it is not clear that a rise in costs would produce an increase in expenditures at all.

IV

If prices fail to rise sufficiently to offset increases in labor costs, may the rate of technological change be expected to increase sufficiently so as to keep wages and prices in the relation required for the previous volume of employment? Some response of the volume of industrial research to the pressure on wages is to be expected—particularly if collective bargaining does not extend to research workers. Nevertheless, there is no reason to believe that the response will be exactly enough to correct any tendency for upward pressure on wages to reduce investment opportunities below the number needed to maintain a given level of employment. Unemployment itself does not directly stimulate industrial research; research might be stimulated, however, by the encroachment upon profits which is the cause for unemployment. Nevertheless, it would be quite accidental if the stimulus and response were always precisely large enough to keep employment stable in the face of varying upward pressure upon wages.

The upward surge of industrial research is very powerful and due to a multitude of causes started long before unions became important. Between 1880 and 1940, the number of gainful workers increased about three-fold, but the number of chemists, assayers and metallurgists about 30-fold and the number of technical engineers almost 40-fold. Expenditures on industrial research have been rising by leaps and bounds. This movement will continue. It may be more than sufficient to offset upward pressure of unions upon wages. During the nineteenth century the industrial arts developed rapidly enough to make possible both a very rapid rise in wages and, contrary to the published index of prices, some drop in prices. There is no way of predicting whether or not this will continue to be true.

V

The foregoing analysis has examined the response of product prices or technological change to changes in the supply price for labor. What about the response of the supply price of labor to changes in the demand for labor? The response to increases in the demand for labor is usually a mixture—partly an employment response and partly a wage response. Does the growth of trade unionism mean that the labor market is becoming so organized that increases in the demand for labor produce more and more of a wage response and less and less of an employment response?

Experience with collective bargaining since a high proportion of the work-force has been unionized, is still too brief to yield an answer to this question. If union wage movements continue to lag behind non-union wage movements, as they have usually done in the past, and if the long-run rise of union wages is no greater than the long-run rise of non-union wages, the answer to the question will be "no." Certainly the possibility exists, however, that labor will be so strongly organized to enforce wage increases, that little or no rise in employment above a given point can be achieved. The response of employment and wages to changes in the demand for labor varies with conditions. The smaller the amount of unemployment and the greater, therefore, the bargaining power of unions, the more increases in the demand for labor affect wages and the less they affect employment. This is true regardless of whether or not wage increases produce offsetting rises in prices. All of this means that after employment has been raised to a given amount, further increases in the demand for labor may affect only wages and not employment. Efforts to raise employment beyond this point and to reduce the remaining amount of unemployment by deficit spending, for example, would simply raise the bargaining power of labor and thus increase wages (and possibly prices) rather than raise employment.

VI

Will union wage pressures seriously limit investment opportunities and hence employment by promptly appropriating a large fraction of the profits of the most successful enterprises as rapidly as they accrue? This could be a consequence of the application of the ability-to-pay principle provided unions were strong enough. To the extent that unions are expected to encroach upon the profits of the more successful enterprises, they make the prospect for profits less favorable and limit the expansion of industry.

Even in unorganized industries one finds a disposition for the more prosperous plants to pay somewhat higher rates than the less prosperous. Unions, too, in some industries and under some circumstances are disposed to adjust wages to a small extent on the basis of the ability of employers to pay. Nevertheless, unions have not gone very far in this direction, as the difference in the size of union firms testifies. I do not expect that unions will go very far in negotiating wage differentials on the ability-to-pay principle—at least when several employers produce in the same city or region. The pressure of union members is all in the direction of imposing the same rates in different plants. Hence, it is usually not good union politics to base union wage schedules upon the differing ability of different employers to pay.

VII

What general conclusions are yielded by this analysis? By far the most important conclusion is that the great rise of unions seems to be creating a new kind of economy. No one really knows how this economy will work and how wages and prices in it will behave. Only experience will reveal the answers to a number of crucial questions. Among these questions are:

1. How will prices respond to wage increases which are too great for the rate of technological progress? Will price increases rapidly correct this condition or will the great pressure on wages be deflationary?
2. Will technological progress be so rapid that despite the great strength of trade unions, wage-price relationships will not in general be a serious problem for a number of years?
3. To what extent will the spread of collective bargaining limit the capacity of the economy to give employment either by producing shifts in the labor supply curve or changing the slope of the economy's supply function?
4. What is the range within which increases in public or private spending may be quite effective in raising employment rather than wages or prices? At what level of employment do increases in spending rapidly lose their effectiveness in raising employment?
5. How weak must unions be, for example, or how severely regulated in order for deficit financing or any other form of spending effectively to raise employment? If the nation is to achieve a close approximation of full employment must it choose between fostering an inflation of prices or supplanting collective bargaining with government wage fixing?
6. To what extent is collective bargaining likely to affect the volume of unemployment attributable to the structure of wages? Is it likely to increase this type of unemployment or is it likely to be an effective instrument for reducing it? Is it likely to have one effect in some spots and under certain circumstances and the opposite effect in other spots and under different circumstances?

Exploration of the relationship of wages and prices to employment leaves one impressed with the present unsatisfactory state of the theory of employment. The problem has been attacked almost solely in terms of ways of increasing the volume of spending, either public or private. The assumption has been tacitly made that resources would go to work pretty much in proportion to changes in the volume of spending. Virtually no attention has been given to the possibility that supply curves beyond a certain range may not be horizontal or close to horizontal, but may rise sharply and that they may not be independent of demand, but may shift as demand rises and falls. Trade unions are essentially devices for making the supply prices and the services of their members (1) less responsive to drops in demand and (2) more responsive to increases in demand. At the very time that employment theory has been neglecting the supply aspect of the employment problem, the labor market was being rapidly organized to make supply prices behave differently from the assumptions found in most current employment theory. The time is overripe to release employment theory from its narrow preoccupation with spending and to include in it a consideration of the conditions of supply and the relationship of supply to demand.

Employment and Price Outlook

(Continued on page 717)

Accordingly, the doleful forecasters have now changed their tune. This is illustrated by a statement recently issued by A. F. Hinrichs, Acting Commissioner of Labor Statistics, who on Dec. 31, 1945, issued a statement saying that it is almost certain that unemployment in the spring will "not even approximate the 8,000,000 figure that is still frequently quoted." He went on to state that "there are comparatively few centers in which unemployment is a serious problem today." And to clinch the matter, he says that the main argument for deflation and unemployment has vanished with the absence of any serious decline in total consumer income.

Why did these government economists with their forecasts of 8 million unemployed four months after V-J Day go wrong?

Reasons For Forecasters' Errors

I think it was because they were looking backward. All they could see was that there were over 11 million in the armed services of the country, and that there were another six or seven million working to supply the armed services with goods. They also remembered that there were nearly 4 million unemployed when war was declared.

Added to this they also saw that the government was spending nearly 100 billions of dollars each year, about one-half of which it was getting by borrowing. Believing in the mature economy theory, they could not imagine any expansion in private business that could possibly make up for the cessation of government buying and, at the same time, would give jobs for the discharged soldiers and the released war workers.

I still recall how the National Resources Planning Board, or some other planning organization in Washington, contacted all the Mayors of the principal cities of the country, urging them to appoint commitees to prepare what they called a "shelf of public works" which they would have on hand and ready to take down and start just as soon as peace was declared. I served on such a committee for the City of Wilmington. We went to great lengths to ask the head of each city department to draw up an outline of the various projects which his department would be in a position to start right after V-J Day.

Of course, the whole idea was silly and it seemed so to me at the time. Where in the world did the Government planners think the various cities were going to get materials for these projects which were to be planned and ready to be started just as soon as the guns ceased firing? At a time like the present, when there is not enough lumber, cement, cast iron pipe or anything else to build houses that are direly needed, one wonders where the Government planners of 1943-1944 thought the municipalities and the states were going to get these raw materials. I think it no exaggeration at all to state that this thought probably never occurred to them.

Our Government economists for the last twelve or thirteen years have been basing the major part of their thinking upon certain fundamental misconceptions about the world in general. Deceived by certain gluts in the market for a few raw materials, they hastily drew conclusions from this that the fundamental economic difficulty of our present capitalistic society was overproduction and a failure of demand. They boohooed the older economists' idea that this was a world of scarcity. Their idea of the fundamental problem to be solved was not how to produce more goods, but rather how to provide better distribution of them. They seemed to think, and many of them still hold to the opinion, that the fundamental trouble of the thirties was a faulty distribution of income and too much saving.

It was difficult to counteract this belief before the war with our surplus of wheat and cotton, idle factories and unemployed men. It did appear as though there had been a failure of demand. But, how anyone could possibly think that there would be any failure of demand after the war is difficult to imagine. It was apparent that our wealth was being consumed at a rapid rate. Everything was wearing out. Inventories were not being built up. No homes were being constructed. In spite of the war, marriages were booming, and population was increasing at the most rapid rate in our history. And, even more important, monetary savings were piling up at a rapid rate and they were accumulating in the hands of the masses. No longer do 90 per cent of the people own only 10% of the liquid wealth of the country, as they did before the war. Today, they own nearly one-half of it. The figures as given by the Treasury are as follows: $154 per family before the war—$1,532, today.

The Heavy Consumer Demand

The growth in monetary purchasing power during the war should have put anyone on warning that there could be no failure of demand immediately after the war. Actual cash in this country increased alone by over 20 billion, and when one considers the growth in bank deposits and in war bonds that are convertible to cash or demand, estimates of the liquid wealth of this country run up as high as 160 to 180 billion dollars. The growth in purchasing power has been less in this country than in any of the other countries of the world. In some countries, as everyone knows, money is so plentiful it is almost becoming worthless. In fact, the most obvious danger confronting not only this country, but the whole world at the present time, is caused by the overabundance of money; namely, inflation. The scarce commodities are labor and raw materials. You may sum up the outlook for the new year, therefore, by stating that the outlook for full employment and prosperity was never better, and whether or not we arrive at these happy ends will fundamentally depend upon whether or not people are willing to go back to work.

This is true not only for this country. It is also true for the whole world. Last spring I had the pleasure of having an extended talk with the Vice-President of one of our large banks, who had just returned from managing that company's Paris office, and I asked him what the thought of the future of France, and his answer was, "There is no doubt that France will again be a prosperous and strong nation—if her people will only go back to work." If this is true for France with her rather limited natural resources, how much more true it is for the United States with her immense resources.

Temporary Effect of Strikes

But I suppose that many of you are thinking that the present strikes are going to paralyze the country and prevent recovery. Let me urge you not to be too much alarmed. Strikes are nothing new after a war. They occurred in 1919 after the first world war to an even greater extent than they are at present. You may recall that there was a great steel strike in 1919 which reached such dangerous proportions that the national army under the late General Leonard Wood was called out to preserve order. There was a national coal strike, a railroad shop strike covering the entire country, and in the automobile industry, the famous Willys-Overland strike. Besides these, there were many other smaller ones involving thousands of workers.

Whenever there is violent change in the price level, labor disturbances will always be found. Prices go up faster than wages, or they seem to do so. This leads to a demand for increased wages, which if management feels it cannot afford to pay, results in strikes. Frankly, they do not alarm me too much. If law and order are preserved, if the Government does not become an actual party in the conflict as it has too often shown a tendency to do recently, through the laborious and painful process of collective bargaining, adjustments are made between capital and labor, and production starts up. This has been the way it has always worked out in the past, and I have no doubt at all that this is the way it will work out this time. Labor leaders talk big. They are always willing to have workers "sweat out this one until General Motors sees the light", as Walter Reuther recently put it. But in time, men get sick of being out of work and of receiving no pay, and management tired of earning no profits because their factories are shut down. Compromises are eventually made, wiser counsels prevail, some wage increases are given, and the factories start up again. This is democracy's way of settling labor disputes. Hard words are frequently spoken, a few heads may be cracked, but no real lasting damage is done to the economic order. This is much better than a labor peace enforced by some governmental dictator or by a war labor board composed of lawyers and college professors usurping powers never legally given them.

Conversion Almost Complete

Now, as the basis for forecasting the economic trends of the coming year, let us note what has happened in the four and a half months since V-J Day. The physical job of conversion is now almost done. It has happened much more rapidly and with less trouble than anyone thought possible last summer. The low point in production apparently occurred in October. The substantial rise in the output of durable goods in November, indicates that the country was on the way up before the strikes began. The demobilization of the armed forces is over half completed. About 6 million men have been released. There is a further net reduction of about 4 million to be made in the armed services. This conversion and demobilization has been accomplished with virtually no drop in income payments, without any drop in the demand for goods, and with little decline in civilian employment.

Retail store sales for the final three months of 1945 were about 10% above the corresponding period of 1944. Volume for the full year of 1945 was about 5 million more than for 1944. The gain would, no doubt, have been larger had more goods been available. Forecasts that uncertainties of the conversion period would make people afraid to spend their money have proved wide of the wark. Christmas trade was good even in Detroit. Moreover, the high volume of retail trade was not financed to any large extent by redemptions of war bonds. True, there has been a rise in redemptions of about 50% since V-J and an even greater decline in purchases, but new sales just about offset redemptions until the recent spread of trikes.

Demand Will Exceed Supplies

But, whatever the source of the purchasing power, it seems certain that the demand for goods in 1946 will, in general, exceed supplies. By this time, everyone is well aware of the huge needs which accumulated during the war and the tremendous volume of liquid assets which were acquired both by individuals and business enterprises. Since 1941, retail sales have fallen short of their normal amount, growth considered, by many billions. Accumulated needs of business are also very large. It may be roughly estimated that business outlays on plant and equipment during the last four years were roughly $10 billion less than depreciation and depletion charges. This figure may be regarded as a low estimate of the accumulated needs of business. It does not cover conversion costs and it does not include the expenditures needed to adjust the size of the business plant to high post-war incomes or to carry out new ideas and technological improvements developed during the war.

We may summarize this by saying that under the conditions which now exist there will be demand, by and large, for all that industry will be able to produce during the next few years. There seems to be little doubt about this. The crucial problem during 1946 for the consumer is likely to be the supply of goods, and for the manufacturer how to get adequate raw materials and labor. The disappointing increase in production, particularly the failure of the output of nondurable goods to show an appreciable rise has been due mainly to these two factors. It is probable, however, that the actual output has been better than the figures seem to indicate. In some industries where production is measured by the consumption of raw materials, there may have been a drawing down of inventories. In industries where output is measured by finished goods, there has been a considerable production of parts, and there may be more goods in manufacturers' hands than is now apparent. One shirtmaker recently admitted that he had on hand 240,000 shirts that he did not dare to release because of OPA restrictions.

Reasons for Impeded Production

To me it seems that the three principal reasons for the slowness in the rise in production are: (1) inadequate OPA price ceilings; (2) lack of raw materials or parts; and (3) unwillingnes of labor to work.

There can be no doubt that OPA price ceilings have limited the production of many items of goods. A better balance in the price ceilings between different grades and different kinds of goods is urgently needed. Inadequate price ceilings may have far-reaching effects. Two manufacturers of products using electric motors find their output limited because, under existing price ceilings, steel mills find it impossible to produce profitably the electric sheets which are used in making these motors. I have no doubt that numerous instances of this nature can be found. Irrespective of the number of bureaucrats in the OPA, they cannot possibly be omniscient enough to see in advance the implications of the various price ceilings they set. Only the competitive market can do this.

Let us admit that it is difficult to say how much OPA has restricted production since V-J Day. Perhaps, the difficulties in OPA pricing had affected the kind of goods produced more than the total quantity of goods. Employment and production in the men's clothing industry has been limited because it is more profitable to use rayon for tires than for linings, but employment in the tire industry is helped. Again, there is little doubt but that many kinds of low priced goods have been priced out of existence, but I suppose this has meant that more expensive ones have been produced. And, of course, you are all familiar with the present butter situation. We are getting little butter, but perhaps as a compensation we are getting a larger amount of other dairy products. All this is rather hard on the consumer and, as time goes on, he is certain to insist that the balance of price ceilings be improved, or better yet, be removed altogether.

The Price Level

The most crucial economic problem facing the country in 1946 will be to prevent a rapid upward spiral of prices. Some rise in the general price level seems inevitable. The principal point of danger is that wage advances will force such large price increases that speculative buying will be generated or compensating wage increases will be sought which, in turn, will force further increases in prices. A spiral of increasing prices caused by ever increasing wages must not be permitted to get out of hand.

The discussion of the ability of industry to absorb wage increases without price advances has shown a good deal of wishful thinking. The President's Fact Finding Boards have had too few facts to deal with. They have mainly been giving us guesses. Many industries undoubtedly can grant wage increases without price increases, and have done so. Many other industries cannot. In many plants where civilian goods have not been made for three or four years, production costs are not known. According to a study made made by the Bureau of Labor Statistics, twenty-three industries which continued during the war to make substantially the same product as before the war have had widely divergent experience in output per man hour. Some of these industries have had marked gain in efficiency; others have had a substantial loss. Managements are probably the only ones who really know what the exact situation is. It exhibits statistical incompetence of a high order when one draws the conclusion that labor has increased its efficiency in the production of peacetime goods, merely because it became more efficient in the production of ships and tanks during the war.

It is impossible to weigh accurately the various influences bearing on prices and to predict with assurance what prices will do during 1946 except that the general movement will be upward. Much depends upon governmental spending, monetary and labor policies. It seems certain that the forces pushing prices upward will be substantially stronger than the deflationary forces, at least during the next two or three years. The only question is, how far upward will they go?

When the strikes are over and the wage increases go into effect, it seems certain that the general price level will move upward rather promptly. There are substantial differences of opinion among the students of the subject as to how much. Some think we may have a big rise over a period of years, say 40-50% or even more. Others think we may have a moderate rise of say 15-20% from the present level. I am inclined to go along with the latter view, but with many misgivings. The inflationary influence of the accumulated money supply and other liquid assets could be gradually diluted by a moderate rise in prices and a substantial increase in the volume of business. This moderation, however, can be achieved only if the Government puts its fiscal affairs in order, makes some changes in monetary policy to prevent excessive expansion of bank credit, and does not attempt to push wages up faster than the increase in labor efficiency.

Danger of Inflated Money Supply

The ultimate danger to the price structure lies in the fact that the Government continues to inflate the money supply and labor costs, and at the same time tries to avoid the consequences of these measures by controlling prices through OPA. Such a policy can at best meet with only temporary success. Controlling prices in peacetime will prove a far more difficult task than in wartime. Wages are the most important element of costs and it was discovered in the early days of the war that prices could not be stabilized without stabilizing wages. Furthermore, it will never be possible to stabilize prices while continuing to follow on a large scale a policy of deficit spending and monetary expansion. Neither drastic legislation nor the powers of dictators have been able to control prices permanently under such conditions as the experience of the past clearly shows. Inflation cannot be prevented without remedying the causes. Attacking the symptoms will only postpone for a brief period the inevitable consequences of inflationary policies. This is why I doubt the wisdom of continuing OPA after it expires next June.

The longer-run outlook for prices depends upon how far and how fast they move during the next two or three years. If the situation gets out of hand and we have a rapid run-up in prices, then we are likely to have a substantial setback when the boom is over. The present condition is not too unlike what it was in 1919. It is not impossible to have a 1920-21 depression over again. On the other hand, if the price rise is moderate and not too fast, prices may level off on a higher plateau and remain comparatively stable for some time in the future, and we may escape a post-war deflation.

No Disorderly Price Rise

For myself, I am quite hopeful that a disorderly rise in prices can be avoided, though one must confess that the chances of preventing it seem less bright today than they did several months ago. My belief that price movements can be kept orderly rests upon the following:

1. The general public on the whole has shown no disposition to go on a buying spree for expensive goods. To date, there has been no "silk shirt" era as in 1919. On the contrary, consumers have paid high prices with reluctance. It must not be forgotten that even without OPA, prices cannot be set without considering the willingness of purchasers to buy.

2. Holders of war bonds have shown a commendable desire to retain them. While more have been cashed in since V-J Day than previously, to date there has been nothing that could be reasonably called a rush to convert these bonds into cash. In spite of some appearances to the contrary, the great rank and file of our people still appear to be savers.

3. Major strikes will probably be settled within the next few weeks and such wage increases as are given, while they may make necessary some increase in prices, are not likely to call for any drastic increase in prices.

4. OPA will probably not be renewed after June 30 next and such restrictions to production as have been caused by OPA rulings will no longer be in existence. This may lead to some temporary increase in prices, but in the long run, increased production which will result from the removal of OPA rulings will correct this increase.

5. In the long run, it is reasonable to expect that managements of our present industries will again be able to bring about increased efficiency and lower costs in output per man hour which will tend to counteract price increases caused by higher wages.

I think I can do no better than to close my talk with the same words that I used two years ago in speaking on the post-war outlook at that time.

Then, I spoke of the phenomenal increase in production that had taken place during the last three years. On that I based my hope that the war was not going to bankrupt this nation or make it indefinitely poorer in the future. True, we wasted our national resources, and depreciation in many of our plants was not adequately maintained. Moreover, so far as the world is concerned, a larger part of it is hungry, starving and without shelter than ever before. It staggers the imagination even to think of what must be the condition today of the principal cities of Germany, Austria, and parts of Russia and Italy. And yet, historians have always marveled at the rapidity with which the ravages of war are restored. Historians now think that the standard of living increased in England even during the Napoleonic Wars. There is no doubt that for the great masses of people in this country this is what took place during the recent war.

The explanation, of course, is to be found in the constantly improving state of industrial technique. In times of war as well as of peace, perhaps even more during war, engineers, physicists, chemists and business executives of all types are constantly at work trying to devise new and improved methods of making goods. These efforts bear fruit and the fruit they bear comes into the market place in the shape of improved quality and increased quantity of goods. It is pathetic that mankind should waste so much of its strength and energy in tearing down that which it has already built up. It is also phenomenal, however, the rapidity with which it builds back that which it tears down. In fact, almost everything comes back and, frequently, in better shape—except those who give up their lives in the struggle.

And so, without attempting to tell you how it will be done or when it will be done or by whom it will be done, I am firm in the faith that some January in the future—and, I trust, the not too distant future—we will meet again for an Annual Meeting under conditions that are as prosperous, yes, even more prosperous, than those that existed before the war. Some nations are going to go down; others are going to rise. Peace is going to bring in no millenium nor will it necessarily guarantee any Freedoms. We are going to have to work for our living, and struggle to maintain our freedom just as we always have in the past.

People will continue to be much the same as they always have been. Boys and girls will continue to get married. They will raise families. The families will need protection . . . and, insurance will be sold. Social Security will stay with us, as it should. Likewise, probably the returned soldiers will continue to carry a good deal of government insurance after the war. But after all, this will only cover a small part of the total need for insurance protection. The greater part will still have to be sold by salesmen. Unless the millenium comes, I do not expect people to come in the various home offices and ask for it.

Less Government in Business

Do not let anyone frighten you with tales that the Government will be taking over our business after the war. The pendulum is swinging in exactly the opposite direction in spite of the muddling in Washington. May I say that I have full faith, much more than I had a few years ago, in the survival of the free enterprise system in this country, now that the war is over. Our returned soldiers have had the opportunity to see the evils of a state-planned economy in Europe, and it will be difficult to get them to tread "The Road to Serfdom."

In conclusion, it seems certain that 1946 will be just as prosperous a year as we are willing to make it. If men will go back to work at reasonable wages, there will be jobs for all willing and able to work. The limiting factor will be materials. There will be buyers standing ready to purchase all the automobiles, houses, radios, refrigerators, clothes and the hundred and one other articles that our factories normally produce. Is it not difficult to imagine a better prospect for prosperity? Let us make the most of it, and not forget to be everlastingly thankful that we are fortunate enough to live in the one country in the whole world where such conditions exist today.

Halsey, Stuart Group Offering Issue of Union Pacific Bonds

A large group of investment bankers headed by Halsey, Stuart & Co. Inc. won the award yesterday of $44,493,000 Union Pacific RR. Co. 30 year 2⅞% debenture bonds, due Feb. 1, 1976, and immediately re-offered them at 108½%. The winning bid was 107.789.

Proceeds from the sale of the bonds will be used, together with other funds, to redeem at 103% and accrued interest the company's 34 year 3½% debenture bonds due Oct. 1, 1970 and 35 year 3½% debenture bonds due May 1, 1971, now outstanding in the hands of the public in the aggregate principal amount of $44,717,000. The thirty-four year debentures will be called for redemption on April 1, 1946 and the 35 year debentures on May 1, 1946, but the company will offer to redeem any of these bonds at the full redemption price and accrued interest to the redemption dates promptly after the sale of the bonds.

J. D. Du Bois Sec. of J. P. Morgan Co.

At a regular meeting of the Board of Directors of J. P. Morgan & Co. Inc., 23 Wall St., New York City, J. Delafield Du Bois was elected Secretary of the Bank.

Mr. Du Bois who, before the war, practiced law as a member of the New York Bar for 15 years, is a graduate of Harvard College, Class of 1924, and of the Harvard Law School. Except for the years 1933-1936 when he was an Assistant Counsel to the Board of Governors of the Federal Reserve System in Washington, D. C., his practice was in New York City, first with Cadwalader, Wickersham & Taft and later with Davis Polk Wardwell Sunderland & Kiendl. In January 1942 he was commissioned a Lieutenant in the U. S. Naval Reserve, went overseas in December of that year, and served the last eight months of the war as Air Combat Intelligence Officer on the USS Lexington.

Walston, Hoffman Are Shields Correspondent

SAN FRANCISCO, CALIF.—Walston, Hoffman & Goodwin, 265 Montgomery St., members of the New York and San Francisco Stock Exchanges, have established a correspondent relationship with Shields & Co., 44 Wall St., New York City, members of the New York and Chicago Stock Exchanges, effective Jan. 1, 1946.

NSTA Notes

(Continued from page 719)

Henry Cuscaden, Paul H. Davis & Co., Chicago
Thomas Davy, Rogers & Tracy, Chicago
Roy Delaney, Smith Hague & Co., Detroit
Hugh Delavergne, Weil & Arnold, New Orleans
C. E. de Willers, C. E. de Willers & Company, New York
Russell M. Dotts, Bioren & Co., Philadelphia
Thomas Dowd, Clement Curtis & Co., Chicago
James R. Duffy, Paine Webber Jackson & Curtis, Boston
Newman L. Dunne, The Wisconsin Company, Milwaukee
A. Dryden Eberhart, Moody's Investors Service, Chicago
Milton S. Emrich, Julien Collins & Co., Chicago
E. M. Everham, Baker Simonds & Co., Detroit
Fred W. Fairman, Jr., Fairman & Co., Chicago
A. J. Feicht, Chicago
Grant A. Feldman, Piper, Jaffray & Hopwood, Minneapolis
Tom Felker, Stifel Nicolaus & Co., Chicago
Joseph S. Fischer, Peltason Tenenbaum Co., St. Louis
Charles E. Fisher, National Quotation Bureau, Chicago
E. J. Fitzgerald, Betts, Borland & Co., Chicago
C. E. Flynn, Northern Trust Co., Chicago
Richard R. Ford, Northwestern Sugar Co., Chicago
Jack Frost, Investment Dealer's Digest, Chicago
Charles S. Frye, Chicago Journal of Commerce, Chicago
Firmin Fusz, Jr., Fusz Schmelzle & Co., St. Louis
Joseph Gannon, May & Gannon, Boston
William H. Gardner, J. Arthur Warner & Co., New York
Sam H. Gertzman, A. & J. Frank Co., Cincinnati
R. J. Glas, Glas & Crane, New Orleans
Harold Gibbs, J. Walter Thompson & Co., Chicago
Chester M. Glass, Cruttenden & Co., Chicago
Lee Gillespie, Gillespie & Wouters, Green Bay
Kenneth Goodman, Heronymus & Co., Sheboygan
Oliver Goshia, Goshia & Co., Toledo
Richard Gottron, Gottron, Russell & Co., Cleveland
George T. Grady, Geo. Eustis & Co., Cincinnati
Thomas E. Graham, Bankers Bond Company, Louisville
Freeman G. Grant, Dolphin & Co., Philadelphia
William Gratza, First Boston Corp., Chicago
A. W. Gray, Moody's Investors Service, Chicago
Cashimir Griglik, Illinois Securities Dept., Chicago
Henry Grote, David A. Noyes & Co., Chicago
Henry Gundling, Knapp & Company Cedar Rapids
Robert Haack, The Wisconsin Company, Milwaukee
John Hack, F. S. Moseley & Co., Chicago
Clair S. Hall, Clair S. Hall & Co., Cincinnati
C. M. Haight, Jr., Tripp & Company, New York
Thomas Hanley, Bache & Co., Chicago
H. Russell Hastings, H. Russell Hastings, Detroit
Louis Hauptfleisch, Halsey, Stuart & Co., Chicago
William B. Healy, Comstock & Co., Chicago
John Heronymus, Heronymus & Co., Sheboygan
W. D. Herr, Armour & Co., Chicago
George Hollister, White, Noble & Co., Grand Rapids
Bert Horning, Stifel, Nicolaus & Co., St. Louis
T. G. Horsfield, Wm. J. Mericka & Co., New York
M. S. Hoseley, Leason & Co., Chicago
Thomas M. Hoyne III, Rogers & Tracy, Chicago
George Jackish, Harris, Upham & Co., Minneapoils
John H. Jackson, Harriman Ripley & Co., Chicago
Charles Jacobson, Riley & Co., Milwaukee
Donald Jacobson, Riter & Co., Chicago
Robert A. Jameson, Pohl & Co., Cincinnati
George Johnson, Jr., Ames, Emerich & Co., Chicago
Sam Johnson, Knapp & Co., Cedar Rapids
John F. Joy, Dempsey & Co., Chicago
Frank H. Kemp, R. C. O'Donnell & Co., Detroit
Denny Ker, Julien Collins & Co., Chicago
J. W. Kingsbury, Kingsbury & Alvis, New Orleans
J. T. Knoll, City National Bank & Trust Co., Chicago
Otto J. Koch, Loewi & Co., Milwaukee
Chester Kolkoski, White, Noble & Co., Grand Rapids
Robert Krulish, J. F. Reilly & Co., New York
Victor Kunzer, Rothschild & Co., Chicago
Walter W. Larson, Bennett, Spanier & Co., Chicago
John Latshaw, Harris, Upham & Co., Kansas City
William J. Lau, Frank & Belden, Minneapolis
Jay Leason, Leason & Co., Chicago
Q. R. Ledyard, J. C. Bradford & Co., Nashville
C. L. Liston, Prescott & Co., Cleveland
James Loftus, Internal Revenue Dept., Chicago
Howard D. Lowden, Bankers Bond Company, Louisville
Henry D. MacFarlane, Alfred O'Gara & Co., Chicago
F. E. Maguire, Stroud & Co., Philadelphia
John S. Mahoney, William Blair & Co., Chicago
J. C. Manley, Kneeland & Co., Chicago
Al Margolis, David A. Noyes & Co., Chicago
George McCleary, Florida Securities Corp., St. Petersburg
Robert McCook, Buckley Brothers, New York
Francis McDonald, Lee Higginson Corp., Chicago
Alfred E. McDougal, McDougal & Condon, Chicago
Gordon B. McFarlane, First Sec. Corp., Chicago
W. Perry McPherson, Walker, Austin & Waggener, Dallas
Carl Menzer, J. P. Blaney & Co., Chicago
Irwin Mitchell, Ward & Co., New York
Lisle Monique, Vander Moere & Co., Grand Rapids
Arch F. Montague, W. E. Hutton & Co., Cincinnati
Berwyn T. Moore, Berwyn T. Moore & Co., Louisville
Paul I. Moreland, Moreland & Co., Detroit
Fred Morton, The Milwaukee Company, Milwaukee
R. V. Moseley, Stroud & Co., Philadelphia
Thomas Mosher, The Milwaukee Company, Milwaukee
Morris M. Moss, Friedman, Brokaw & Samish, St. Louis
John D. Murphey, Paine, Webber, Jackson & Curtis, Chicago
James Murray, Asiel & Co., New York
Harry J. Nelson, First Securities Corp., Chicago
William R. Newsom, Jr., Sanders & Newsom, Dallas
Walter Nitz, Vander Moere & Co., Grand Rapids
William J. Noel, The Crummer Company, Chicago
John P. Noonan, First Sec. Corp., Chicago
Pat O'Donnell, Hulburd, Warren & Chandler, Chicago
Henry Oetjen, Pflugfelder, Bampton & Rust, New York
Robetr Olmsted, Uptown National Bank, Chicago
Jack Orr, Armour & Co., Chicago
Harold Ouimette, Central Republic Co., Chicago
Edward E. Parsons, Wm. J. Mericka & Co., Cleveland
A. E. Percival, Northern Trust Company, Chicago
George Petrie, Brown Bros. Harriman & Co., Chicago
Glenn Pierce, Western Union Telegraph Co., Chicago
Fred Rahn, The Illinois Company, Chicago
Miles Reinke, The Wisconsin Co., Milwaukee
Al Reynolds, "Commercial & Financial Chronicle," Chicago
Irving J. Rice, Irving J. Rice & Co., St. Paul
R. E. Richardson, Standard & Poor's Corp., Chicago
Henry Richter, Scherck, Richter & Co., St. Louis
William Robbins, Ball, Burge & Kraus, Cleveland
Eldridge Robinson, Baum, Bernheimer Co., Kansas City
Arthur Rodhenberg, David A. Noyes & Co., Chicago
Ulysses G. Roman, Enyart, Van Camp & Co., Chicago
William Rothbart, Clarence Troup & Co., Chicago
Harry Salafield, Rothschild & Co., Chicago
S. A. Sandeen, S. A. Sandeen & Co., Rockford
John M. Saunders, Saunders & Company, Chicago
Leo J. Scheid, First Securities Corp., Chicago
Willard Schoenecke, Blyth & Co., Chicago
James A. Sebold, Neergaard, Miller & Co., New York
Bert Seligman, Ward & Co., New York
Miles A. Sharkey, Blyth & Co., Los Angeles
George Sherman, First Boston Corp., Chicago
Herman Sherwo, Rothschild & Co., Chicago
Harvey Sloan, Bache & Co., Chicago
Al Smith, Dow, Jones & Co., Chicago
Harold B. Smith, Collin, Norton & Co., New York
Joseph J. Spanier, Bennett, Spanier & Co., Chicago
Pat Spanier, Bennett, Spanier & Co., Chicago
J. F. Stephens, Herrick, Waddell & Co., Kansas City
A. E. Sterling, Carter H. Corbrey & Co., Chicago
Carl Stolle, G. A. Saxton & Co., New York
John Stone, G. A. Saxton & Co., New York
Guy H. Strafer, Continental Casualty Company, Chicago
William H. Sullivan, Milwaukee
Willis M. Summers, Troster, Currie & Summers, New York
Park Teter, E. W. Thomas & Co., Chicago
Robert W. Thornburgh & Co., Cincinnati
Charles J. Thornton, Thornton & Co., New York
Alfred W. Tryder, W. H. Newbold's Son & Co., Philadelphia
J. Vander Moere, Vander Moere & Co., Grand Rapids
Harry C. Vonderhaar, Westheimer & Co., Cincinnati
Arvid Wahlborg, Wahlborg Printing Co., Chicago
Allen L. Walker, Reconstruction Finance Corp., Chicago
Louis E. Walker, National Quotation Bureau, New York
Robert A. Walsh, Dempsey, Tegeler & Co., St. Louis
John Wasserman, Asiel & Co., New York
H. Weedin, First National Bank & Trust Co., Chicago
Joseph Weil, Weil & Arnold, New Orleans
Henry C. Welsh, Jr., Lilley & Co., Philadelphia
Arthur Wenzel, David A. Noyes & Co., Chicago
Harry G. Williams, Quail & Co., Davenport
Henry Williams, Bennett Bros. & Johnson, Chicago
Ted Wouk, First National Bank & Trust Co., Chicago
Mark Zoller Walsh, Davis & Co., Chicago

Investment Opportunities for Life Insurance Funds

(Continued from page 710)

time try to peer into the future and discern what it may hold for certain types of investment, in particular Government bonds, Canada, foreign obligations and the International Bank, industrial and miscellaneous bonds, stocks and housing.

Government Bonds

In discussing Government bonds I feel much as if I were carrying coals to Newcastle. Life insurance institutions are generally recognized as being superlatively equipped to deal with problems of Government financing and the Government bond market. Government bonds, of course, represent the biggest single change in life insurance company holdings during the war period. For the five largest companies Government bond holdings increased nearly 70% from 1942 to 1944 and amounted to 49% of total assets. The five next largest companies increased their Government bonds by more than 66% and they amounted to 37% of total assets. The five largest companies, in other words, had in their portfolios about one-third more Government bonds proportionately than the next largest group.

Among individual companies there was considerable variation. Among the five largest life insurance companies the range was from 56% of total assets to 42%. Among the second five largest companies there was even more divergency. The range here was from 58% to 26% of total assets invested in Government bonds. That's a variation of more than 100% between the smallest and largest holding.

Of greater significance, however, is the variation in the specific holdings of Government obligations, short, medium and long term. The long terms, at par, command nearly 7 times the return of the extreme short term (bills) but have a maturity nearly 90 times longer. At par the long terms yield a greater return by 11.1% than the medium term 2¼'s of the Victory Loan but have a maturity more than half again longer. The real issue in Government bonds, then, is: what price maturity?

An institutional investor in long term Government bonds at the present time probably reasons somewhat as follows. That the Government cannot afford to let interest rates rise because: (1) the interest burden would be increased on those issues being funded, thus raising the cost of Government; (2) considerable inconvenience, if not grave difficulties, would be created in our banking system. As a matter of hard fact, the supply of new Government issues will be practically non-existent over the next year. The Treasury's smaller budgetary deficit may well be met by its huge cash balance.

Abroad, interest rates are being deflated with the sound and fury of a tire with a not so slow leak. On an international scale, indeed, the cry has been raised for loans whose interest rate, in the language of Lord Keynes, approaches the "balm and sweet simplicity of no percent." Fortunately that time is not yet upon us but to many, the trend is unmistakable.

On the other hand those institutions which invest in short or medium term Government bonds probably take the following view. Sound financial practice will inevitably cause the Government to fund some of its nearly 70 billion dollars of short terms, even more if the Series E redemptions are taken into account. If the funding is undertaken through the commercial banks, further inflation would ensue. By the very logic of necessity the short term debt must therefore move—as it is funded—into the hands of individual or institutional savers. In order that the rate be sufficiently attractive to individuals, something better than the present 2½% must be offered—say 2¾% or the good old 3%. Since the funding would not take place all at once, the increased cost in the budget would be gradual. At the maximum it would approach 1½ or 2 billion dollars, part of which would flow back to the Treasury in taxes.

Considering the great financial advantage in having the national debt properly funded and the great social advantage in affording our savers more incentive and reward, this cost is said not to be excessive. As for causing grave difficulties to the banking system, it is pointed out that by far the major portion of the commercial bank holdings are in short or at least medium terms. If there are a few exceptions, they could be taken care of by exceptional methods.

Thus far, those who have believed in a continuance of easy—and even easier—money have been winning hands down. The present administration seems committed to easy money as an ideology. An important segment of the Republican Party has also publicly commended a continuation of easy money. On the other hand, another segment of the Republican Party would probably insist upon a return to more orthodox methods of financing. Since the Republican Convention is still two years and five months away, it is far too early to speculate on the outcome, which may well be in doubt until the Convention itself. After that the Republican candidate will have the far from simple job, at least judging from past experience, of getting elected. There are thus at least two more rivers to cross.

What it seems to boil down to is this. The Government's policy of easy or even easier money looks as if it might well continue—but not necessarily indefinitely.

Among the five largest life insurance companies, the New York Life and the Metropolitan had more than 90% of their Government bond holdings in long terms. The Prudential and Mutual Life both had around 75%. At the end of 1944, however, the Equitable had only about 5%. It was the outstanding exponent of the short and medium term Government bonds. The Equitable concentrated more than two-thirds of its Government portfolio in the medium term 2's, a billion dollars worth, perhaps on the investment philosophy that the only safe expectancy is the unexpected.

Among the five smaller companies there was somewhat less disparity. The range was from 97% in long terms for the John Hancock to around 70% in long terms for the Travelers, with the others in between.

Certainly for the foreseeable future it can be said that Government bonds will be the mainstays of life insurance company portfolios. For some time at least these Government bonds will be long terms. It would be a great pity, however, if too great a dependence were placed upon these large holdings of relatively riskless securities. The dominant financial position of our life insurance companies makes it increasingly desirable that they assume more and more driving leadership in their investment policies rather than resting upon the easy and convenient oars of Government bonds.

Canada

When I was in Washington during the war on the staff of the Combined Resources Board, of which Mr. Batt was Chairman, considerable discussion took place at first as to whether Canada should be included in our "foreign" requirements for raw materials. The Canadian representatives objected strenuously. They contended that Canada and the United States were really just one big "happy family" from the standpoint of raw material resources. And so from then on Canada and the United States were considered as an economic whole.

I mention this because Canada has always seemed a little apart from other "foreign" nations. To those of us who have motored across that great strech of unguarded frontier without passports or visas in the days before the war, it hardly seems "foreign" at all. In fact, the Insurance Law of the State of New York, in Section 81 subdivision 8(a) accords investments in Canada different treatment than those in other countries. A domestic life company, for example, may invest up to 10% of its assets in Canadian Government's or provincial obligations. Other foreign investments, however, are limited to 1½ times the reserves behind the contracts actually written in those particular countries.

The investment potentialities of Canada therefore seem to warrant consideration. From a fundamental standpoint the situation does appear favorable. Canada has abundant and rich natural resources, such as nickel, newsprint, asbestos, platinum, radium and other minerals. Much of Canada is still undeveloped. Its population is relatively sparse and comprised of people who are ambitious and law-abiding. These two important characteristics—ambitious and law-abiding—plus Canada's rich undeveloped resources would appear to hold forth attraction for capital.

In addition, the last two wars have unquestionably made Canada more self-sustaining and hence less susceptible to the kaleidoscopic changes of the export markets. In 1914 Canada was primarily a raw material producer. Thirty years later, however, its industries had expanded to such an extent that exports of fully or chiefly manufactured articles were exactly twice as important relatively as earlier. Raw materials, on the other hand, which accounted for more than half of Canada's exports in 1914, had fallen to less than 20%. This gradual change-over of Canada from a raw material to a manufacturing country is suggestive of what happened to America at the time of the first World War. Certainly this evolution, too, should spell increased demand for capital.

Hence during the next decade, the slogan, "Go north, young man, go north," paraphrasing Horace Greeley, may well reverberate. Immigration to Canada of both capital and entrepreneurs, smarting under Great Britain's nationalization program, may also stimulate business. Canada, furthermore, has the advantage of living within the shield of the United States. Yet in all probability Canada will not have to pay the full peacetime price either of such protection or of our heavy responsibilties as a world power. Per capita debt in Canada, for example, is roughly ⅓ less than it is here. Sooner or later this may well show up in a lessened tax rate and in the heightened incentives which can be given to capital.

Investments in Canada during the past several years have almost uniformly increased. For the five largest companies, the increase has been nearly 70%, although the total is still quite small, only 3.8% of total assets. The Metropolitan leads among the five largest companies with the largest percentage of its assets invested in Canada, 5.2%. Surprisingly enough greater interest has been shown on the part of the five smaller companies which have 4.6% of their assets in Canada. The Northwestern, in fact, has no less than 6.6% of its investments north of the border.

Certainly the Canadian Government 3% rate has served as a rather stellar attraction compared with our Government's pallid 2½%, an increase in yield of no less than one-fifth. Holdings of Canadian Government bonds, of course, constitute the major investment although in the case of the five next largest companies provincial obligations also bulk large.

Fewer investments have been made in Canadian industry. Not that such investments do not exist. A large Canadian life insurance company, for example, at the end of 1944 had a long and diversified list of holdings other than Governments and provincials. Among its largest bond holdings were such names as Montreal Light, Heat & Power, British Columbia Telephone, Bell Telephone of Canada, British Columbia Power, Canadian Cement, Nova Scotia Light & Power, and Dominion Textile. Doubtless other companies will be in the market for funds too, if Canada is going to expand further. Canada should provide a larger outlet for life insurance funds in the future.

Foreign Obligations and The International Bank

Unquestionably the demand for capital abroad is enormous. However, the safety of these investments, as Mr. Churchill once said of Russian policy, is a riddle, wrapped in a mystery, and enveloped by an enigma. Without guarantee by our own Government, extensive foreign lending seems some distance off.

Even with guarantee, the foreign loans of the Export-Import Bank are made at such low rates of return as to preclude much interest on the port of private investors or institutions. The lend lease so-called pipeline loans, for example, are at 2⅜%. In addition, it is understood that the guarantee fee of the Export-Import Bank must be subtracted from the meager yield. Hence, under present policies, these Government guaranteed foreign obligations are generally considered less attractive than Government bonds.

The very blue chip, $100,000 a share, International Bank for Reconstruction and Development is just now being organized. It remains to be seen how blue chip are its obligations, or what they will yield. If the Export-Import Bank continues its ultra cheap money policies, why should foreign countries borrow from the International Bank? Furthermore, the International Bank is obliged to charge a fee for its guarantee of 1 to 1½%. Even on the basis of a 3% loan, the net return after this fee would be only 1½ to 2% to the lending institution, exclusive of other charges. Such is not the stuff of which investment incentive is made.

It is possible that these International Bank obligations may eventually assume the same investment stature as such well known obligations as the Federal Land Bank bonds. However, neither the ultimate security of the International Bank guaranteed bonds, nor the methods of payment, seem as clear cut. As to the ultimate security, it is interesting to note that the larger the volume of these obligations, the less safe becomes the International Bank guarantee. The United States Government has obligated itself to pay in 3 billion 175 million dollars of capital, some 20% presumably at or near the start, and the remainder subject to call. All told, approximately 7½ billion dollars of subscriptions have been received, from an authorized capital of 10 billion dollars. The total amount of loans or guarantees of the Bank, according to Article III, section 3, is limited to 100% of the "unimpaired subscribed capital, reserves and surplus of the Bank."

However, when International Bank direct loans or guarantees exceed the 3 billion 175 million dollars amount which our Government is ultimately pledged to subscribe, then the credit of other nations may become involved should wholesale defaults ensue. Nor it is clear from the Articles of Agreement how long a default of long duration might be allowed to endure. Section 7(c) of Article IV states that under these conditions "the Bank may call an additional amount of such unpaid subscriptions not to exceed in any one year 1% of the total subscriptions of the members." Suppose the other members either refuse or are unable to contribute their 1%. Our Government, on the other hand, pays in 1% of its total subscription, or 31 million 750 thousand dollars. Such an amount might not be sufficient to cover the default. Could the Bank then call upon our Government for an additional 1% and an additional 1% and so on in the same year until the default is made up? Or would the Bank have to wait an additional year before calling each additional 1%? Differences of opinion exist on this point. Settlement will have to await the organization of the Bank and the appointment of its Executive Directors who, according to Article IX (a), are responsbile for questions of interpretation.

Somewhat the same doubts exist as to the ultimate certainty of means of payment. According to Article II, section 7, 2% of the subscribed capital shall be payable in gold or United States dollars. When calls are made, 18% shall be paid in the currency of the member. The remaining 80% shall be subject to call by the Bank only when required to meet its obligations and shall be payable either in gold, in U. S. dollars or in the currency required to discharge the obligation of the Bank for the purpose for which the call is made—presumably U. S. dollars in most cases.

Under such provisions it is not difficult to foresee a possible shortage of dollars. In case of an acute exchange stringency on direct loans of the Bank, which are limited to 20% of its capital, the Bank may accept the member's own currency for periods not to exceed 3 years. The Bank may also modify the terms of amortization or extend the life of the loan or both. Whenever necessary to meet payments of interest or amortization on guaranteed loans, the Bank "may call an appropriate amount of the unpaid subscriptions of members." Presumably the U. S. Government, by subscribing up to the full limit of its 3 billion 175 million dollars, could supply enough dollars to meet interest payments for some time ahead. However, if these dollars should be used up to meet wholesale defaults, then insufficient dollars might exist for interest payments.

In any case much will depend upon the manner in which the International Bank is organized, the personnel selected, and the operating policies which are adopted. It is difficult to judge the character of the new institution from its blueprint, its Articles of Agreement. Under proper safeguards, the obligations of the International Bank might afford some outlet for life insurance funds.

Industrial and Miscellaneous Bonds

How simple do the problems of investing in the bonds of our own industries appear compared with foreign obligations, even when guaranteed. And they seem far more attractive by comparison.

The only difficulty is that the supply of high grade industrial and miscellaneous bonds has been dwindling. The five largest companies decreased their holdings of these bonds by about 10%, from 1942 to 1944, more by hard necessity, through the call route, than by choice. To offset this, increasing efforts have been made during the past few years to find bonds, debentures, or even notes of less well known, medium-size corporations.

Much logic and common sense seem to lie in this heightened attention toward medium-size businesses. Many of our largest industries, the best known names, have become self-financing. Or at any rate, they have not been in need of additional capital for some time. Small business is probably too small and too risky to be a suitable investment for substantial life insurance funds. Medium-size business, on the other hand, is squarely in the middle, already safely established, eager to expand, and frequently in need of funds. Oftentimes these funds are not readily forthcoming in the normal functioning of the capital markets. Hence well-diversified portfolios of loans to medium-size businesses could be helpful not only as an outlet for life insurance company funds but also as a means of financing medium-size industry.

Of course, great care should be taken in the selection of these loans. No charity can be involved when the security of policyholders' funds is at stake. There should be no "hope and a prayer" as to the safety of these obligations. But it does seem reasonable to suppose that careful study and investigation will produce satisfactory results. And I emphasize again careful study and investigation. Plenty of attention should be devoted to the growth possibilities of the industry, the position of the company within the industry, and the aggressiveness of its management, as well as to the usual balance sheet analysis. Risks should be well diversified, both geographically and by type of industry. And they should be watched and visited, periodically. There is no such thing as "putting something away"—unless it be to its final resting place.

On one occasion I had the good fortune to spend nearly two months at and in the plants of one of our great automobile manufacturing companies in Detroit. And I was told then by the man who succeeded the late Walter P. Chrysler the secret of the latter's success. Mr. Chrysler, he said, never took any major decision for granted. After it had been made, he was always ready to reexamine it, dissect it, and see whether any of the original premises had changed. And if they had, he would alter his decision accordingly.

There is nothing final about an investment until it has been paid off in full. Eternal vigilence in the matter of these loans to medium size businesses will be the price of their safety.

Here are a few of this type of loans made by one of the five largest life insurance companies which had around 10% of its assets in industrial and miscellaneous bonds at the end of 1944: A $500,000 note of Dejay Stores at 4¼%, due in 10 years in installments of $25,000 every six months. A $750,000 note of Ray-o-Vac Co. at 4%, due 1955 with $65,000 payable annually. A 4½% 10 year note for one million dollars of the Schering Corp., payable in installments of $100,000 each year.

Or in the portfolio of another of the largest companies: A 10 year note bearing 4% interest and for $400,000 of Tecumseh Products. A 15 year note bearing 3¾% interest for $950,000 for Wayne Knitting Mills. A 4% note for one million dollars, also due in 15 years, for Red Owl stores. And then there is an asset which we at the Department weren't sure at first was admissable or not because it seemed a trifle "reckless"; a 3¾% note for one million dollars, due in 15 years, for Gamble Stores.

Among the five next largest companies only the Northwestern and Penn Mutual appear to have done very much along these lines. Some of the notes which were taken in 1944 include a 3½% note of American Coating Mills, due in 15 years, for $640,000; a 10 year note of Gerber Products bearing 3.20-3.70% interest for $500,000; a 3.20% note for $2,000,000 due in 1959 of the Milwaukee Boston Store; a 3½% note of Griggs, Cooper & Co., due in 15 years, for $500,000; a 10 year note of Tel-Autograph Corp. bearing 4% interest for $250,000; and a 15 year note of Uxbridge Worsted bearing 3¾% interest for $250,000.

Many of these names appear on the books of the companies more, perhaps, as a matter of necessity than of choice. Were the blue chip corporations borrowing money these days, some of these loans might not have been made. In this case, necessity has been the mother of invention. However, such invention may well have served to open up a new, growing, and profitable outlet for life insurance funds.

With industrial and miscellaneous bonds amounting to 6% of the assets of the five largest companies and to less than 4% for the five next largest life insurance companies, obviously there is considerable room for expansion in this field.

Stocks

Surprisingly enough, I am not going to talk much about stocks today. Total preferred stock holdings for the five largest companies at the end of 1944 amounted to only 1½% of total assets, there being no common stocks, except in one or two negligible and very special instances. The stock holdings, preferred and common, of the five next largest companies, amounted to only 1.7% of total assets. The total value of the stock held by the smaller companies increased 36% and of the larger companies 8% in the period under review.

As to preferred stocks, as you probably all well know, the National Association of Insurance Commissioners now has under consideration a proposal of the Life Insurance Investment Research Committee for changing the valuation of preferred stocks from market to an adjusted price based upon the price used in the last annual statement plus or minus one-fifth of the difference between that and the market price as of the statement date. Obviously the outcome of this proposal cannot be foretold at the present time.

As for common stocks, I dealt with this subject in a paper last year. One frequently heard argument in favor of common stock investment by life insurance companies is to the effect that such investment would somehow or other increase employment by putting capital to work. I believe the TNEC entertained such a notion. At first glance it seems reasonable. However, it doesn't require much reflection to see that the common stocks of well known and long established companies would, in fact, be bought and not the common stocks of new ventures. Actually employment would be stimulated far more—and capital would be going to work far more—through loans of the life insurance companies to medium size businesses.

Housing

Like the little boy who always left the frosting on his cake to the last, I have left to the end what may turn out to be the most probably large-scale outlet for life insurance funds in the future. I refer to housing.

As to the desirability for better housing there should be no question. As to the need there should be no question either. As to the extent of the need, based upon a realistic survey of building costs, there may be some question. It is exceedingly difficult—and hazardous—to forecast very far into the future without knowing what costs will be. Admittedly there is a need for additional houses for our increasing population. But that is a relative drop in the bucket compared to the new houses which might replace our older dwellings. Quantity housing, that is to say, additional roofs, is a necessity. Quality housing, that is, not just a roof but a better roof, must compete with many other consumer goods for the consumers' dollars. If the price of new housing seems out of line with other consumer goods, people may divert more of their savings to these other articles.

At the same time it cannot be denied that large scale housing developments undertaken by life insurance companies have a considerable advantage over other housing projects. Not only can some reduction in cost be achieved through the magnitude of the operation. In addition, the obsolescence hazard, which has contributed so greatly to declines of value in the past, should be greatly lessened. Neighborhoods can be much better controlled. And much more light and space can be afforded. Unless costs get too greatly out of line—and that is the great danger,—well organized housing projects of life insurance companies should be able to compete most favorably with existing housing.

From the social standpoint, such housing developments present great advantage, also. The life insurance companies would not only be putting their funds to work in creating jobs but in building better homes for America. Surely this use of life insurance funds should meet with universal approval.

Nor is this field one in which only the largest companies can participate. One of the most interesting happenings in the past month has been the intention of one of the comparatively small life insurance companies to go into two housing projects, valued at $600,000 each. To give you an idea of the size of this company I might point out that this contemplated investment of $1.2 millions represents about 3% of its total assets. So housing is a field which all companies can enter, if they so chose, large or small.

How large an outlet housing might provide for life insurance funds is uncertain, but it could be considerable. We may indeed be on the eve of an historic transition from the building to the rebuilding of American cities. Replacement building, in other words, may greatly overshadow the normal residential construction expected because of the growth of family population.

Housing together with the expansion in loans to medium size businesses, plus greater investments in Canada, perhaps in the International Bank, in preferred stocks, and in mortgages will go a long way toward solving the investment problems of the life insurance companies.

These problems will not be solved, of course, by sitting back and waiting for investments to happen. A great deal of hard work, imagination and perseverance will be required. Fortunately the life insurance industry is well endowed with these qualities. By throwing their full weight into the search for these sound investments, the life insurance companies can exercise a profoundly constructive influence on the American economy and for the American enterprise system over the years ahead.

Direct Incentives for Labor the Key to Industrial Peace

(Continued from page 724)

any more apprentices, close the books of the union, we've already got a lot of men out of work; don't teach trades in schools or prisons; shorten hours; featherbed rules—all these and other policies simply reflect the fear that **there won't be enough jobs to go around.**

The same may be said for labor's opposition to piecework, scientific management, incentive wages, and other methods of encouraging efficiency. There is some legitimate fear, of course, that these methods may result in "speed-up" harmful to health, but the underlying fear is undoubtedly that greater productiveness will mean fewer jobs.

Anything, therefore, that will lift the haunting fear of unemployment will go a long way toward changing labor's attitude toward technological improvements and industrial efficiency. That is what makes the maximum production-full employment policy so supremely important, and next to that a comprehensive social security system with accent on unemployment insurance. The workers will never have any real interest in productive efficiency as long as the fear of unemployment hangs over them like a threatening cloud. And considering the tragic consequences of unemployment, you can scarcely blame them. They have bitter experience in the background.

But since fear of unemployment has been the main reliance for labor discipline, what is to take its place if that fear is removed?

There is only one possible answer to that question if we are to keep our fundamental freedoms: We must substitute **incentive for fear.** The worker must be given a stake in his output in direct proportion to his contribution of skill and efficiency.

Piecework would be the simplest way to do this, of course, but piecework has acquired such an unsavory reputation because of the way in which it has been used in the past that it is probably not feasible in the foreseeable future. But there are other methods of giving labor a direct stake in output. Profit-sharing is one and "incentive wages" are another. There is some opposition to incentive wages among union men, but I believe it is due to the fear mentioned above—that more efficiency would mean fewer jobs—rather than to the principle itself.

Of course, if labor is to take part of its compensation in the form of profit-sharing it would want to know a good many things about the company's affairs which formerly "were none of its business"; and it would want some participation in management, as through labor-management production committees. But on the other hand, if labor is to share in profits it must also assume a considerable measure of responsibility for the success of the enterprise. And that is the important thing. If the worker can be made to feel that his personal welfare and prosperity are bound up with that of his employer, it is bound to change his attitude toward his job. **But first he must be assured that increased efficiency will not eventually mean unemployment for himself or his fellows.**

Material rewards, however, are not the only incentives that influence human conduct. Military men know that a citation or a decoration is a greater incentive to heroic deeds than any amount of pay. In the same way, there is a pride of craftsmanship and a joy in the exercise of initiative which legitimately crave recognition. These admirable human traits may become powerful incentives in the hands of a skillful management; or they may be (and unfortunately frequently are) smothered or frittered away if management is autocratic and unimaginative.

General wage rates and job security are problems best handled through collective bargaining; but only an alert and sympathetic management can take full advantage of these other and intangible incentives. Labor should not be handled in such a way as to submerge the individual in the mass and discourage all initiative. Workers, too, are individuals, and have the same need for direct incentives, and the same craving for personal recognition, as their employers.

The road to industrial peace lies through the substitution of incentives for fear. Repressive legislation will only embitter the strife.

WILLIAM G. LIGHTBOWNE,
Bogota, N. J.
Feb. 6, 1946.

Business Man's Bookshelf

International Payments: A Science—A new Mathematics to improve Statistics on International Trading—Ray Ovid Hall—Storage Bookshop, 420 Tenth St., N. W. Washington 4, D. C.—cloth—$4.00

Population & Purchasing Power—Some Basic Trends—Vergil D. Reed—J. Walter Thompson Company, 420 Lexington Avenue, New York 17, N. Y.—paper

Serving New York—overall view of the Consolidated Edison Company and its business of serving America's largest city — Consolidated Edison Company of New York, Inc., New York City—paper

"Ten Per Cent" Fallacy—Amos E. Taylor—Committee on International Economic Policy, 405 West 117th Street, New York 27, N. Y.—paper—10c

World Politics Faces Economics—with special reference to the future relations of the United States and Russia—Harold D. Lasswell—McGraw-Hill Book Company, Inc., New York City—board

You and Your Nation's Debt—Presenting the Problem of the Public Debt—National Association of Manufacturers of the U. S. A., 14 West 49th St., New York 20, N. Y.—paper.

E. T. Volz of Omaha With Lazard Freres

OMAHA, NEB. — Edward T. Volz has become associated with Lazard Freres & Company, members of the New York Stock Exchange. Mr. Volz was formerly Manager of the Municipal Department for John M. Douglas and prior thereto was Vice-President of Wachob Bender Corporation.

Ulrich, Warburg at Stern

Kurt F. Ulrich and Otto C. Warburg, both formerly associated with Herzfeld & Stern, have become associated with Stern & Co., 120 Broadway, New York City, members of New York Stock Exchange.

Banking's Objectives in 1946

(Continued from page 723)

to enter this field but the high level of profits secured by other lending agencies made it increasingly attractive to the banks. There are prospects of a large volume of instalment purchases of consumers' goods in the near future, and the banks, with foresight born of experience, have readied themselves to participate in this type of financing.

Extremes of Consumer Credit

There are, however, three extremes in consumer credit financing which should be avoided. They can be expressed in three short phrases: too rapid increase in the volume of consumer credit; too large a volume of consumer credit; and too little understanding of the techniques of consumer credit.

As bankers we have a social responsibility in connection with consumer lending. During the next two or three years, the existence of large pools of liquid purchasing power in the hands of consumers combined with shortages of consumers' goods represent an inflationary danger of great magnitude. Undue expansion of consumer credit either in rate of increase or in volume would result in aggravating the inflationary pressure arising from excess purchasing power. Of course, it is essential that all lending agencies cooperate in a program designed to protect the public welfare.

Banks Inexperienced in Consumers' Credits

Furthermore, it must be remembered that many banks have had little or no actual experience with this type of lending. The finance companies and a few courageous bankers who ventured in this field learned the techniques by actual experience and because of the higher charges then in effect were able to set up adequate reserves, which were more than ample to pay for mistakes and errors in judgment that were made. However, the field has become increasingly competitive. Today, even before automobiles and appliances have appeared on the market in substantial volume, successive reductions in charges and successive liberalization of terms have taken place. In view of the developing conditions, banks must be encouraged, to set up as large reserves as possible in connection with instalment financing, to seek counsel from those with long experience in this field, and to train thoroughly personnel suitable to handle consumer credit financing. Without such precautions, it is inevitable that some banks will experience adverse consequences.

Small Business Loans

Our nation was developed through the vigorous enterprising activity of many courageous individuals and through the growth of a countless number of small businesses. In providing credit facilities to meet the needs of manufacturers and trade concerns the banks are especially interested in the needs of small business. We recognize that small business is essential to a vigorous expanding free enterprise system. A business which is small today grows and offers competition to establish concerns which compels them to develop the highest level of efficiency to enable them to compete in the consumers' markets.

We, as individuals or as banks, must never grow so large or unapproachable as to cause the problems of the small business concerns or small business man to be overlooked; for it is certainly true that small business is vital to the sound health of a free enterprise economy.

It is not necessary to stress to trustmen the importance of bringing all forms of banking service within the reach of the majority of the people, for no one has been more conscious of this need than you have. For several years your deliberations and your literature have been devoted to the search for new ways in which trust service can be made available to those of moderate means. And you are achieving encouraging results. I understand that 75% of the trust funds in your care have an annual income of $3,000 or less, and that 50% have an annual income of only $750 or less. I note also that you are steadily pushing forward with the common trust fund plan and that there are now 38 common trust funds in operation. You are making notable progress.

The commercial banks of this nation have for some years sought to develop new types of lending arrangements to make it easier for small business firms to secure bank credit. About two years ago the Post-war Small Business Credit Commission was organized by the American Bankers Association. It adopted as its objective the principle that bank credit was to be made available to every competent person, firm or corporation in the United States, needing it for a constructive purpose. Banks everywhere are being urged to see to it that worthy small business and individuals are furnished with the financial advice and assistance needed. Regional credit groups have been organized in order to provide additional sources of credit which might be drawn upon in the case of loans which are difficult for a single bank to grant, either because of the size of the loan or the nature of the risk involved. Many banks have installed small business loan departments in order to carry out the objective of meeting the special needs of small business. These programs give promise of a valuable contribution in providing increased credit facilities.

Veterans Services

One of the most important responsibilities we have at the present time is to provide for the welfare of those returning from the armed services. The American Bankers Association was foresighted in preparing the banks to serve the need of veterans as they return to their home communities. A committee on Service for War Veterans was organized to develop a program which would help the banks function under the provisions of the Veterans Readjustment Act and to help the returning veteran with counsel, advice and credit.

You will recall that the Servicemen's Readjustment Act was first passed in June 1944. It was found that the original law and regulations issued under it, made it difficult for lending agencies to function effectively to meet the credit needs of the veteran. Recently legislation was enacted amending the original statute. We earnestly hope that the new law and the regulations issued under it will be practical and understandable to enable the banks to provide veterans with adequate credit facilities.

The fundamental purpose of the loan provisions of the G. I. Bill of Rights is to assist the returning veterans to reestablish themselves in their homes and business activities, by encouraging lending institutions to make loans for certain prescribed purposes. It was intended that these loans should be made on a sound basis so that real benefits would accrue to the veteran. For this reason it is necessary that the veteran be provided with advice and counsel as well as credit. Not all veterans, or for that matter not all civilians, are capable of operating a farm or running a business. If they possess the proper qualifications and the purpose of the loan is sound, credit facilities should be extended. If these conditions are lacking, it would be much more beneficial to the veteran to have the banker explain why the proposed venture is unsound, and why the loan cannot be made.

Some of the provisions of the recent amendments broaden the purposes for which the loans can be made and liberalize the terms under which the loans can be extended. In this respect they are inflationary in that they increase the volume of funds bidding for limited supplies of goods and facilities. Since a substantial rise has already taken place in the price of land, homes, and some business property, it is the responsibility of the banker to examine every transaction carefully and be prepared to give to the veterans well considered advice.

The recent amendments are anti-inflationary in that they extended to 10 years the period during which veterans' guaranteed loans may be applied for. Thus, in some cases it will be valuable to the veteran to point out to him that it is not necessary for him to exercise these rights immediately; that if he is able to accumulate additional experience and financial resources, conditions may be more favorable to him in the future, for entering into long term debt commitments.

The responsibility of the banker to the veteran is a great one. We must counsel the veteran in the wise use of credit and guard him against the unwise use of credit. By providing the veteran with advice and counsel we can help him utilize to his best possible advantage the opportunities that are available to him.

Measures Against Inflationary Trends

There is probably no problem which is causing the American public more concern and confusion than inflation. The inflationary trend must be controlled to protect the economic security of the average man. The average man may be considered as the common denominator of all men—regardless of economic level, race, creed or color. There are many definitions of inflation. Without becoming entangled in a technical definition, one may say quite briefly that inflation is an undesirable decline in the purchasing power of money.

The main causes of the strong inflationary pressure which has developed may be found in, first, the tremendous increase in the supply of money and purchasing power, and second, the shortages in the supply of goods and facilities. I should like to analyze further these factors.

Consumers and business units hold 250 billion dollars of liquid savings and war bonds. The banks possess a vast credit expansion potential. This tremendous increase in purchasing power exists because the government in financing the war relied too heavily on the banks and absorbed an insufficient volume of the increased consumer spending power.

But, of course, we cannot solve present problems by pointing to past mistakes. We should, however, avoid repeating similar errors. Given the present inflationary pressure of expanded purchasing power, there are three important measures necessary to restrain further inflation.

First, the government must stop deficit financing. Second, consumers must exercise restraint in buying. Third, the banks, in extending credit, must not add to the inflationary pressures.

In order to end deficit financing, the government must avoid increased expenditures on public works and must reduce general government expenses during the transition period. Taxes undoubtedly will need to be continued at high levels, though tax reform should not be delayed.

A factor which looms large in any discussion of balancing the budget is the question of prospective foreign loans. I recognize that the case for some foreign lending rests upon our moral obligation to aid in the economic reconstruction of war devastated nations. At the same time the economic consequences of such loans must be taken into account Such considerations should influence the size of those loans and should compel us to be fully advised of the domestic financial adjustments which we must make if we grant the loans.

Foreign Loans

Foreign loans made at this time will have definite effects upon the American economy. Since the proceeds of the loans must be used to purchase goods and equipment in the United States, they further intensify the present shortages of goods in this country. The payments for these goods add to the purchasing power in this country, so that the pressure of over-expanded purchasing power is aggravated. The loans are made by the government of the United States which adds to the size of our federal debt. The total interest charges on the debt become correspondingly greater and require increased taxes.

This analysis does not constitute an argument against making any foreign loans. My purpose is to attempt to bring into clear focus the economic consequences of such loans. If we understand the effects of such loans, it should influence us to make certain that the amount of the loan is no greater than is actually necessary to aid in the economic reconstruction of the borrower. Also we should clearly understand the adjustments and sacrifices thereby required of us.

The second major inflationary factor cited was shortages of goods. The war, of course, was primarily responsible for the shortages. But as American industry completed physical reconversion in an amazingly short period of time, industrial strife developed to choke off the flow of finished products. There is no question that the most important single need to alleviate the inflationary pressure is the elimination of industrial strife at the earliest possible moment.

In the years ahead the banks will have a tremendous responsibility. The banks owe this responsibility to many groups. We have a responsibility to the depositors as custodians of the funds placed in our care. The banks likewise have responsibilities to their stockholders. The bank is the same as any other business venture in this regard. Those who contribute the funds necessary for its organization and operation do so in the expectation that there will be some compensation for the use of the capital which they have provided. Furthermore, a bank has a responsibility to its employees. If a bank is not operated on a sound basis, the education, progress, and welfare of the employees will suffer.

But more than all of these, the banking system has a grave responsibility to the community and to the country as a whole to invest its available funds in such a way as to direct investments in a balanced manner, thereby contributing to a stable prosperity and to the economic welfare of the people.

It is our duty to invest the funds placed in our safe keeping wisely and soundly to the end that the welfare of the economy is benefited. Banking's objectives for 1946 are to provide credit facilities for every business and individual use which will contribute to the sound health of the economy and to avoid all investments which will create or aggravate developments which would impair the economic stability of the nation. Banking's hope for 1946 is that it shall not be the interests of any special group, but the best interests of the average man which shall determine the financial philosophy in the government of this nation.

Ridgway Rejoins Staff Of Inv. Syndicate

MINNEAPOLIS, MINN.—After serving two and a half years in the U. S. Marines, James R. Ridgway, Jr., has rejoined Investors Syndicate, Roanoke Building, as Assistant to D. E. Ryan, Vice-President in charge of the Mortgage Department. Mr. Ridgway will be associated with all phases of the Investors Syndicate Mortgage Department and will contact loan correspondents throughout the United States.

J. R. Ridgway, Jr.

In 1933 he became associated with the Company as an assistant in the Mortgage Department of Investors Syndicate Title & Guaraty Co., in New York City and was later promoted to Assistant Vice-President where he served in the Mortgage Department in the company's home office in Minneapolis. At the death of his father, J. R. Ridgway, Sr., he became president of Investors Syndicate in June of 1937.

Two years later he returned to the Mortgage Department and later joined the Sales Department where, as co-agency manager of the Minneapolis Agency, led all other agencies in the country during 1940. He was promoted to Eastern Sales Manager and was Vice-President and Assistant General Sales Manager before entering the service.

Handel, Lundborg & Patten Is Formed

PORTLAND, ORE. — Handel, Lundborg & Patten, Inc. has been formed with offices in the American Bank Building, to engage in the investment business. Officers are Leonard M. Handel, President; Hugo Lundborg, Vice-President, and George F. Patten, Jr., Secretary-Treasurer. All were formerly associated with E. M. Adams & Co., of which Mr. Handel was Vice-President, and Mr. Patten manager of the trading department.

Donald Young & Co. Admits Lax as Partner

Herbert Lax has been admitted to partnership in Donald Young & Co., 40 Exchange Place, New York City. Mr. Lax has been with the firm since its formation as manager of the trading department.

New York Stock Exchange Weekly Firm Changes

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

As of Jan. 15th, Gengler Brothers, which had been inactive during the period that the general partners were engaged in war service, resumed the status of an active member firm.

Robert R. Lansburgh, member of the Exchange, retired from partnership in Bear, Stearns & Co. on Jan. 31st.

Joseph H. Callan, limited partner in Wainright, Luce & Willetts, retired from partnership on Jan. 31st.

Interest of the late Arthur G. Moore in Erickson Perkins & Co. ceased as of Jan. 8th.

Interest of the late Chester Gaines, member of the Exchange, in Gaines & Co., ceased as of Jan. 26th.

Inflation, Debt and Post-War Economy

(Continued from first page)

years, and I went through all the inflations during the last war and following the last war all over the world because I was dealing in all of them.

I have seen some inflations in this country. The phenomena is just the same. The cycles of inflation are just the same wherever you find them.

The question is: at what point is it going to be aired? I think that our problem here is to determine at what point we should air this inflation of ours.

Because it is a matter of inflation. It's this vast amount of money we have printed and we don't realize we have it. But it is with us. That is at the bottom of these demands for wage increases, for example. And we are going to have many more of them.

I don't know how long it will last. I have not been able to predict or even to foresee where an inflation would end up — what would be the ultimate consequence of it.

We only know that it will at some time find what the engineers call "an angle of repose." It will find an angle; it will establish, finally, a certain value at which it will stop.

After the last war, the currencies in Eastern Europe were wiped out. The current currencies and values practically of all of those countries that had been in the war were wiped out. France was in a depression. The franc went down to four cents, three cents—20% to 15% of what it had been worth. There is no use in dwelling on what went on in the different countries because you know very well what happened.

What Is a Billion Dollars?

Now the question is, to what degree are we travelling in that same road today? I was talking with a friend of mine one time, Congressman Knudsen. He's a Republican; he's from Minnesota. I have to go out to Minnesota to get a Republican these days. And talking about this debt, he said to me: "Do you realize how much a billion dollars is?" I said, "No, I have not been able to visualize it; I can't count that much. My mind won't grasp it. I just can't see what a billion dollars represents." And he said: "You know, there haven't been a billion minutes since the time of Christ." I said: "No, I didn't know it." He says it takes about twenty-two hundred years to contain a billion minutes.

I figured it out and found he was right. I did some more calculating and I found that the interest on this debt of ours as it now is, if you figured at an average rate of 2%, would be about eleven thousand dollars a minute. And if you are going to start to pay off this debt at the rate of a dollar a minute, it will take somethink like six hundred and sixty years to do it.

Those are some of the calculations that I made in my endeavors to understand what a billion is. But that is what we are faced with. We have printed and issued all of this money. These bonds that we have printed are really money.

The bonds that we have printed the money that we have issued represents almost the entire physical wealth. I think it would very probably represent the assessed value of our real estate in the United States.

I know that there has been some calculation made in some town in South Bend, Indiana and Flint, Michigan, and some others, where it was found that the amount of all this public debt which the inhabitants owed was just equal to the assessed valuation of their real estate. I think that South Bend has about 130 million dollars worth of assessed real estate and I think their share of this debt was 130 million dollars.

To bring it down to us, each one of us owes about two thousand dollars of the national debt. A family of five owes ten thousand dollars. A child owes two thousand dollars when it is born.

Post-War Inflation

Those are just mathematical facts. It has crept up on us and has been a part of fighting war. You can't fight a war without producing inflation, and the time inflation really becomes serious is after the war is over, not during the war.

We are in that period after the war so I am not greatly surprised at this great unrest that has occurred among people. I thought we would have that and I thought we would have a great deal more.

I said, when we had the War Labor Board and I was serving on that, that this is easy pickings keeping these things in line because we have got the force of a war; we got the force of public opinion, who support us in the holding down of wages. But wait until this thing is over and see where we fetch up.

So, of course, now we are just in the first stages of the post-war era, and I am sure that I haven't any conclusion to offer you. I can only offer you speculation.

I think it might be advantageous—at any rate I find it stimulating and interesting—to speculate on what might happen with this inflation which we have produced.

Stop by Ending Deficits

What will happen to our dollars? Of course the dollars have been depressing to the extent that they have been diluted. I think that at some time we ought to stop, we ought to reverse our policy of running our Government on a deficit. I don't know at what point we ought to do that.

We are talking about going on and printing more bonds, or something, in order to lend one foreign country four billion dollars and another country is talking about wanting six billion; another wants nine hundred million, another has had three hundred million; and we are sprinkling it around.

There doesn't seem to be any limit to it and we don't seem to realize it. We just pass those things out.

It makes me think of an Irishman who was having too many children. He went to the priest to see what he could do about it. The priest said: "Well, you have twelve already. I told you this is too many. You can't support them. It is a sin to bring these little children into the world when you can't support them, and why don't you cut it out? Why don't you stop it?" He said: "Father, you know Bertha is such a charming woman, and when Bertha and I get going we think we can support the world."

Walter Chrysler told that story about ten years ago and I just happened to think of it the other day as being peculiarly appropriate to the condition we are interested in: passing out this money to the rest of the world.

It may be all right. There may be a certain defense for it. But I still think that we can serve the world best by taking care of ourselves and by offering the world a country that does manage its affairs well; that contains itself, and shows that it can keep its expenses within its income in normal times.

Let U. S. Set Example

I think the world needs an example of that kind. Those are principles that we adopt in our business. You certainly can't run a printing business without meeting your payrolls. I think back in 1934, or thereabouts, some tried to do it in New York. I remember those times; but it didn't work very well.

Up to Washington

So, I think, it comes down to us as citizens. I think each man as a citizen must address his thoughts to the question and try to find a way of organizing his thoughts and his opinions and conclusions and try to communicate those to his fellows, and, above all, communicate them to the lawmakers—these fellows that are making these laws down in Washington.

They really don't know where they are going. They don't know what to do. They are all mixed up. And it is really a great help to them if they can have some clearly thought-out views and opinions on many of these current questions.

This labor unrest that we are having was inevitable, of course. The President tried to duck it and Congress is afraid of it. It is hard on them and they really don't know what to do. Nobody really has an answer.

The employer doesn't know what to do, the labor union leaders don't know what to do except ask for more.

Well, you can keep on asking for more, more, more and more, but, really, that isn't going to solve your problem. Because the more you get the more the currency is diluted and, accordingly, the purchasing power of the money you do make is diluted.

Wages and Inflation

I remember when I was a boy in the old county of Indiana. My mother used to give me ten or 15 cents and send me down to the butcher. I would bring home enough steak for supper. The steak was about eight cents a pound, or something like that. Then, wages were about ten cents an hour for ten hours a day, six days a week.

Now steak costs about one dollar a pound—we will say—and wages are about a dollar an hour. Things have about the same relationship. Really, I can't see that people are any better off now than they were in that little town of Elkhart where things were in the proper proportion and we kids went to school together. A nice community with just a few exceptions. Some of us had to get out, some of us stayed there and did very well.

These things are all in proportion. I tried to tell the labor boys that I knew on the Labor Board that you are really not getting anything when you think you are getting these increases in pay and these shortening of hours. You really aren't getting anything that you are not paying for yourself. I think you are like a dog chasing his tail. You are just not getting anywhere. You are marking things up and this is all you are doing. You are just having the number of dollars or pennies or marbles, whatever it is that it takes to buy things. You are only increasing those and you are not addressing yourself to the main and basic problem which is the oral values in your work compared with those of another man.

Housing

Now we are getting into great trouble with our building. I think our housing in this country — especially in our cities and industrial centers—is a disgrace.

I hardly know a country in Western Europe that didn't have better housing for its working people than we have.

One of the reasons is the very high cost of work in the building trade. Carpenters, now, I think, get $2.35 per hour; which is all right. I don't blame anybody for getting all the money he can. I always wanted all I could get and never was paid enough. I never was paid anywhere near what I was worth. I do think I got what I could get and tried to be satisfied.

But here is one man who is earning—we will say—75 cents an hour, or a dollar. Now how can he afford to pay that carpenter $2.35 an hour out of his wages for building a habitation for him. So we have very poor housing.

The facilities are not good. We have a lot of houses, old houses, in New York that ought to be removed. We need a different type of homes for these working people. They want to raise families.

There are so many of them coming back now. We have 13 to 16 million coming out of the service. The proper thing for them to do is to get married and start raising a family.

"Making It Difficult for the Fellow Underneath"

Where are they going? What facilities have we for them? Those are the real problems and those are the difficulties that are involved in inflating our values. Because we always make it more difficult for the fellow underneath. The man on top always takes care of himself. The inflation doesn't bother him as a rule. He is smart and he starts out in front and he keeps himself covered by the fellow who is down below. He never gets caught up. His earnings, his income never catches up with the prices. So he is always stuck and he is the sufferer.

Thus, I think, the labor union managers make an economic mistake when they try to press for these increases that are not justified by a true relationship of the things that the earnings will buy. Because they are only disturbing them further and making them still more difficult for their own people. There is also, as the wages get too high, the tendency to cut down work.

The New York Printing Business

I might just say something about our own business here; the printing business which you know, here in New York.

You know, we have a very tight situation here. The foremen and everybody belong to the union and our rates are high. We know that New York has gone from first place to third just in recent years as a printing center and it would be down further still if it weren't for these very large newspaper installations which occurred.

That is an example of the way employment is destroyed, unemployment is increased.

So, I think it is very important that everybody try to adjust himself to a proper sense of values and try to work for that. One individual by himself can't do much, but a great many people thinking together and keeping the pressure on the law makers will help a great deal. And if you can get those on top clear on the subject, I am sure that you can help those who are down in Washington trying to make the laws.

Get Washington off Our Backs

Furthermore, I think we shouldn't depend so much on Washington. I think we should do more things for ourselves. I think if we show a greater independence in spirit and in action and get Washington off our backs, get rid of the regulations and controls, we also will increase production and increase employment and thereby also forestall the issuance of more paper money.

Full Swing Production Will Stop Inflation

In other words, we will stop inflation by getting into production and by letting trade have its full swing by letting the old natural law of supply and demand work.

Because that is the only thing that does work in the end. Lawmakers and bureaucrats can monkey with it for a while, but in the end it is the old law of supply and demand that finally indicates it and puts the rest of us in our place.

So I think each one of us as citizens can do a great deal. Because the men who are salesmen have many contacts. They work with the customers, they get ideas from their customers and their customers get ideas from them. You are welcome to your customers because they like to hear your stories, or whatever it is.

But I urge you as citizens, if I may, to figure these things out for yourselves, and try to reach some conclusions, as I am trying to do —and, unfortunately, I haven't any conclusions to offer you.

I can only present the picture to you as I see it, and point out the dangers—if you like—based upon my observations in all other countries throughout the world that went through this period of inflation after the last war.

Public Utility Securities

(Continued from page 716)

however, no official word on the outcome as yet.

Middle West has been acting well recently on the Curb although plans for a cash distribution appear to have been delayed. Settlement of the Central & Southwest Utilities program appears rather imminent.

National Power & Light, having completed the recapitalization of its largest subsidiary, Penn Power & Light, is expected to liquidate some time this year.

Niagara Hudson Power has made rapid progress with its plans although the question whether it must dispose of its entire equity in Buffalo & Niagara Electric remains unsettled.

North American long ago submitted a complicated integration plan to the SEC, which never pronounced its verdict. It appears likely that the Commission would prefer a simpler scheme, and in the meantime the company has proceeded to retire its preferred stocks by using bank loans.

Public Service of N. J. has made considerable progress with its plant write-off problem, but formation of an integration-recapitalization plan is still delayed.

Standard Gas & Electric has gotten into a legal tangle over retirement of its bonds. The SEC finally gave its consent, but in the meantime bondholders filed a court appeal to retain the original plan, hence the banks are reluctant to complete the loan until the situation is clarified.

United Light & Railways may sell Columbus & Central Ohio to American Gas, which would aid in retiring its senior securities.

Nat'l City Appoints Wiseley Asst. V.-P.

At a regular meeting of the Board of Directors of the National City Bank of New York, Clarence H. Wiseley was appointed an Assistant Vice-President and assigned to the South American District at head office in New York. He joined the bank in 1918 and served in various official capacities until 1936 when he was appointed Supervisor of Brazilian branches with headquarters in Rio de Janeiro.

Seth L. Szold With J. M. Dain & Co.

MINNEAPOLIS, MINN. — Seth L. Szold, who has been released from active duty as a lieutenant in the U. S. Navy, has become associated with J. M. Dain and Company, Rand Tower, members of the Chicago and Minneapolis-St. Paul Stock Exchanges, as manager of the investment research department. In the past he was with Lehman Brothers in

Implications of Central Bank Nationalization

(Continued from page 713)

representing the Labor Government that they must conform readily to the program and policy of the newly constituted Bank of England, *or else*. In Canada as well, where partial and then complete nationalization of the central bank took place between 1936 and 1938 (*Chronicle*, June 15, 1944), the Chartered Banks are still allowed to continue their independent commercial banking business. By early 1946 they will have lost 75% of their note issue to the Bank of Canada, and they are by law compelled to keep a 5% reserve against their deposits with the Bank of Canada, or in Bank of Canada notes in their own vaults and tills, but the decennial revision of Banking Act of Canada in 1944 did not make any fundamental changes in the operations of the Chartered Banks. And, while officials of these large banks, look into the future with some trepidation as to what may be the next step in the Canadian nationalization of credit program, they are still hopeful that nationalization of these commercial banks with their thousands of branches will not be the way chosen by the Government.

De Facto Nationalization in France in 1936

Furthermore, in connection with the developments early in December, in France, it should be pointed out that, to those of us who have been doing research in central banking organization and policy, the Bank of France for all practical purposes was nationalized on a *de facto* basis by Premier Leon Blum and the Popular Front government in 1936. If nationalization in this field may be defined as the assumption of the control and direction of the policies of the central bank by the government of the country in question, then certainly the Bank of France was to that extent nationalized by the Act of July 24, 1936, when the managing body of the Bank of France was brought under the complete domination of the Government, thus "guaranteeing in its management the preponderance of national interest".

As I have previously pointed out,[1] "formal nationalization may be brought about in one or both of two ways. The government may take over the ownership of the bank by purchasing all or a majority of the shares of capital stock outstanding. The other method is that of giving the government the right to appoint the principal officers of the bank and a majority of the directors, while leaving actual ownership in private hands. Real and effective nationalization represents changes in the legal and constitutional relationships between the bank and the government, giving the government a type of control having legal permanency".

In July, 1936, the second of these methods was followed in the case of the Bank of France. The Act reaffirmed the right of the President of the Republic to appoint the Governor and the two Deputy Governors, but in addition, provided for the increase of the number of regents or directors of the Bank from 15 to 20, only two of who were to be appointed by the more than 40,000 stockholders of the Bank. The other 18, and the 3 censors (auditors) were to be selected directly or indirectly by the Government through its various ministries and other boards. This gave effective control without ownership, but on Dec. 3, 1945, the Government of France took the next step—the first of the two methods mentioned above — by providing *de jure* and complete nationalization by the Government taking over, through an exchange of funding bonds for the shares owned by the stockholders of the Bank. Associated Press reports from Paris dated Dec. 2, and reports to the New York "Times," of Dec. 3, 1945, state that:

"Shareholders of the Bank of France will be reimbursed with dividends not higher than those of 1944, and the rate of interest on the amortized sinking fund bonds is restricted to not more than 2%. (The Government had proposed 3% but the leftist assembly cut the rate to not more than 2%.)[2]

The Act as passed on Dec. 3, provided "for the nationalization before Jan. 1, 1946, of the Bank of France with 47,000 stockholders, and the four deposit banks (Credit Lyonnais, Societe Generale, Comptoir Nationale d'Escompte de Paris, and Banque Nationale pour le Commerce and l'Industrie)[2], all having a capitalization of \$53,500,000 (at the then rate of exchange for the franc)[2]. The four deposit banks have a total of 400,00 stockholders." . . .

"Bank shares (of the Bank of France) will be transfered after Jan. 1, 1946, to the State which will hold all funds in trust for the nation. Bank shares are distributed among 47,000 holders, and 60% of the capital is represented by small holders of less than ten shares. Shareholders will receive negotiable bonds to replace their shares . . . the bonds will be amortized over a maximum 50 year period, and their characteristics will be determined by decree of the Ministry of Finance. . . ."

Thus under the new set-up, the *Banque de France* becomes the *Banque de la France*, as demanded by the Popular Front in 1936, with the Government now owning as well as controlling the shares which since about 1803 have been in the hands of "the 200 families" and of the smaller shareholders. In the method of acquiring the shares of the Bank of France, the Government has apparently taken a leaf out of the British Labour Party's book, for the nationalization plan proposed for the Bank of England provided that "for their shares, stockholders will receive transferable 3% Consols, equivalent to the capitalization of the Bank's average dividends for the past 20 years. While the public debt will thus be increased by some 58 million sterling, (about \$232,000,000), the servicing of the increase will come out of the prescribed semi-annual Bank of England payments into the Treasury. Any additional earnings will be accumulated and may sometime provide the means for redeeming the Consols. These bonds will be callable, commencing April, 1966. The Bank of England has £14,533,000 of capital stock outstanding. At the recapture price, under the terms of nationalization, the value would be around £58,000,000. . . . The average dividend paid by the Bank in the last 20 years is computed as about 12%, so the basis of exchange of Bank shares for the British Treasury 3% bonds would be a ratio of £400 in bonds for £100 par value of shares."[3]

It would appear, therefore, that the Bank of England shareholders have been treated somewhat more liberally as to the interest rate received on Consols or funding bonds, than have the shareholders of the Bank of France, but the details in the latter case are yet to be worked out "by decree of the Ministry of Finance". In both cases the Governments take over the ownership of the banks by exchanging Consols or Funding Bonds for existing shares of these institutions.

Misconceptions About the Bank of France

Due in part to the paucity of information available about banks in France, at least two popular misconceptions about the Bank of France appear in banking literature and in the current discussions of recent developments as well. One is that the Bank of France operates with headquarters in Paris and with *600 branches throughout the provinces*. One American writer says that the Bank of France "has over 600 offices throughout France", while a recent British publication calls attention to the fact that the total number of *branches* and *auxiliary offices* doing business in 1933 was over 260. The other misconception is that the Bank of France, like the Bank of England, is primarily a central bank, and has little dealings with the general public. Both of the conceptions are wrong as the following data will show.

Probably the most accurate statement about the Bank of France in the inter-war years, indicates that the Bank has offices and agencies of all kinds to the number of 661, made up as follows:

Head Office in Paris	1
Branches in Paris and suburbs	18
Other branches in Provinces	159
Auxiliary offices	81
Agencies in "attached towns"	402
Total branches, offices, etc	661

An inter-war statement of the Bank of France showed that it had at that time Current and Deposit Accounts, largely of individuals, of 15,108,000,000 francs, as compared with Current Accounts for the Treasury of 962,000,000 francs. Its Commercial Bills Discounted, largely to individuals, and Negotiable Bills Bought in France and Abroad, from banks and individuals, totaled 4,003,000,000 frs. and 920,400,000 frs., respectively.

Thus the Bank of France is a commercial bank as well as a central bank, and is a strong competitor of the commercial banks of France for commercial banking business. Its head office and its 18 branches in Paris, and its 159 branches in the provinces accept deposits from the public, grant over-drafts on approved security, grant letters of credit, negotiate the purchase and sale of securities, and collect short-term bills for its customers. The Bank carries on a large discount business for its customers, as well as for other banks. Paper eligible for discount must bear three good names, although approved security may be substituted for one name, and must not exceed ninety days maturity.[4] The Bank and its 177 branches carry on a discounting business directly with the public, and apparently the other offices and agencies may refer discounts taken from the local and private banks to a branch or to the head office of the Bank of France for action. The other commercial or *d'Escompte* banks rediscount paper with the Bank of France, often themselves providing the third name required by the Bank. Thus, in much of its business, the Bank of France has been a commercial bank, as well as serving the Government as fiscal agent and as central bank. Hence its nationalization reaches down into the commercial banking field to a greater extent than does the nationalization of other central banks, such as the Bank of England and the Bank of Canada.

Resources of Other Nationalized French Banks

The four large deposit banks, with branches throughout France, which were nationalized along with the Bank of France on Dec. 3, 1945, were said to have a total capitalization of Frs. 2,675,000,000 on Aug. 31, 1945, with deposits of some Frs. 207,000,000,000,[5] representing some 55% of all bank deposits in France. These deposits, with those of the Bank of France, were said to have placed more than 80% of France's bank deposits under State control.

Other earlier incomplete data regarding these four banks indicated that their branches were as follows:

Bank	No. of Branches
Credit Lyonnais	"Over 1,200"
Societe Generale	"Over 1,450"
Comptoir National d'Escompte	"Over 400"
Banque Nationale pour le Commerce and l'Industrie	(Not given.)

Two other large "business banks" which were originally scheduled to be nationalized, along with the insurance companies of France, were left out at General de Gaulle's request, since the reserve of these banks was considered essential in the chances of reviving France's export trade. Local or regional banks were not subject to nationalization, nor were commercial banks whose chief function is foreign operations. In the final bill insurance companies and *banques d'affaires* (investment banks) and *banques de credit mobilier* were not included.

Shareholders of the deposit banks will have their stock purchased by the Government over a 50-year period, beginning in 1947, and will be reimbursed with dividends on an average stock value of the past year. The maximum interest on such payments will be 3%. The nationalized banks will be directed and administered by twelve-member commissions, named by the Government. The French claim that "nationalization does not mean officialization", as present personnel will be retained and members of Parliament and civil servants will not be allowed to sit on governing boards. For the banks which were not nationalized a Government Commissioner is appointed for each, who will have power "to veto board decisions which might operate contrary to national interests". Furthermore, the Act also provides for the creation of a National Credit Council, which can recommend nationalization of other banking and credit establishments.

Real Purpose Obscure

Among government officials in France, including General de Gaulle and members of the Constituent Assembly, the real purpose of all this socialization of credit and finance seems to be vague and obscure. "Britain is doing it, as far as the Bank of England is concerned", they seem to say, "and why not we?" Some statements of reasons for nationalizing the four large deposit banks were that during German occupation "they collaborated." If they stayed open at all to protect their resources and to serve their customers where they could during the period of occupation, they must have had to "collaborate" with local German officials to some extent.

At any rate in both France and Britain there is a lot of "scrambling" of both financial and industrial institutions going on under leftist or labor governments, and it will probably be increased rather than diminished during the next few years in both countries. If and when, in a few years, other governments with other ideologies come into power in these countries they may find that it will take years or even decades to "unscramble" these financial and other institutions. Let us hope that in this country, which still has some vestiges of free enterprise left, we may watch with interest these developments and their consequences in the countries in question without ourselves plunging into such turbulent and uncharted seas.

[1] Article on "Our Post-War Banking Systems?", *Chronicle* June 15, 1944, and references therein to the unpublished thesis of Dr. W. Edward Alley, at the University of Illinois, written under the writer's direction on "The Nationalization of Central Banks".

[2] All parenthetical statements in above quotations added by writer.

[3] Bratter, H. M., "Nationalization of the Bank of England", by cable to the *Chronicle*, in issue of Oct. 11, 1945, p. 1691.

[4] Mackenzie, K., *The Banking System of Great Britain, France, Germany and the United States*, p. 126.

[5] Cf. *Commercial and Financial Chronicle*, Dec. 13, 1945, p. 2931.

The Stock Market Outlook

(Continued from page 716)

fair and adequate profit margins will be experienced and that the corporation tax rate will remain at present levels (38%) then the inevitable conclusion is that a marked expansion in corporate earning and dividend disbursements merely awaits termination of the widespread vacationing resulting from nationwide strikes."

Continuing, Mr. Billard remarks that, "it is important, however, that investors should not lose sight of relative potentialities in the boom period ahead.

"The productive capacity of the country is enormous. To appreciate this fact, all that one has to do is to travel around the country just a little. As great as the demand for goods admittedly is, it should be recognized that once industry is able to get into full scale production, the deferred demand, in some lines will be satisfied rather quickly, that is within a year or two. On the other hand, there are many industries where the productive capacity is still so relatively small in relation to the potential demand that the latter could hardly be satisfied for many years.

"To illustrate the point, it seems to us, based on such studies as are available, that sufficient refrigerators, ranges, radios, tires and apparel, to mention a few, can be produced to satisfy the demand earliest. On the other hand, the demand for air transport, automobiles, building, chemicals, heavy industrial equipment, mail order, office equipment, motion pictures, is probably so great in relation to potential production that several years, say 3 to 5, or perhaps more, of maximum production will be required. In between these two extremes might be placed certain other groups such as auto accessories, containers, drugs, machine tools, merchandising, paper, railway equipment, steel, sugar, washing machines, to mention a few.

"This, in turn, suggests the prospect that certain stock groups probably will reach bull market peaks and turn down long before certain others as present sellers' markets turn into buyers' markets. This is merely a phenomenon experienced in all bull markets. And in this respect, the important thing to realize is that there is a tremendous difference between sellers' markets and buyers' markets—the former mean small competition and good profit margins and volume, but the latter mean keen competition, impaired profit margins (for many) and smaller volumes.

"The foregoing does not imply that good values are not to be presently found in those groups mentioned in the first category or that any undue weight should be given at this time to the various groupings enumerated above, but rather that some consideration along the foregoing lines should be given, perhaps later on, to longer range shifting strategy. The most important point to realize at this time is that the anticipated postwar boom hasn't even started yet."

Municipal News and Notes

While it is generally understood that the States and municipalities substantially improved their debt positions throughout the war period, the fact is that the enforced embargo on new debt issues during that era merely served to accelerate a trend that had already been in evidence in previous years.

This point is forcefully illustrated in a study just issued by the Citizens Public Expenditure Survey, 100 State St., Albany 7, N. Y., which reveals that the net funded debt of the State of New York and all of its municipalities has been reduced in the amount of $640,000,000 from the peaks reached during the 30's.

The record of debt reduction according to various groups of entities, the study shows, varies considerably, with the villages reported to have 30.5% less indebtedness at the end of fiscal years in 1944 than prevailed in the peak year of 1932. For towns, the comparable figure is 20.3%, while for cities, excluding New York, it is 28.5%. In the case of New York City, the markdown from the 1941 peak is given as 5%, and for New York State itself, the amount outstanding at the close of the current fiscal year on March 31, 1946, will reflect a slash of 35% from the all-time high in 1939.

Commenting on its findings, the Survey points to the strong temptations now confronting the State's municipal bodies to use their present excellent financial standings as a springboard for the incurrence of debt in order to complete a wide variety of public improvements. Some cities, including Rochester, Buffalo and Syracuse, are said to be preparing long-range financial plans which will permit the undertaking of necessitous improvements from current revenues rather than from borrowing.

The Survey observes that a policy of prudence and caution in the financing of public improvements now will prevent a repetition of the experience of some taxing units in the early 30's, when more than 50% of tax income was required to meet debt service payments.

An interesting feature of the analysis is that it shows at a glance the actual record of debt reduction for each city in the State. By way of illustrating the impressive achievements of the group as a whole, the following examples may be cited:

Albany, net debt at the end of fiscal year in 1944 was 17% below peak in 1931; Amsterdam, 35% below 1936; Batavia, 78% below 1930; Binghamton, 56% below 1930; Dunkirk, 55% below 1930; Glens Falls, 43% below 1939; Lackawanna, 46% below 1939; Niagara Falls, 21% below 1937; Olean, 51% below 1935; Oneonta, 96% below 1933; Rensselaer, 44% below 1931; Rome, 39% below 1940; Salamanca, 66% below 1930; Schenectady, 31% below 1940; Tonawanda, 51% below 1931; Watervliet, 36% below 1939.

In connection with the foregoing examples, it should be kept in mind that the debt figures used in the Survey represent standings at various dates in 1944. Thus, the records would be even more impressive on the basis of current figures as very little new borrowing has been undertaken by the State's cities in the past year or so.

Montreal Issue to Be Offered in United States

A syndicate managed by Harriman Ripley & Co., Inc., and the Dominion Securties Corp., will soon make public offering in this country of a new issue of $85,980,000 debentures of the City of Montreal, Que. A registration statement covering the issue has just been filed with the Securities and Exchange Commission. This will constitute the largest offering of Canadian securities in the United States since the placement in January, 1943, of the $90,000,000 Dominion of Canada bond issue.

Proceeds of the impending issue, which will mature serially in various amounts annually on Nov. 1 from 1947 to 1975 incl., will be used by Montreal in the redemption on May 1 next of $80,758,213 principal amount of its series A and B debentures, dated May 1, 1944 and maturing up to 1972. The outstanding instruments are payable, or may be paid at the option of the holder, in United States dollars. The redemption price, including accrued interest, will require a total of $87,781,657 in U. S. dollars, and such funds as may be needed in addition to the proceeds of the new issue, will be provided by the city from its other resources.

In 1944, the City of Montreal put into effect a plan of financial reorganization under the terms of By-Law No. 1735 which contains certain provisions for control of the administration of the City's finances. Operation under this By-Law has contributed materially to improvement in the City's fiscal position resulting in the proposed refunding. It is expected that this By-Law and the fiscal arrangements established under its terms will be continued in effect.

Carrying out of the proposed refunding will very substantially reduce the interest requirements and other charges on the City's debt.

The debentures described in the registration statement will be direct and unconditional obligations of the City of Montreal. They will be subject to redemption as a whole or in part at the option of the City on any interest payment date prior to maturity on not less than thirty days published notice, at par and accrued interest. The debentures will be payable as to principal and interest in United States dollars in New York.

Montreal, which is Canada's largest city, had a population at April 30, 1945, as estimated by the City Assessor's Department, of more than 1,060,000. Greater Montreal, consisting of the City proper and adjacent and adjoining municipalities, had a population in 1941 of 1,139,921 according to Dominion Census returns.

The underwriting group, in addition to Harriman Ripley & Co., Inc., and the Dominion Securities Corp., will include: The First Boston Corporation; the Dominion Securities Corporation; Wood, Gundy & Co., Inc.; A. E. Ames & Co., Incorporated; and McLeod, Young, Weir, Incorporated are named as the principal underwriters. The offering will be managed by Harriman Ripley & Co., Incorporated and the Dominion Securities Corporation.

$15,000,000 Bonds of Maine Turnpike Authority Offered by Syndicate

A new addition to the growing list of revenue bond authorities developed on Wednesday with the public offering of an issue of $15,000,000 2½% bonds of the Maine Turnpike Authority. The bonds, maturing in 1976, were offered to investors at a price of 99.50 and accrued interest, by an extensive syndicate headed by Tripp & Co., Inc., New York, and Stifel, Nicolaus & Co., Inc., of Chicago and St. Louis.

Proceeds of the issue will be used to finance construction of a toll highway from Kittery, Me., to Portland, Me., and, according to a traffic survey made by Messrs. Coverdale & Colpitts, revenues would be sufficient to pay off all of the bonds by Aug. 1, 1970, along with operating and maintenance costs, without any assistance in the form of Federal or State grants or taxes.

The financing involves one of the first major postwar projects of its type and the interest cost is believed to be one of the lowest ever obtained in connection with such a project.

This first operating unit, approximately 45 miles in length, is the initial section of a highway that is scheduled to extend eventually to Fort Kent, Maine. It will connect directly with the Maine-New Hampshire Interstate Bridge at Kittery, Maine, and will have two entrances to Portland—one at Congress Street and one at South Portland.

Fred'k Vogell Joins White Trading Dept.

Frederick W. Vogell has become associated with J. G. White & Co., 37 Wall Street, New York City, in their trading department. Mr. Vogell has been connected with Wall Street since 1913 and over a long period had his own firm of Hall, Vogell & Co., Williams & Vogell and Vogell & Co. During the last year he has been with C. C. Collings & Co., Philadelphia.

DIVIDEND NOTICES

THE BUCKEYE PIPE LINE COMPANY
30 Broad Street

New York, N. Y., January 31, 1946.

The Board of Directors of this Company has this day declared a dividend of Twenty (20) Cents per share on the outstanding capital stock, payable March 15, 1946 to shareholders of record at the close of business February 21, 1946.

C. O. BELL, Secretary.

J. I. Case Company
(Incorporated)

Racine, Wis., February 6, 1946.

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable April 1, 1946, and a dividend of 40c per share upon the outstanding $25 par value Common Stock of this Company has been declared payable April 1, 1946, to holders of record at the close of business March 12, 1946.

WM. B. PETERS, Secretary.

GREEN BAY & WESTERN RAILROAD CO.

The Board of Directors has fixed and declared five per cent to be the amount payable on Class A Debentures (Payment No. 50), and a dividend of five per cent to be payable on the capital stock, out of net earnings for the year 1945, payable at Room No. 3400, No. 20 Exchange Place, New York 5, N. Y., on and after February 18, 1946. The dividend on the stock will be paid to stockholders of record at the close of business February 8, 1946.

C. W. COX, Secretary.

New York, January 31, 1946.

TEXAS GULF SULPHUR COMPANY

The Board of Directors has declared a dividend of 50 cents per share on the company's capital stock, payable March 15, 1946, to stockholders of record at the close of business February 16, 1946.

H. F. J. KNOBLOCH, *Treasurer*.

UNITED SHOE MACHINERY CORPORATION

The Directors of this Corporation have declared a special dividend of 62½c per share on the Common capital stock, payable February 28, 1946, to stockholders of record at the close of business February 5, 1946.

WALLACE M. KEMP, Treasurer.

The Board of Directors of

Wentworth Manufacturing Company

has declared a dividend of twelve and one-half cents (12½c) per share on the outstanding common stock of the Company, payable on February 28, 1946 to stockholders of record at the close of business February 14, 1946.

Checks will be mailed.

JOHN E. McDERMOTT, Secretary.

SEC Moves Against Van Alstyne, Noel & Co.

The Securities and Exchange Commission announced on Feb. 6 that it has instituted proceedings to determine whether to revoke or suspend the broker-dealer registration of Van Alstyne, Noel & Co. of New York City. The Commission, as reported in an Associated Press dispatch from Philadelphia, said the proceedings were an outcome of the firm's handling of the sale of securities for Higgins Industries, Inc., New Orleans, before the effective date of registration of the securities.

Higgins filed a registration statement with the SEC Jan. 30, for 1,400,000 shares of $1 par value common stock and common stock purchase warrants for 200,000 shares. The SEC said the underwriting arragements indicated that 300,000 shares are to be issued as part payment for property; 200,000 shares are to be reserved for exercise of warrants, and the balance of 900,000 shares are to be sold at $10.10 a share to underwriters for public offering at $11 a share.

The SEC charges that "since Jan. 4, 1946, registrant (Van Alstyne) directly and indirectly used the means and instruments of transportation and communication in interstate commerce and the mails in offering for sale, and attempting to dispose of, the common stock of Higgins, Inc., which securities were not registered pursuant to the requirements of the Securities Act of 1933."

A hearing is scheduled for Feb. 14, in the SEC's New York office.

DIVIDEND NOTICES

THE FLINTKOTE COMPANY
30 Rockefeller Plaza
New York 20, N. Y.
February 6, 1946

Preferred Stock

A quarterly dividend of $1.00 per share has been declared on the $4 Cumulative Preferred Stock of this corporation, payable on March 15, 1946 to stockholders of record at the close of business March 1, 1946. Checks will be mailed.

Common Stock

A dividend of $.15 per share has been declared on the Common Stock of this corporation, payable on March 11, 1946 to stockholders of record at the close of business February 25, 1946. Checks will be mailed.

CLIFTON W. GREGG,
Vice Pres. and Treas.

Borden's

DIVIDEND No. 144

An interim dividend of fifty cents (50¢) per share has been declared on the capital stock of *The Borden Company*, payable March 2, 1946, to stockholders of record at the close of business February 15, 1946.

E. L. NOETZEL
Treasurer

January 29, 1946

Dividend Notice

January 30, 1946

BURLINGTON MILLS CORPORATION

The Board of Directors of this Corporation has declared the following regular dividends:

4% CUMULATIVE PREFERRED STOCK
$1 per share

COMMON STOCK ($1 par value)
35 cents per share

Each dividend is payable March 1, 1946, to Stockholders of record at the close of business February 11, 1946.

WILLIAM S. COULTER, *Secretary*

EATON MANUFACTURING COMPANY
Cleveland, Ohio

DIVIDEND NO. 84

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five Cents (75c) per share on the outstanding common stock of the Company, payable February 25, 1946, to shareholders of record at the close of business February 5, 1946.

H. C. STUESSY,
Secretary & Treasurer

January 25, 1946

DIVIDEND NOTICES

DIVIDEND NOTICE

Group Securities, Inc.

The following dividends on the various classes of shares of Group Securities, Inc., have been declared payable February 28, 1946, to shareholders of record February 15, 1946.

Class	Regular* (For First Quarter)	Extra*	Total
Agricultural	.03	.07	.10
Automobile	.05	.05	.10
Aviation	.09	.06	.15
Building	.05	.07	.12
Chemical	.04	.04	.08
Elec. Equip.	.04	.11	.15
Food	.02	.05	.07
Fully Admin.	.05	.08	.13
General Bond	.08	.04	.12
Indust'l Mach.	.04	.08	.12
Institut'l Bond	.10	.01	.11
Investing Co.	—	.10	.10
Low Priced	.04	.07	.11
Merchandising	.08	.08	.16
Mining	.04	.04	.08
Petroleum	.04	.04	.08
Railroad Bond	.04	.01	.05
Railroad Equip.	.05	.03	.08
Railroad Stock	.04	.06	.10
Steel	.04	.03	.07
Tobacco	.05	—	.05
Utilities	.02	.06	.08

*Regular dividends are from net investment income and extra dividends are from net realized profits.

Distributors Group, Incorporated
National Distributors
63 WALL ST. • NEW YORK 5, N. Y.

Southern Railway Company

DIVIDEND NOTICE

New York, January 22, 1946.

Dividends aggregating $3.75 per share on the Preferred Stock of Southern Railway Company have today been declared, payable as follows:

Amount	Date of Payment	To Stockholders of Record at the Close of Business on:
$1.25	Mar. 15, 1946	Feb. 15, 1946
1.25	June 15, 1946	May 15, 1946
1.25	Sept. 16, 1946	Aug. 15, 1946

A regular quarterly dividend of 75¢ per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1945, payable on March 15, 1946, to stockholders of record at the close of business on February 15, 1946.

Checks in payment of these dividends on the Preferred and Common Stocks will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, *Secretary*.

THE ATLANTIC REFINING CO.

COMMON DIVIDEND NUMBER 162

At a meeting of the Board of Directors held February 4, 1946, a dividend of thirty-seven and one-half cents (37½c) per share was declared on the Common Stock of the Company, payable March 15, 1946, to stockholders of record at the close of business February 21, 1946. Checks will be mailed.

W. M. O'CONNOR
Secretary

February 4, 1946

The Stock Market and Inflation

(Continued from first page)

the stock market is largely responsible for inflation. It is my intention today to examine some of the realities of this subject.

It s quite clear that the erroneous belief that the stock market is a primary source of inflation is being deliberately fostered. Certain public officials in Washington have professed to be alarmed over the "psychological factors" contributing to inflation. According to a Washington dispatch published in the New York "Times" of Jan. 30, these officials have ascribed the existence of a "psychology of inflation" to rising prices in the stock market. Now I have no intention of apologizing for the behavior of the stock market in the face of conditions which, unless corrected, make inevitable a more dangerous form of inflation than we are now witnessing. True, the market is registering the apprehensions of the American people. And under the system of price publicity which the New York Stock Exchange long ago established, these apprehensions cannot be hidden any more than can the performance of a weather vane or of a thermometer.

Policies Sowing Seeds of Inflation

I do not for a moment underestimate the psychological factors in a situation such as that which is developing, but if these influences are to be neutralized we must concern ourselves less with manifestations than with the policies which have sown and are still sowing the seeds of inflation. Many people are putting their money into securities because present policies or lack of policies, are tending to undermine their confidence in the future value of the dollar. Only the Government can preserve the people's confidence in the integrity of our currency.

Please do not misunderstand me. The fear of inflation is by no means the only factor in the current interest in securities. A great many people feel that we are passing through a temporary phase of readjustment and that this country will, in time, work out of its difficulties as it always has in the past, and that American common sense again will assert itself for the lasting benefit of this country and the world. Mind you, I am expressing no opinion as to whether the market is right or wrong in its estimate of present conditions and future prospects.

The stock market records each day, for all the world to see, the ebb and flow of the country's hopes and fears with respect to our economic well-being. This market is constantly exposed to the spot-light, as a free market should be. All of us recognize that realized profits, whether in securities, real estate or any other property, enlarge the inflationary potential—a fact which no one can deny. But when this is conceded, the fact remains that the advance in stock prices and the activity in the market are no more than symptoms of the disease of inflation. If we are to check inflation, we must attack the basic causes, which are far removed from the surface reflections of the stock market.

Being the very sensitive index that it is, the market is obviously registering the opinions of large numbers of people with respect to the stresses and strains that are apparent everywhere as we attempt to make the great adjustment from war to peace.

No Panaceas

It is all too plain that a substantial amount of inflation already has taken place. The power to prevent a further extension of inflation rests with the Government and only sound governmental policies can save us from approaching danger. I can offer no panaceas, no painless methods to avert this danger. Nor can anyone else.

The danger, though great, is susceptible of control. To prevent runaway inflation will require resolute steps by Congress and the executive branch of Government in various directions. The Government has yet to come to grips realistically with the kind of fiscal policies which the times demand. The same is true with respect to the relations between labor and management and also with respect to the procedures for lifting *unnecessary* controls that will release our great productive capacity in order that it may supply the needs and wants of our people.

It is a function of the securities market to reflect the concern which these difficult problems are causing. It is absurd to blame the market for giving expression to the anxieties that are in the public mind.

In a moment I shall recall to you the words of Marriner S. Eccles, Chairman of the Federal Reserve Board, when he announced some time ago, a Reserve Board ruling that securities must be paid for in cash. This action of the Reserve Board was an unblushing discrimination against a form of property owned by many millions of American citizens. It is not my purpose at this time, however, to discuss this discriminatory action, except to point out its futility as a brake on inflation.

The Margin Ruling

Under the powers conferred by law upon the Reserve Board, that body was expected by Congress to use its authority to prevent the excessive use of credit. The Reserve Board was well aware of the fact that only a comparatively small amount of credit was being used at the time it decided to make securities, for market purposes, valueless as collateral. The purpose of the Board, obviously, was to reduce the volume of dealings in securities. And it could have been under no illusions even as to the effectiveness of its action in curtailing such dealings.

Events subsequent to the decision of the Board to place the stock market on a completely cash basis have illustrated eloquently the fact that this was no more than an empty gesture. Judging by what has happened, I should say that the Reserve Board's ruling has had the effect merely of fanning the flames of inflation. This ruling was interpreted as official notice from the highest authority that inflation was upon us. The ruling was also interpreted by many unthinking people as a genuine effort to control inflation.

In the light of the frank and realistic appraisal of the situation by Mr. Eccles, we cannot fairly accuse the Reserve Board of an attempt to make a culprit of the stock market. Nevertheless, the Board's action did focus public attention upon the market in such a way as to lead many people mistakenly to believe that the Government was taking vigorous steps to control inflation; that the stock market was an obstacle to such control. This is most unfortunate and mischievous for, unless the American people are awakened to the underlying conditions tending to create inflation, the necessary remedies may be delayed too long. To admonish the stock market may have a temporary diversionary effect in taking the heat off of Washington, but it will require stronger and more courageous measures to save this country from the blight of inflation.

Eccles Statement

With admirable candor, which other public officials in Washington would do well to emulate, Mr. Eccles said:

"The primary source of the inflation danger which overhangs the domestic economy on all fronts in the vast accumulation of currency and bank deposits at the disposal of the public as a result of the fact that far too much of the cost of the war was financed through the creation of commercial bank credit and not enough was financed out of taxes and the savings of the public.***

"It is important to point out that so long as the public debt continues to be monetized through the purchase of Government securities by the banking system the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds.

"This process needs to be stopped, not only by bringing about a balanced budget but also through measures to check further unnecessary expansion of commercial bank holdings of Government securities."

This excerpt from Mr. Eccles' refreshingly honest appraisal does not tell the whole story, but he has put his finger on some of the immediate sources of the danger which confronts us.

Danger of Lowering Interest Rates

The policy of financing the war on a low and stable level of interest rates has had a large measure of public approval, but the further decline in rates over the past year, and particularly since the Victory Loan, is both a symptom and a source of mounting danger. It is a symptom of danger because it reflects expansion of credit and purchasing power at a time when goods are scarce and when one of our main problems is the control of inflation. It is a source of danger because declining interest rates aggravate the tendency for government debt to pile up in the banks and thus add to the inflation of credit.

While low interest rates may cheapen the cost to the taxpayer of carrying the Federal debt, they are a levy upon everyone who saves. They affect millions of people by making insurance more costly, by cutting the yield of savings deposits, trust, and pension funds, and by reducing the income of charitable and educational institutions. They contribute to a general lowering of investment standards and practices in the investors' search for income. They discourage individual thrift and are definitely inflationary in encouraging the flow of money into stocks, real estate and commodities. And when people cannot get a reasonable return on sound investments they turn to riskier ones. Those of us in the securities business see every day money going into highly speculative stocks that ought to be going into government bonds. The longer this continued driving down of interest rates is countenanced and accelerated by official policies, the more trouble we are storing up for ourselves in the future.

I sometimes wonder whether the profound change in the past 20 years in the return on capital is appreciated. Today a greater amount of capital and savings is at work than at any time anywhere in history. Over-all figures are not available, but examination of the interest rate on public and private securities, the rate of return on public utilities, and the average rate of profit on the investment in business by and large shows that the average rate of return is strikingly low.

Our generation has witnessed the evils of extreme inflation and deflation. We could hardly devise a more certain way than a repetition of either to insure the desertion of the middle class—the stabilizer of our society—from its loyalty to our traditions.

Tax Changes Called For

At the same time, those responsible for the policies which are inviting inflation must be aware that the danger can best be minimized by increased production of goods. To discourage production because of doubt over the exact profits that might result could precipitate further maladjustments, because consumers in a buying mood will buy.

Our tax structure has developed piecemeal and reflects attempts to meet emergencies. Specifically, the tax system seems to be geared toward the penalizing of venture capital in its treatment of interest, profits, and dividends, as well as capital gains. Our tax system has encouraged the constant tendency to invest funds directly, or through financial institutions, in fixed interest obligations. But interest, in the end, must be paid from the results of economic activity, and the activity will not be undertaken unless the risk-takers have some encouragement.

Prerequisites for a Healthy Economy

If I were asked to list the prerequisites to the establishment of a sound and healthy economy, I would put them down in this order:

1. Assurances of a balanced Federal budget and the end of deficit financing.

2. A definite program of debt retirement.

3. Tax legislation that would encourage the flow of capital into productive enterprise.

4. A national labor policy under which the employer and the employee could expect to be treated as equals.

5. The development of a friendly attitude on the part of Government toward business.

A prosperous nation will assure to our Government abundant Federal revenues. In turn, adequate revenues and reasonable economies in Government are our best assurances of sound Government credit. Prosperity is geared to quantity and quality production of goods—the natural brake on rising prices. The private wealth of this country is more equitably and geographically distributed throughout the nation today than at any other time. It is in the fertile fields of production and profits that we plant the seed that encourages the orderly creation of wealth and the broadening of the invested capital base of the nation. Upon these cornerstones rests a healthy and vigorous economy.

Conclusion

In conclusion, may I leave one thought with you on the subject of inflation as it relates to the securities market. It is my opinion—and I realize that it conflicts with that of a great many people—that investment in common stocks and other securities is sound only to the extent that the dangers of inflation are avoided. Nothing that is bad for the economy of this country is good for securities and anything that is good for America is good for the shares in American industry. Sound values in business rest on a healthy national life. In the event of disastrous inflation, the stock market will provide no storm cellar of protection and American corporations will suffer along with the rest of the American people. That is why we are so anxious that intelligent measures for the prevention of further inflation be adopted without delay.

Hemphill Noyes Admit

Hemphill, Noyes & Co., 15 Broad Street, New York City, members of the New York Stock Exchange and other Exchanges, will admit Jansen Noyes, Jr. and Nixon Griffis to limited partnership in the firm on Feb. 14th.

Wants Advertising to Aid Sound Economy

(Continued from page 714)

concerned with whether wages and other costs are up or down as much as with achieving a level of costs at which goods will freely move to market. Management strives to achieve a cost level and hence a price level which customers will approve, and in trying to control costs and to remain competitive, management is trying to bridge the gap from a war economy to a peace economy."

Mr. Rukeyser continued, "We are all specialists and we live by trading our specialities for the creations and productions of other men. The way to get a high level of employment and a high level of volume is to have balanced economic relationships, so that the producing groups in agriculture and industry and trade can give employment to one another through exchanging the products of their year's labor, so the balance and equilibrium of modern delicately adjusted society become of prime importance.

"When we are unbalanced there are difficulties in trading. The arteries of trade are blockaded and we have reduced employment and reduced earnings and reduced sales volume.

"Under an abnormal wartime system," the economist pointed out, "it was not necessary to have the groups in balanced income relationships, so they could give employment to one another by interchanging the goods produced. They weren't producing for the market. They were producing for a special purpose—for one big customer, Uncle Sam, who gave nothing in return for what he took except IOU's."

Mr. Rukeyser added, "What is involved in the current wage discussions, is not merely moderation or immoderation in the abstract. The real question is, at what level will goods and services freely circulate through the arteries of commerce, so that trade can be carried on a level of activity conducive to the highest possible living standards for 35 million American families. It would not make any substantial difference if you raised everybody's wage rates simultaneously 30%; it would be merely an inflationary gesture. But if you raise some 30% and others not at all and thus get some groups out of balance with other groups, you have blockaded markets; you have made it difficult for goods to circulate freely, and in spite of all the nice words on full employment, you will have impeded employment."

The economist concluded, "In this period when you are going to have shortages of goods and the demand for many products will exceed the supply, it is not necessary to use advertising only to sell products. In this transitional period you should use advertising also to help adjust men's minds to the changes that are taking place, and if you use advertising to sell the business as well as the product, to sell the American Way of Life as well as the products, you will be reducing the costs of operating any business, because you will be dissipating the psychological obstacles which come from misunderstanding and demagogy and wrong education."

Longua to Manage Dept. for Minsch Monell

Minsch, Monell & Co., 115 Broadway, New York City, members of the New York Stock Exchange, announce that William C. Longua, recently released from active service in the Army, has become associated with the firm as manager of the stock department.

Calendar of New Security Flotations

NEW FILINGS

List of issues whose registration statements were filed less than twenty days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.

SATURDAY, FEB 9

FARNSWORTH TELEVISION & RADIO CORP. on Jan. 21 filed a registration statement for 219,571 shares of common stock, par $1.

Details—See issue of Jan. 24.

Offering—The company is offering 219,571 shares of its common stock to all the holders of its common stock and to the holders of certain options for subscription on the basis of one share for each seven shares of common held at the close of business Feb. 9, at a price to be filed by amendment.

Underwriters—E. H. Rollins & Sons, Inc., and Eastman, Dillon & Co., are named principal underwriters.

VIRGINIA DARE STORES CORP. on Jan. 21 filed a registration statement for 90,000 shares of common stock, par $1.

Details—See issue of Jan. 24.

Offering—The price to the public is $5 per share.

Underwriters—The group is headed by Newburger & Hano; Kobbe, Gearhart & Co., Inc. and D. Gleich Co.

SUNDAY, FEB. 10

CONSOLIDATED INDUSTRIES, INC. on Jan. 22 filed a registration statement for 120,000 shares 6% cumulative convertible preferred stock, par $5 and 120,000 shares common stock, par 10 cents per share.

Details—See issue of Jan. 24.

Offering—The stock is being offered in units of one share of preferred and one share of common at $5 per unit.

Underwriters—Kobbe, Gearhart & Co., Inc., and Newburger & Hano are named principal underwriters.

FORT WAYNE CORRUGATED PAPER CO. on Feb. 22 filed a registration statement for 44,072 shares of cumulative convertible preferred stock (par $25) and 110,848 shares of common (par $10). Of the common registered, 66,776 are reserved for conversion of the preferred.

Details—See issue of Jan. 31.

Offering—The price to the public on the 44,072 shares of preferred and 44,072 shares of common will be filed by amendment.

Underwriters—E. H. Rollins & Sons, Inc., heads the underwriting group.

ROBERT GAIR CO., INC., on Jan. 22 filed a registration statement for 410,481 shares of common stock, par $1.

Details—See issue of Jan. 31.

Offering—The company is offering the new stock to common stockholders of record of a date to be set in February, on the basis of one share for each three shares of common held at a price to be filed by amendment.

Underwriters—The principal underwriters are Ladenburg, Thalmann & Co., and Lazard Freres & Co.

MONDAY, FEB. 11

ANDERSON-PRICHARD OIL CORP. on Jan. 23 filed a registration statement for 80,000 shares 4¼% cumulative convertible preferred stock, $50 par, and 425,000 shares common stock, par $10. All of the common shares are issued and are being sold by certain stockholders.

Details—See issue of Jan. 31.

Offering—The prices to the public of the preferred and common stocks will be filed by amendment.

Underwriters—Glore, Forgan & Co. heads the underwriting group.

TUESDAY, FEB. 12

A. E. STALEY MANUFACTURING CO. on Jan. 24 filed a registration statement for 50,000 shares of cumulative preference stock, $3.75 series.

Details—See issue of Jan. 31.

Offering—The company is offering to holders of its 46,977 shares of outstanding cumulative preferred stock, $5 series, the right to exchange such shares, on or before Feb. 20, 1946, on a share for share basis, for the preferred plus a cash payment by the company of $1.37½ for each share exchanged. The shares of $3.75 series not taken in exchange, together with 3,023 shares not being offered in exchange, are to be purchased by the underwriters. The offering price to the public is $105 per share.

Underwriters—Smith, Barney & Co. and The First Boston Corp. are named principal underwriters.

MEAD CORP. on Jan. 24 filed a registration statement for 7,000 shares of $5.50 cumulative preferred stock, series B, with common stock purchase warrants attached and 14,000 shares of common stock (no par).

Details—See issue of Jan. 31.

Offering—The company will offer to all holders of the common stock of Columbian Paper Co. one-half share of $5.50 cumulative preferred, Series B, with warrants for purchase of common stock, and one share of common stock for each share of Columbian common stock, in each case with all dividends paid or payable thereon by Columbian during the period of the offer.

Underwriters—The offer is not being underwritten.

CARPENTER PAPER CO. on Jan. 24 filed a registration statement for 15,000 shares of 4% convertible preferred stock, par $100, and 25,900 shares of common stock, par $1.

Details—See issue of Jan. 31.

Offering—Of the preferred stock, 10,000 shares are being offered by the company in exchange, share for share, to holders of its outstanding 4½% cumulative preferred stock. The remaining 5,000 shares and unexchanged preferred shares purchased by the underwriters are to be initially offered to the public at a price to be filed by amendment. Of the common stock registered, 5,000 shares are being offered by the company to certain of its officers and employees at a price to be filed by amendment. Such shares are not underwritten. The remaining 20,900 shares are being offered by underwriters at a price to be filed by amendment.

Underwriters — Kirkpatrick-Pettis Co., Omaha, Neb., is named principal underwriter.

THE McBEE CO. on Jan. 24 filed a registration statement for 98,000 shares of common stock, par $5. Of the total, 28,000 shares are being sold by certain stockholders.

Details—See issue of Jan. 31.

Offering—The price to the public will be filed by amendment.

Underwriters—Burr & Co., Inc., New York, is principal underwriter.

WEDNESDAY, FEB. 13

EBALOY, INC. on Jan. 25 filed a registration statement for 75,000 shares of common stock, par $1.

Details—See issue of Jan. 31.

Offering—The price to the public is $8 per share.

Underwriters — Webber-Simpson & Co., Chicago, is named principal underwriter.

COLORADO CENTRAL POWER CO. on Jan. 25 filed a registration statement for 43,750 shares of common stock, par $10. The shares, which are all of the issued and outstanding shares of Colorado Central, are owned by Crescent Public Service Co.

Details—See issue of Jan. 31.

Offering—The shares are to be offered by Crescent for sale at competitive bidding and the offering price will be filed by amendment.

Underwriting—The names of the underwriters will be filed by amendment.

SATURDAY, FEB. 16

COMMONWEALTH TITLE CO. of Philadelphia on Jan. 28 registered 20,000 shares of preferred stock, par $100. The shares are issued and outstanding and are being sold by present stockholders. The dividend rate will be filed by amendment.

Details—See issue of Jan. 31.

Offering—The price to the public will be filed by amendment.

Underwriters—The names of the underwriters will be filed by amendment.

AIRLINE FOODS CORP. on Jan. 28 filed a registration statement for $1,000,000 5% sinking fund debentures, due Feb. 1, 1961, 100,000 shares of 5½% cumulative convertible preferred stock, (par $10), and 90,000 shares of common, (par $1).

Details—See issue of Jan. 31.

Offering—The offering prices to the public are as follows: debentures, 98%, preferred stock $10 and common stock $6.

Underwriters—Herrick, Waddell & Co., Inc., New York, is named principal underwriter.

GABRIEL CO. on Jan. 28 filed a registration statment for 120,000 shares of 5% cumulative convertible preferred stock (par $10).

Details—See issue of Jan. 31.

Offering—Price to the public is $10 per share.

Underwriters—Sills, Minton & Co., Inc., Chicago, is named principal underwriter.

SUNDAY, FEB. 17

HIGGINS, INC., has filed a registration statement for 900,000 shares of common stock, par $1, to be offered to public, and 300,000 shares issued in connection with acquisition of property.

Address—Higgins Industrial Canal Plant, Gentilly Boulevard, New Orleans, La.

Business—The principal business activities of the company will be the fabrication and sale of boats, including pleasure craft and commercial floating equipment. It will also manufacture automobile camp trailers. In addition, it will also produce certain other minor parts.

Offering—The price to the public is $11 per share, or a gross of $9,900,000. Underwriting discounts or commissions are placed at 90 cents a share, leaving net proceeds to the company of $10.10 a share or a total of $9,090,000. Higgins, Inc., was incorporated on Jan. 9, 1946. Andrew J. Higgins, acting on behalf of himself and associates, was active in the organization of the company. The statement points out the company is not to be confused with Higgins Industries, Inc., now in statutory liquidation. It is intended Higgins, Inc., shall acquire from Higgins Industries Inc. a portion of its business, plant and property for approximately $4,238,000 in cash and 300,000 shares of common stock, including the shares subscribed for by the incorporators, and 100,000 warrant shares entitling the holders to purchase 100,000 shares of common stock (the shares of common stock and the warrants being taken at an aggregate valuation of $3,040,000). The underwriters are also purchasing from the company at 10 cents per warrant share, warrants entitling holders to purchase 100,000 shares of common stock. The capitalization of the company is as follows: Common stock, ($1 par), 2,000,000 shares authorized, of which 1,200,000 will be outstanding and 200,000 warrants to purchase common stock all of which will be outstanding. Under date of Jan. 29, 1946, the company entered into employment contracts with Andrew J. Higgins and Morris Gottesman, for a period of five years from Jan. 1, 1946, at an annual compensation of not less than $80,000 and $35,000, respectively, plus, in each case, the right to share in any additional compensation based on bonus or profit sharing plans.

Proceeds—Of the net proceeds estimated at $9,031,800 after expenses, it is estimated $4,238,000 will be used in part payment for the assets and property to be acquired from Higgins Industries Inc. The balance amounting to $4,793,800 will be available, pending specific allocation, for general corporate purposes, including $600,000 to be spent for the new addition to the Industrial Canal plant if the Michoud plant cannot be leased upon a permanent basis and $300,000 for purchase of additional machinery and equipment as well as $400.000 for the purchase of jigs, tools and dies and for working capital.

Underwriters—Van Alstyne, Noel & Co. heads the underwriting group, with names of others to be filed by amendment.

Registration Statement No. 2-6120. Form S-1. (1-29-46).

BURRY BISCUIT CO. has filed a registration statement for 100,000 shares $1.25 convertible preferred stock, par $20.

Address—925 Newark Avenue, Elizabeth, N. J.

Business—Biscuits, crackers, wafers, etc.

Offering—The price to the public is $26.50 per share.

Proceeds—Assuming that only a nominal sum will be required for the redemption of shares of prior preferred stock not converted into common stock, approximately $500,000 of the net proceeds is expected to be used for plant expansion, including the purchase of new manufacturing equipment. Any balance will be added to working capital.

Underwriters—The underwriting group is headed by Van Alsyne, Noel & Co., N. Y., and Carlton M. Higbie Corp., Detroit.

Registration Statement No. 2-6121. Form S-1. (1-29-46).

YOUNG RADIATOR CO. has filed a registration statement for 100,000 shares of common stock, par $1. The company is also registering 40,000 shares of common reserved for issuance upon exercise of warrants.

Address—709 South Marquette Street, Racine, Wis.

Business—Heat transfer products adaptable for either heating or cooling systems used in the automotive, industrial and aeronautical fields.

Offering—The price to the public is $8.25 per share. Of 40,000 warrants to purchase common stock at $8.25 per share prior to Feb. 1, 1951, 20,000 were issued to stockholders on recapitalization and 20,000 are being sold to underwriters at 10 cents per warrant share.

Proceeds—Of the proceeds from the sale of 100,000 shares of common and 20,000 common stock purchase warrants, $557,522 will be used to reimburse the company's treasury for paying in full the balance of notes payable to banks and $166,250 to pay the redemption price on the call of 1,250 shares of 7% cumulative preferred stock, par $100, including premiums in the amount of $6,250 and accumulated dividends of $35,000, and $86,093 for payment of stockholders' notes in that amount. In addition to redeeming the 1,250 shares of preferred, the company plans to amend its certificate of incorporation to reclassify its 2,500 shares of common without par value into 125,000 shares of common stock, par $1, and warrants entitling the holders to purchase at $8.25 per share, an aggregate of 20,000 shares of common, $1 par, on the basis of the issuance of 50 new shares of common and warrants to purchase 8 new shares of common for each old share of common without par value, and to increase the number of common shares, $1 par, which the company was authorized to issue from 125,000 shares to 500,000 shares.

Underwriters—The group is headed by Van Alstyne, Noel & Co.

Registration Statement No. 2-6122. Form S-2. (1-29-46).

REGAL SHOE CO. has filed a registration statement for 425,000 shares of common stock, $1 par, of which 325,000 shares are being presently offered for sale for cash and 100,000 shares are reserved for issuance upon the exercise of warrants.

Address—401 South Avenue, Whitman, Mass.

Business—Manufacture and sale of shoes through a chain of 64 retail stores.

Offering—The price to the public is $6 per share. In addition to the 300,000 shares being offered by the underwriters, the company is selling 25,000 shares direct.

Proceeds—The net proceeds to the company are estimated at $1,625,902 to which will be added the proceeds from a $500,000 bank loan. Of the total, $1,532,500 will be used to reimburse the company treasury in part for retiring its preferred stock, $997,500 for acquiring 17,500 shares of common stock, total $2,530,000. The balance of approximately $414,000 will be provided by corporate funds.

Underwriters—Van Alstyne, Noel & Co. and Cohu & Torrey are named principal underwriters.

Registration Statement No. 2-6123. Form S-1. (1-29-46).

KEYSTONE CUSTODIAN FUNDS, INC., has filed a registration statement for 500,000 shares certificates series B-1.

Address — 50 Congress Street, Boston, Mass.

Business—Investment trust.

Offering—At market.

Proceeds—For investment.

Sponsor—Keystone Custodian Funds, Inc.

Registration Statement No. 2-6124. Form C-1. (1-29-46).

KEYSTONE CUSTODIAN FUNDS, INC., has filed a registration statement for 150,000 shares of certificates of participation in series B-2.

Address — 50 Congress Street, Boston, Mass.

Business—Investment trust.

Offering—At market.

Proceeds—For investment.

Sponsor—Keystone Custodian Funds, Inc

Registration Statement No. 2-6125. Form C-1. (1-29-46).

KEYSTONE CUSTODIAN FUNDS, INC., has filed a registration statement for 500,000 shares certificates of participation, series S-2.

Address — 50 Congress Street, Boston, Mass.

Business—Investment trust.

Offering—At market.

Proceeds—For investment.

Sponsor—Keystone Custodian Funds, Inc

Registration Statement No. 2-6126. Form C-1. (1-29-46).

KEYSTONE CUSTODIAN FUNDS, INC., has filed a registration statement for 500,000 shares certificates of participation, series S-3.

Address — 50 Congress Street, Boston, Mass.

Business—Investment trust.

Offering—At market.

Proceeds—For investment.

Sponsor—Keystone Custodian Funds, Inc

Registration Statement No. 2-6127. Form C-1. (1-29-46).

UNITED STATES RADIATOR CORP. has filed a registration statement for 92,344 shares of common stock, par $1.

Address—1500 United Artists Building Detroit, Mich.

Business—Cast iron heating boilers and cast iron radiators, etc.

Offering—The company has granted to holders of its common stock rights to subscribe for not exceeding 92,344 shares of common at a price to be filed by amendment at the rate of one new share for each 2½ shares held. Unsubscribed shares will be purchased by underwriters and offered to the public at a price to be filed by amendment.

Proceeds—Net proceeds will be added to working capital. The company pointed out additional working capital is needed to meet anticipated post-war growth. In addition to the proceeds from a bank loan of $1,400,000, approximately $285,000 will be needed to pay or redeem the $1,664,000 5% debentures due Aug. 1, 1946. The registration statement is in connection with a plan of recapitalization and refinancing which is to be recommended by the directors to the stockholders. In addition to the payment or redemption of the 5% debentures and the increase in working capital, the plan provides for the discharge of accrued arrears of dividend on the 42,096 shares of 6% cumulative preferred, which as of Feb. 1, 1946, amounted to $22.50 per share, or a total of $947,160 by the reclassification of each share of 6% preferred into 1.45 shares of a new 5% cumulative preferred stock. The plan is to be mailed to stockholders under date of Feb. 7, 1946, and will be acted on at a special meeting of stockholders to be held on March 1, 1946.

Underwriters—To be filed by amendment.

Registration Statement No. 2-6123. Form S-1. (1-29-46).

MORRIS PLAN CORP. OF AMERICA has filed a registration statement for 100,000 shares of preferred stock, series A, with common stock purchase warrants attached, par $1, and 150,000 shares of common, 10 cents par value. The dividend rate on the preferred will be filed by amendment. The statement covers 200,000 additional shares of common reserved against warrants.

Address — 420 Lexington Avenue, New York, N. Y.

Business—Parent of the Morris Plan Insurance Society and of a group of Morris Plan Banks and companies.

Offering—The price to the public will be filed by amendment.

Proceeds—Of the proceeds the company is committed to utilize $2,100,000 for retirement of bank loans, and while not committed contemplates utilizing part of the proceeds as follows: For investment in subsidiaries: Industrial Bank of Commerce $1,400,000, American Installment Credit Corp. $500,000, Industrial Insurance Corp. $450,000. The remainder will be used for working capital and for expansion of the business of the company and its subsidiaries.

Underwriters—To be supplied by amendment.

Registration Statement No. 2-6129. Form S-1. (1-29-46).

LOGANSPORT DISTILLING CO., INC., has filed a registration statement for 185,000 shares common stock, $1 par.

Address—2800 Girard Trust Co. Building Philadelphia, Pa.

Business—Distilled spirits business.

Offering—The price to the public will be filed by amendment.

Proceeds—The cash proceeds from the sale of the common stock and from the private sale of 6,500 shares of 4½% cumulative convertible preferred stock will be applied as follows: to retire 6,410 shares 5% preferred at $105 per share $673,050; to reduce bank loans $1,000,000; to purchase all outstanding capital stock of Penndale Distilling Co. $247,716; for additional facilities $470,000, and balance to working capital.

Underwriters — Lehman Brothers head the underwriting group.

Registration Statement No. 2-6130. Form S-1. (1-29-46).

MONDAY, FEB. 18

UNIVERSAL PICTURES CO., INC., has filed a registration statement for 60,000 shares of 4¼% cumulative preferred stock, par $100.

Address—1250 Avenue of the Americas, New York, N. Y.

Business—Production of motion pictures.

Offering—The price to the public will be filed by amendment.

Proceeds—Of the proceeds $1,400,000 will be used to purchase under an agreement dated Nov. 26, 1945, all of the $1,300,000 par value of 4% non-cumulative not voting preferred stock and one-half of the common stock of a new production company to be organized. William Goetz and Leo Spitz have agreed to purchase the other one-half of the common stock of the new production company for $100,000. Mr. Goetz is President and Mr. Spitz, Chairman, of International Pictures, Inc., a motion picture production corporation not affiliated with Universal. Other proceeds may be used to make advances to the new production company aggregating $2,500,000 and improvements to studio property of $1,500,000 to $2,000,000, during the next three years.

Underwriters—Dillon, Read & Co., Inc. heads the underwriting group.

Registration Statement No. 2-6131. Form A-2. (1-30-46).

M. LOWENSTEIN & SONS, INC., has filed a registration statement for 475,000 shares of common, par $1, 80,000 shares of cumulative preferred, series A, par $100 and common stock purchase warrants to purchase 50,000 shares of common. The company is offering 49,017 shares of preferred.

Address—43 Leonard Street, New York, N. Y.

Business—Process raw cotton into grey goods, convert and bleach, print or dye cotton grey goods into finished cotton and rayon fabrics and merchandising of such fabrics.

Offering—The prices will be filed by amendment.

Proceeds—The company will receive the proceeds from the sale of 49,017 shares of preferred and certain stockholders will receive the proceeds from sale of 325,000 shares of common. In addition to the securities which are being offered by the underwriters, certain of the selling stockholders are offering an aggregate of 100,000 shares of common to certain stockholders and employes of the company, and the company is reserving 50,000 shares of common for issuance upon the exercise of warrants to be purchased by Eastman, Dillon & Co. Of the proceeds, $3,080,000 will be used to reimburse the treasury of the company for $3,000,000 paid on Jan. 14, 1946, to Merrimack Manufacturing Co., Boston, for the purchase of Merrimack's mill property at Huntsville, Ala., and any balance will be used in the company's expansion program.

Underwriters—Eastman, Dillon & Co.

Registration Statement No. 2-6132. Form S-1. (1-30-46).

TUESDAY, FEB. 19

TRUSTEED FUNDS, INC., has filed a registration statement for 3,334 plans A, 3,334 plans B, and 1,800,000 theoretical units of Commonwealth Fund Indenture of trust plans A and B.

Address—33 State Street, Boston, Mass.

Business—Investment trust.

Offering—At market.

Proceeds—For investment.

Investment Managers—Studley, Shupert & Co., Inc.

Registration Statement No. 2-6133. Form C-1. (1-31-46).

ELFUN TRUSTS has filed a registration statement for 80,000 units trustees' certificates, stated value $25 per unit.

Address—57 Lexington Ave., New York, N. Y.

Business—Trust fund.

Offering—As at the close of business Dec. 31, 1945, the number of units in Elfun Trusts represented by all trustees' certificates then outstanding was increased fourfold by changing the stated value of each unit from $100 to $25. The Trusts offer for cash subscription by those eligible to participate in the trusts, 80,000 units of a stated value of $25 per unit. Participation in the Elfun Trusts will, in general, be limited to the list of executives, officials, leading employees and former employees of General Electric Co. or its subsidiary controlled companies, and to trustees of certain profit-sharing trusts. General Electric is not a party to the trust agreement.

Registration Statement No. 2-6134. Form S-5. (1-31-46).

WEDNESDAY, FEB. 20

BURLINGTON MILLS CORP. has filed a registration statement for 50,000 shares of preferred stock, par $100, and 100,000 shares of convertible second preferred, par $100. The dividend rates will be filed by amendment.

Address—Greensboro, N. C.

(Continued on page 754)

Calendar of New Security Flotations

(Continued from page 753)

Business — Woven and knitted fabrics from rayon, other synthetic yarns and combinations, and nylon, and, to some extent, in the manufacture and sale of cotton yarns and fabrics from cotton yarns and from combinations of cotton yarns and other yarns.

Offering—The 100,000 shares of convertible second preferred will be initially offered by the corporation to holders of its common stock in the ratio of three-fiftieths of a share of convertible preferred for each share of common held of record on Feb. 14, 1946, at a price to be filed by amendment. The underwriters will purchase any shares of convertible preferred not subscribed for and offer them along with the 50,000 shares of preferred at prices to be filed by amendment.

Proceeds—The net proceeds will initially become part of the corporation's general funds and as such may be applied to any corporate purpose. Such corporate purposes are expected to include, among other things, expenditures of more than $8,000,000 in 1946 and 1947 for additions and improvements to plant and equipment. The corporation also contemplates that additional expenditures will be made in the future for acquisitions of businesses operating in the textile field.

Underwriters — Kidder, Peabody & Co. head the underwriting group.

Registration Statement No. 2-6135. Form A-2. (2-1-46).

SATURDAY, FEB. 23

UNIVERSAL WINDING CO. has filed a registration statement for 119,400 shares of common stock, par $5 and 10,000 common stock purchase warrants. The shares registered include 70,000 shares being sold by the company, 39,400 being sold by certain stockholders and 10,000 issuable on exercise of warrants.

Address—1655 Elmwood Avenue, Cranston, R. I.

Business — Production of winding machines.

Offering—The offering includes 109,400 shares of common on which the price to the public will be filed by amendment.

Proceeds—The 39,400 shares are being offered by 52 stockholders who will receive the proceeds. On Jan. 3, 1946, the company made a loan of $1,000,000 payable in ten years, a portion of the proceeds of which was used to pay the entire outstanding five year loan which at Dec. 15, 1945, totaled $323,092. On Jan. 28, 1946, the company amended its charter to reduce the par value of the common stock to $5 from $100 per share, and increase the number of authorized shares from 20,000 to 400,000, and issue new $5 par common for the outstanding $100 par shares in the ratio of 15 for one. Of the net proceeds the company may use to extent of $300,190 to redeem its outstanding 2,729 shares of 7% cumulative preferred at $110 a share plus accrued dividends, or the company may use the entire proceeds together with $325,000 of the $1,000,000 loan for research, experimental and development work, for additional manufacturing facilities, for additional working capital and for other corporate purposes.

Underwriters—Reynolds & Co. heads the group.

Registration Statement No. 2-6136. Form S-2. (2-4-46).

STANDARD MILLING CO. has filed a registration statement for $2,500,000 15-year sinking fund debentures, due Feb. 1, 1961, and 357,500 shares of common, par $1. The interest rate will be filed by amendment.

Address—309 West Jackson Boulevard, Chicago, Ill.

Business — The company, originally named Bengel Milling Co., was incorporated last October in Illinois, and subsequently changed its name to Standard Milling Co. It was organized to acquire the operating properties and certain other assets of Standard Milling Co., a Delaware corporation. The selling corporation, which is a subsidiary of The Best Foods, Inc., has changed its corporate name to Bestrit Incorporated.

Offering—The offering prices to the public of the debentures and common shares will be filed by amendment.

Proceeds—All of the net proceeds, together with the proceeds of bank loans to be made concurrently with the sale by the company of the debentures and common stock, are to be used to pay the purchase price of the selling corporation's milling business; for additional packing and conveying machinery and equipment in the flour mills at Kansas City, Kan., and Minneapolis, at a cost of approximately $300,000, and to provide working capital. It is estimated that the bank loans will be approximately $3,000,000, and that approximately $1,810,000 will go into the company's general treasury.

Underwriters—Stone & Webster Securities Corporation is named principal underwriter.

Registration Statement No. 2-6137. Form S-1. (2-4-46).

THE KNICKERBOCKER FUND FOR THE DIVERSIFICATION, SUPERVISION AND SAFE-KEEPING OF INVESTMENTS has filed a registration statement for 1,000,000 shares of beneficial interest.

Address—c/o Knickerbocker Distributors, Inc., 20 Exchange Place, New York, N. Y.

Business—Knickerbocker Fund is registered under the Investment Company Act of 1940 as a diversified, management investment company of the open-end or continuous offering type.

Offering—At market.

Proceeds—For investment.

Underwriters — Knickerbocker Shares, Inc., 20 Exchange Place, N. Y., is the principal underwriter.

Registration Statement No. 2-6138. Form S-5 (1-4-46).

UNION WIRE ROPE CORP. has filed a registration statement for 42,000 shares capital stock, without par value.

Address—21st and Manchester Avenue, Kansas City, Mo.

Business—Manufacture and fabrication of high carbon wire products, rope wire and wire rope.

Offering—The company will offer the 42,000 shares for a period of two weeks after the effective date of their registration for sale to stockholders at the price of $15.50 per share. The shares not purchased by the stockholders will be offered for sale to the public by the underwriter at the same price of $15.50 per share.

Proceeds—The estimated net proceeds, after deduction of expenses, is $570,255, of which it is intended approximately $250,000 will go into increased inventory and the balance used for cash working capital.

Underwriters—P. W. Brooks & Co., Inc., New York.

Registration Statement No. 2-6139. Form S-1. (2-4-46).

NATIONAL DISTILLERS PRODUCTS CORP. has filed a registration statement for 379,894 shares of common stock (no par).

Address—120 Broadway, New York, N. Y.

Business—Distilling, blending, rectifying, warehousing, bottling, buying, selling, exporting and importing of alcoholic beverages.

Offering—The stock is being offered by the company for subscription to the holders of its common stock, pro rata, at the rate of one-sixth of one share for each share held at a price to be filed by amendment. Unsubscribed shares will be offered to the public by underwriters at a price to be filed by amendment.

Proceeds—Of the net proceeds, $18,500,000 will be used to pay off $18,500,000 of bank notes, and the balance will be placed in the general funds of the company and used for general corporate purposes.

Underwriters—The group is headed by Glore, Forgan & Co. and Harriman Ripley & Co., Inc.

Registration Statement No. 2-6140. Form A-2. (2-4-46).

CITY OF MONTREAL, CANADA, has registered $85,980,000 debentures, dated Feb. 1, 1946, to mature serially in various amounts on Nov. 1 of each year 1947 through 1975. The interest rate will be filed by amendment.

Offering—The offering price to the public will be filed by amendment.

Proceeds—The proceeds will be applied to the redemption on May 1, 1946, of $80,758,213 principal amount, of its series A and series B debentures, dated May 1, 1944, and maturing at various dates up to 1972, all payable, at the option of the holder, in United States dollars. The total redemption price of the old debentures, including accrued interest, is $87,781,657, U. S. currency, and to the extent that the proceeds of the sale of the new debentures are not sufficient to pay the full redemption price of the old debentures, additional funds are to be supplied by the city from its other resources. Carrying out of the proposed refunding will very substantially reduce the interest requirements and other charges on the city's debt.

Underwriters—The principal underwriters are Harriman Ripley & Co., Inc., Smith, Barney & Co., First Boston Corporation, Dominion Securities Corporation, Wood, Gundy & Co., Inc., A. E. Ames & Co., Inc. and McLeod, Young, Weir, Inc.

Registration Statement No. 2-6141. (2-4-46).

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.

ADOLF GOBEL, INC., on Jan. 10 filed a registration statement for 412,899 shares of common stock, par $1. The shares are issued and outstanding and are being sold on behalf of the Adolf Gobel, Inc. Syndicate.

Details—See issue of Jan. 17.

Offering—The common stock is being offered for sale to the public on the New York Curb Exchange on behalf of the Adolf Gobel, Inc., Syndicate. The securities will be sold through regular market channels over the New York Curb Exchange at the best price obtainable in small lots so as not to unduly depress the market. The proposed stock offering constitutes 63.9% of the company's outstanding common stock. There are 12 members in the syndicate.

Underwriters—No underwriting discounts and commissions are being paid.

AMERICAN POTASH & CHEMICAL CORP. on Dec. 28 filed a registration statement for 479,726 shares of capital stock (no par). The shares are issued and outstanding and are being sold by the Alien Property Custodian who directed the company to file the registration statement.

Details—See issue of Jan. 3.

Underwriters—The Alien Property Custodian proposes to sell the 479,726 shares of stock at public sale to the highest qualified bidder. If any such bid is accepted and if the successful bidder plans to distribute the shares the prospectus will be amended to include the requisite additional information. The shares to be offered constitute 90.79% of the 528,390 shares outstanding.

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.

A. P. W. PRODUCTS CO., INC., on Jan. 4 filed a registration statement for certificates of deposit of $2,000,000 first mortgage and collateral trust 20-year 6% sinking fund bonds due April 1, 1948.

Details—See issue of Jan. 10.

Extension Offer—See below. The deposit of securities is desired as a preliminary step in connection with an offer of extension to holders of first mortgage and collateral trust 20-year 6% sinking fund bonds for the extension of the maturity date to April 1, 1966, and the reduction in the rate of interest to 5% per annum.

A. P. W. PRODUCTS CO., INC., on Jan. 4 registered $2,000,000 first mortgage and collateral trust 20-year 5% sinking fund bonds and 80,000 shares ($5 par) capital stock.

Details—See issue of Jan. 10.

Offering—The company offers to the holders of its $2,000,000 first mortgage and collateral trust 20-year 6% sinking fund bonds due April 1, 1948, the privilege of assenting to the extension offer providing for the extension of the maturity date to April 1, 1966, the reduction of the rate of interest to 5% per annum, the reduction par common stock per each $1,000 ex- of the principal amount of each $1,000 bond to $900 and to receive in consideration of such extension and debt reduction, without payment therefor, 20 shares of $5 tended bond. Those assenting to the extension also will receive detachable warrants entitling the holders up to April 1, 1955, to purchase 20 shares of $5 par common per each $1,000 bond at the price of $6.25 or $7.50 per share, depending upon the date of deposit. The first date on which bonds may be deposited under the extension offer will be Feb. 1, 1946, and the extension offer will expire on March 1, 1946, or such later date as the company may fix. Bonds which are not assented to the extension offer are subject to redemption on April 1, 1948, or earlier at the option of the company, at $1,025 for each $1,000 principal amount of bonds.

Underwriters—No underwriting.

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.

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.

CHESGO MINES, LTD., on Dec. 26 filed a registration statement for 1,250,000 shares of $1 par value stock, non-assessable.

Details—See issue of Jan. 3.

Offering—The public offering price is 35 cents per share.

Underwriters—W. R. Manning & Co., Toronto, Ontario, Canada.

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 is offered to common stockholders of record Jan. 12 1946 at $10 per share in the ratio of one share for each four shares held. Rights expire Feb. 15 and subscriptions are payable at National Bank & Trust Co. Chicago.

Underwriters—None mentioned.

DOYLE MANUFACTURING CORP. on Jan. 11 filed a registration statement for 50,000 shares of 60-cent cumulative convertible preferred stock, series A, par $8, and 100,000 shares of common, par $1. The common shares are reserved for issuance upon conversion of the preferred on the basis of two shares of common for one share of preferred.

Details—See issue of Jan. 17.

Offering—The offering price of the preferred will be $10 per share.

Underwriters—To be filed by amendment.

EASTERN COOPERATIVE WHOLESALE, INC. on Dec. 29 registered 20,000 shares of 4% cumulative dividend non-voting preferred stock, series A ($25 par).

Details—See issue of Jan. 10.

Offering—Price to the public $25 per share. Securities are being sold by the cooperative directly to stockholders and friends interested in the cooperative movement without the interposition of any underwriter.

Underwriters—None.

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.

FEDERATED DEPARTMENT STORES, INC., on Jan. 10 filed a registration statement covering 151,694.15 shares of common stock, no par value.

Details—See issue of Jan. 17.

Offering—Of the securities registered, 151,694.15 shares of common of Federated are to be offered in exchange for common stocks of Wm. Filene's Sons Co., Abraham & Straus, Inc., Bloomingdale Bros., Inc., and F. and R. Lazarus & Co., subsidiaries of Federated. As to 94,035 shares to be offered, Federated is to receive 156,725 shares of Filene's common stock, at a price per unit of 1⅔ shares of Filene's common. As to 30,486 shares, Federated is to receive 15,243 shares of Abraham & Straus common, at a price per unit of ½ of a share of Abraham common. As to 23,588 shares, Federated is to receive 31,451 shares of Bloomingdale common, at a price per unit of 1⅓ shares of Bloomingdale common. As to 3,584 shares, Federated is to receive 3,259 shares of Lazarus common at a price per unit of 10/11 of a share of Lazarus common. Of the 151,694.15 shares registered, 116,315 shares were previously registered and became effective Sept. 6, 1943, to be offered in exchange for common stocks of Filene's, Abraham & Straus, Bloomingdale and Lazarus, subsidiaries of the registrant. The registrant is filing with the Commission a post-effective amendment of former registration statement, deregistering the 116,315 shares with the request that the amendment become effective simultaneously with the present registration statement becoming effective.

FLORIDA PUBLIC UTILITIES CO. on Jan. 9 filed a registration statement for 6,000 shares 4¾% cumulative preferred stock, par $100. The stock is issued and outstanding and does not represent new financing by the company.

Details—See issue of Jan. 17.

Offering—The price to the public is $103 per share.

Underwriters — The underwriters are Starkweather & Co.; Clement A. Evans & Co., Inc.; Robinson-Humphrey Co.; Leedy, Wheeler & Co., and Stockton Broome & Co.

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.

By amendment filed with the SEC the preferred stock has been eliminated and the number of common shares has been reduced to 79,590, of which 16,590 shares will be sold by certain stockholders to employees and others at $14 per share and 63,000 shares will be sold by certain stockholders to underwriters for public offering.

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.

GOLD CITY PORCUPINE MINES, LTD., on Jan. 4 filed a registration statement for 600,000 shares of common stock, $1 Canadian currency par value each.

Details—See issue of Jan. 10.

Offering—The company is offering its common stock to the public at 50 cents United States currency per share. If the company accepts offers from dealers to purchase the stock, the company will sell to such dealers, if any, at 32.5 cents U. S. currency per share for resale at 50 cents U. S. currency per share. The estimated proceeds to be raised by the company is $300,000 U. S. currency maximum, and $195,000 U. S. currency minimum, if all the shares are sold by dealers, and assuming in any event that all the shares are sold.

Underwriters — No underwriters named.

GULF ATLANTIC TRANSPORTATION CO. on Jan. 17 registered 270,000 shares of common stock, par $1.

Details—See issue of Jan. 24.

Offering—The price to the public will be filed by amendment. The securities are being offered initially for a period of 15 days to present shareholders under preemptive rights at a price to be filed by amendment. The holders of approximately 200,000 shares have agreed to waive their preemptive rights. The underwriter will receive 50,000 five-year warrants to purchase common stock at a price to be filed by amendment. For these warrants the underwriter will pay the company 10 cents each or a total of $5,000.

Underwriters—The principal underwriter is Allen & Co., New York.

IOWA POWER & LIGHT CO. on Jan. 18 filed a registration statement for 50,000 shares of cumulative preferred stock, par $100. Dividend rate will be filed by amendment.

Details—See issue of Jan. 24.

Offering—The offering price will be filed by amendment. The preferred stock will be offered for sale by the company at competitive bidding.

Underwriters—To be filed by amendment.

McALEER MANUFACTURING CO. on Jan. 14 filed a registration statement for 50,000 shares 5% cumulative convertible preferred stock, par $10, and 50,000 shares of common, par $1.

Details—See issue of Jan. 17.

Offering—The price to the public will be $10 per share for the preferred and $5 per share for the common stocks.

Underwriters—The names of the underwriters will be filed by amendment.

NATIONAL MALLINSON FABRICS CORP. on Jan. 9 filed a registration statement for 123,460 shares of capital stock. The shares are issued and outstanding and are being sold by 19 selling stockholders.

Details—See issue of Jan. 17.

Offering—The price to the public will be filed by amendment.

Underwriters—Laird, Bissell & Meads will head the underwriters group.

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.

Registration Statement withdrawn Dec. 29, 1945.

PALESTINE ECONOMIC CORP. on Dec. 28 registered 20,000 shares of common stock, $100 par value.

Details—See issue of Jan. 3.

Offering—The offering price to the public is $100 per share.

Underwriting—No underwriting.

PHILIP MORRIS & CO., LTD., INC. on Jan. 16 filed a registration statement for $15,000,000 20-year 2½% debentures, due Feb. 1, 1966.

Details—See issue of Jan. 24.

Offering—The price to the public will be filed by amendment.

Underwriters — Lehman Brothers and Glore, Forgan & Co. head the underwriting group.

Public offering indefinitely postponed.

PORTLAND MEADOWS on Dec. 20 filed a registration statement for $900,000 in unsecured income notes due Jan. 1, 1971, providing for interest at the rate of 10% payable only from income.

Details—See issue of Jan. 3.

Offering—The offering is to be at par, with total net proceeds to the corporation placed at $900,000.

Underwriters—No underwriter named.

PRATT'S FRESH FROZEN FOODS, INC., on Jan. 16 filed a registration statement for 450,000 shares common stock, par $1, and 120,000 stock purchase warrants for one share of common stock, par $1, and the shares issuable upon exercise of such

Details—See issue of Jan. 24.

Offering—The price to the public is $6 per share. The company has agreed to sell to the underwriters an aggregate of 120,000 common stock purchase warrants and to two individuals, who rendered certain services in connection with the financing, an aggregate of 30,000 common stock purchase warrants, in each case at a price of one cent per warrant share. The warrants entitle holder to purchase stock at $6 per share.

Underwriters—R. H. Johnson & Co., New York, N. Y., is named principal underwriter.

PRINCESS SHOPS, INC., on Jan. 11 filed a registration statement for 40,000 shares 60-cent cumulative preferred stock, $5 par, and 40,000 shares of common stock, par 50 cents.

Details—See issue of Jan. 17.

Offering—The company has entered into an agreement with First Colony Corp. and Childs, Jeffries & Thorndike, Inc., whereby the company employs the underwriters as its agents to sell an aggregate of 40,000 shares of preferred and 40,000 shares of common in units of one share of preferred and one share of common at $11.25 per unit. The underwriters will offer 4,400 units to Louis Schwartz, President of the company, at $11.25, without any underwriting discount or commission. Also 2,000 units are to be offered to employees and 2,000 units to Edwin M. Reich, director and counsel, at a price of $10.40 per unit. A total of 31,600 units are to be offered for a period of 15 days to stockholders of the company at the price of $11.25 per unit on the basis of one unit for every two shares of common or preferred stock held.

Underwriters—First Colony Corp. and Childs, Jeffries & Thorndike, Inc.

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.

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.

RICH'S, INC., on Jan. 2 filed a registration statement for 11,070 shares of common stock (no par).

Details—See issue of Jan. 10.

Offering—The company will offer the stock to its common stockholders on the basis of one share for each 10 shares owned at the price of $70 per share.

Underwriters—None.

ROBERTS TOWING COMPANY on July 11 filed a registration statement for $500,000 serial 4½% equipment trust certificates.

Details—See issue of July 13.

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.

Registration Statement withdrawn Jan. 29.

SINCLAIR OIL CORP. on Dec. 26 filed a registration statement for 100,000 shares of common stock (no par). The shares are issued and outstanding and are being sold by a present stockholder.

Details—See issue of Jan. 3.

Offering—The price to the public will be filed by amendment. The statement says shares purchased upon the initial offering will carry the right to receive the dividend of 25 cents per share which has been declared payable on Feb. 15, 1946, to stockholders of record Jan. 15, 1946.

Underwriters—To 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 offered to holders of common shares of record Jan. 28 at $10 a share in ratio of 2/9ths of a share of preferred for each share held. Rights expire Feb. 13. The common shares are reserved for conversion of preferred.

Underwriters—Burr & Co., Inc., 57 William Street, New York 5, N. Y.

TAYLOR INSTRUMENT COMPANIES on Jan. 10 filed a registration statement for 30,750 shares of common stock, $20 par. Of the total 21,170 shares are being sold to underwriters by the company and 9,580 shares are offered to various employees of the company by the estate of Herbert J. Winn, deceased, pursuant to the terms of his will. Mr. Winn was Chairman of the company at the time of his death.

Details—See issue of Jan. 17.

Offering—The price to the public will be $30 per share. The price to the employees is $18 per share.

Underwriters—The group is headed by First Boston Corp.

TEXTRON, INC., on Dec. 28 filed a registration statement for 300,000 shares of 5% convertible preferred stock, par $25.

Details—See issue of Jan. 3.

Offering—The price to the public will be filed by amendment.

Underwriting—To be filed by amendment.

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.

U. S. INDUSTRIAL CHEMICALS, INC., on Jan. 9 filed a registration statement for 62,405 shares of common stock (no par).

Details—See issue of Jan. 17.

Offering—The new stock will be offered by the company to its present common stockholders at the rate of one share of new for each 7 shares held at a price to be filed by amendment. Air Reduction Co., Inc., owns 106,050 shares out of a total of 436,836 shares, or approximately 24% of the outstanding common. Air Reduction has stated that it will subscribe to all additional common shares that it is entitled to by virtue of its ownership of 106,050 shares, and it will also purchase, for investment, at the subscription price, all shares of common stock which are not subscribed for by other stockholders.

Underwriters—None.

VERITY PORCUPINE GOLD MINES, LTD., on Jan. 16 filed a registration statement for 250,000 shares of capital stock; $1 per share.

Details—See issue of Jan. 24.

Offering—The 250,000 shares are being offered at 50 cents per share.

Underwriters—The underwriter is Mark Daniels & Co., 1421 Chestnut Street, Philadelphia, Pa., who will receive a commission of 30% and 5% additional allowance to cover traveling and advertising expenses.

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.

Regor Securities Formed

Regor Securities Corporation has been formed with offices at 480 Lexington Avenue, New York City, to engage in the investment business. Officers are Claude de Saint-Phalle, President and Treasurer; Thibault de Saint-Phalle, Vice-President, and Michael James King, Secretary. Claude de Saint-Phalle was formerly account executive in the Paris office of Hirsch, Lilienthal & Co.

Our Reporter's Report

The fall in interest costs to corporate borrowers goes merrily on as witness developments in the case of the several issues sold this week. And the investment banking fraternity is literally "holding its head," frankly not knowing what to do except go along.

Underwriters look upon current developments as nothing short of fantastic but find that if they want to stay in business there is little they can do but "swim with the tide."

For a time it was assumed that the steady fall in yields, after the turn of the year, reflected pressure of more or less customary "reinvestment" demand. But the whole fabric appears to have undergone a definite change.

The current parade started with the sale on Monday of $50,000,000 Southern Pacific Railroad 40-year 2⅞% first mortgage bonds. Two groups sought the issue with the successful bidder paying 100.6599 and reoffering the bonds at 101½ to yield 2.81%. The issue moved to a fractional premium in later trading.

On Tuesday Madison Gas & Electric Co.'s offering of $4,500,000 of new first mortgage bonds were put up for bids and a total of 16 different firms and groups sought the loan.

The winning bid was 101.56 for a 2½% coupon. The successful group was reported planning reoffering, probably today, at 102¼ to afford the buyer a yield of 2.39%, which means that this issue is definitely down into the realm of U. S. Government bonds.

Union Pacific's Debentures

With Southern Pacific's 2⅞s going "out the window," interest naturally revolved around the prospects for Union Pacific's offering of $44,493,000 of new 2⅞% debentures.

This huge railroad undertaking was up for buyers yesterday and as time for opening of bids drew near the Street was forecasting a 2.55 to 2.60% yield basis, with the extremists (or were they) even suggesting the possibility of a 2.50% basis.

The new issue will provide funds for the redemption of an outstanding issue of 3½s and it was indicated that at least the two traditional banking groups would be in the running.

Montreal Borrows Here

One of the largest foreign dollar loans in recent months was placed in the works this week when the City of Montreal, Canada, registered with the Securities and Exchange Commission to cover a new issue of $85,980,000 of serial debentures due Nov. 1, 1947 to Nov. 1, 1975.

It was stated that the proceeds would be used to redeem $80,758,000 in outstanding debentures of Series A and B.

At the same time the City made known its intention to sell outside the U. S. approximately $70,500,000 of additional debentures before March 1 next. Funds received from that portion of the operation would be used to retire $68,200,000 of debentures and stock payable in funds other than U. S. dollars.

A Problem for Institutions

Institutional investors, moved by the steady decline in yields, or conversely the persistent rise in borrowers' credit standings, due to prevailing conditions, are taking steps to fortify themselves against eventualities.

This was made plain when the New York Life Insurance Co. issued its annual statement yesterday. Noting the falling interest rates, George L. Harrison, President, and former head of the Federal Reserve Bank of New York, stated "Reserves against the company's contractual obligations were further strengthened at the end of 1945."

He then pointed out that almost "three-fourths of these reserves were computed at 2⅝% or lower interest" adding "the interest rate assumptions reflect the program of taking positive steps to meet the realities of the low yields currently available from the highest quality of investments."

On the Way

Chicago, Milwaukee, St. Paul & Pacific Railroad became a potential candidate for the new issue market coincident with reports that it plans to call the new first mortgage 4% bonds on July 1 next.

There is about $59,500,000 of this issue outstanding, distributed last year under the reorganization plan. The aim is to provide funds necessary to finance the redemption through the sale of a lower coupon loan.

At least three banking groups are reported to have shown interest in the prospective new issue and to be preparing to enter bids when as, and if, it is offered.

Charles Clark Co. Adds N. H. Jensen to Staff

Charles Clark & Co., 72 Wall Street, New York City, members of the New York Stock Exchange, announce that Norman H. Jensen has become associated with them in the municipal bond department. He was formerly associated with the New York office of Stranahan, Harris & Co., and was with Eldredge & Co. and Blyth & Co., Inc.

Walter Hahn Joins Smith, Barney & Co.

Smith, Barney & Co., 14 Wall Street, New York City, members New York Stock Exchange, announce that Walter F. Hahn is now associated with them in their research department. Mr. Hahn was formerly manager of the railroad department of Moody's Investors Service.

F. W. Fairman Admits Koehler and McInerney

CHICAGO, ILL.—Fred W. Fairman & Co., 208 South La Salle St., members of the Chicago Stock Exchange, announce the admission as general partners of Thomas S. Koehler, former manager of the trading department, and Edwin J. McInerney, former head of the sales division.

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Pennsylvania Securities Section on pages 720 and 721.

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—**Allen Crawford, Jr.** has become associated with **Johnson, Lane, Space & Co., Inc.**, Citizens & Southern National Bank Building. Mr. Crawford has been serving in the U. S. Army for the past four years. Prior thereto he was with the Citizens & Southern Bank.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—**Richard M. Groves** is with **King Murphy**, Healey Building.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—**John Van A. Easton** is now with **Kirchofer & Arnold, Inc.**, Johnston Building.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—**William H. Trotter** has joined the staff of **Southeastern Securities**, Independence Building.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Raymond A. Herman** has become affiliated with **Cunningham & Co.**, Union Commerce Building. He was previously with Prescott & Co. and McDonald-Coolidge & Co.

(Special to THE FINANCIAL CHRONICLE)

DAVENPORT, IOWA—**Walter H. Grampp** is with **Quail & Co.**, Davenport Bank Building. He has recently been serving in the U. S. Army Air Corps.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Camille Gebelle**, and **John J. Black** have been added to the staff of **Mercier, McDowell & Dolphyn**, Buhl Building. Miss Gebelle was previously with Baker, Simonds & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT MICH.—**Charles M. Simmonds** is with **M. A. Manley & Co.**, Buhl Building. In the past he was with Rathbun & Company.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—**Hyman B. Shaine** has rejoined the staff of **Straus & Blosser**, Federal Square Building.

(Special to THE FINANCIAL CHRONICLE)

GRANVILLE, OHIO—**James W. Remmele** is with **Slayton & Company, Inc.**

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—**Thomas F. McGuinness** has rejoined **Coburn & Middlebrook**, 37 Lewis Street. He has been serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Pauline E. Parsons** is with **Slayton & Company**, 111 North Fourth Street, St. Louis, Mo.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—**Raymond E. Watson** has been added to the staff of **Frank D. Newman & Co.**, Ingraham Building.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—**George A. Miller** is with **Merrill Lynch, Pierce, Fenner & Beane**, 818 Gravier Street.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG.—**Joseph J. Hammer** and **Harry L. Phillips** are with **Frank Butchart & Co.**, American Bank Building. Both were formerly with Hess & Butchart.

Watling Lerchen Partners Resume Activity With Firm

DETROIT, MICH.—Two general partners of Watling, Lerchen & Co., Ford Building, Members of the New York, Detroit, and Chicago Stock Exchanges, have returned to resume their former activities with the firm.

Joseph McMillan Hinshaw, Jr. has been released from active duty with the Navy, as Lieutenant, USNR.

Palmer Watling, a Major in the United States Army Air Forces, has been given his discharge.

Harry Lobdell Dead

Harry H. Lobdell, a partner in Lamson Brothers & Co., and a member of the Chicago Board of Trade, died in Passavant Hospital after an operation. He was 79 years old. Mr. Lobdell began his career as a junior clerk for George W. Ludlow & Co., shoe manufacturers, in 1884, later was in the company's sales department, and in 1891 left it to enter the wholesale shoe business in Chicago, under the firm name of Harry H. Lobdell Company. The business was sold by Mr. Lobdell in 1915 and from then until his death he was with Lamson Brothers & Co.

Warns Against Declining Bank Profits

John K. McKee, Retiring Member of Federal Reserve Board, Condemns the Policy of Low Interest Rates and Neglect of Small Banks. Asserts Only a Profitable Bank Is a Strong Bank, and That Proposals Affecting Adversely Bank Earning Power "Should Be Subjected to the Most Realistic Inquiry."

John K. McKee, retiring member of the Board of Governors of the Federal Reserve System, released the following statement on Feb. 1, relating to the banking situation:

As I leave the Board of Governors of the Federal Reserve System with its pleasant associations for the past ten years, I have been asked to comment on the banking situation as I see it.

I have always been concerned particularly about the small bank.

Already a significant number of banks have reported earnings for 1945 lower than for 1944. The development of a general trend in this direction would be a most serious matter, particularly for the smaller banks of the United States.

These smaller banks are the retail credit institutions of this country. Small business looks to them for its credit accommodations. Millions of our people outside the great financial centers look to them for personal banking services. The financial health of private enterprise and small business is linked inseparably to the healthy condition of the banks of this country.

Banking is one of the very few businesses in the United States which is giving the people more for their money in 1945 than in 1935. The volume of services by banks has increased enormously as their deposits have climbed to three times their amount of ten years ago. But interest rates paid by borrowers have declined.

Only a profitable bank is a strong bank. A bank which is losing money, or which has to take undue risks to make ends meet, cannot be in healthy condition. It has been and I am sure will continue to be the concern of the banking authorities, both Federal and State, to safeguard the broader interests of depositors and borrowers by safeguarding the financial health of our banks.

Rising costs and increases in demands for service are certain to add to the expenses of our banks. Nothing would appear to be more shortsighted than the proposals which we hear from time to time for reducing interest rates below present abnormally low levels. The deposits of banks are liabilities. Their loans and investments are risks. Their three-fold increased deposits require increase in capital. But how any one can expect banks to add to their capital out of earnings or to attract additional capital from the public when their earning power is attacked, is something beyond understanding. We made a serious mistake in the 1920's in ignoring the spread of difficulties among our country and small city banks. Let us not repeat the same mistake in the next decade. Any and all proposals, whatever their source, which would adversely affect bank earning power and create a trend of lower earnings, should be subjected to the most realistic inquiry. The important thing is that all the facts be brought out into the open and properly evaluated.

Asks President About Future Foreign Loans

Representative J. Parnell Thomas, Republican of New Jersey, on Jan. 31, sent a letter to President Truman with reference to pending and potential loans of the United States to foreign governments. Rep. Thomas' letter reads:

J. Parnell Thomas

"After listening with deep interest to your message today, in which you recommend to the Congress the approval of a $3,750,000,000 credit to the United Kingdom, I concluded that it would be very helpful in my determination as to how to vote on such a measure if you would advise me as to whether the request for the United Kingdom will be followed by further requests of credits for other foreign nations. Will there be a request for Russia and for what amount? Will there be a request for France and for what amount? Will there be a request for China and for what amount? Will there be requests for other European nations, for South American nations and for other Asiatic nations, and for what amounts?

"Mr. President, I hope that in recommending the loan to the United Kingdom you are taking into consideration possible demands from other nations, and likewise the embarrassment which would accrue to us were we to grant a loan to the United Kingdom and not one to Russia and to the other Powers.

"Will you please supply me with the requested information at an early date and thanking you in anticipation of it, I am

Sincerely,
J. PARNELL THOMAS."